

# Telstra Corporation Limited and controlled entities

## Results and operations review

### Half-year ended 31 December 2006

Results ahead of guidance, company transformation continues

#### Results

- Sales revenue grew by 2.0% or \$225 million to \$11,630 million
- Sales revenue grew by 3.6% adjusting for the change in revenue recognition of the Melbourne Yellow™ Book
- Operating expenses (before depreciation and amortisation) grew by 9.9% or \$621 million to \$6,880 million
- EBIT declined by 15.7% or \$546 million to \$2,938 million
- Profit after tax and minority interest declined by 20.5% or \$439 million to \$1,704 million
  
- Cash operating capital expenditure (excluding investments) of \$2,509 million, up 22.8%
- Basic earnings per share of 13.8 cents, down 3.5 cents
- Interim dividend declared of 14 cents per share, fully franked
  
- Mobiles revenue grew by 11.8% or \$296 million to \$2,798 million
- Broadband revenue grew by 43.7% or \$236 million to \$776 million
- PSTN revenue declined by 5.6% or \$216 million to \$3,615 million





## Half-year results and operations review - December 2006

---

### Financial Highlights Half-year ended 31 December 2006

#### *Results ahead of guidance, company transformation continues*

Telstra Corporation Limited and its controlled entities (Telstra) reported profit after tax and minority interest of \$1,704 million for the half-year ended 31 December 2006, a decrease of 20.5% on the prior half-year. Basic earnings per share (EPS) declined from 17.3 cents to 13.8 cents. Earnings before interest and tax (EBIT) decreased by 15.7% to \$2,938 million, slightly better than guidance.

Margins declined with a decrease in EBIT margin of 5.2 basis points to 25.3% and an EBITDA margin decrease of 4.0 basis points to 42.3% as expected while undergoing the largest spend year on our transformation.

#### Income

Total income grew by 2.2% or \$253 million in the current half-year to \$11,797 million. Revenue growth was achieved through increases in mobiles, broadband, CSL New World and IP access. However, revenue growth was partially offset by a decline in fixed telephony of 4.9%, which included a 5.6% decrease in PSTN revenue, as well as declines in specialised data, narrowband, and advertising and directories due to the deferral of Melbourne Yellow™ print directory production to January 2007. When removing \$174 million from the prior year performance relating to this print directory, total income grew by 3.8%.

In assessing the performance of the mobiles and broadband products throughout these financial highlights we have changed the presentation from the prior year. As wireless data cards operate on the mobile network and provide a broadband service we have grossed up the mobile and broadband revenues and physicals to include the results from EVDO and Next G™ data cards, this is consistent with industry practice. The elimination of the grossed up component is shown separately in the operating revenue summary.

#### Expenses

Operating expenses increased by 9.9% due to higher goods and services purchased, particularly subscriber acquisition costs supporting revenue growth, and increases in other expenses mainly due to transformation activity, increased promotions and advertising expenses and added expenses from entities acquired. This was offset by reduced labour costs as a result of lower staff numbers and use of the redundancy provision raised in fiscal 2006. Total expenses (before interest and tax) increased by 9.9%, which includes depreciation and amortisation growth of 9.9% driven by transformation activity.

Net finance costs grew by 18.2% to \$520 million due to higher average net debt levels and increasing interest rates.

Income tax expense decreased by 21.7% to \$706 million.

#### Business transformation

The business transformation is progressing well and some of the highlights achieved during the half-year include the launch of the Next G™ network, the ADSL 2+ launch, workplace productivity improvements, customer service improvements and benefits from market based management initiatives (i.e. subscription pricing). We have already begun reducing the complexity in our business and have exited approximately 140 IT platforms and applications, and are starting to see the benefits from our revenue acceleration program, including broadband and mobiles growth, a reduction in PSTN decline and growth in online revenue. However, we are 13 months into our 5 year transformation plan and there is still a lot of work to be done.

## Half-year results and operations review - December 2006

---

The key financial impacts that you will see throughout this document include the following:

- Labour costs - we have achieved a significant reduction in our total workforce numbers, with reductions in the number of contractors, agency staff and employed staff. This has had a positive impact on our salary and wage expense. Redundancy expenses have also declined for the half-year as costs associated with transformation were charged against the provision for redundancy raised at the end of fiscal 2006;
- Provision for restructuring and redundancy costs - under Australian accounting standards we made provision in fiscal 2006 for the expected costs of restructuring the business as part of our transformation. The total provision raised in June 2006 was \$427 million. As at 31 December 2006, the remaining balance of the total provision is \$288 million;
- Depreciation - we have accelerated the rate of depreciation of certain network and IT assets due to our intended retirement of the CDMA network and rationalisation of many of our IT platforms and software applications. This component has contributed \$148 million to the increase in depreciation and amortisation expenditure; and
- other various operational costs have been impacted by the implementation of business transformation for the half-year as highlighted throughout the document. In total transformation costs resulted in an increase in overall expenses of \$137 million from the prior half-year primarily within our service contracts and agreements expense.

### Changes to accounting treatments

We have applied UIG 4: "Determining Whether an Arrangement Contains a Lease" (UIG 4) to the results reported for the first time in the half-year ended 31 December 2006. This UIG has impacted both the recognition and classification of some items in our income statement, balance sheet and cash flow statement. Prior period comparative numbers have been restated where appropriate to reflect the impact of adoption of UIG 4. For detailed information regarding the impact of UIG 4 on our financial information, refer to the December 2006 half-year financial statements. These are available on our investor relations website at [www.telstra.com.au/abouttelstra/investor/index.cfm](http://www.telstra.com.au/abouttelstra/investor/index.cfm). These impacts have an immaterial impact on earnings.

### Cash flow

Operating cash flow less investing cash flow (free cash flow) decreased by 55.9% for the half-year ended 31 December 2006 to \$862 million. This decline was due to a reduction in net cash provided by operating activities driven by higher levels of external expenditure, and increased cash used in investing activities as we launched our Next G™ network and continued working on the IP enablement of our network and IT transformation.

### Capital expenditure

Cash capital expenditure for the half-year ended 31 December 2006 increased by 38.0% to \$2,846 million. Core operating expenditure increased by 22.8% to \$2,509 million. Higher capital expenditure was driven primarily by the IP enablement of our network, IT transformation, as well as the roll out of the Next G™ network. There was also an increase in our acquisitive investment expenditure by \$318 million largely related to our acquisition of SouFun.

## Half-year results and operations review - December 2006

---

### Treasury operations

Telstra's financial position remains strong with current long-term credit ratings as of January 2007 of A, A2 and A+ from S&P, Moody's and Fitch respectively. All three rating agencies have Telstra on a "negative outlook" with major factors being uncertainty surrounding the regulatory environment, intensifying competition, technological advances and PSTN revenue declines.

The net debt position was \$14,473 million, a \$1,697 million increase on the equivalent balance at 31 December 2005, largely driven by lower net cash produced from the ongoing operations of the business offset by higher capital cash demands from our transformation investment. The balance sheet continues to have strong capital settings.

### Dividend

A fully franked interim ordinary dividend of 14 cents per share has been declared and is payable on 30 March 2007. It is the current intention of the Board to declare fully franked ordinary dividends of 28 cents per share for fiscal 2007. This assumes that we continue to be successful in implementing our transformation strategy and there are no further material adverse regulatory outcomes during the course of fiscal 2007. The final amount of dividends declared for any year is a decision for the Board to make twice a year in its normal cycle having regard to our earnings and cash flows as well as future regulatory impacts and all other factors that affect our operations.

### Outlook

We will continue to execute our strategy that was announced in November 2005. We have started the investment in our transformation and we have seen margin pressure continue as our revenue mix changes. Earnings have declined at both the EBITDA and EBIT lines, impacted by transformational spend and costs of goods and services purchased as we invest in the future revenue growth of the company particularly in 3GSM mobile services and broadband.

With our next generation networks, we continue to put in place the infrastructure to reduce our reliance on our traditional fixed line revenue streams and to grow our mobiles, internet and other next generation revenues while reducing the costs of operations.

As a result of our success in both the broadband and mobiles markets and lower than expected impacts, at this stage, of ULL take-up, we expect full year revenue growth to be between 2.5% to 3.0% and a significant turnaround in EBIT performance in the second half for a full year expectation of 3.0% to 5.0% EBIT growth. Our second half revenues will include revenue from the distribution of the Melbourne Yellow™ book, deferred from the first half results of the prior corresponding period. The second half of fiscal 2006 also included a full half of transformation spend and the raising of a redundancy and restructuring provision. We do not expect to raise another redundancy and restructuring provision during fiscal 2007.

We expect depreciation and amortisation expense to remain high over the next few years as we invest heavily in transforming the network and IT base, together with accelerating depreciation and write-offs of certain assets that continue to be phased out in the 2007 fiscal year.

Cash flow will be impacted by our investment in capital expenditure over the next two to three years and free cash flow is expected to reflect this with gradual improvement from 07/08 assuming no investment in fibre to the node. Cash operating capital expenditure is expected to be in the range of \$5.4 billion to \$5.7 billion in fiscal 2007.

## Half-year results and operations review - December 2006

---

Our priority continues to be achieving our strategy to give customers a seamless user experience across all devices and platforms - fixed, wireless and internet - providing a 1-click, 1-touch, 1-button, 1-screen, 1-step solution, whether that customer is an individual, small business, large business, government agency or non-profit organisation.

For enquiries on these results contact:

John Stanhope  
Chief Financial Officer  
Telstra Corporation Limited

Anthony O'Brien  
Acting Director, Investor Relations  
Telstra Corporation Limited  
Phone: +61 (3) 9634 8014,  
Email: [Investor.relations@team.telstra.com](mailto:Investor.relations@team.telstra.com)

## Half-year results and operations review - December 2006

---

### Table of contents

	Page Number
for the half-year ended 31 December 2006	
<b>Summary financial information</b>	
Results of operations . . . . .	6
Cash flow summary . . . . .	7
Balance sheet summary . . . . .	8
Segment information . . . . .	9
Statistical data summary . . . . .	10
<b>Analysis information</b>	
Operating revenues . . . . .	11
Fixed telephony: . . . . .	13
- PSTN products . . . . .	13
- ISDN products . . . . .	18
- Inbound Calling Products . . . . .	19
- Payphones . . . . .	20
- Customer premises equipment . . . . .	20
- Intercarrier access services . . . . .	21
- Other fixed telephony . . . . .	21
Mobiles . . . . .	22
Internet . . . . .	26
IP & data access . . . . .	28
Business services and applications . . . . .	29
Advertising and directories . . . . .	30
Offshore controlled entities . . . . .	31
PayTV bundling . . . . .	32
Other minor items . . . . .	33
Other revenue and other income . . . . .	34
Operating expenses . . . . .	35
Labour expense . . . . .	36
Goods and services purchased . . . . .	38
Other expenses . . . . .	40
Share of net loss of jointly controlled entities and associated entities . . . . .	41
Depreciation and amortisation . . . . .	42
Net finance costs . . . . .	42
Income tax expense . . . . .	43
Sensis financial summary . . . . .	44
CSL New World Mobility Group financial summary . . . . .	46
TelstraClear financial summary . . . . .	47
Cash flow . . . . .	48
Balance sheet . . . . .	52
Glossary . . . . .	54
Restatement of previously reported results . . . . .	56
Product restatement . . . . .	58
Revenue half-yearly comparison . . . . .	59

## Half-year results and operations review - December 2006

### Summary financial information

#### Results of operations

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Sales revenue . . . . .	<b>11,630</b>	11,405	225	<b>2.0%</b>
Other revenue (excl. finance income) . . . . .	<b>15</b>	10	5	<b>50.0%</b>
Total revenue (excl. finance income) . . . . .	<b>11,645</b>	11,415	230	<b>2.0%</b>
Other income . . . . .	<b>152</b>	129	23	<b>17.8%</b>
<b>Total income (excl. finance income)</b> . . . . .	<b>11,797</b>	11,544	253	<b>2.2%</b>
Labour expense . . . . .	<b>1,996</b>	2,053	(57)	<b>(2.8%)</b>
Goods and services purchased . . . . .	<b>2,566</b>	2,195	371	<b>16.9%</b>
Other expenses . . . . .	<b>2,318</b>	2,011	307	<b>15.3%</b>
Operating expenses . . . . .	<b>6,880</b>	6,259	621	<b>9.9%</b>
Share of net loss from jointly controlled and associated entities . . . . .	<b>1</b>	1	-	<b>0.0%</b>
<b>Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)</b> . . . . .	<b>4,916</b>	5,284	(368)	<b>(7.0%)</b>
Depreciation & amortisation . . . . .	<b>1,978</b>	1,800	178	<b>9.9%</b>
<b>Earnings before interest &amp; income tax expense (EBIT)</b> . . . . .	<b>2,938</b>	3,484	(546)	<b>(15.7%)</b>
Net finance costs . . . . .	<b>520</b>	440	80	<b>18.2%</b>
<b>Profit before income tax expense</b> . . . . .	<b>2,418</b>	3,044	(626)	<b>(20.6%)</b>
Income tax expense . . . . .	<b>706</b>	902	(196)	<b>(21.7%)</b>
<b>Profit for the period</b> . . . . .	<b>1,712</b>	2,142	(430)	<b>(20.1%)</b>
Minority interests in net (profits)/loss . . . . .	<b>(8)</b>	1	(9)	<b>n/m</b>
<b>Profit for the period available to Telstra Entity shareholders</b> . . . . .	<b>1,704</b>	2,143	(439)	<b>(20.5%)</b>
Effective tax rate . . . . .	<b>29.2%</b>	29.6%		<b>(0.4)</b>
EBITDA margin on sales revenue . . . . .	<b>42.3%</b>	46.3%		<b>(4.0)</b>
EBIT margin on sales revenue . . . . .	<b>25.3%</b>	30.5%		<b>(5.2)</b>
	<b>cents</b>	cents	Change cents	<b>% change</b>
Basic earnings per share (i) . . . . .	<b>13.8</b>	17.3	(3.5)	<b>(20.2%)</b>
Diluted earnings per share (i) . . . . .	<b>13.7</b>	17.3	(3.6)	<b>(20.8%)</b>
Dividends paid or declared:				
Interim dividend paid . . . . .	<b>14.0</b>	14.0		
Special dividend paid with interim dividend . . . . .	<b>-</b>	6.0		

(i) Basic and diluted earnings per share are impacted by the effect of shares held in trust for employee share plans and instruments held under executive remuneration plans.

n/m - not meaningful



## Half-year results and operations review - December 2006

### Cash flow summary

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Receipts from customers (inclusive of GST) . . . . .	12,736	12,417	319	2.6%
Payments to suppliers/employees (inclusive of GST) . . . . .	(8,339)	(7,466)	(873)	11.7%
Net cash generated from operations . . . . .	4,397	4,951	(554)	(11.2%)
Income taxes paid . . . . .	(966)	(1,003)	37	(3.7%)
<b>Net cash provided by operating activities (i) . . . . .</b>	<b>3,431</b>	<b>3,948</b>	<b>(517)</b>	<b>(13.1%)</b>
Payments for property, plant and equipment . . . . .	(2,114)	(1,761)	(353)	20.0%
Payments for intangibles . . . . .	(395)	(282)	(113)	40.1%
Capital expenditure before investments . . . . .	(2,509)	(2,043)	(466)	22.8%
Investment expenditure . . . . .	(337)	(19)	(318)	1673.7%
Capital expenditure . . . . .	(2,846)	(2,062)	(784)	38.0%
Receipts from asset sales/other proceeds/dividends . . . . .	247	36	211	586.1%
Interest received . . . . .	30	34	(4)	(11.8%)
<b>Net cash used in investing activities . . . . .</b>	<b>(2,569)</b>	<b>(1,992)</b>	<b>(577)</b>	<b>29.0%</b>
<b>Operating cash flows less investing cash flows . . . . .</b>	<b>862</b>	<b>1,956</b>	<b>(1,094)</b>	<b>(55.9%)</b>
Movements in borrowings/finance leases . . . . .	1,179	229	950	414.8%
Staff repayments of share loans . . . . .	11	11	-	0.0%
Dividends paid . . . . .	(1,739)	(2,485)	746	(30.0%)
Finance costs paid . . . . .	(540)	(470)	(70)	14.9%
Purchase of shares for employee share plans . . . . .	-	(6)	6	-
<b>Net cash used in financing activities . . . . .</b>	<b>(1,089)</b>	<b>(2,721)</b>	<b>1,632</b>	<b>(60.0%)</b>
<b>Net decrease in cash . . . . .</b>	<b>(227)</b>	<b>(765)</b>	<b>538</b>	<b>(70.3%)</b>

(i) Please note: Due to the implementation of A-IFRS, we have revised the presentation of the cash flow summary and our statutory reported statement of cash flows. This has resulted in some reclassifications between our key cash flow totals (net cash provided by operating activities, net cash used in investing activities and net cash used in financing activities). Consequently, the 2005 comparative totals disclosed for these lines have changed from the amounts disclosed as at 31 December 2005. The most significant change is the reclassification of our finance costs paid from operating into financing, and the reclassification of interest received from operating into investing.

## Half-year results and operations review - December 2006

### Balance sheet summary

	as at			
	31-Dec-06 \$m	30-Jun-06 \$m	Change \$m	2006/2005 (% change)
Current assets . . . . .	<b>5,027</b>	4,930	97	<b>2.0%</b>
Intangibles . . . . .	<b>6,265</b>	6,122	143	<b>2.3%</b>
Property, plant and equipment. . . . .	<b>23,413</b>	23,503	(90)	<b>(0.4%)</b>
Total non-current assets . . . . .	<b>31,525</b>	31,261	264	<b>0.8%</b>
Total liabilities . . . . .	<b>(23,436)</b>	(23,368)	(68)	<b>0.3%</b>
Net assets/shareholders' equity . . . . .	<b>13,116</b>	12,823	293	<b>2.3%</b>
Gross debt. . . . .	<b>(14,930)</b>	(13,783)	(1,147)	<b>8.3%</b>
Net debt . . . . .	<b>(14,473)</b>	(13,094)	(1,379)	<b>10.5%</b>
<b>Ratios</b>				
EBITDA interest cover (times) . . . . .	<b>9.4</b>	10.3	(0.9)	<b>(8.7%)</b>
Net debt to EBITDA . . . . .	<b>1.5</b>	1.4	0.1	<b>7.1%</b>
Return on average assets . . . . .	<b>16.4%</b>	15.7%		<b>0.7%</b>
Return on average equity . . . . .	<b>26.8%</b>	24.1%		<b>2.7%</b>
Return on average investment . . . . .	<b>22.0%</b>	21.4%		<b>0.6%</b>
Net debt to capitalisation . . . . .	<b>52.5%</b>	50.5%		<b>2.0%</b>

## Half-year results and operations review - December 2006

### Segment information

#### Segment information

	Segment revenue			Segment EBIT		
	Half-year ended 31 December			Half-year ended 31 December		
	2006 \$m	2005 \$m	Change %	2006 \$m	2005 \$m	Change %
Telstra Consumer, Marketing and Channels . . . . .	4,679	4,481	4.4%	2,763	3,041	(9.1%)
Telstra Business . . . . .	1,608	1,597	0.7%	1,299	1,302	(0.2%)
Telstra Enterprise and Government . . . . .	2,214	2,248	(1.5%)	1,291	1,302	(0.8%)
Telstra Wholesale . . . . .	1,487	1,427	4.2%	1,451	1,318	10.1%
Sensis . . . . .	885	1,012	(12.5%)	365	509	(28.3%)
Telstra International . . . . .	820	709	15.7%	26	32	(18.8%)
Telstra Operations . . . . .	115	123	(6.5%)	(1,912)	(1,785)	7.1%
Other (i) . . . . .	52	50	4.0%	(2,343)	(2,266)	3.4%
Eliminations . . . . .	(215)	(232)	(7.3%)	(2)	31	(106.5%)
<b>Total Telstra (ii) . . . . .</b>	<b>11,645</b>	<b>11,415</b>	<b>2.0%</b>	<b>2,938</b>	<b>3,484</b>	<b>(15.7%)</b>

(i) Results for the Other segment consists primarily of business unit results that do not qualify as segments in their own right. The Asset Accounting Group is the main contributor to the segment EBIT for this segment, which is primarily depreciation and amortisation charges.

