Telstra Corporation Limited
Full year end results and operations review
Year ended 30 June 2004

RECORD PROFIT
Momentum continues with revenue growth, cash growth and earnings growth

Financial Highlights
Year ended 30 June 2004

RECORD PROFIT
Momentum continues with revenue growth, cash growth and earnings growth

Reported earnings before interest and tax (EBIT) increased by $0.8 billion or 14.6% to $6.6 billion, comprising a decline in **reported revenues** of 1.6% to $21.3 billion, and a **reported expense** decline of 7.4% to $14.7 billion. **Reported profit after tax and outside equity interests** (PAT) was a record $4.1 billion.

Underlying[1] sales revenue increased 1.0% to $20.7 billion. Growth occurred across mobiles, internet and IP solutions, advertising and directories and Pay TV, partly offset by a decline in revenues from Hong Kong CSL, which included a foreign exchange impact, other sales and service and other controlled entities. **Underlying[1] domestic sales revenue** increased 1.7%. Excluding revenue from NDC construction activity and cable recovery and recycling project, underlying domestic sales revenue increased $451 million or 2.4% to $19.2 billion. **Underlying[1] total revenue** (excluding interest) increased 0.7% to $20.9 billion.

Underlying[1] operating expenses (before depreciation, amortisation & interest) declined $150 million or 1.4% to $10.6 billion, driven by lower network payments. **Underlying[1] total expenses** (before interest and tax) increased by $14 million or 0.1% to $14.2 billion with underlying depreciation and amortisation growth of 4.8%.

Underlying [1] earnings before interest and tax increased $135 million or 2.1% to $6.7 billion, from reduced expenses, particularly network payments and the impact of cost reduction programs.

Underlying[1] EBIT margin has increased by 0.3% to 32.3% and underlying EBITDA margin has improved 1.0% to 49.8%.

Domestic core operating capital expenditure[2] declined by $282 million or 8.9% to $2.9 billion.

Operating cashflow less cashflow used in investing activities (free cashflow) declined 8.8% to $4.1 billion, driven by the acquisition of Trading Post Limited, a reduction in proceeds from asset sales and offset by improved working capital management and increased cash profits before tax paid. After removing the impact of the Trading Post acquisition and the prior year sale of commercial properties, free cashflow growth was 20.2%.

A fully franked final ordinary dividend of 13c per share has been declared and is payable on 29 October 2004. This was an increase of 8.3% on the final ordinary dividend declared in the prior year and brought the full year ordinary dividends to 26c per share.

Additional capital returns to shareholders in the 2004/05 year will comprise an off market share buyback of up to $750 million and the intention to pay a special dividend of 6c per share with the interim dividend of 2005/04.

Customer Service performance was again at high levels as seen in the March ACA report and continued throughout the final quarter. The company strategy is to drive further service improvements to meet customers' expectations.

A strong **Statement of financial position** (Balance Sheet) with strong capital settings was maintained.

All results stated in $A unless otherwise indicated.
N/M refers to not meaningful.
All statistical data represents management's best estimates and excludes all Telstra internal usage statistics.
Footnotes:
1. Underlying results are produced to allow like for like comparison by removing those items which are either not of a comparable nature owing to structural changes to the business e.g. acquisitions/consolidations, significant and non recurring or not part of the core operations of the business.
   The years ended 30 June 2004 and 2003 underlying results EXCLUDE:
   The impact of the acquisition of Trading Post, proceeds from asset/investment sales and book value of asset/investment sales, the diminution in value of investments, the non-cash write down of the investment in Reach and Reach contract exit transactions, and the tax benefit from the accounting impact of tax consolidation.
2. Domestic core operating capital expenditure is operating capital expenditure excluding HKCSL & Telstra Clear operating capital expenditure.