(ii) For segment reporting purposes, certain items are disclosed or may be reallocated between business units as required by the applicable accounting standard, and as a result may differ from our internal reporting framework. Where no reasonable basis for reallocation exists the following should be noted:

- As no reasonable basis for allocation exists, sales revenue associated with mobile handsets for the Consumer, Business and Enterprise and Government segments are allocated totally to the Consumer segment, with the exception of some products sold in relation to small to medium enterprises which are allocated to the Business segment. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in all three of these segments depending on the type of customer serviced. In addition, the majority of goods and services purchased associated with our mobile revenues are allocated to the Consumer segment.
- Revenue derived from our BigPond Internet products are recorded in the customer facing business segments of Consumer, Business and Enterprise and Government. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations recognises certain expenses in relation to the installation and running of the broadband cable network. In accordance with our application of the business segment definition in relation to customer type, we have not reallocated these items to the Telstra BigPond business segment. These allocations reflect management's accounting framework and internal reporting system and accordingly no reasonable basis for reallocation exists.

## Half-year results and operations review - December 2006

### Statistical data summary

	Half-year ended 31 December			
	2006	2005	Change	% change
<b>Billable traffic data (in millions)</b>				
Local calls (number of calls) . . . . .	3,390	3,882	(492)	(12.7%)
National long distance minutes (i) . . . . .	3,594	3,666	(72)	(2.0%)
Fixed to mobile minutes . . . . .	2,339	2,234	105	4.7%
International direct minutes . . . . .	264	273	(9)	(3.3%)
Mobile voice telephone minutes (ii) . . . . .	4,147	3,611	536	14.8%
Inbound calling products - B party minutes . . . . .	1,339	1,482	(143)	(9.6%)
Inbound calling products - A party calls . . . . .	510	502	8	1.6%
Number of short messaging service (SMS) sent . . . . .	2,227	1,318	909	69.0%
<b>Network and operations data (in millions)</b>				
Basic access lines in service (iii)				
Residential . . . . .	5.47	5.52	(0.05)	(0.9%)
Business . . . . .	2.27	2.37	(0.10)	(4.2%)
Total retail customers . . . . .	7.74	7.89	(0.15)	(1.9%)
Domestic wholesale . . . . .	2.12	2.14	(0.02)	(0.9%)
<b>Total basic access lines in services</b> . . . . .	<b>9.86</b>	<b>10.03</b>	<b>(0.17)</b>	<b>(1.7%)</b>
ISDN access (basic lines equivalents) (in thousands) (iv) . . . . .	1,226	1,205	21	1.7%
<b>Mobile services in operation (SIO) (in thousands) (v) (vi)</b>				
3GSM . . . . .	1,024	20	1,004	n/m
2GSM . . . . .	6,210	6,955	(745)	(10.7%)
CDMA . . . . .	1,658	1,607	51	3.2%
<b>Mobile services in operation</b> . . . . .	<b>8,892</b>	<b>8,582</b>	<b>310</b>	<b>3.6%</b>
<b>Total wholesale mobile SIOs (in thousands)</b> . . . . .	<b>129</b>	<b>101</b>	<b>28</b>	<b>27.7%</b>
<b>Online subscribers (in thousands) (vi)</b>				
Broadband subscribers - retail . . . . .	1,839	1,188	651	54.8%
Broadband subscribers - wholesale (vii) . . . . .	1,621	1,164	457	39.3%
Total broadband subscribers . . . . .	3,460	2,352	1,108	47.1%
Narrowband subscribers . . . . .	819	1,143	(324)	(28.3%)
<b>Total online subscribers</b> . . . . .	<b>4,279</b>	<b>3,495</b>	<b>784</b>	<b>22.4%</b>
<b>Total FOXTEL subscribers (in thousands)</b> . . . . .	<b>1,182</b>	<b>1,074</b>	<b>108</b>	<b>10.1%</b>
<b>Employee data</b>				
Domestic full time staff (viii) . . . . .	36,184	39,115	(2,931)	(7.5%)
Full time staff and equivalents (ix) . . . . .	43,989	45,456	(1,467)	(3.2%)
Total workforce (x) . . . . .	48,991	51,057	(2,066)	(4.0%)

(i) Includes national long distance minutes from our public switched telephone network (PSTN) and independently operated payphones. Excludes minutes related to calls from non-PSTN networks, such as ISDN and virtual private networks.

(ii) Includes all calls made from mobile telephones including long distance and international calls, excludes data, messagebank, international roaming and CSL New World. Excludes Incontact services (a free service with restrictive calling access) and advanced access services, such as ISDN services.

(iv) Expressed in equivalent number of clear voice channels. Comparatives have been restated to reflect updated assessment of channels per SIO on ISDN 10/20/30. The previous assessment was based on a calculation of channel configurations across sample services. The revised assessment is based on the entire customer base.

(v) Excludes CSL New World SIOs.

(vi) Includes wireless broadband SIOs (EVDO & HSDPA)

(vii) Within Broadband, retail products include cable, satellite, BigPond Wireless, ADSL and mobile data CDMA, while wholesale products include DSL Layer 1, DSL Layer 2, DSL layer 3, Spectrum Sharing and vISP Broadband. Total Broadband subscribers exclude Broadband component of ULL.

(viii) Excludes offshore, casual and part time employees. December 2005 has been restated, refer to Labour section for further information.

(ix) Includes all domestic and offshore employees, including controlled entities. December 2005 has been restated, refer to Labour expense section for further information.

(x) Includes all domestic and offshore employees, including controlled entities, as well as contractors and agency staff. December 2005 has been restated, refer to Labour expense section for further information.

## Half-year results and operations review - December 2006

### Operating revenues

#### Operating revenues

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
<b>Fixed telephony</b>				
Basic access . . . . .	1,663	1,657	6	0.4%
Local calls . . . . .	432	553	(121)	(21.9%)
PSTN value added services . . . . .	125	123	2	1.6%
National long distance calls . . . . .	408	471	(63)	(13.4%)
Fixed to mobile . . . . .	749	761	(12)	(1.6%)
International direct . . . . .	94	106	(12)	(11.3%)
Fixed interconnection . . . . .	144	160	(16)	(10.0%)
Total PSTN products . . . . .	3,615	3,831	(216)	(5.6%)
ISDN products . . . . .	383	420	(37)	(8.8%)
Inbound calling products . . . . .	203	208	(5)	(2.4%)
Payphones . . . . .	48	54	(6)	(11.1%)
Customer premises equipment . . . . .	151	135	16	11.9%
Intercarrier access services . . . . .	87	69	18	26.1%
Other fixed telephony . . . . .	156	163	(7)	(4.3%)
Total fixed telephony . . . . .	4,643	4,880	(237)	(4.9%)
<b>Mobiles</b>				
Mobile services - retail . . . . .	1,925	1,794	131	7.3%
Mobile services - wholesale . . . . .	26	16	10	62.5%
Mobile services - interconnection . . . . .	296	318	(22)	(6.9%)
Mobile services - international roaming . . . . .	157	131	26	19.8%
Mobile services - other . . . . .	37	32	5	15.6%
Total mobile services . . . . .	2,441	2,291	150	6.5%
Mobile handsets . . . . .	357	211	146	69.2%
Total mobiles . . . . .	2,798	2,502	296	11.8%
<b>Internet</b>				
Narrowband . . . . .	79	117	(38)	(32.5%)
Retail broadband . . . . .	497	331	166	50.2%
Wholesale broadband . . . . .	279	209	70	33.5%
Other . . . . .	10	9	1	11.1%
Total internet . . . . .	865	666	199	29.9%
<b>IP &amp; data access</b>				
Internet direct . . . . .	81	70	11	15.7%
Specialised data . . . . .	404	451	(47)	(10.4%)
IP access . . . . .	193	152	41	27.0%
Wholesale internet & data . . . . .	111	100	11	11.0%
Total IP & data access . . . . .	789	773	16	2.1%
Business services and applications . . . . .	501	507	(6)	(1.2%)
Advertising and directories . . . . .	824	944	(120)	(12.7%)
CSL New World . . . . .	519	373	146	39.1%
TelstraClear . . . . .	286	321	(35)	(10.9%)
Offshore services revenue . . . . .	173	139	34	24.5%
Pay TV bundling . . . . .	164	156	8	5.1%
Other minor items . . . . .	136	175	(39)	(22.3%)
Elimination for wireless broadband . . . . .	(68)	(31)	(37)	119.4%
<b>Sales revenue</b> . . . . .	11,630	11,405	225	2.0%
Other revenue . . . . .	15	10	5	50.0%
<b>Total revenue</b> . . . . .	11,645	11,415	230	2.0%
Other income . . . . .	152	129	23	17.8%
<b>Total income</b> . . . . .	11,797	11,544	253	2.2%

## Half-year results and operations review - December 2006

---

In the following discussion, we analyse revenue for each of our major products and services. The principal areas of operating revenue growth for the half-year ended 31 December 2006 were:

- mobiles reflecting the continued growth in the number of subscribers, increased demand for 3GSM services and higher minutes of use offset by continued pricing pressures;
- broadband due to a significant increase in our subscriber base partially due to migration from narrowband products but also due to overall growth in the online market;
- CSL New World due to additional revenue received as a result of the merger between Hong Kong CSL and New World PCS in fiscal 2006; and
- IP access driven primarily by the increased use of IP services by business customers (small to medium enterprises), the introduction of new products to meet customer needs and the increased use of the internet by businesses at greater bandwidth;

offset by a decline in:

- PSTN products revenue as customers continue to move towards new products and services to satisfy their requirements and competition intensifies in the market, although the decline in retail lines in service has slowed considerably as has the revenue rate of decline;
- advertising and directories due to the deferral of the Melbourne Yellow™ print directory revenue to January 2007 due to changes in printing contracts to reduce costs;
- specialised data as a result of products entering the mature phase of the product lifecycle with customers moving to better business solutions in IP access products;
- narrowband mainly due to migration to broadband; and
- ISDN due to a reduction in voice calls revenue as a result of pricing pressures and lower minutes of use, and decreased data calls revenue due to migration to alternative products such as ADSL and symmetrical HDSL.

We continue to see a shift in revenue from our traditional higher margin retail operations (such as our PSTN products) to our lower margin retail products (such as mobiles and broadband). In the latter area we have had two significant launches in this half-year with the release to the market of our Next G™ and ADSL 2+ product offerings. In the second half of fiscal 2006, we also introduced our first subscription price based offers into the consumer market to help address the decline of our traditional product revenues and to make pricing simple for our customers. We have also rolled out market based management throughout our business to enable us to better serve our customers' as we better understand their needs. These initiatives are showing positive signs in our revenue results.

## Half-year results and operations review - December 2006

### Fixed telephony

#### Fixed telephony

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
PSTN products . . . . .	<b>3,615</b>	3,831	(216)	<b>(5.6%)</b>
ISDN products . . . . .	<b>383</b>	420	(37)	<b>(8.8%)</b>
Inbound calling products . . . . .	<b>203</b>	208	(5)	<b>(2.4%)</b>
Payphones . . . . .	<b>48</b>	54	(6)	<b>(11.1%)</b>
Customer premises equipment . . . . .	<b>151</b>	135	16	<b>11.9%</b>
Intercarrier access services . . . . .	<b>87</b>	69	18	<b>26.1%</b>
Other fixed telephony . . . . .	<b>156</b>	163	(7)	<b>(4.3%)</b>
<b>Total fixed telephony revenue . . . . .</b>	<b>4,643</b>	<b>4,880</b>	<b>(237)</b>	<b>(4.9%)</b>

### PSTN products

#### PSTN products

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Basic access revenue:				
- Retail . . . . .	<b>1,278</b>	1,308	(30)	<b>(2.3%)</b>
- Domestic wholesale . . . . .	<b>385</b>	349	36	<b>10.3%</b>
Total basic access revenue . . . . .	<b>1,663</b>	1,657	6	<b>0.4%</b>
Local call revenue . . . . .	<b>432</b>	553	(121)	<b>(21.9%)</b>
PSTN value added services revenue . . . . .	<b>125</b>	123	2	<b>1.6%</b>
National long distance call revenue . . . . .	<b>408</b>	471	(63)	<b>(13.4%)</b>
Fixed to mobile revenue . . . . .	<b>749</b>	761	(12)	<b>(1.6%)</b>
International direct revenue . . . . .	<b>94</b>	106	(12)	<b>(11.3%)</b>
Fixed interconnection . . . . .	<b>144</b>	160	(16)	<b>(10.0%)</b>
<b>Total PSTN products revenue . . . . .</b>	<b>3,615</b>	<b>3,831</b>	<b>(216)</b>	<b>(5.6%)</b>
Basic access lines in service (in millions)				
Residential . . . . .	<b>5.47</b>	5.52	(0.05)	<b>(0.9%)</b>
Business . . . . .	<b>2.27</b>	2.37	(0.10)	<b>(4.2%)</b>
Total retail . . . . .	<b>7.74</b>	7.89	(0.15)	<b>(1.9%)</b>
Domestic wholesale . . . . .	<b>2.12</b>	2.14	(0.02)	<b>(0.9%)</b>
Total access lines in service . . . . .	<b>9.86</b>	10.03	(0.17)	<b>(1.7%)</b>
Number of local calls (in millions) . . . . .	<b>3,390</b>	3,882	(492)	<b>(12.7%)</b>
National long distance minutes (in millions) (i) . . . . .	<b>3,594</b>	3,666	(72)	<b>(2.0%)</b>
Fixed to mobile minutes (in millions) . . . . .	<b>2,339</b>	2,234	105	<b>4.7%</b>
International direct minutes (in millions) . . . . .	<b>264</b>	273	(9)	<b>(3.3%)</b>

Note: statistical data represents management's best estimates.

(i) Includes national long distance minutes from our public switched telephone network (PSTN) and independently operated payphones. Excludes minutes related to calls from non-PSTN networks, such as ISDN and virtual private networks.

## Half-year results and operations review - December 2006

---

Total PSTN products revenue was \$3,615 million, which declined by 5.6% or \$216 million during the half-year. This decline has slowed when compared with the 7.6% decline in the December 2005 half.

There has been a general reduction in PSTN volumes, with a decline in retail and wholesale basic access lines for the half-year, although the decline in retail lines has slowed considerably. Volumes have reduced across local calls, national long distance calls, international direct calls and fixed interconnection. Yields have also declined in local calls, national long distance, fixed to mobile, international direct and fixed interconnection due to competitive pricing pressure and higher demand for alternative products.

During the second half of fiscal 2006, we introduced subscription pricing plans for our PSTN customers, which offer greater choice and value from the home phone, including untimed national long distance calls and low or no charge local calls. These plans have begun to impact positively on our PSTN performance for the current half-year.

### Basic access

Our basic access revenue includes monthly rental fees, installation charges and connection charges, from telephone service connections between a customer's premises and our PSTN network.

Basic access revenues are affected by:

- housing growth;
- competition;
- demand for telephone services and additional lines;
- regulatory constraints in relation to wholesale basic access;
- migration to other products such as broadband and mobiles; and
- price changes.

Under our basic access pricing structure, we have a range of access and call pricing packages to give our residential and business customers choice in the plan they select, along with a range of reward options. These pricing packages are reviewed regularly to reflect the changing needs of customers. For the most part, wholesale customers receive the pricing plan which only incorporates the basic telephone service with local call rates, excluding long distance and fixed to mobile calls (with a "residential" and "business" differentiation still applying).

Our operating revenue from basic access services continues to be affected by competition. However the decline in retail lines in service has slowed considerably from 4.1% in the December 2005 half and 3.4% for fiscal 2006. For the half-year the number of retail residential and business basic access lines decreased due to strong competition and migration to alternative products such as broadband and mobiles. In the retail segment, we saw a 1.7% decline in lines in service, mainly driven by the migration to other technologies which is underpinning the retail trend across PSTN revenues. Retail churn results in recent months have shown positive trends. Wholesale access lines in service have declined by 0.9% which is the first decline in a number of years.

Overall our operating revenue from basic access services increased. In the prior year, we introduced various basic access packages, which reduced the decline in yield in this area, despite an overall decrease in basic access lines in service.

The rental revenue decline has slowed due to a rise in line rental price charges from December 2005, which included a rise in basic access prices for wholesale and non preselected retail residential customers. In addition, penetration of higher value HomeLine plans including HomeLine Ultimate, a new subscription based plan introduced in April 2006, has contributed positively. Partly offsetting this was an increase in the discounts to Whole of Business customers and pensioners. Price increases for new service connections have also contributed to increased revenue.



## Half-year results and operations review - December 2006

---

### Local calls

Our local call revenue from local call charges, consists of revenue from local calls on our PSTN network and includes revenue from our MegaPop product which allows ISPs to offer untimed local call PSTN dial-up access for their customers via a single national dial-up 019 number. For the most part we charge for local calls without a time limit.

Our local call revenue is affected by:

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

Local call revenue decreased by 21.9% or \$121 million, with both our retail and wholesale revenues being negatively impacted by ongoing product substitution from fixed calling to mobile voice calls and SMS, which is accelerated by the take up of capped mobile plans that have been heavily promoted by competitors. Substitution of data local calls continues to occur due to the migration of dial-up internet customers to broadband.

Generally, call volumes have continued to fall with a reduction in call volumes by 12.7%, reflecting the impact of customers migrating to other products, such as mobiles, fixed to mobile, and broadband products. Call volumes again declined at a faster rate than the decline in the number of lines in service. Prices have fallen due to ongoing discounting and the impact of subscription based pricing plans.

### PSTN value added services

PSTN value added services revenue consists of a range of residential and business call completion products such as MessageBank<sup>®</sup>, silent lines, calling number display and call return.

Our revenue from PSTN value added services increased by 1.6% or \$2 million during the half-year.

Messaging and call completion products increased by 5.6% or \$5 million. Calling number display continued to grow due to attractive packaging discounts resulting in subscriber numbers increasing by 7%. Easycall revenue grew reflecting higher revenue per call impacted by subscription pricing plans.

Complex products declined by \$3 million driven by a reduction in revenue for a number of mature products, such as Indial, Sitaline, Enhanced faxstream and other access products nearing the end of their lifecycle. Customers are also migrating to product offerings such as internet products and premium voice communication applications.

## Half-year results and operations review - December 2006

---

### National long distance calls

Our operating revenue from national long distance consists of revenue from national long distance calls made from our PSTN network to the fixed network.

We generally charge for national long distance calls based on the time of day, day of week, destination and duration of the call, but packages are also offered on a capped price basis and under subscription pricing arrangements. A variety of promotions and pricing options are offered to encourage our customers to use our service and to inform them about the price and value of our service.

General economic conditions and customer perceptions about the cost and value of our service relative to competitor alternatives largely drive our national long distance call revenue. Competitive activity continues to negatively affect this revenue category directly through override and preselection and indirectly through competition for access lines. In addition, national long distance calls are impacted by customers migrating to mobile, broadband and fixed to mobile calling.

Our operating revenue from national long distance calls declined by 13.4% or \$63 million in the half-year. Competitor activity in the fixed line market continues to be high and most carriers have a fixed or mobile cap, or a combination of both in the market. This is having a direct impact on our national long distance revenues particularly where competitors are bundling these calls with broadband offerings. Volumes declined as a result of lower basic access services in operation and the impact of fixed to mobile substitution and other calling options available to customers.

Revenue per minute has declined and is the main contributor to the reduction in revenues year on year. There have been significant pricing and package changes in the last half-year which have impacted results. Despite a flagfall increase for all Homeline plans, national long distance has been impacted by the take up of subscription plans, one of which, Homeline Ultimate, has proven to be popular as it offers free STD calls. Changes to rates between distance bands have also contributed.

We continue to respond to competition offering a range of packages assisted by our market based management approach. However, with the strong growth in mobile and internet services in the Australian market, we expect national long distance call revenue to continue to be negatively impacted by ongoing migration of customers to mobile and internet products, and by the continued growth of subscription pricing plans.

### Fixed to mobile calls

Our fixed to mobile revenue is generated by calls originating on our fixed networks and terminating on any mobile network. We generally charge for fixed to mobile calls based on time of day and mobile carrier, however packages are also offered on a capped price basis and subscription pricing plans. Our operating revenue for fixed to mobile calls is approximately split evenly between business and residential customers. The growth of the Australian mobile telecommunications market has driven revenue expansion in this product category in recent times. However, the introduction of capped plans in the mobile market has now impacted the volume of fixed to mobile activity as customers continue to slowly move their usage from our PSTN products to mobiles. The fixed to mobile environment is influenced by fixed to mobile preselection, whereby the carriage service provider (CSP) selected by a customer for national long distance calls automatically becomes the customer's provider for fixed to mobile calls.

## Half-year results and operations review - December 2006

---

During the half-year, fixed to mobile revenue declined by 1.6% or \$12 million. The decline was driven by lower revenue per minute resulting from higher discounts associated with ongoing competitive pressure, including incorporating fixed to mobile calls in reward offerings. This increase in the level of discounting is representative of our increased campaign activity aimed at reducing customer churn to other providers and win customers in the market place.

This decline in revenue was partially offset by growth in call volumes mainly due to the continued expansion of mobile services in the Australian market. The positive volume growth was due to both a higher number of calls and minutes of use. This growth is consistent with the growth in the total market mobile SIOs, i.e. a higher number of mobiles on which fixed calls can terminate, and the higher number of calls.

### International direct calls

Our operating revenue from international direct relates to revenue we generate from international calls made from Australia to a destination outside Australia (outbound). This revenue is largely driven by general economic conditions, international events, customer perceptions about the cost and value of our service, competition, migration to broadband alternatives and promotion and advertising.

Our international direct revenue declined by 11.3% or \$12 million primarily as a result of lower volumes and continued competitive pressure on price. Factors which have influenced this trend include the competitive pressures from calling cards, fixed to mobile substitution and the growth of Voice over IP in the market place. International direct minutes declined 3.3% for the half-year.

### Fixed interconnection

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

Our operating revenue from fixed interconnection decreased by 10.0% or \$16 million driven mainly by a reduction in volumes. Volume declines are in line with cross company trends in PSTN traffic and have been particularly impacted by migration to mobiles and, to a small degree, ULL (unconditioned local loop) build.

## Half-year results and operations review - December 2006

### ISDN products

ISDN is a flexible, switched network based on digital technology. It can support many applications at one time (such as voice, data and video) while using a single access point to the network. ISDN services are offered to residential and business customers across Australia. Our ISDN products revenue is impacted by offerings and packages in the broadband market, growth in the number of DSL enabled exchanges and migration to advanced data products such as IP solutions.

#### ISDN products

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Access revenue . . . . .	212	211	1	0.5%
Data calls . . . . .	47	65	(18)	(27.7%)
Voice calls . . . . .	124	144	(20)	(13.9%)
Total calls revenue . . . . .	171	209	(38)	(18.2%)
<b>Total ISDN products revenue . . . . .</b>	<b>383</b>	<b>420</b>	<b>(37)</b>	<b>(8.8%)</b>
ISDN access lines (basic access line equivalents) (in thousands) (i) . . . . .	1,226	1,205	21	1.7%

Note: statistical data represents management's best estimates.

(i) Statistical data - consistent with 30 June 2006 we have adjusted comparative data to show a more accurate reflection of the market. Conversion factors have been adjusted in calculating ISDN access lines.

ISDN access revenue has increased marginally by \$1 million to \$212 million. ISDN 2 has improved by \$5 million on December 2005 due to reduced discounting offset by a decline in SIOs due to promotion and growth in Broadband and the number of DSL enabled exchanges. ISDN 10/20/30 declined by \$4 million as a result of a yield reduction associated with the acquisition of new services and whole of business deals.

ISDN data calls revenue declined by 27.7% or \$18 million as Local and National Calls decreased by \$11 million and \$7 million respectively. This result is due to customer migration to alternative products such as ADSL and symmetrical HDSL, which offer higher bandwidths at reduced prices, together with lower minutes of use.

ISDN voice calls comprising local voice, national voice and international voice calls made on the Integrated Services Digital Network (ISDN), declined by 13.9% or \$20 million, mainly due to the decline in Local and National Calls by \$13 million and \$7 million respectively. Revenue from ISDN Local voice is impacted by a revenue re-classification of Priority® One3 and 1300 A Party products from ISDN to Inbound calling and lower minutes of use. Both Local and National Voice Calls have experienced a fall in price due to pricing pressure.

## Half-year results and operations review - December 2006

### Inbound calling products

Our operating revenue from inbound calling products consists principally of the fees we charge our business customers for the provision of inbound calling numbers:

- for Freecall™ 1800, the cost of the call, charged to the party called, with no cost incurred by the caller;
- for Priority® 1300 and Priority® One3:
  - the calling party from a PSTN service incurs a cost of 25 cents (including GST) from anywhere in Australia. Different charges apply for calls made from ISDN, mobiles and payphones; and
  - the service owner incurs the other components of the call charges as applicable.

Our inbound calling products revenue therefore is driven by two different streams, the caller (A party) and the lessee of the inbound service (B party). The A party revenues are affected by substitution to other voice products such as mobiles and the Internet. B party revenues are affected by increased customer competition impacting prices.

#### Inbound calling products

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Inbound calling products revenue . . . . .	203	208	(5)	(2.4%)
B party minutes (in millions) . . . . .	1,339	1,482	(143)	(9.6%)
A party calls (in millions) . . . . .	510	502	8	1.6%

Note: statistical data represents management's best estimates.

Revenue from inbound calling products declined 2.4% to \$203 million for the half-year ended 31 December 2006 mainly due to a decline in revenue from Freecall™ 1800 as a result of ongoing price competition and substitution to 1300 services.

Our revenue from Priority® One3 and 1300 B Party products declined in the half-year due to very competitive market pressures resulting in lower prices. Minutes of use and services in operation have declined by 11.1% in this category of calls after the loss of some large volume customers. This is offset by higher call volumes by 5% on our Priority® One3 and 1300 A Party products after calls from our ISDN and Sitaline products to these numbers were reclassified in September 2005 to inbound calling. The volume increase is representative of a full 6 months of ISDN and Sitaline revenue being classified in Priority® One3 and 1300 A Party products for the half-year ending December 2006.

In addition, there was revenue growth due to call charges for ISDN and Sitaline calls made to One3 services increasing from a cost of a local call to 27.5 cents. Offsetting these increases is the continuing trend of calls to these numbers being made from mobile phones resulting in mobiles revenue being recorded.

## Half-year results and operations review - December 2006

### Payphones

#### Payphones

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Payphone revenue . . . . .	48	54	(6)	(11.1%)
Telstra owned and operated payphones (thousands) . . . . .	27	31	(4)	(12.9%)
Privately owned and operated payphones (thousands) . . . . .	26	28	(2)	(7.1%)
Total number of payphones (in thousands) . . . . .	53	59	(6)	(10.2%)

Note: statistical data represents management's best estimates.

Payphone revenue declined by 11.1% to \$48 million in the half-year ended 31 December 2006. This is a result of substitution to other products, particularly prepaid mobile phones and competitors' prepaid calling cards. We removed a number of low usage phones resulting in a reduction in the number of Telstra owned and operated payphones due to this migration. There has also been a decline in privately owned and operated payphones of 7.1% as private operators removed their support for unprofitable payphones, again due to increased mobile phone usage.

### Customer premises equipment

#### Customer premises equipment

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Customer premises equipment . . . . .	151	135	16	11.9%

Customer premises equipment (CPE) revenue increased by 11.9% to \$151 million. This increase was mainly driven by growth in Enhanced CPE products and PBX Products, offset by a decline in first and extension phones.

Enhanced CPE Products grew after Telstra Business Systems (TBS) packages increased in volume by 58% as a result of strong marketing activity and process improvements to support tools and processes.

PBX Products have increased mainly due to the half-year ended 31 December 2006 including revenue from acquired entities Converged Networks Pty Ltd (\$3 million) which was acquired in April 2006, and Touchbase Avaya (\$2 million) acquired in July 2006.

These increases were offset by a decline in revenues from first and extension phones due to ongoing substitution to mobiles.

## Half-year results and operations review - December 2006

### Inter-carrier access services

Our operating revenue from inter-carrier fixed access products consists of revenue from facilities access, unconditioned local loop, switch ports and interconnect network services, wholesale operator services, local number portability and other wholesale access.

#### Inter-carrier access services

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Inter-carrier access services . . . . .	<b>87</b>	69	18	<b>26.1%</b>

Inter-carrier fixed access revenue increased by 26.1% or \$18 million during the half-year ended 31 December 2006. The main driver in the growth has been facilities access which has grown by 35.0% or \$13 million due to other carrier/service providers expanding their infrastructure by using TEBA (Telstra Equipment and Building Access). TEBA sites have increased year on year as service providers seek to extend DSL capability and prepare to build their own infrastructure.

Unconditioned local loop has increased by 25.2% or \$4 million due to competitors building their own networks. SIOs have increased by 100% but revenue is not reflective of this as regulatory pressure has led to a downward pricing adjustment. Local number portability has increased by 79.5% as our wholesale area of the business has increased their customers. This product allows customers to offer their end users the option of keeping their existing number when taking up either a wholesale local call or mobile service. Offsetting this growth is a decline in other wholesale access products revenue by \$2 million due to a reduction in commercial and pre-selection churn charges and wholesale billing service charges.

### Other fixed telephony

#### Other fixed telephony

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Telstra information and connection services . . . . .	<b>62</b>	60	2	<b>3.3%</b>
Virtual private network . . . . .	<b>6</b>	9	(3)	<b>(33.3%)</b>
International freecall . . . . .	<b>4</b>	4	-	<b>0.0%</b>
Card services . . . . .	<b>22</b>	27	(5)	<b>(18.5%)</b>
Satellite products . . . . .	<b>8</b>	7	1	<b>14.3%</b>
Customnet and spectrum . . . . .	<b>54</b>	56	(2)	<b>(3.6%)</b>
<b>Total other fixed telephony revenue . . . . .</b>	<b>156</b>	163	(7)	<b>(4.3%)</b>

In the half-year ended 31 December 2006 operating revenue from other fixed telephony decreased by 4.3% or \$7 million mainly due to a decline in card services, virtual private networks and customnet and spectrum offset by an increase in Telstra information and connection services.

Card services includes postpaid card services, such as Homelink, Telecard and OneNumber, and prepaid card services, such as Prepaid Home, Phoneaway, and say G'day. The decline in card services revenue reflects an overall decline in the number of services due to substitution to cheaper and more convenient calling products such as mobiles and because products such as Telecard and Homelink 1800 have entered the mature phase of the product lifecycle.

## Half-year results and operations review - December 2006

---

Virtual private network enables multi location customers to link premises in Australia and overseas to an integrated system without the use of leased lines. Virtual private network revenue has decreased due to the discounting of call rates arising from competitive pressures.

Customnet and spectrum is a fully managed telephone system that provides a premium voice communication application. The decrease in revenue is mainly due to declining local call revenue caused by substitution to products such as fixed to mobile and lower prices offered to customers.

Telstra information and connection services includes operator assisted calls, directory assistance, Sensis 1234 call connect and emergency reporting services. Sensis 1234 call connect is a premium directory service for residential and business information including most telephone numbers, addresses, business operating hours and URLs (where available). The increase in Telstra information and connection services revenue is due to increased Sensis 1234 call connect revenues arising from longer average handling times of calls as a result of additional content on offer, including updates on the weather, sporting events and film schedules. This is offset by a decline in usage of directory assistance as customers move to the Sensis 1234 product and a decline in international operator assisted calls.

### **Mobiles**

Our operating revenue from mobiles consists of revenue from access fees and call charges, as well as other services comprising international roaming, mobile MessageBank<sup>®</sup>, Short message service (SMS) and other mobile data. Mobile data includes mobile wireless broadband products such as EVDO and HSDPA which work off our CDMA and 3GSM 850 networks respectively. Operating mobiles revenue includes revenue from the sale of mobile handsets and interconnection charges where calls from other carriers' customers terminate on our network.

In October 2006 we launched the Next G<sup>TM</sup> network, a new 3GSM network operating on the 850 megahertz spectrum. We provided services over four primary mobile technologies, CDMA, 2GSM, 3GSM 850 and 3GSM 2100. We have had large amounts of our current subscribers migrating from our old networks onto our 3GSM networks and these account for 61.0% of current 3GSM SIOs. The new 3GSM 850 network is intended to reduce our level of network costs and complexity once our CDMA network is closed, and has enabled us to provide our customers with faster speeds, better coverage and enable them to access a far greater range of services and content than our older network. We continue to offer 3GSM services to our customers over our existing 3GSM 2100 network through our joint venture with Hutchison Telecommunication (Australia) Limited (Hutchison).



## Half-year results and operations review - December 2006

### Mobiles

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Access fees and call charges . . . . .	1,375	1,387	(12)	(0.9%)
International roaming . . . . .	157	131	26	19.8%
Mobile messagebank . . . . .	106	94	12	12.8%
Mobile data . . . . .				
- Short message service (SMS) (i) . . . . .	304	240	64	26.7%
- Non SMS data (ii) . . . . .	176	105	71	67.6%
Total mobile data . . . . .	480	345	135	39.1%
Total mobile services revenue - retail . . . . .	2,119	1,957	162	8.3%
Mobile services revenue - wholesale . . . . .	26	16	10	62.5%
Mobile services revenue - mobiles interconnection . . . . .	296	318	(22)	(6.9%)
Total mobile services revenue . . . . .	2,441	2,291	150	6.5%
Mobile handset sales . . . . .	357	211	146	69.2%
<b>Total mobile revenue (iii) . . . . .</b>	<b>2,798</b>	<b>2,502</b>	<b>296</b>	<b>11.8%</b>
3GSM mobile SIO (thousands) (iv) . . . . .	1,024	20	1,004	n/m
2GSM mobile SIO (thousands) . . . . .	6,210	6,955	(745)	(10.7%)
CDMA mobile SIO (thousands) . . . . .	1,658	1,607	51	3.2%
<b>Total mobile SIO (thousands) . . . . .</b>	<b>8,892</b>	<b>8,582</b>	<b>310</b>	<b>3.6%</b>
Wireless broadband - SIO (thousands) (included in CDMA SIO & 3GSM above) . . . . .	204	47	157	334.0%
Prepaid mobile SIO (thousands) . . . . .	3,626	3,839	(213)	(5.5%)
Postpaid mobile SIO (thousands) . . . . .	5,266	4,743	523	11.0%
<b>Total mobile SIO (thousands) . . . . .</b>	<b>8,892</b>	<b>8,582</b>	<b>310</b>	<b>3.6%</b>
CDMA wholesale mobile SIO (thousands) . . . . .	71	68	3	4.4%
GSM wholesale mobile SIO (thousands) . . . . .	58	33	25	75.8%
<b>Total wholesale mobile SIO (thousands) . . . . .</b>	<b>129</b>	<b>101</b>	<b>28</b>	<b>27.7%</b>
Number of SMS sent (in millions) (i) . . . . .	2,227	1,318	909	69.0%
Deactivation rate . . . . .	10.4%	8.7%		1.7%
Mobile voice telephone minutes (in millions) (v) . . . . .	4,147	3,611	536	14.8%
Average revenue per user per month \$'s (vi) . . . . .	40.55	38.79	1.76	4.5%
Average revenue per user per month excluding wireless broadband \$'s (vi) . . . . .	39.94	38.28	1.66	4.3%
Average prepaid revenue per user per month \$'s (vi) . . . . .	11.71	10.81	0.90	8.3%
Average postpaid revenue per user per month \$'s (vi) . . . . .	60.98	60.84	0.14	0.2%
Average mobile data revenue per user per month \$'s (vii) . . . . .	9.19	6.76	2.43	35.9%

Note: statistical data represents management's best estimates.

(i) Includes short messaging service (SMS) and multimedia messaging services (MMS)

(ii) Includes \$68 million of revenue (December 2005: \$31 million) relating to wireless broadband services (EVDO & HSDPA)

(iii) Excludes revenue from:

- calls from our fixed network which we categorise as fixed to mobile; and
- CSL New World which is recognised separately as controlled entity revenue.

(iv) Total third generation ("3G") SIOs include 3GSM SIOs and our EVDO wireless broadband SIOs included in CDMA. The number of 3G SIOs are 1,182k (3GSM: 1,024k plus EVDO: 158k).

(v) Includes all calls made from mobile telephones including long distance and international calls, excludes data, messagebank, international roaming and CSL New World.

(vi) Average retail revenue per user per month is calculated using average retail SIOs and includes mobile data, messagebank and roaming revenues. It excludes interconnection and wholesale revenue.

(vii) Includes mobile & broadband wireless revenues (EVDO & HSDPA).

## Half-year results and operations review - December 2006

---

As at the half-year ended 31 December 2006, mobile services revenue increased due to the continued growth in the number of mobile telephone subscribers. The demand was particularly for 3GSM services as SIOs, which reached over the 1 million mark along with expanding minutes of use, offset by continued pressure on prices. In addition, we experienced strong growth in data products including SMS, Blackberry, EVDO and HSDPA.

Mobile revenues have continued to grow during the half-year driven by the increase in capped price plans, heightened campaign activity particularly around Next G™ services, and the increasing use of mobile data services such as Blackberry, EVDO and HSDPA. The large growth in EVDO and HSDPA has been highlighted by an increase in SIOs of 157k for the half-year. The EVDO increase in SIOs of 109k is also the key reason for CDMA SIOs growing year on year. While voice continues to be the largest contributor to mobiles revenue, mobile data, international roaming and messagebank are the fastest growing, now representing 30.4% of mobile services revenue for the half-year.

Access fees and call charges revenue declined by 0.9% to \$1,375 million in the half-year reflecting a decrease in CDMA and 2GSM. Results have been impacted during the year by the growth in capped price plans which has directly impacted revenue per minute. CDMA prepaid revenue per minute was impacted by a promotion which gave CDMA subscribers half price calls for a year and was included in prior half results. We moved from 4.8% of our mobile customers on capped plans in December 2005 to 10.3% in December 2006. Call minutes generally increased for each technology, but these benefits did not outweigh the negative impact on price for the period.

SIOs increased overall, but it was 3GSM 850 (net of 2GSM and 3GSM 2100) that drove the growth with a 259k or a 3.7% increase in SIOs. In addition, CDMA increased by 51k or 3.2% in SIOs due to higher EVDO SIOs. The GSM revenues benefited from an increased emphasis on 3GSM after the launch of Next G™ in October and the availability of new 3GSM handsets.

Revenue from international roaming grew by 19.8% to \$157 million in the half-year ended 31 December 2006. The rise was due to an increase in both outbound and inbound. Outbound roaming minutes and revenue per call have increased revenue. The increase in inbound roaming revenue is in line with world wide mobile growth trends and the increase of travellers to Australia using their own mobile phones.

Revenue from MessageBank® increased by 12.8% to \$106 million in half-year primarily due to growth in minutes resulting from higher mobile usage.

SMS and Multimedia Messaging Services (MMS) revenues increased by 26.7% to \$304 million after a significant increase in the number of messages sent. There is a component of migration from voice communication to message communication which is evident in the reported growth rates. This has been stimulated by a 1 cent text offer and other rewards and bonus options offered during the half-year. Non SMS data growth was also experienced mainly in the corporate segment through the Blackberry and Telstra Mobile Broadband™ products on the EVDO and 3GSM networks. Arriving with the launch of Next G™ was also the education of the market of new data services and that a higher speed network makes data use better which has led to a previously non-active data population now using data. This is reflected in the average overall mobile data revenue per user per month increasing by \$2.43 or 35.9%. Mobile data (excluding messaging) is now 8.3% of mobile ARPU.

Wholesale mobile service revenue increased for the half-year ended 31 December 2006 by 62.5% or \$10 million due to growth in the Wholesale GSM resale product.

Average revenue per user (ARPU) increased by \$1.76 to \$40.55 for the half-year ended 31 December on a blended basis. This has been driven by higher ARPUs experienced on our 3GSM base compared with those experienced on the other 2GSM technologies with an approximate \$20 per month ARPU premium being maintained. Data usage has been a key product driver of this increase. Volumes have increased by 76.0%.

## Half-year results and operations review - December 2006

---

Mobiles interconnection revenue has declined 6.9% to \$296 million. The main product driving this is mobiles terminating revenue which has been impacted by a retrospective regulatory pricing adjustment made on the mobiles terminating access (MTA) rate. The rate has dropped from 18 cents per call minute in 2005 to 15 cents per call minute in 2006. This was despite a 12.3% increase in termination volumes resulting from growth across the entire market. GSM wholesale domestic roaming grew in the half by \$22 million which corresponds directly to a \$7 million drop in CDMA roaming due to migration towards Hutchison's 3GSM products as an alternative to CDMA. SMS interconnect has grown by \$14 million due to an increase in traffic resulting from growth in mobile SIOs as well as a continued increase in the popularity of text messaging as a cheaper alternative to mobile voice calling.

Revenue from handset sales increased by 69.2% to \$357 million in the half-year ending 31 December 2006 primarily due to growth in the number of 3GSM mobile handsets sold. This growth is attributed to an increase in marketing campaign activity focusing on the launch of Next G™ network and the sale of 3GSM handsets. The move away from CDMA and 2GSM to higher priced 3GSM handsets has had the effect of increasing the average revenue of handsets sold.

The deactivation rate has increased in the half-year by 1.7% due to a decline in prepaid mobile SIOs of 213k as a result of pricing pressures of the market and introduction in May 2006 of a shorter access period for recharge.

## Half-year results and operations review - December 2006

### Internet

Revenue from internet services is driven primarily by:

- the increased use of the Internet by businesses and consumers;
- the movement of our customers from basic access and associated calling products to other access services such as ADSL;
- demand for greater bandwidth services such as broadband; and
- the increased need to access broadband services on a mobile basis.

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

#### Internet

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Narrowband . . . . .	79	117	(38)	(32.5%)
Retail broadband . . . . .	497	331	166	50.2%
Wholesale broadband . . . . .	279	209	70	33.5%
Other . . . . .	10	9	1	11.1%
<b>Total internet revenue</b> . . . . .	<b>865</b>	<b>666</b>	<b>199</b>	<b>29.9%</b>
Broadband subscribers - retail (in thousands) (i)(ii) . . . . .	1,839	1,188	651	54.8%
Broadband subscribers - wholesale (in thousands) . . . . .	1,621	1,164	457	39.3%
Total broadband subscribers (in thousands) . . . . .	3,460	2,352	1,108	47.1%
Narrowband subscribers - retail (in thousands) . . . . .	819	1,143	(324)	(28.3%)
<b>Total online subscribers</b> . . . . .	<b>4,279</b>	<b>3,495</b>	<b>784</b>	<b>22.4%</b>
Average revenue per retail broadband subscriber per month (\$'s) . . . . .	49.49	54.32	(4.83)	(8.9%)
Average revenue per retail broadband subscriber per month before wireless broadband (\$'s)	46.96	50.42	(3.46)	(6.9%)

Note: statistical data represents management's best estimates.

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

(ii) Our broadband subscribers include 204k subscribers relating to our wireless broadband products for December 2006 and 47k for December 2005.

Our narrowband products allow customers to connect to the internet from any telephone line in Australia. Our broadband products allow customers to experience an "always on" connection to the Internet, although this is not available to all lines due to technology limitations. During the half-year there was continued demand for capacity combined with competitive pricing which resulted in customers migrating their narrowband services to broadband. This trend placed additional price pressure on our narrowband products and resulted in a significant decline in our narrowband revenues.

There are a range of internet products and packages offered under our BigPond brand. Telstra BigPond home and business packages offer dial-up modem services to residential and business customers across Australia. Telstra BigPond broadband provides broadband internet services to consumer and business customers via HFC (Hybrid Fibre Coaxial) cable, ADSL (including ADSL 2+), satellite and wireless on the Next G™ and CDMA networks.

For the half-year ended 31 December 2006, our internet revenue grew by 29.9% or \$199 million to \$865 million. The subscriber base for our broadband products grew significantly, partially due to migration from narrowband products

## Half-year results and operations review - December 2006

---

but also due to growth in the overall online market. As at 31 December 2006, we had approximately 3.5 million broadband customers with over 1.8 million of these being retail customers. There has been a significant rise in demand resulting from competitive pricing strategies.

Narrowband revenue decreased by 32.5% to \$79 million for the half-year. Home subscribers have declined by 30% to approximately 684k and business subscribers by 21% to approximately 135k. The decline in narrowband revenue highlights the growing impact of dial-up to broadband migration. We expect this trend to continue with further price adjustments likely to occur as broadband prices fall and customers require higher speeds.

Retail broadband revenue increased by 50.2% to \$497 million for the half-year, mainly due to strong increases in SIOs, although overall ARPU declined half on half. Broadband ARPUs have however been maintained compared with the second half of fiscal 2006. ADSL, cable and wireless have been key drivers of the SIO growth, with ADSL increasing by 51.4% to 1,303k subscribers and cable increasing by 19.8% to 308k subscribers. Wireless contributed to overall subscriber growth with BigPond EVDO launched in August 2005 and HSDPA on the Next G™ network launched in October 2006. These products contributed 157k to the increase in our subscribers over the last 12 months. BigPond marked its 10<sup>th</sup> anniversary in November with the launch of national high speed broadband network. The network delivers significantly increased speeds from exchanges offering ADSL 2+ services. The introduction of a number of key price and value campaigns has also stimulated broadband take up including, high-speed cable plans, price/value offers which included a combination of discounting access and installation offers, various sales channel and marketing initiatives and competitive differentiation such as appealing and popular content offers.

As our customers migrate from narrowband to broadband our overall blended ARPU has increased from December 2005 to December 2006. This result is due to broadband subscribers increasing at a greater rate than narrowband migration. Broadband subscribers have a substantially higher APRU than narrowband and the proportional mix of customers has changed.

Wholesale broadband revenue increased by 33.5% to \$279 million for the half-year ended 31 December 2006, driven by a continuing strong market demand for high bandwidth services stimulated by retail competition. Wholesale DSL internet grade has grown by 33.7% to \$251 million driven by SIO growth of 29.6% to 1,391k, combined with delayed ULL build activity and a stable average revenue per user. Spectrum sharing services has also contributed to revenue growth, after strong SIO growth from 90k to 230k.

Other revenue, which is made up of media content and BigPond webhosting services, increased by 11.1% or \$1 million over the half-year. BigPond webhosting services primarily relates to the hosting of fully functional personal or business websites for customers, however the majority of the revenue growth can be attributed to media content with movie, music, games and sport content all growing over the period.

## Half-year results and operations review - December 2006

### IP & data access

#### IP & data access

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Internet direct . . . . .	81	70	11	15.7%
Specialised data: . . . . .				
- Frame relay . . . . .	136	157	(21)	(13.4%)
- ATM . . . . .	40	46	(6)	(13.0%)
- Digital data services . . . . .	82	104	(22)	(21.2%)
- Leased lines . . . . .	114	112	2	1.8%
- International private lines . . . . .	14	14	-	0.0%
- Other specialised data . . . . .	18	18	-	0.0%
Total specialised data . . . . .	404	451	(47)	(10.4%)
IP access . . . . .	193	152	41	27.0%
Wholesale internet & data . . . . .	111	100	11	11.0%
<b>Total IP &amp; data access revenue . . . . .</b>	<b>789</b>	<b>773</b>	<b>16</b>	<b>2.1%</b>
Domestic Frame access ports (in thousands) . . . . .	29	33	(4)	(12.1%)

Note: statistical data represents management's best estimates.

Our operating revenue from IP and data access products consists of revenue from Internet direct, specialised data, IP Access and Wholesale internet and data. This product suite is used primarily by small to large enterprise customers. IP and data access has increased by 2.1% or \$16 million driven mainly by IP access, internet direct and wholesale internet and data. IP access has grown due to newer technology attracting a migration of small business and enterprise customers from mature products in specialised data.

Internet direct has increased by 15.7% to \$81 million due mainly to Telstra Virtual ISP where a commercial deal signed has helped increase SIOs by 38k or 100%. The Telstra Virtual ISP product brings together our MegaPoP national dial-IP platform with our wholesale internet solution to provide dedicated dial-up ports that customers can on-sell to end users.

Specialised data has declined by 10.4% to \$404 million in revenue due to the maturing nature of the products in this category with most customers moving to IP Access products which provide better business solutions. Digital Data Services (DDS), is a maturing product with majority of customers now opting for symmetrical HDSL solutions. Digital data access has declined as wholesale customers are leaving this product and building their own networks. The maturity in DDS products has led to a decline in revenue of 21.2% or \$22 million.

Frame revenue has declined by 13.4% to \$136 million due to frame products maturing and customers migrating to newer technologies particularly Symmetrical HDSL. ATM has declined 13.0% to \$40 million due to customers moving to other leased lines, IP MAN and IP WAN. The migration of ATM customers to other leased lines has resulted in a revenue increase in this category, offset by voice graded dedicated lines due to customers migrating to DSL based or wireless technologies like IP MAN and IP WAN.

Our operating revenue from IP access is driven primarily by the increased use of IP services by business customers (small to medium enterprises), the introduction of new products to meet customer needs and the increased use of the internet by businesses at greater bandwidth. IP access has grown by 27.0% to \$193 million due to new subscribers in

## Half-year results and operations review - December 2006

Symmetrical HDSL, IPWAN and IPMAN/Ethernet. Symmetrical HDSL has increased SIOs by 52.0% with increased revenue of \$18 million underlining the growth phase of this product due to the demand for broadband/VPN networks.

IPMAN/Ethernet and IP WAN have increased revenue in the IP access category by \$25 million. IP MAN/Ethernet products have increased volume by 49.0% due to the capability to provide 'next generation' data access services with high-speed IP and Ethernet access solutions respectively for large to medium corporate enterprises. This is particularly underlined by the government sector's demand for wideband internet protocol. IP WAN growth can be attributed to increased discounting and the beneficial impact of being part of bundled solutions such as Connect IP.

Wholesale internet and data has increased by 11.0% or \$11 million mainly due to wholesale leased transmission increasing revenue by \$11 million driven by transmission growth. Main reasons behind the growth include an increase in end user bandwidth demand driven by corporate networks, internet usage, ISPs growing DSL network coverage and requiring backhaul and mobile providers requiring additional backhaul to support bandwidth requirements for their 3GSM networks. The SIOs for transmission have increased by 3k or 26.0%. Wholesale VPN (virtual private networks) also grew by \$4 million as wholesale customers found an attractive alternative to deliver better internet solutions, offset by our wholesale internet products which have declined by \$6 million due to pricing pressures in the market place.

### Business services and applications

Our operating revenue from business services and applications is derived from managing all or part of a customer's communications and IT solutions and services covering:

- managed network services which is network based voice and data products, including CPE management, radio networks and new wireless based technologies;
- IT services which is managed customer infrastructure (e.g. desktop and end user devices), hosting and application development. In addition, IT services also includes professional consulting and deployment services;
- business applications including IP telephony, end to end conferencing solutions and products that support transaction services; and
- our eBusiness and global data centre.

#### Business services and applications

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Managed network services . . . . .	136	154	(18)	(11.7%)
IT services . . . . .	279	298	(19)	(6.4%)
Business applications . . . . .	61	54	7	13.0%
Other . . . . .	25	1	24	n/m
<b>Total business services and applications revenue . . . . .</b>	<b>501</b>	<b>507</b>	<b>(6)</b>	<b>(1.2%)</b>

For the half-year ended 31 December 2006, business services and applications revenue declined 1.2% to \$501 million mainly due to lower managed network services and IT services revenue.

The decrease in managed network services revenue of 11.7% or \$18 million was driven by reductions in managed voice and data products, together with managed WAN and radio. Managed voice and managed data declined due to reduced project activity, lower CPE leasing and product substitution to IP telephony. Managed WAN and managed radio was lower across a number of customers and also experienced lower construction activity.

## Half-year results and operations review - December 2006

IT services revenue declined by \$19 million to \$279 million for the half-year mainly due to the sale of Australian Administration Services (AAS) in August 2006. The half-year to December 2005 included a full 6 months of revenue compared to only 2 months in the current half-year. This decline was partially offset by revenue earned from a number of new government contracts signed, along with the Department of Defence's Central Office IT Infrastructure Support Services contract signed in December 2005 which is a five-year contract for an estimated \$200 million.

Business applications has primarily grown due to IP telephony as customers transition from traditional systems to converged voice and data platforms, together with improved contact solutions revenues, particularly network computer telephony integration (CTI).

Other revenues have increased due to the recognition of managed industrial network services being reported separately from the external construction product this half-year. Overall the revenue from this product has remained flat after an increase in sales offset by a change in the recognition policy for project losses. Previously losses were recognised over the life of the project whereas this now occurs up front.

### Advertising and directories

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

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

#### Advertising and directories

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Advertising and directories revenue . . . . .	<b>824</b>	944	(120)	<b>(12.7%)</b>

The half-year revenue result was impacted by the deferral of the Melbourne Yellow™ print directory production from December 2006 to January 2007. Excluding the impact of the revenue deferral of \$174 million from our prior year results, our Advertising and Directories revenue grew by 7.0%. The acquisition of SouFun has also contributed \$24 million to the Advertising and Directories revenue during the half-year.

For a detailed description of the performance in this area, please refer to the Sensis financial summary on page 44.



## Half-year results and operations review - December 2006

### Offshore controlled entities

The offshore controlled entities category relates to our offshore subsidiaries, which provide a variety of products and services within their various regions of operation. Included in this category are the following significant offshore controlled entities:

- CSL New World Mobility Group (CSLNW), which generates its revenues from the Hong Kong mobiles market. CSLNW was formerly known as Hong Kong CSL Limited, until March 2006 when this entity merged with Hong Kong based mobile company New World PCS. As a result of this transaction, we own 76.4% of the merged entity;
- TelstraClear, which generates its revenues from providing full integrated services to the New Zealand market; and
- other offshore controlled entities predominantly in the Telstra Enterprise and Government segment, which mainly generate revenues from the provision of global communication solutions to multinational corporations through our interests in the United Kingdom, Asia and North America.

#### Offshore controlled entities - revenue

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
CSL New World . . . . .	519	373	146	39.1%
TelstraClear . . . . .	286	321	(35)	(10.9%)
Other offshore controlled entities . . . . .	173	139	34	24.5%
<b>Total offshore controlled entities revenue . . . . .</b>	<b>978</b>	<b>833</b>	<b>145</b>	<b>17.4%</b>

Consolidated revenue from offshore controlled entities increased for the half-year ended 31 December 2006 by 17.4% to \$978 million. This growth was primarily due to the following factors:

- CSLNW revenue growth of 39.1% to \$519 million was driven by strong growth in mobile services revenue and mobile handset revenue. This growth was mainly due to additional revenue of \$121 million being generated as a result of the merger between Hong Kong CSL and New World PCS in March 2006. Mobile services revenue was driven by rising data, international voice and prepaid revenue. However this was offset by declining local voice revenue due to the impact of sustained pricing pressure. Mobile handset revenue growth was mainly due to the merger and handset promotions being well received by the market. Revenue growth was also effected by a \$9 million unfavourable foreign exchange rate impact.
- TelstraClear experienced a net decline in revenue of 10.9% to \$286 million. There were significant declines in calling revenues largely due to lower usage and falls in the customer base along with a decline due to fewer one-off implementation charges. Internet revenue declined due to market led price erosion and a smaller customer base mainly in the business segment. Revenue was also negatively impacted by the NZ\$ exchange rate, with a \$20 million foreign exchange impact. Access revenue growth partially offset the other categories of decline, mainly due to increased gateway revenue in the business segment.

## Half-year results and operations review - December 2006

- The 24.5% growth to \$173 million growth in other offshore controlled entities revenue was mainly due to growth in Asia, US and Europe. The Asian market business grew by \$14 million mainly due to continued strong sales growth in the established Telstra Singapore and Telstra Hong Kong businesses. The KAZ business also exhibited strong growth in the same region. The US business grew by \$10 million mainly as a result of a major contract to provide telecommunications solutions over an integrated global IP-based network. Predominantly the growth resulted from the Service Provider Channel in the USA, particularly Global Crossing and to a lesser degree Broadwing. Revenue growth in Europe of \$9 million was mainly due to increases in data and hosting revenue growth through PSINet. This growth was partly offset by the continued erosion of the Powergen and Cable Telecom customer bases.

For further detail regarding the performance of our major offshore subsidiaries CSLNW and TelstraClear, refer to the business summaries on pages 46 and 47.

### Pay TV bundling

#### Pay TV bundling

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Pay TV bundling revenue . . . . .	<b>164</b>	156	8	<b>5.1%</b>
FOXTEL Pay TV bundling subscribers (thousands) . . . . .	<b>309</b>	287	22	<b>7.7%</b>
Austar Pay TV bundling subscribers (thousands) . . . . .	<b>38</b>	54	(16)	<b>(29.6%)</b>
Total Pay TV bundling subscribers (thousands) . . . . .	<b>347</b>	341	6	<b>1.8%</b>

Note: statistical data represents management's best estimates.

Total pay TV bundling revenue grew by 5.1% to \$164 million for the half-year ended 31 December 2006, with FOXTEL revenue growing \$11 million, offset by a decline in AUSTAR revenue of \$3 million.

FOXTEL bundled services revenue grew by 8.6% to \$145 million after an increase in subscribers by 7.7%, largely due to the FOXTEL conversion campaign during the half-year targeting both new customers and existing analogue customers. Higher revenue per user and a reduction in discounts also contributed to the revenue growth. FOXTEL on the Next G™ handsets was made available in October 2006 and as a result it is yet to have any significant impact on revenue growth.

At 31 December 2006, analogue services in operation represented approximately 1% of FOXTEL subscribers compared with 21.4% at the same time last year. We are in the process of closing the analogue network and as a result analogue services remaining will be minimal.

The AUSTAR bundled services revenue decline for the half-year of 14.1% to \$19 million was mainly due to a declining subscriber base, as a result of limited marketing activity undertaken throughout the period.

## Half-year results and operations review - December 2006

### Other minor items

#### Other minor items

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
HFC cable usage . . . . .	40	41	(1)	(2.4%)
Commercial and recoverable works . . . . .	14	25	(11)	(44.0%)
External construction . . . . .	18	59	(41)	(69.5%)
Other . . . . .	64	50	14	28.0%
<b>Total other minor items revenue . . . . .</b>	<b>136</b>	<b>175</b>	<b>(39)</b>	<b>(22.3%)</b>

Operating revenue from other minor items decreased by 22.3% to \$136 million for the half-year ended 31 December 2006. The revenue decline was mainly due to lower external construction and commercial and recoverable works.

External construction revenue decreased by 69.5% to \$18 million. External construction revenue, which is generated by the delivery of communications network infrastructure solutions, declined mainly due to a \$24 million re-classification of revenue into managed industrial networks, part of business services and applications, and a decrease in revenue from carrier customers. All carrier customer projects are progressively being wound down as we move out of this business. These decreases were marginally offset by an increase in activity relating to the construction of the 3GSM 2100 network in conjunction with our joint venture partner, Hutchison.

Commercial and recoverable works revenue declined 44.0% to \$14 million mainly due to the conclusion of certain contracts, the discontinuing of network build projects for our competitors and the shift from using full-time staff to contractors for recoverable work, thereby reducing expenditure, but also reducing revenue on this activity.

HFC cable usage is made up of revenue received from FOXTEL for cable installations and service calls. Revenue decreased marginally as a result of a decline in cable field works as FOXTEL are taking up their own installation activity. This decrease was partially offset by an increase in revenue share due to higher subscriber numbers and continuing migration from analogue to digital.

Other revenue increased by 28.0% to \$64 million mainly due to increases in overdue account payments revenue as a result of a \$4 increase for overdue bills \$200 and higher, and pricing plan adjustments revenue increasing due to incorrect pricing based on some of our plans.

## Half-year results and operations review - December 2006

### Other revenue

#### Other revenue

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Rental Income . . . . .	15	10	5	50.0%

Rental income growth was mainly due to changes to some of our data centre leases, along with a sublease agreement relating to the office space Australian Administrative Services (AAS) continues to occupy.

### Other income

#### Other income

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Proceeds from sale of property, plant and equipment . . . . .	15	17	(2)	(11.8%)
Proceeds from sale of investments . . . . .	242	-	242	-
<b>Asset/investment sales</b> . . . . .	<b>257</b>	<b>17</b>	<b>240</b>	<b>n/m</b>
Cost of property, plant & equipment . . . . .	(11)	(8)	(3)	37.5%
Cost of investment . . . . .	(194)	-	(194)	-
<b>Cost of asset / investment sale</b> . . . . .	<b>(205)</b>	<b>(8)</b>	<b>(197)</b>	<b>n/m</b>
<b>Net gain/loss on assets/investment sale</b> . . . . .	<b>52</b>	<b>9</b>	<b>43</b>	<b>477.8%</b>
USO levy receipts . . . . .	25	28	(3)	(10.7%)
Government subsidies . . . . .	51	63	(12)	(19.0%)
Miscellaneous income . . . . .	24	29	(5)	(17.2%)
<b>Other income</b> . . . . .	<b>100</b>	<b>120</b>	<b>(20)</b>	<b>(16.7%)</b>
<b>Total other income</b> . . . . .	<b>152</b>	<b>129</b>	<b>23</b>	<b>17.8%</b>

Total other income increased by 17.8% to \$152 million for the half-year ended 31 December 2006.

Income growth in this area was driven by proceeds from sale of investments of \$242 million. This mainly related to the sale of Australian Administration Services (AAS) in August 2006, the superannuation administration business of our KAZ Group, for \$231 million, recognising a net gain on sale of approximately \$44 million. We also sold Platefood Limited, which provided search marketing software and search results to directories and media companies, in November 2006. Proceeds from this sale were \$10 million, with a net gain on sale of \$4 million.

The decline in revenue for the half-year ending 31 December 2006 was mainly due to less revenue being received in relation to the Broadband Connect Australia scheme compared with the prior year. Also contributing to the decline was the timing of the final Esten scheme payment, which is not due until the second half of 2007. The Esten scheme provides funding for mobile coverage in designated rural areas.

## Half-year results and operations review - December 2006

### Operating expenses

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Labour expense . . . . .	1,996	2,053	(57)	(2.8%)
Goods and services purchased . . . . .	2,566	2,195	371	16.9%
Other expenses. . . . .	2,318	2,011	307	15.3%
	<b>6,880</b>	6,259	621	9.9%
Share of net loss from jointly controlled and associated entities . . . . .	1	1	-	0.0%
	<b>6,881</b>	6,260	621	9.9%
Depreciation and amortisation . . . . .	1,978	1,800	178	9.9%
<b>Total operating expenses . . . . .</b>	<b>8,859</b>	8,060	799	9.9%

In the half-year ended 31 December 2006, our total operating expenses (including share of net loss from jointly controlled and associated entities) was \$8,859 million, compared with \$8,060 million in the prior corresponding period. Our operating expenses have been impacted by the following factors:

- higher goods and services purchased mainly relating to cost of mobile sales as a result of increased market campaign activity, especially following the launch of the Next G™ network;
- costs associated with transformational initiatives, mainly related to service contracts and other agreements, amounting to \$137 million;
- growth in depreciation on our communications plant asset base along with the impact of a service life review of our asset base as part of transformation activities. The impact of this service life review increased depreciation expense by \$148 million in the current half-year;
- additional operating expenses of \$152 million in the half year ended 31 December 2006 from our acquisition activity including the SouFun acquisition, as well as the inclusion of a full six months of expenses relating to entities we acquired in the second half of fiscal 2006. This included expenses relating to Adstream and New World PCS. Offsetting this increase is a reduction to our expenses of \$33 million, attributable to our divestment of Australian Administrative Services (AAS) in August 2006;
- lower labour expenses as a result of reduced staff numbers and the utilisation of the restructuring and redundancy provision raised at the end of fiscal 2006, which has the effect of lowering our redundancy expense compared with the prior half-year; and
- lower network payment costs as a result of reduced mobile terminating access rates and lower net costs flowing through from REACH, resulting in lower offshore outpayments.

## Half-year results and operations review - December 2006

### Labour expense

Labour expense includes:

- salary, wages and related on-costs, including superannuation costs, share based payments, workers' compensation, leave entitlements and payroll tax;
- costs of engaging contractor labour and agency costs; and
- restructuring costs, including redundancy expenses.

In the table below, our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities. Domestic full time employees do not include casual and part time employees or employees in our offshore subsidiary entities. Our full time employees and equivalents include the total of our domestic and offshore full time employees, and casual and part time employees measured on an equivalent basis. Our total workforce includes domestic and offshore full time, casual and part time employees as well as contractors and staff employed through agency arrangements measured on an equivalent basis.

During fiscal 2006, we undertook a comprehensive review of the sources of our workforce numbers and this resulted in a restatement of our workforce figure for the half-year ended 31 December 2005. For 31 December 2005, we previously reported domestic full time employees of 39,406, full time employees and employed equivalents of 45,876 and total workforce of 52,705. We have revised these numbers for the half-year reporting purposes after standardising our subsidiary entities' methodology for reporting workforce numbers and reviewing some of our data capture systems. We have also revised the way we count staff on long term leave to exclude them from our reported staff balances to enable us to better manage the business.

#### Labour expense

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Labour expense . . . . .	<b>1,996</b>	2,053	(57)	<b>(2.8%)</b>
Domestic full time employees (whole numbers) (i) . . . . .	<b>36,184</b>	39,115	(2,931)	<b>(7.5%)</b>
Full-time employees and employed equivalents (whole numbers) (ii) . . . . .	<b>43,989</b>	45,456	(1,467)	<b>(3.2%)</b>
Total workforce , including contractors and agency staff (whole numbers) (iii) . . . . .	<b>48,991</b>	51,057	(2,066)	<b>(4.0%)</b>
Reduction in total workforce in fiscal 2006 excluding impact of the New World merger . .	<b>(3,859)</b>			
Reduction in total workforce since June 2006 excluding acquisition/divestment activity (iv)	<b>(737)</b>			
Total reduction in workforce . . . . .	<b>(4,596)</b>			

Note: statistical data represents management's best estimates.

(i) Excludes offshore, casual and part time employees. 31 December 2005 balance has been restated, refer to details above.

(ii) Includes all domestic and offshore employees, including those of our subsidiary entities. 31 December 2005 balance has been restated, refer to details above.

(iii) Includes all domestic and offshore employees, including subsidiary entities as well as contractors and agency staff. 31 December 2005 balance has been restated, refer to details above.

(iv) The reduction in total workforce since June 2006 excludes the impact of our divestment in Australian Administration Services Pty Ltd and our acquisition of SouFun Holdings Ltd, both of which occurred in August 2006.

## Half-year results and operations review - December 2006

---

During the half-year ended 31 December 2006, our total workforce decreased by 0.9% or 453 full time equivalent staff, contractors and agency staff. This decrease is predominantly due to specific efforts across the business to rationalise the number of people working for the Telstra group as transformation initiatives take effect. During the half-year, we also acquired SouFun Holdings Limited which contributed 1,194 full time equivalent staff and we sold Australian Administration Services, which reduced staff numbers by 910. As highlighted in the above table, excluding the impact of these investment changes, total workforce numbers have declined 737 from 30 June 2006.

Our labour expense decreased by 2.8% to \$1,996 million mainly due to:

- increased levels of redundancy resulting in lower staff levels and therefore a reduction in salary costs;
- a reduction in redundancy costs;
- lower overtime payments partially offset by higher contractor and agency payments; and
- a reduction of worker's compensation costs based on a decrease due to a lower number of claims and claim payments and an increase in the bond rate.

We incurred redundancy expenses of \$51 million for the half-year ended 31 December 2006 compared with \$96 million for the comparable period last year. As part of the business restructure, we raised a provision for restructuring and redundancy at the end of fiscal 2006 which has been utilised in line with the level of transformational redundancy activity that has taken place in the current half-year.

The above decreases in labour expense were partially offset by an increase due to pay rises resulting from Enterprise Agreement increases for award staff and contract staff rate increases, together with higher pension costs (due to an adjustment for additional curtailment costs) and the impact of lower labour costs capitalised.

## Half-year results and operations review - December 2006

### Goods and services purchased

Goods and services purchased includes core costs of our business that vary according to business activity. The largest component of this expense category is network payments, which are payments made to other carriers to terminate international and domestic outgoing calls and international transit traffic. Other significant items include the costs of mobile handsets and internet modems, costs of mobile sales (including subsidy costs, usage commissions and dealer incentives), managed services costs (including service contracts, sub-contractors and leases), service fees (predominantly in relation to our pay television services) and paper purchases and printing costs.

#### Goods and services purchased

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Cost of goods sold - handset subsidies . . . . .	417	211	206	97.6%
Cost of goods sold - other . . . . .	610	406	204	50.2%
Usage commissions . . . . .	159	130	29	22.3%
Network payments . . . . .	887	1,005	(118)	(11.7%)
Service fees . . . . .	171	154	17	11.0%
Managed services . . . . .	106	91	15	16.5%
Dealer performance commissions . . . . .	59	35	24	68.6%
Paper purchases and printing . . . . .	64	86	(22)	(25.6%)
Other . . . . .	93	77	16	20.8%
<b>Total goods and services purchased . . . . .</b>	<b>2,566</b>	<b>2,195</b>	<b>371</b>	<b>16.9%</b>

Our goods and services purchased increased in the half-year mainly due to higher mobile handset subsidies and cost of goods sold, offset by lower network payments. This expense category increased by 16.9% to \$2,566 million due to the following factors:

- an increase of \$49 million due to the inclusion of a full six months of expenses relating to New World PCS, which was merged with CSL in the second half of the prior fiscal year. The increase is mainly seen in cost of goods sold – handset subsidies and network payments. Offsetting this increase is our divestment of Australian Administrative Services in August 2006, contributing to a decline of \$6 million;
- a rise in cost of goods sold - mobile handset subsidies of \$206 million, attributable to an increase in the take up of handsets on subsidised plans as well as higher average subsidies offered. This is mainly due to the launch of the Next G™ network in October 2006 and a significant campaign extending into the first quarter of the fiscal year. As a result, we have seen a larger range of handsets being subsidised. Our average subscriber acquisition and retention cost is \$183 for the current half-year, up from \$121 in the prior corresponding period, as we invest in our subscriber base to drive growth. In addition, the CSL New World Mobility Group has implemented a more aggressive handset subsidy policy in order to increase handset sales;
- a rise in other cost of goods sold is mainly due to higher sales volumes for mobile handsets and a higher average cost per handset. This is primarily driven by increased market campaign activity, especially following the launch of the Next G™ network. Strong BigPond broadband demand and sales growth in other product categories such as CPE for small business customers have also driven the increase. Additionally, payments made to Brightstar, which started in the second half of fiscal 2006, also contributed. These payments were made in accordance with our procurement agreement with them to centrally source wireless devices from global suppliers with a view to achieving cost savings. Significant costs have been avoided as a result of the Brightstar arrangement, inclusive of the above payments;



## Half-year results and operations review - December 2006

---

- usage commissions increased by 22.3% to \$159 million, largely driven by higher commissionable mobile revenue in the half-year, as well as increased uptake of non-mobile related products such as BigPond products;
- growth in dealer performance commissions, mainly attributable to a higher number of new mobile activations and re-contracts through external dealer channels as a result of increased market campaign activity and the launch of the Next G™ network. These commission payments are contract payments based on specific performance targets;
- service fees increased by 11.0% to \$171 million in the half-year led by a rise in bundling of pay television services due to growth in bundled FOXTEL subscribers, price increases and payments to vendors for content supplied on 3GSM mobile phones. Other drivers for the increase are variable costs related to Blackberry and Mobile Content; and
- our managed services costs grew by 16.5% to \$106 million in the half-year ended 31 December 2006, mainly attributed to increased project management professional service costs by third party suppliers for the support of the major customer contracts growth.

The increases were partially offset by a decrease in other goods and services expenses such as network payments and paper purchases and printing costs.

Our network payments declined by \$118 million to \$887 million largely due to:

- a reduction in the mobile terminating access rate to 15 cents per minute, which was backdated to January 2006 based on an ACCC determination. Hence, \$61 million of the reduction in our domestic network outpayments relates to the second half of fiscal 2006; and
- lower payments made to REACH for international capacity and termination costs due to lower net costs flowing through from REACH, which in turn reduces our share of expenses.

The decrease in network payments has been partly offset by volume increases of domestic mobile and SMS traffic terminating on other carriers' networks. Our offshore outpayments have also grown due to higher outbound roaming revenue, as well as growth in our UK, USA and Asian operations and the consolidation of expenses from New World PCS.

Paper purchase and printing costs decreased by 25.6% to \$64 million in the half-year ended 31 December 2006 largely due to the shift of production of the Melbourne Yellow™ print directory from December 2006 to January 2007 this fiscal year, due to the renegotiation of a printing contract. Our divestment of Australian Administrative Services in August 2006 has also contributed to the cost reduction.

Other goods and services purchased has increased by \$16 million mainly as a result of an increase in commercial project payments, which increased by \$10 million in the half-year ended 31 December. This is mainly due to an accounting adjustment related to previously deferred expenses in relation to several customer contracts.

## Half-year results and operations review - December 2006

### Other expenses

#### Other expenses

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Property, motor vehicle and IT rental expense . . . . .	307	292	15	5.1%
Net foreign currency conversion losses/(gains) . . . . .	(3)	(3)	-	0.0%
Audit fees . . . . .	4	4	-	0.0%
Service contracts and other agreements . . . . .	1,047	892	155	17.4%
Promotion and advertising . . . . .	212	154	58	37.7%
General and administration . . . . .	452	398	54	13.6%
Other operating expenses . . . . .	197	188	9	4.8%
Impairment and diminution expenses . . . . .	102	86	16	18.6%
<b>Total other expenses . . . . .</b>	<b>2,318</b>	<b>2,011</b>	<b>307</b>	<b>15.3%</b>

Our other expenses were \$2,318 million in the half-year ended 31 December 2006, a 15.3% increase. Our other expenses in the current half-year include \$48 million relating to a full six months of expenses, attributable to the merger of CSL with New World PCS, the consolidation of expenses from SouFun, and Adstream which was acquired in the second half of the prior fiscal year. This increase is partially offset by the divestment of Australian Administrative Services in August 2006 of \$4 million.

The movement in the significant categories of other expenses is discussed below.

The largest component within this expense category is service contracts and other agreements. The expense increased by 17.4% to \$1,047 million in the half-year ended 31 December 2006, mainly driven by the following factors:

- costs associated with transformational initiatives largely associated with the IP enablement of our network and IT transformation of \$80 million;
- payments to Brightstar for management of our Channel Logistics Operations centre, which did not exist in the prior corresponding period. A payment is made to Brightstar based on the volumes of handsets shipped out from the centre to the various sales channels;
- volume based increases including increased activations, billing enquiries and content related payments for BigPond products due to product growth; and
- a rise in consultancy costs associated with the company transformation activity.

Our promotion and advertising costs increased by 37.7% to \$212 million during the half-year mainly due to increased spend related to the launch of the Next G™ network, as well as more marketing activity to stimulate growth of Broadband and wireless products.

General and administration expenses increased by 13.6% to \$452 million in the half-year ended 31 December 2006. This is mainly driven by changes in booking practices following improved invoicing procedures, which has seen costs previously booked to Service Contracts and Agreements now reclassified as accommodation and information technology costs. Also contributing to the increase is higher building maintenance costs, as well as electricity costs associated with running the new Next G™ network. Our training costs have also increased due to our focus on training and equipping our field staff in order to better service and satisfy customer needs, which is an important part of the transformation. Legal costs have risen during the half-year due to increased litigation and other legal work, including

## Half-year results and operations review - December 2006

the Crazy John's Mobile World litigation, Optus Home Access litigation, Shareholder class action and the IT transformation. The increases have been partially offset by lower IT costs arising out of the re-negotiation of an IT vendor contract as part of the transformation strategy.

Our impairment and diminution expense has increased by 18.6% to \$102 million in the half-year ended 31 December 2006. This is mainly attributable to increased bad and doubtful debt expenses and higher inventory write down expenses. Our doubtful debt expense has risen due to increased aged debt associated with broadband customers, as well as a large decrease in the prior corresponding period, which related to a provision for doubtful debts no longer required. Our inventory write down expense has increased in our construction business due to the transformation, as well as the impact of extra mobile handsets, causing slow moving stock to be written off more quickly. Partially offsetting these increases was lower non-inventory impairment costs largely due to the retirement of several IT assets in the prior fiscal year. The prior corresponding period has also included costs associated with the cancellation of partially completed capital projects, which were not required in the current half-year.

Property, Motor Vehicle and IT rental expense increased by \$15 million to \$307 million, mainly due to the consolidation of expenses from New World PCS, which was merged with CSL in the second half of the prior fiscal year. This is partly offset by lower IT rental expense as a result of the purchase, instead of the lease, of a number of new servers.

Other operating expenses increased by \$9 million during the half-year primarily due to lower capitalised costs resulting in higher labour costs being expensed. The increases have been offset by reductions in miscellaneous purchases and material usage due to a lower level of activity compared to the prior corresponding period.

### Share of net loss from jointly controlled and associated entities

#### Share of net loss from jointly controlled and associated entities

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Share of net loss from jointly controlled and associated entities . . . . .	<u>1</u>	<u>1</u>	-	0.0%

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

Prior year results included the net position of payments made to REACH and FOXTEL, offset by equity profits in Xantic. We have since sold the Xantic business and no equivalent payments have been made to REACH or FOXTEL in the current year. Our net loss from jointly controlled and associated entities is minimal.

There were no significant unrecognised profits/losses in either FOXTEL or REACH. As the carrying value of our investment in both REACH and Foxtel has been written down to nil, any share of profits/losses from these entities will not be recognised. These entities will resume equity accounting once the accumulated losses have been fully offset by our share of profits derived from these entities.

## Half-year results and operations review - December 2006

### Depreciation and amortisation

Our depreciation and amortisation expense remains a major component of our cost structure, reflecting our expenditure on capital items.

#### Depreciation and amortisation

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Depreciation . . . . .	1,592	1,437	155	10.8%
Amortisation . . . . .	386	363	23	6.3%
<b>Total depreciation and amortisation . . . . .</b>	<b>1,978</b>	<b>1,800</b>	<b>178</b>	<b>9.9%</b>

Our depreciation and amortisation expense has risen by 9.9% to \$1,978 million for the half-year ended 31 December 2006.

During the second half of last fiscal year, as part of the transformation strategy we undertook a strategic review of the service lives of our assets. The result of this was an acceleration of depreciation and amortisation of certain CDMA network, switching and software assets, which has contributed \$148 million to the year on year increase. We have not accelerated the depreciation and amortisation of CDMA assets where those assets are deemed to have alternative future uses (i.e. the CDMA spectrum will continue to be used with the Next G™ network).

Excluding this impact, depreciation grew by 1.7% to \$1,830 million. Contributing to this increase were:

- further growth in our communications plant; and
- the acquisitions of Adstream (February 2006), the merging of New World PCS with Hong Kong CSL (March 2006) and SouFun (August 2006) (contributing a total of \$33 million).

### Net finance costs

#### Net finance costs

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Borrowing costs . . . . .	511	481	30	6.2%
Finance leases . . . . .	6	1	5	500.0%
(Gain)/loss in fair value hedge instruments . . . . .	12	(21)	33	(157.1%)
Unwinding of discount on liabilities recognised at present value . . . . .	20	20	-	0.0%
Finance costs . . . . .	549	481	68	14.1%
Finance income . . . . .	(29)	(41)	12	(29.3%)
<b>Net finance costs . . . . .</b>	<b>520</b>	<b>440</b>	<b>80</b>	<b>18.2%</b>

Our finance costs are influenced by:

- our debt level;
- interest rates;
- our debt maturity profile;
- movements in our borrowing cost margins;
- our interest payment profile; and
- our level of cash assets (affects net debt).

## Half-year results and operations review - December 2006

Our net debt levels increased from \$12,776 million as at 31 December 2005 to \$14,473 million as at 31 December 2006. This increase was driven by lower net cash produced from the ongoing operations of the business and higher capital cash demands from our transformation investment.

Total finance costs have increased by 14.1% to \$549 million due to increased borrowing costs and a movement in gains/losses on fair value hedge instruments. The increase in borrowing costs of 6.2% is primarily as a result of increased net debt levels combined with the impact of increased interest rates in the half-year. The gain/loss on fair value of hedge instruments moved from a gain of \$21 million for the half-year ending 31 December 2005 to a loss of \$12 million in the current half due to a decrease in our borrowing credit margins.

### Income tax expense

#### Income tax expense

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Income tax expense . . . . .	706	902	(196)	(21.7%)
Effective tax rate . . . . .	29.2%	29.6%		(0.4%)

Income tax expense decreased by \$196 million in the half-year ended 31 December 2006, mainly as a result of the decrease in operating profit before income tax expense.

The effective tax rate in the current half-year is 29.2% compared with the prior half-year of 29.6%. The effective tax rate is consistent with the commonwealth statutory income tax rate of 30.0%. Our effective tax rate was affected by the non taxable profit on sale of the Australian Administration Services Group as it was offset by carried forward capital losses.

## Half-year results and operations review - December 2006

### Major subsidiaries - financial summaries

Below is a summary of the major reporting lines for our three largest subsidiaries: Sensis, TelstraClear and CSL New World Mobility. This information is in addition to the product analysis previously provided in the document and is intended to show these businesses as stand alone entities.

#### Sensis financial summary

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

#### Sensis financial summary

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	Change %
Sales revenue . . . . .	885	1,002	(117)	(11.7%)
Total income . . . . .	889	1,002	(113)	(11.3%)
Total expenses (including depreciation and amortisation) . . . . .	496	477	19	4.0%
EBITDA . . . . .	448	562	(114)	(20.3%)
EBIT . . . . .	393	525	(132)	(25.1%)
CAPEX . . . . .	68	45	23	51.1%
EBITDA margin . . . . .	50.6%	56.1%		(5.5%)

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

The half-year result was impacted by the deferral of the Melbourne Yellow™ print directory production from December 2006 to January 2007. Excluding the impact of this result of \$174 million in revenue and \$15 million in expenses from the prior year, total income grew by 7.4% and EBITDA 11.2%, whilst EBIT grew 7.4%. On this basis, EBITDA margin was 48.7% in the prior year and has grown to 50.6% in the current year.

Sensis total income is split into the following categories:

#### Sensis total income

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	Change %
- Yellow™ revenue . . . . .	526	692	(166)	(24.0%)
- WhitePages revenue . . . . .	146	135	11	8.1%
- Classified revenue . . . . .	65	71	(6)	(8.5%)
- Emerging business . . . . .	63	46	17	37.0%
- SouFun revenue . . . . .	24	-	24	n/m
Total advertising and directories . . . . .	824	944	(120)	(12.7%)
Voice . . . . .	55	52	3	5.8%
Other . . . . .	6	6	-	0.0%
Total Sensis sales revenue . . . . .	885	1,002	(117)	(11.7%)
Other income . . . . .	4	-	4	n/m
<b>Total Sensis external income . . . . .</b>	<b>889</b>	<b>1,002</b>	<b>(113)</b>	<b>(11.3%)</b>

## Half-year results and operations review - December 2006

---

Excluding \$174 million of revenue earned relating to Melbourne Yellow™ print in the prior fiscal year, Yellow™ revenue grew by 1.5% to \$526 million, driven by strong online usage and new initiatives such as Home@Yellow™.

Home@Yellow™ is a new website that offers people thinking of renovating their home all the information, advice and online tools they need to make an informed choice before contacting a supplier.

White Pages® revenue grew by 8.1% to \$146 million. This was driven by continued strong advertiser support and new advertiser products such as In-Column Screen Highlighter, a new option for advertisers seeking to stand out in the White Pages® print directories.

Classifieds revenue declined largely as a result of competitive factors in print, although online growth continues to be strong.

Emerging businesses delivered 37.0% growth to \$63 million. Location & Navigation experienced strong double digit growth driven by accelerating satellite navigation demand, while demand for MediaSmart online solutions also grew strongly.

In August 2006, we acquired 55% (on an undiluted basis) of the issued capital of SouFun, a leading real estate and home improvement website in China, for a total cash consideration of US\$254 million. SouFun provides an entry point into China, allowing Sensis to leverage core capabilities into a larger, faster growing and less mature market than Australia. SouFun has contributed \$24 million in revenue for the half-year ended 31 December 2006.

Total expenses increased by 4.0% due mainly to the following:

- labour expenses grew by \$11 million due to organic growth of the workforce and through the acquisition of Adstream in February 2006 and SouFun;
- excluding the \$15 million impact of the production shift of Melbourne Yellow™ print from December 2006 to January 2007, cost of goods sold decreased by \$1m as a result of lower negotiated printing costs;
- other costs increased by \$5 million due to increased promotion and advertising spend and acquisitions; and
- depreciation and amortisation expense grew by \$18m due to a change in software amortisation policy and investment in emerging business.

## Half-year results and operations review - December 2006

### CSL New World Mobility Group financial summary

The CSL New World Mobility Group (CSLNW) is our Hong Kong based mobile group. It was formed in March 2006 when we merged the CSL entity with New World PCS to form CSLNW. This transaction involved us exchanging a 23.6% share in CSL and receiving a controlling interest in the merged group of 76.4%.

CSLNW operates in the highly competitive Hong Kong mobile market, with the CSL part of entity being one of Hong Kong's premium providers of mobile voice and data services and New World PCS targeting value conscious customers with a low cost business model. The merged entity provides a broad customer base for growth.

#### CSL New World Mobility Group financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2006 A\$m	2005 A\$m	Change %	2006 HK\$m	2005 HK\$m	Change %
Total income . . . . .	519	375	38.4%	3,085	2,189	40.9%
Total expense (including depreciation & amortisation)	484	338	43.2%	2,752	1,847	49.0%
EBITDA . . . . .	140	108	29.6%	835	628	33.0%
EBIT . . . . .	35	37	(5.4%)	333	342	(2.6%)
CAPEX . . . . .	35	51	(31.4%)	211	296	(28.7%)
EBITDA margin . . . . .	27.0%	28.9%	(1.9%)	27.1%	28.9%	(1.8%)

Note: Amounts presented in HK\$ have been prepared in accordance with A-IFRS.

Amounts presented in A\$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from consolidation fair value adjustments.

Operating expenses in the current year include depreciation and amortisation. The previously reported operating expense exclusive of depreciation and amortisation for the half-year ended 31 December 2005 was AUD\$267 million/ HK\$1,561 million.

Total income increased by 40.9% to HK\$3,085 million in the half-year to 31 December 2006, largely due to the additional revenue generated as a result of the inclusion of the New World PCS business from March 2006. New World PCS contributed 80% or HK\$719 million to the revenue growth of HK\$896 million. Revenue growth was also driven by rising data, international voice, mobile virtual network operator (MVNO) and prepaid revenues, offset by a decline in local voice revenues after sustained pressure on prices. Mobile handset revenue also increased after recent handset promotions.

Total expenses increased by 49.0% to HK\$2,752 million mainly due to the following:

- inclusion of operating expenses of HK\$722 million relating to New World PCS;
- increased subsidies mainly due to aggressive marketing offers; and
- depreciation and amortisation expense increased mainly due to the inclusion of the New World PCS business and carrying higher network assets due to the roll out of their 3GSM network.

EBITDA increased by 33.0% to HK\$835 million whilst EBIT decreased by 2.6% to HK\$333 million due to the impact of higher depreciation, which resulted mainly from the inclusion of the New World PCS business.



## Half-year results and operations review - December 2006

### TelstraClear financial summary

TelstraClear is the second largest full service carrier in New Zealand and has been operating in its current form since December 2001. TelstraClear is a voice and data company, providing innovative market leading products, services and customer focus to the business, government, wholesale and residential sectors.

#### TelstraClear financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2006 A\$m	2005 A\$m	Change %	2006 NZ\$m	2005 NZ\$m	Change %
Total income . . . . .	286	321	(10.9%)	335	349	(4.0%)
Total expense (including depreciation & amortisation)	306	339	(9.7%)	354	365	(3.0%)
EBITDA . . . . .	43	51	(15.7%)	50	56	(10.7%)
EBIT . . . . .	(20)	(18)	11.1%	(19)	(16)	18.8%
CAPEX . . . . .	63	58	8.6%	74	63	17.5%
EBITDA margin . . . . .	15.0%	15.9%	(0.9%)	14.9%	16.0%	(1.1%)

Note: Amounts presented in NZ\$ represent the New Zealand business excluding intercompany transactions and have been prepared in accordance with A-IFRS.

Amounts presented in A\$ represent amounts included in Telstra's consolidated result and include the Australian dollar value of adjustments to consolidate TelstraClear into the Group result.

Operating expenses in the current year include depreciation and amortisation. The previously reported operating expense exclusive of depreciation and amortisation for the half-year ended 31 December 2005 was AUD\$270 million/ NZ\$293 million.

For the half year ended 31 December 2006, revenue declined by 4.0% to NZ\$335 million as a result of:

- a decline in calling revenues due to lower usage and competitor-led price erosion;
- internet product competition resulting in price erosion, specifically in the small business and consumer segments; and
- mobile revenues declining due to fewer customers in the business segment.

This reduction was offset by:

- an increase in access revenue due to increased gateway revenues; and
- an increase in data revenue in the wholesale segment.

Total operating expense including depreciation and amortisation decreased by 3.0% to NZ\$354 million as a result of:

- a decrease in labour expenses due to a restructure of the business as a result of a 'Strategy & Structure' review; and
- a decrease in outpayments due to lower revenues and leased data tail savings.

This reduction in expenses was offset by an increase in promotion and advertising due to increased activity to improve brand awareness.

The NZ\$ exchange rate had an unfavourable impact on revenues by AUD\$20 million and expenses by AUD\$22 million.

Capex has increased by 17.5% to NZ\$74 million due to:

- core network expansion; and
- preparing to take advantage of local loop unbundling.

## Half-year results and operations review - December 2006

### Cash flow

#### Cash flow data

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Receipts from customers (inclusive of GST) . . . . .	12,736	12,417	319	2.6%
Payments to suppliers/employees (inclusive of GST) . . . . .	(8,339)	(7,466)	(873)	11.7%
Net cash generated from operations . . . . .	4,397	4,951	(554)	(11.2%)
Income taxes paid . . . . .	(966)	(1,003)	37	(3.7%)
<b>Net cash provided by operating activities</b> . . . . .	<b>3,431</b>	<b>3,948</b>	<b>(517)</b>	<b>(13.1%)</b>
<b>Net cash used in investing activities</b> . . . . .	<b>(2,569)</b>	<b>(1,992)</b>	<b>(577)</b>	<b>29.0%</b>
<b>Operating cash flows less investing cash flows</b> . . . . .	<b>862</b>	<b>1,956</b>	<b>(1,094)</b>	<b>(55.9%)</b>
Movements in borrowings/finance leases . . . . .	1,179	229	950	414.8%
Staff payments of share loans . . . . .	11	11	-	0.0%
Dividends paid . . . . .	(1,739)	(2,485)	746	(30.0%)
Finance costs paid . . . . .	(540)	(470)	(70)	14.9%
Purchase of shares for employee share plans . . . . .	-	(6)	6	-
<b>Net cash used in financing activities</b> . . . . .	<b>(1,089)</b>	<b>(2,721)</b>	<b>1,632</b>	<b>(60.0%)</b>
<b>Net decrease in cash</b> . . . . .	<b>(227)</b>	<b>(765)</b>	<b>538</b>	<b>(70.3%)</b>

#### Net cash provided by operating activities

Our primary source of liquidity is cash generated from our operations. Net cash provided by operating activities includes receipts from trade and other receivables, payments to suppliers and employees, income tax paid, and GST received, paid and remitted to the Australian Taxation Office.

During the half-year ended 31 December 2006, net cash provided by operating activities decreased by 13.1% to \$3,431 million. Higher revenue and lower working capital items were offset by higher expense payments. The key drivers of our increased revenue were our mobiles and broadband products, as well as increased revenue from our acquisition activities. Our higher expense payments were mainly due to higher cost of mobile sales as we continue to invest in our subscriber base to drive future growth, as well as an increase in expenditure relating to the transformation.

In addition, our cash paid to the Australian Taxation Office was \$37 million lower in the current half-year mainly due to a higher final tax payment in the prior year arising from a low instalment rate in fiscal 2005. Offsetting this position were tax refunds in fiscal 2005 relating to amendments of previous tax returns, together with a higher fourth instalment payment in the current half-year arising from a higher instalment rate in fiscal 2006.

## Half-year results and operations review - December 2006

### Net cash used in investing activities

Net cash used in investing activities represents amounts paid for capital assets and investments, offset by cash receipts from the sale of capital assets and investments, and other cash receipts from our investing activities.

#### Net cash used in investing activities

	Half-year ended 31 December			
	2006 \$m	2005 \$m	Change \$m	2006/2005 (% change)
Switching . . . . .	340	187	153	81.8%
Transmission . . . . .	299	186	113	60.8%
Customer access . . . . .	297	423	(126)	(29.8%)
Mobile telecommunications networks . . . . .	566	486	80	16.5%
International assets. . . . .	221	179	42	23.5%
Capitalised software . . . . .	395	212	183	86.3%
Specialised network functions . . . . .	88	86	2	2.3%
Other . . . . .	303	226	77	34.1%
<b>Operating capital expenditure</b> . . . . .	<b>2,509</b>	<b>1,985</b>	<b>524</b>	<b>26.4%</b>
Other intangibles . . . . .	-	58	(58)	n/m
<b>Capital expenditure before investments</b> . . . . .	<b>2,509</b>	<b>2,043</b>	<b>466</b>	<b>22.8%</b>
Add: investment expenditure . . . . .	337	19	318	n/m
<b>Capitalised expenditure and investments</b> . . . . .	<b>2,846</b>	<b>2,062</b>	<b>784</b>	<b>38.0%</b>
Sale of property, plant and equipment . . . . .	(25)	(20)	(5)	25.0%
Sale of shares in controlled entities (net of cash disposed) . . . . .	(222)	(16)	(206)	n/m
Interest received . . . . .	(30)	(34)	4	(11.8%)
<b>Net cash used in investing activities</b> . . . . .	<b>2,569</b>	<b>1,992</b>	<b>577</b>	<b>29.0%</b>

During the half-year, our expenditure on operating capital, intangibles and investments amounted to \$2,846 million, an increase of 38.0% on the previous half-year, largely driven by our transformation program.

The increases in our operating capital expenditure were across most capital expenditure categories, with the exception of a decrease in customer access. The drivers of our operating capital expenditure for the half-year were as follows:

- higher domestic switching as a result of our wireline transformation program, which involves transforming our existing voice, data, IP and DSL networks into a single internet (IP) based network. Most of the expenditure relates to IP enablement of our network. Further expenditure was also incurred to cater for increased demand for broadband multi-media services and replacement of redundant technology;
- higher transmission expenditure due to increased transmission installation to cater for increased IP traffic, as well as additional capacity to support the roll out of the new Next G™ network. Another driver is the increased demand for broadband and other high speed products, which necessitates higher transmission capacity;
- lower expenditure on customer access due to the achievement of operational and technology efficiencies in the access network through the deployment of a new generation of Digital Subscriber Line (DSL) equipment, increased utilisation of available network capacity, and other alternative technology solutions. This is partly offset by increased expenditure to provide increased broadband capacity and higher speed internet services;

## Half-year results and operations review - December 2006

---

- higher expenditure on our mobile networks primarily due to the Next G™ network which was deployed ahead of schedule. At the half-year, the Next G™ network comprised over 5,100 base stations. Offsetting the increase is a reduction in spend related to our 2GSM and CDMA networks, as well as higher payments to Hutchison in the prior period related to the purchase of a 50% share of their 3GSM 2100 MHZ network;
- higher expenditure on international assets, predominantly related to the purchase of additional international transmission capacity to facilitate increased internet traffic with the United States and Japan;
- significantly higher expenditure on capitalised software as we embark on a 5 year program to transform our IT environment through deployment of new capabilities and reduction in the number of systems. We have exited over 140 systems, and finalised all planned product and systems integrator contracts;
- consistent expenditure on specialised network functions. Expenditure increased to improve the reliability and robustness of the network and BigPond rebuild program. This was offset by the completion of significant work undertaken in fiscal 2006 in relation to the deployment of the ADSL core network infrastructure; and
- higher other expenditure predominantly driven by the Next G™ network related expenditure, including various programs such as land and buildings and other network related expenditure.

Our expenditure on investments amounted to \$337 million during the half-year, compared with \$19 million in the prior corresponding period. Investment expenditure is significantly higher in the half-year predominantly due to our acquisitions of SouFun, together with a cash price adjustment relating to the merger of CSL and New World Mobility. Our other intangibles expenditure has reduced by \$58 million to nil during the half-year, as the expenditure in the prior half-year related to the acquisition of customer bases from Keycorp relating to their payment transaction network carriage services business.

During the half year, our cash payments for investments and intangibles largely resulted from the following items:

- \$314 million for the acquisition of 55% (on an undiluted basis) of the issued capital of SouFun (net of cash acquired);
- \$21 million for a price adjustment to New World Mobility, representing an adjustment to the \$44 million cash received in fiscal 2006; and
- other minor investments totalling \$2 million.

Our cash proceeds from asset sales in the half-year ended 31 December 2006 included the following:

- the sale of our investment in the Australian Administrative Services group for consideration of \$212 million net of cash disposed;
- the sale of our investment in Platefood for a total consideration of \$10 million; and
- sale of property, plant and equipment for cash receipts of \$25 million.

## Half-year results and operations review - December 2006

---

### **Net cash used in financing activities**

Our net cash used in financing activities decreased by 60.0% to \$1,089 million for the half-year ended 31 December 2006.

During the half-year to December 2006 we received \$3,183 million in borrowed funds and repaid \$2,004 million. This resulted in net proceeds from repayments of borrowings and finance leases of \$1,179, and an increase of \$950 million compared with December 2005. This increase was driven by lower net cash produced from the ongoing operations of the business combined with higher capital cash demands from transformation investment, partly offset by a reduction in liquidity.

The final dividend for fiscal 2006 was paid in September 2006. Dividends paid in the half-year to December 2005 were higher than the current half-year due to shareholders receiving a special dividend of 6c each per share in September 2005.

The increase in finance costs paid was mainly the result of higher average debt levels in comparison to the previous half-year, in conjunction with marginally higher interest rates.

## Half-year results and operations review - December 2006

### Balance sheet

#### Balance Sheet

	As at		Change \$m	2006 (% change)
	31-Dec-06 \$m	30-Jun-06 \$m		
<b>Current assets</b>				
Cash and cash equivalents . . . . .	457	689	(232)	(33.7%)
Other current assets . . . . .	4,570	4,241	329	7.8%
Total current assets . . . . .	5,027	4,930	97	2.0%
<b>Non current assets</b>				
Property, plant and equipment . . . . .	23,413	23,503	(90)	(0.4%)
Intangibles - goodwill . . . . .	6,265	6,122	143	2.3%
Other non current assets . . . . .	1,847	1,636	211	12.9%
Total non current assets . . . . .	31,525	31,261	264	0.8%
<b>Total assets</b> . . . . .	<b>36,552</b>	<b>36,191</b>	<b>361</b>	<b>1.0%</b>
<b>Current liabilities</b>				
Borrowings . . . . .	3,033	1,982	1,051	53.0%
Other current liabilities . . . . .	5,108	5,908	(800)	(13.5%)
Total current liabilities . . . . .	8,141	7,890	251	3.2%
<b>Non current liabilities</b>				
Borrowings . . . . .	11,280	11,434	(154)	(1.3%)
Other non current liabilities . . . . .	4,015	4,044	(29)	(0.7%)
Total non current liabilities . . . . .	15,295	15,478	(183)	(1.2%)
<b>Total liabilities</b> . . . . .	<b>23,436</b>	<b>23,368</b>	<b>68</b>	<b>0.3%</b>
<b>Net assets</b> . . . . .	<b>13,116</b>	<b>12,823</b>	<b>293</b>	<b>2.3%</b>
<b>Equity</b>				
Equity available to Telstra entity shareholders . . . . .	12,862	12,577	285	2.3%
Minority interests . . . . .	254	246	8	3.3%
Total equity . . . . .	13,116	12,823	293	2.3%

We continue to maintain a strong financial position with net assets of \$13,116 million as at 31 December 2006, compared with \$12,823 million at 30 June 2006. The increase in net assets of \$293 million comprised an increase in total assets of \$361 million offset by an increase in total liabilities of \$68 million.

The movement in total assets of \$361 million was primarily due to:

- Cash and cash equivalents decreasing by \$232 million to \$457 million, due mainly to a reduction in bank deposits and bills of exchange < 90 days to meet a long-term loan repayment in December 2006;
- Other current assets increased by \$329 million to \$4,570 million, driven by trade debtors increasing consistent with revenue activity, increases in accrued interest revenue on our interest rate swaps and increases in inventory primarily driven by increased stock on hand to support the NextG™ network launch. This was offset by a decline in receivables associated with the timing of collections in our Sensis business;
- Property, plant and equipment decreased \$90 million mainly due to depreciation exceeding any additions as we accelerated depreciation as part of the transformation program;
- Intangibles increased due to goodwill acquired on acquisition of 55% (on an undiluted basis) of the issued capital of SouFun Holdings Ltd in August 2006, partially offset by intangibles removed from the balance sheet on divestment of Australian Administration Services Pty Ltd, which also occurred in August 2006;

## Half-year results and operations review - December 2006

---

- Other non-current assets increased by \$211 million to \$1,847 million, due mainly to an increase in the actuarially determined value of our defined benefit pension asset and an increase in finance lease debtors arising from our solutions management business offset by a decrease in our cross currency swap receivables in line with currency movements and our hedging requirements;

The movement in total liabilities of \$68 million was primarily due to:

- Total current and non-current borrowings increasing by \$897 million to \$14,313 million, mainly as a result of an increase in unsecured promissory notes and increases in Telstra Bonds due to two new issues taking place in August and December 2006 arising from payment of the final dividend;
- Other current liabilities decreased \$800 million, mainly after lower accruals and payables due to lower levels of construction activity undertaken in the half-year, compared to the levels that occurred towards the end of the 2006 fiscal year. The decrease was also attributable to lower tax payable, offset by higher derivative liabilities; and
- Other non-current liabilities declined mainly due to a deferred tax liability decrease, partially offset by changes in our cross currency swap position.

## Half-year results and operations review - December 2006

---

### Glossary

**1xRTT (One Time Radio Transmission Technology):** a 3G development of CDMA technology for high speed packet switched data.

**2G GSM:** Second Generation Global System for mobile communications - refers to the initial group of wireless technology standards that were digital instead of analogue.

**3GSM:** Third Generation Global System for mobile communications - is the evolution of the current GSM and CDMA 2G and 2.5G technology to support voice and high speed data and multimedia services.

**3GSM 850:** Third generation mobile technology operating on 850Mhz spectrum.

**3GSM 2100:** Third generation mobile technology operating on 2100Mhz spectrum.

**ACCC:** Australian Competition and Consumer Commission.

**A-IFRS:** Australian equivalents of International Financial Reporting Standards.

**ADSL:** Asymmetric Digital Subscriber Line - is a high-speed broadband technology that provides access to the internet. It allows high speed data to be carried over copper network phone lines.

**ADSL 2+:** Our upgraded national high speed broadband network offering improved fixed line ADSL speeds.

**ARPU:** Average Revenue Per User

**CDMA:** Code Division Multiple Access - a mobile standard that provides voice, data, fax and short messaging services.

**Churn:** The net number of subscribers switching between telecommunication providers.

**EBIT:** Earnings Before Interest and Tax. This is a measure of company profitability.

**EBITDA:** Earnings Before Interest, Tax, Depreciation and Amortisation. This is a measure of company profitability.

**EVDO:** Evolution Data Only or Evolution Data Optimised - This is an addition to the existing CDMA network that supports high speed packet data transmission.

**HDSL:** High bit rate Digital Subscriber Line.

**HSDPA:** High speed downlink packet access.

**HFC:** A shared access architecture using optical fibre between exchanges and hubs in suburban streets, and coaxial cables between the hubs and customers to carry FOXTEL pay TV and BigPond Cable services.

**HiBIS:** Higher Bandwidth Incentive Scheme - a government subsidy scheme.

**IP:** Internet Protocol - a standard set of rules for the carriage of digital information such as voice, video, data and images, across a global network.

**IP Core:** The core element of a network that carries and logically splits voice, data and video using IP technology.



## Half-year results and operations review - December 2006

---

**IPWAN:** Telstra IP Solution product, providing Corporate Virtual Private Networks to customers. IP WAN uses Telstra's private network infrastructure to combine all of a company's communications between sites and mobiles.

**ISDN:** Integrated Services Digital Network - an international communications standard for sending voice, video and data over digital telephone lines or normal telephone wires. An early form of digital technology, its use has been largely surpassed by ADSL.

**MMS:** Multimedia Messaging Service.

**PSTN:** Public Switched Telephone Network - referred to as the 'fixed line' network, it is the standard home telephone service delivered over copper wires.

**SIO:** Services in operation

**SMS:** Short Messaging Service - the text based message service on mobile phones.

**ULL:** Unconditioned or Unbundled Local Loop - the local loop is the copper wire that connects the Telstra exchange in your area to your house. Telstra is required to provide access to this wire to other operators. Other telecommunications providers can provide customers with their own services, like broadband or a telephone service, by installing their own equipment in Telstra exchanges and connecting to the 'loop'.

**WAN:** Wide Area Network

## Half-year results and operations review - December 2006

### Restatement of previously reported results

The following tables show the impact on the Telstra Group of adopting UIG 4 and of amending the impact of adopting A-IFRS to our previously reported income statement and balance sheet.

Income Statement	Previously reported 31 Dec 2005 \$m	UIG 4 \$m	Defined benefit tax \$m	Restated 31 Dec 2005 \$m
<b>Income</b>				
Revenue (excluding finance income) . . . . .	11,449	(34)	-	11,415
Other income . . . . .	129	-	-	129
	<u>11,578</u>	<u>(34)</u>	<u>-</u>	<u>11,544</u>
<b>Expenses</b>				
Labour . . . . .	2,053	-	-	2,053
Goods and services purchased . . . . .	2,214	(19)	-	2,195
Other expenses . . . . .	2,011	-	-	2,011
	<u>6,278</u>	<u>(19)</u>	<u>-</u>	<u>6,259</u>
<b>Share of net loss from jointly controlled and associated entities . . . . .</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
	<u>6,279</u>	<u>(19)</u>	<u>-</u>	<u>6,260</u>
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) . . . . .	5,299	(15)	-	5,284
Depreciation and amortisation . . . . .	1,810	(10)	-	1,800
Earnings before interest and income tax expense (EBIT) . . . . .	<u>3,489</u>	<u>(5)</u>	<u>-</u>	<u>3,484</u>
Finance income . . . . .	36	5	-	41
Finance costs . . . . .	479	2	-	481
Net finance costs . . . . .	<u>443</u>	<u>(3)</u>	<u>-</u>	<u>440</u>
<b>Profit before income tax expense . . . . .</b>	<b>3,046</b>	<b>(2)</b>	<b>-</b>	<b>3,044</b>
Income tax expense . . . . .	907	(1)	(4)	902
<b>Profit for the period . . . . .</b>	<b>2,139</b>	<b>(1)</b>	<b>4</b>	<b>2,142</b>
Minority interests in net loss . . . . .	1	-	-	1
<b>Profit for the period available to Telstra Entity shareholders . . . . .</b>	<b>2,140</b>	<b>(1)</b>	<b>4</b>	<b>2,143</b>

## Half-year results and operations review - December 2006

Balance Sheet	Previously reported	UIG 4	Restated
	30 June 2006		30 June 2006
	\$m	\$m	\$m
<b>Current assets</b>			
Cash and cash equivalents . . . . .	689	-	689
Trade and other receivables . . . . .	3,701	51	3,752
Inventories . . . . .	224	-	224
Derivative financial assets . . . . .	21	-	21
Prepayments . . . . .	244	-	244
<b>Total current assets . . . . .</b>	<b>4,879</b>	<b>51</b>	<b>4,930</b>
<b>Non current assets</b>			
Trade and other receivables . . . . .	87	85	172
Inventories . . . . .	20	-	20
Investments - accounted for using the equity method . . . . .	23	-	23
Property, plant and equipment . . . . .	23,622	(119)	23,503
Intangibles . . . . .	6,123	(1)	6,122
Deferred tax asset . . . . .	1	-	1
Derivative financial assets . . . . .	391	-	391
Defined benefit assets . . . . .	1,029	-	1,029
<b>Total non current assets . . . . .</b>	<b>31,296</b>	<b>(35)</b>	<b>31,261</b>
<b>Total assets . . . . .</b>	<b>36,175</b>	<b>16</b>	<b>36,191</b>
<b>Current liabilities</b>			
Trade and other payables . . . . .	3,570	-	3,570
Borrowings . . . . .	1,969	13	1,982
Current tax liabilities . . . . .	428	-	428
Provisions . . . . .	737	-	737
Derivative financial liabilities . . . . .	12	-	12
Revenue received in advance . . . . .	1,170	(9)	1,161
<b>Total current liabilities . . . . .</b>	<b>7,886</b>	<b>4</b>	<b>7,890</b>
<b>Non current liabilities</b>			
Trade and other payables . . . . .	197	-	197
Borrowings . . . . .	11,409	25	11,434
Deferred tax liabilities . . . . .	1,704	(4)	1,700
Provisions . . . . .	974	-	974
Derivative financial liabilities . . . . .	768	-	768
Revenue received in advance . . . . .	405	-	405
<b>Total non current liabilities . . . . .</b>	<b>15,457</b>	<b>21</b>	<b>15,478</b>
<b>Total liabilities . . . . .</b>	<b>23,343</b>	<b>25</b>	<b>23,368</b>
<b>Net assets . . . . .</b>	<b>12,832</b>	<b>(9)</b>	<b>12,823</b>
<b>Equity</b>			
Share capital . . . . .	5,569	-	5,569
Reserves . . . . .	(160)	-	(160)
Retained profits . . . . .	7,177	(9)	7,168
Equity available to Telstra Entity Shareholders . . . . .	12,586	(9)	12,577
Minority interest . . . . .	246	-	246
<b>Total equity . . . . .</b>	<b>12,832</b>	<b>(9)</b>	<b>12,823</b>



**Telstra Corporation Limited (ABN 033 051 775 556)**

**Product reconciliation to align comparative figures with the current year reported presentation**  
Half-year ended 31 December 2006

Product hierarchy as released Dec-05	Reported previously released Dec-05	New product hierarchy based on Dec-06 structure	Reported new hierarchy Dec-05	Movement since Dec-05 release	Description of Change from Old Product Hierarchy as Released in Dec-05
	\$m		\$m	\$m	
Total PSTN products	3,818	Total PSTN products	3,831	13	Global Linx moved from Inter-carrier services \$14m into PSTN Interconnect; Reduction to revenue of (\$1m) due to impact of UIG4.
ISDN products	420	ISDN products	420	(1)	Moved from own category into Fixed Telephony; Reduction to revenue of (\$1m) due to impact of UIG4.
Inbound calling products	208	Inbound calling products	208	(17)	Moved from own category into Fixed Telephony; \$5m moved into Business services & applications (Contact Solutions); \$12m moved into mobiles services (Infocall)
Payphones	54	Payphones	54	-	Moved from own category into Fixed Telephony \$54m
Customer premises equipment	135	Customer premises equipment	135	-	Moved from own category into Fixed Telephony \$135m
Inter-carrier access services	69	Inter-carrier access services	69	69	Moved from Inter-carrier Services \$69m
Other fixed telephony	163	Other fixed telephony	163	163	Moved from Other Sales & Services; Telstra Information & Connection Services \$60m, Virtual Private Network \$9m, International Freecall \$44m, Card Services \$27m, Customer net & Spectrum \$56m, Satellite Products \$7m
Total fixed telephony	4,880	Total fixed telephony	4,880	16	New Subtotal
Mobile services	2,275	Mobile services	2,291	16	Moved from inbound calling products \$12m (Infocall); \$4m relates to the inclusion of wireless broadband in the new product hierarchy.
Mobile handsets	211	Mobile handsets	211	-	
Total Mobiles	2,486	Total Mobiles	2,502	16	
Internet and IP solutions	117	Internet	117	-	
Narrowband	330	Narrowband	331	1	(\$26m) moved to IP Access under IP & Data Access (\$5m for Hyperconnect and \$21m for Symmetrical HDSL); \$27m of increase relates to the inclusion of mobile wireless broadband in the new product hierarchy, which is eliminated later on.
Broadband	204	Retail broadband	209	5	\$5m moved from Inter-carrier Services (Dial-up internet access revenue)
Wholesale Broadband		Wholesale broadband			
		Other	9	9	New category - Media Content of \$6m and Webhosting & VAS of \$3m moved from Other under Total Internet and IP solutions
		Total Internet	666		New Subtotal
Internet direct	70	IP & Data Access	70	-	
		Internet direct	451	(2)	Argent of (\$15m) moved to Business Services and Applications; Security Products of \$18m moved in from Other Sales & Services; reduction to revenue of (\$5m) due to UIG4 adjustments
IP solutions	134	Specialised data	152	18	Moved from Retail Broadband (\$5m for Hyperconnect and \$21m for Symmetrical HDSL); reduction to revenue of (\$8m) due to UIG4 adjustments.
		IP access			
		Other	33	(33)	Wholesale Internet & broadband (\$22m) moved to IP & Data Access; Media Content and Webhosting & VAS moved to Other under Total Internet (\$9m); Telstra eTrading Solutions and Telstra e-Commerce Merchant Billpay (totalling \$2m) moved to Business services and applications
Total Internet and IP solutions	888	Wholesale internet & broadband	100	100	Moved from Other under Total Internet and IP solutions (\$22m); moved from Inter-carrier Services (\$78m) - mainly Wholesale Transmission Products.
Specialised Data	453	Total IP & data access	773		New Subtotal
ISDN Products	421	Business services and applications	507	507	Moved into Fixed Telephony
Advertising and directories	944	Advertising and directories	944	-	New category - Moved from Solutions Management \$480m (entire category); Inbound calling \$5m (Contact Solutions); Specialised Data \$15m (Agent); Other Sales & Services \$24m (Conferlink); Other under Internet & IP Solutions \$2m (Telstra eTrading Solutions and Telstra e-Commerce Merchant Billpay); Impact of revenue reduction of (\$19m) due to prior year adjustments relating to UIG4.
Inter-carrier services	166	Inter-carrier services	166	(166)	Moved to PSTN Fixed Connection \$14m (Global Linx); Inter-carrier Access Services \$69m (various products); Wholesale broadband \$5m (Dial-up Internet Access); IP & Data Access \$78m (mainly due to Wholesale Transmission Products)
Solutions management	480	CSL New World	373	(480)	Moved to Business services and applications
CSL New World	321	TelstraClear	321	-	
TelstraClear	139	Offshore services revenue	139	-	
Offshore services revenue	225	Offshore services revenue	225	-	
Inbound calling products	156	Pay TV bundling	156	-	
Pay TV bundling	135	Customer premises equipment	135	-	
Customer premises equipment	54	Payphones	54	-	
Payphones	380	Other sales & service	175	(205)	Moved to Other under Fixed Telephony; Telstra Information & Connection Services (\$60m), Virtual Private Network (\$9m), International Freecall (\$4m), Card Services (\$27m), Customer net & Spectrum (\$56m), Satellite Products (\$7m); Moved to Business Services and Applications; Conferlink (\$24m); Moved to Specialised Data; Security Products (\$18m);
Other sales & service		Elimination for wireless broadband	(31)	(31)	Elimination for the mobile wireless broadband and BigPond wireless broadband gross up.
Sales revenue	11,439	Sales revenue	11,405	(34)	Reduction to revenue of (\$34m) due to the impact of UIG4.

# Telstra Corporation Limited (ABN 03 951 775 556)

Full Year Comparison  
Year ended 31 December 2006

Summary Reported <sup>(a)</sup> Half Yearly Data (\$ millions)																					
	Half1 Dec-02	Half1 Dec-03	Growth	Half2 Jun-04	Growth	Full Year Jun-04	Growth	Half1 Dec-04	Growth	Half2 Jun-05	Growth	Full Year Jun-05	Growth	Half1 Dec-05	Growth	Half2 Jun-06	Growth	Full Year Jun-06	Growth	Half1 Dec-06	Growth
<b>Revenue</b>																					
<b>PSDN products</b>																					
Basic access	1,556	1,609	3.4%	1,629	6.6%	3,238	5.0%	1,701	5.7%	1,661	2.0%	3,362	3.8%	1,657	(2.6%)	1,660	(0.1%)	3,317	(1.3%)	1,663	0.4%
Local calls	796	779	(2.1%)	725	(6.0%)	1,504	(4.0%)	689	(11.6%)	595	(17.9%)	1,284	(4.6%)	553	(19.7%)	470	(21.0%)	1,023	(20.3%)	432	(21.9%)
PSDN value added services	141	134	(5.0%)	125	(10.1%)	259	(7.5%)	125	(6.7%)	105	(3.5%)	250	(3.5%)	123	(1.6%)	123	(1.6%)	244	(1.6%)	125	1.6%
National long distance calls	582	579	(0.5%)	542	(6.6%)	1,121	(3.5%)	577	(9.0%)	466	(10.3%)	1,013	(9.6%)	471	(0.6%)	462	(9.1%)	913	(9.9%)	408	(13.4%)
Fixed to mobile	753	808	7.3%	789	3.3%	1,597	5.3%	806	(0.2%)	760	(3.7%)	1,566	(1.9%)	761	(3.6%)	729	(4.1%)	1,490	(4.9%)	749	(1.6%)
International direct	162	139	(14.2%)	127	(22.4%)	286	(12.4%)	124	(10.8%)	110	(13.4%)	234	(27.0%)	106	(44.5%)	95	(13.6%)	201	(44.1%)	94	(11.3%)
Fixed internet	193	182	(5.7%)	164	(11.4%)	348	(8.5%)	172	(5.5%)	153	(3.2%)	335	(3.2%)	160	(7.0%)	149	(5.9%)	309	(6.8%)	144	(10.0%)
<b>Total PSDN products</b>	<b>4,183</b>	<b>4,230</b>	<b>1.1%</b>	<b>4,101</b>	<b>(1.9%)</b>	<b>8,331</b>	<b>(0.4%)</b>	<b>4,144</b>	<b>(2.0%)</b>	<b>3,900</b>	<b>(3.4%)</b>	<b>8,044</b>	<b>(3.6%)</b>	<b>3,931</b>	<b>(7.6%)</b>	<b>3,668</b>	<b>(5.9%)</b>	<b>7,499</b>	<b>(6.8%)</b>	<b>3,615</b>	<b>(5.0%)</b>
<b>ISDN Products</b>																					
Inbound calling products	489	473	(3.3%)	454	(2.8%)	927	(1.6%)	453	(4.2%)	437	(3.7%)	890	(4.0%)	420	(7.3%)	386	(11.7%)	806	(9.4%)	383	(8.8%)
Mobile services - Wholesale	229	220	(3.9%)	219	(0.4%)	439	(2.4%)	216	(1.8%)	204	(4.3%)	414	(6.8%)	208	(3.7%)	206	1.0%	414	(1.4%)	203	(2.4%)
Payphones	75	72	(4.0%)	69	(5.3%)	137	(7.7%)	63	(12.5%)	58	(31.3%)	121	(41.2%)	54	(44.3%)	50	(13.8%)	104	(14.0%)	48	(11.1%)
Customer premises equipment <sup>(b)</sup>	105	94	(10.5%)	93	(3.1%)	187	(4.0%)	108	14.9%	103	23.5%	231	35.0%	135	25.0%	139	13.0%	274	18.6%	151	11.9%
Inter-carrier access services	51	52	2.0%	41	(24.1%)	83	(11.6%)	58	41.5%	108	41.5%	108	16.1%	69	38.0%	83	43.1%	152	40.7%	87	26.1%
Other fixed telephony	206	174	(15.5%)	172	(17.9%)	346	(17.7%)	177	1.8%	164	(6.4%)	341	(1.6%)	163	(7.9%)	155	(5.5%)	314	(6.7%)	156	(6.3%)
<b>Total Fixed Telephony</b>	<b>5,338</b>	<b>5,315</b>	<b>(0.4%)</b>	<b>5,149</b>	<b>(3.7%)</b>	<b>10,444</b>	<b>(0.6%)</b>	<b>5,211</b>	<b>(2.0%)</b>	<b>4,944</b>	<b>(4.0%)</b>	<b>10,155</b>	<b>(3.0%)</b>	<b>4,980</b>	<b>(6.4%)</b>	<b>4,687</b>	<b>(5.2%)</b>	<b>9,567</b>	<b>(5.8%)</b>	<b>4,643</b>	<b>(4.9%)</b>
<b>Mobile services - Retail</b>																					
Mobile services - Wholesale	1,539	1,639	6.5%	1,622	7.0%	3,261	6.7%	1,755	7.1%	1,713	5.6%	3,468	6.3%	1,794	2.2%	1,755	2.5%	3,549	2.3%	1,925	7.3%
Mobile services - International	6	8	33.3%	7	16.7%	15	25.0%	11	37.5%	13	85.7%	24	60.0%	16	45.5%	20	53.8%	36	50.0%	26	62.5%
Mobile services - International roaming	253	258	2.0%	257	8.4%	515	5.1%	283	9.7%	264	2.7%	527	6.2%	318	12.4%	305	15.5%	623	13.9%	296	(6.9%)
Mobile services - Other	83	85	2.4%	90	28.6%	175	16.4%	118	38.8%	126	4.0%	244	39.4%	131	11.0%	135	7.1%	266	9.0%	157	19.8%
<b>Total Mobile Services</b>	<b>1,908</b>	<b>2,010</b>	<b>5.3%</b>	<b>2,001</b>	<b>7.8%</b>	<b>4,011</b>	<b>6.6%</b>	<b>2,190</b>	<b>9.0%</b>	<b>2,137</b>	<b>6.8%</b>	<b>4,327</b>	<b>7.9%</b>	<b>2,291</b>	<b>4.6%</b>	<b>2,249</b>	<b>5.2%</b>	<b>4,540</b>	<b>4.9%</b>	<b>2,441</b>	<b>6.5%</b>
Mobile handsets	172	186	8.1%	166	(22.4%)	352	(8.8%)	188	6.5%	183	10.2%	381	8.2%	211	6.6%	256	39.9%	467	22.6%	357	69.2%
<b>Total Mobiles</b>	<b>2,080</b>	<b>2,196</b>	<b>5.6%</b>	<b>2,167</b>	<b>4.7%</b>	<b>4,363</b>	<b>5.1%</b>	<b>2,388</b>	<b>8.7%</b>	<b>2,320</b>	<b>7.9%</b>	<b>4,708</b>	<b>8.0%</b>	<b>2,502</b>	<b>4.8%</b>	<b>2,505</b>	<b>0.0%</b>	<b>5,007</b>	<b>6.4%</b>	<b>2,788</b>	<b>31.8%</b>
Narrowband	147	144	(2.0%)	151	3.4%	295	0.7%	142	(1.4%)	133	(11.9%)	275	(6.8%)	117	(17.6%)	103	(22.6%)	220	(20.0%)	79	(24.5%)
Retail Broadband	97	120	23.7%	150	30.4%	270	27.4%	197	64.2%	241	63.2%	438	62.2%	331	68.0%	398	65.1%	729	66.4%	497	50.2%
ONLINE Broadband - Wholesale	17	62	264.7%	88	166.7%	150	200.0%	109	75.8%	159	80.7%	268	69.1%	209	91.7%	260	63.5%	469	75.0%	279	33.5%
Other	1	1	0.0%	1	(66.7%)	2	(50.0%)	3	200.0%	9	800.0%	12	500.0%	9	200.0%	9	0.0%	18	50.0%	10	11.1%
<b>Total Internet</b>	<b>282</b>	<b>327</b>	<b>24.8%</b>	<b>390</b>	<b>31.3%</b>	<b>737</b>	<b>28.3%</b>	<b>451</b>	<b>37.9%</b>	<b>542</b>	<b>39.0%</b>	<b>993</b>	<b>38.3%</b>	<b>666</b>	<b>47.7%</b>	<b>770</b>	<b>42.1%</b>	<b>1,456</b>	<b>44.8%</b>	<b>865</b>	<b>29.9%</b>
Internet Direct	59	61	3.4%	59	7.7%	117	5.4%	61	0.0%	62	10.7%	123	5.1%	70	14.8%	73	17.7%	143	16.3%	81	15.7%
Specialised Data	548	517	(5.7%)	519	(5.5%)	1,036	(3.1%)	501	(3.1%)	461	(11.2%)	962	(7.1%)	451	(10.0%)	424	(8.0%)	875	(9.0%)	404	(10.4%)
IP Access	56	72	28.6%	91	40.0%	183	34.7%	100	38.9%	132	42.3%	232	42.3%	232	52.0%	175	32.6%	476	37.0%	193	27.0%
Wholesale Internet & Data	94	74	(21.3%)	84	(3.6%)	158	(12.7%)	83	(12.2%)	96	14.3%	179	13.3%	100	20.5%	115	19.8%	215	20.1%	111	11.0%
<b>Total IP &amp; Data</b>	<b>757</b>	<b>724</b>	<b>(4.4%)</b>	<b>750</b>	<b>(0.8%)</b>	<b>1,474</b>	<b>(2.8%)</b>	<b>745</b>	<b>2.9%</b>	<b>751</b>	<b>0.1%</b>	<b>1,496</b>	<b>1.5%</b>	<b>773</b>	<b>3.8%</b>	<b>787</b>	<b>4.8%</b>	<b>1,560</b>	<b>4.3%</b>	<b>789</b>	<b>2.1%</b>
<b>Business Services and Applications</b>																					
Advertising and Directories <sup>(c)</sup>	291	290	(0.3%)	311	1.3%	601	0.5%	513	76.9%	617	66.2%	1,030	71.4%	507	(1.2%)	544	5.2%	1,051	2.0%	501	(1.2%)
Business Services and Applications	724	764	5.5%	578	(20.2%)	1,342	(11.4%)	888	16.2%	697	(20.6%)	1,585	18.1%	944	6.3%	767	10.0%	1,711	7.9%	824	(12.7%)
CSI, New World <sup>(d)</sup>	484	377	(22.1%)	349	(27.7%)	726	(20.0%)	380	0.8%	354	1.4%	734	1.1%	373	(1.8%)	457	23.1%	830	13.1%	519	39.1%
TelstraClear	273	282	3.3%	292	6.2%	574	4.7%	304	7.8%	321	9.9%	625	8.9%	321	5.6%	299	(6.9%)	620	(0.8%)	286	(10.9%)
Offshore Services Revenue <sup>(e)</sup>	38	58	52.6%	92	268.0%	150	138.1%	119	105.2%	133	46.6%	252	66.0%	139	16.8%	156	17.3%	295	17.1%	173	24.5%
PayTV Bundling	-	65	n/m	89	387.0%	154	569.6%	121	86.2%	142	58.6%	263	70.8%	156	28.9%	164	15.5%	320	21.7%	164	5.1%
Other minor items	221	58	(73.8%)	114	(39.4%)	172	(57.9%)	155	167.2%	165	44.7%	320	86.0%	175	12.9%	185	12.1%	360	12.5%	136	(22.3%)
Eliminate for wireless broadband	-	-	n/m	-	n/m	-	n/m	-	n/m	-	n/m	-	n/m	(31)	n/m	(43)	n/m	(74)	n/m	(68)	119.4%
<b>Sales Revenue</b>	<b>10,468</b>	<b>10,456</b>	<b>(0.1%)</b>	<b>10,281</b>	<b>(2.5%)</b>	<b>20,337</b>	<b>1.2%</b>	<b>11,275</b>	<b>7.8%</b>	<b>10,986</b>	<b>5.9%</b>	<b>22,161</b>	<b>6.9%</b>	<b>11,405</b>	<b>1.2%</b>	<b>11,278</b>	<b>3.6%</b>	<b>22,683</b>	<b>2.4%</b>	<b>11,630</b>	<b>2.0%</b>
Other revenue	19	13	(31.6%)	11	(26.7%)	24	(29.4%)	9	(9.1%)	9	(0.0%)	20	(6.7%)	10	(11.1%)	12	33.3%	22	10.0%	15	(50.0%)
Other income	287	269	(6.3%)	137	(10.7%)	406	(4.5%)	74	(72.5%)	187	36.5%	261	65.5%	129	74.3%	199	6.6%	926	25.7%	152	(12.8%)
<b>Total Income</b>	<b>10,774</b>	<b>10,738</b>	<b>(0.3%)</b>	<b>10,428</b>	<b>(2.4%)</b>	<b>21,187</b>	<b>3.0%</b>	<b>11,340</b>	<b>5.8%</b>	<b>11,082</b>	<b>6.3%</b>	<b>22,442</b>	<b>6.0%</b>	<b>11,544</b>	<b>1.6%</b>	<b>11,488</b>	<b>3.7%</b>	<b>23,033</b>	<b>2.6%</b>	<b>11,797</b>	<b>2.2%</b>
<b>Selected statistical data</b>																					
Mobile voice telephone minutes (millions)	2,594	3,011	16.1%	3,134	17.8%	6,145	16.9%	3,404	13.1%	3,342	6.6%	6,746	9.8%	3,611	6.1%	3,700	10.7%	7,311	8.4%	4,147	14.8%
Number of short messaging service (SMS) sent	6,097	928	(45.7%)	1,016	(28.8%)	1,944	(36.3%)	1,142	(21.3%)	1,147	(12.9%)	2,289	17.7%	1,318	(15.4%)	1,700	48.2%	3,019	31.9%	2,227	68.0%
Mobile services in operation (thousands)	6,388	6,985	14.5%	7,684	15.8%	15,268	14.5%	7,883	14.3%	8,227	8.2%	8,527	3.7%	8,527	7.5%	8,527	3.7%	8,527	3.7%	8,892	3.6%
Broadband Retail subscribers (thousands)	187	285	52.4%	423	77.0%	846	77.0%	611	116.1%	842	99.1%	1,188	92.9%	1,188	92.9%	1,508	79.1%	1,508	79.1%	1,839	54.8%
Broadband Wholesale subscribers (thousands)	57	220	286.0%	379	213.2%	479	213.2%	611	177.7%	888	134.3%	888	134.3%	1,164	90.5%	1,427	60.7%	1,427	60.7%	1,621	30.3%
<b>Total Broadband subscribers (thousands)</b>	<b>244</b>	<b>505</b>	<b>107.0%</b>	<b>802</b>	<b>122.8%</b>	<b>1,325</b>	<b>122.8%</b>	<b>1,222</b>	<b>143.0%</b>	<b>1,731</b>	<b>115.8%</b>	<b>1,731</b>	<b>115.8%</b>	<b>2,352</b>	<b>91.7%</b>	<b>2,935</b>	<b>69.6%</b>	<b>2,935</b>	<b>69.6%</b>	<b>3,460</b>	<b>47.1%</b> </