Statement of financial performance
for the year ended 30 June 2004

	2004 Reported	2004 Underlying[1]	2003 Reported	2003 Underlying[1]	Reported Change $m	Underlying[1] Change $m	Reported Change %	Underlying[1] Change %
	(in $ millions)				Year Ended 30 June 2004			
Mobiles								
Mobile services	3,455	3,455	3,227	3,227	228	228	7.1	7.1
Mobile handsets	352	352	386	386	(34)	(34)	(8.8)	(8.8)
Total Mobiles	3,807	3,807	3,613	3,613	194	194	5.4	5.4
BigPond narrowband	297	297	298	298	(1)	(1)	(0.3)	(0.3)
BigPond broadband	274	274	212	212	62	62	29.2	29.2
Wholesale broadband	142	142	49	49	93	93	189.8	189.8
Wholesale internet direct	14	14	20	20	(6)	(6)	(30.0)	(30.0)
Internet direct	117	117	111	111	6	6	5.4	5.4
IP solutions	160	160	120	120	40	40	33.3	33.3
Other	6	6	7	7	(1)	(1)	(14.3)	(14.3)
Internet and IP solutions	1,010	1,010	817	817	193	193	23.6	23.6
PSTN Products								
Basic access	3,237	3,237	3,083	3,083	154	154	5.0	5.0
Local calls	1,504	1,504	1,567	1,567	(63)	(63)	(4.0)	(4.0)
PSTN value added services	259	259	280	280	(21)	(21)	(7.5)	(7.5)
National long distance calls	1,121	1,121	1,162	1,162	(41)	(41)	(3.5)	(3.5)
Fixed to mobile	1,597	1,597	1,517	1,517	80	80	5.3	5.3
International direct	266	266	307	307	(41)	(41)	(13.4)	(13.4)
Total PSTN	7,984	7,984	7,916	7,916	68	68	0.9	0.9
Specialised Data	1,018	1,018	1,053	1,053	(35)	(35)	(3.3)	(3.3)
ISDN (Access and Calls)	927	927	951	951	(24)	(24)	(2.5)	(2.5)
Advertising and Directories	1,351	1,307	1,217	1,217	134	90	11.0	7.4
Intercarrier services	1,138	1,138	1,155	1,155	(17)	(17)	(1.5)	(1.5)
Inbound calling products	476	476	494	494	(18)	(18)	(3.6)	(3.6)
Solutions management	489	489	487	487	2	2	0.4	0.4
Other Controlled Entities (excluding HK CSL & TClear)	194	194	222	222	(28)	(28)	(12.6)	(12.6)
HK CSL	726	726	908	908	(182)	(182)	(20.0)	(20.0)
TelstraClear	574	574	548	548	26	26	4.7	4.7
Customer premises equipment	184	184	194	194	(10)	(10)	(5.2)	(5.2)
Payphones	141	141	148	148	(7)	(7)	(4.7)	(4.7)
Other sales & service	718	718	772	772	(54)	(54)	(7.0)	(7.0)
Sales revenue	20,737	20,693	20,495	20,495	242	198	1.2	1.0
Other revenue	543	213	1,121	262	(578)	(49)	(51.6)	(18.7)
Total revenue	21,280	20,906	21,616	20,757	(336)	149	(1.6)	0.7
Expenses:								
Labour	3,218	3,204	3,204	3,204	14	0	0.4	0.0
Goods and services purchased	3,420	3,409	3,615	3,550	(195)	(141)	(5.4)	(4.0)
Other expenses	4,389	3,912	4,602	3,915	(213)	(3)	(4.6)	(0.1)
Expenses before equity acc/depn/amort/interest	11,027	10,525	11,421	10,669	(394)	(144)	(3.4)	(1.3)
Share of net loss from associates and joint venture entities	78	78	1,025	84	(947)	(6)	(92.4)	(7.1)
Total operating expenses before depn/amort/interest	11,105	10,603	12,446	10,753	(1,341)	(150)	(10.8)	(1.4)
EBITDA	10,175	10,303	9,170	10,004	1,005	299	11.0	3.0
EBITDA excl share of net loss from associates & joint venture entities	10,253	10,381	10,195	10,088	58	293	0.6	2.9
Depreciation	2,873	2,872	2,754	2,754	119	118	4.3	4.3
Amortisation (excl goodwill)	619	619	577	577	42	42	7.3	7.3
Goodwill amortisation	123	120	116	116	7	4	6.0	3.4
Total depreciation/amortisation	3,615	3,611	3,447	3,447	168	164	4.9	4.8
Total operating expenses before interest	14,720	14,214	15,893	14,200	(1,173)	14	(7.4)	0.1
EBIT	6,560	6,692	5,723	6,557	837	135	14.6	2.1
EBIT excl share of net loss from associates & joint venture entities	6,638	6,770	6,748	6,641	(110)	129	(1.6)	1.9
Net borrowing costs	712	712	795	795	(83)	(83)	(10.4)	(10.4)
Profit before income tax	5,848	5,980	4,928	5,762	920	218	18.7	3.8
Tax [(i)]	1,731	1,827	1,534	1,723	197	104	12.8	6.0
Profit after tax (bef. Outside equity interests)	4,117	4,153	3,394	4,039	723	114	21.3	2.8
Outside equity interests	1	1	35	35	(34)	(34)	(97.1)	(97.1)
Profit after tax	4,118	4,154	3,429	4,074	689	80	20.1	2.0
Effective tax rate [(ii)]	29.6%	30.6%	31.1%	29.9%			(1.5%)	0.7%
EBITDA margin on sales revenue [(ii)]	49.1%	49.8%	44.7%	48.8%			4.4%	1.0%
EBIT margin on sales revenue [(ii)]	31.6%	32.3%	27.9%	32.0%			3.7%	0.3%
Earnings per share (cents) [(iii)]	32.4	32.6	26.6	31.7	5.8	0.9	21.8%	2.8%

(i) Underlying tax calculations represent management's best estimates

(ii) The reported and underlying percentage growth represents the percentage movement from the prior corresponding period.

Product definitions have been reviewed and where necessary in the Year Ended 30 June 2003, comparative figures have been adjusted to align with changes in presentation in the Year Ended 30 June 2004. (Refer reconciliation on page 57).

(iii) 2004 EPS uses a weighted average of 12,723 million shares following the share Buy Back, 2003 EPS was based on 12,866 million shares.

Cash flow summary
For the full year ended 30 June 2004

Table 1 - Cashflow Summary

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Receipts from Customers	**22,954**	22,511	443	2.0
Payments to Suppliers/Employees	**(11,816)**	(11,920)	104	(0.9)
Net Interest and Finance Charges	**(795)**	(929)	134	(14.4)
Income Tax Paid	**(1,856)**	(1,536)	(320)	20.8
Dividends Received	**2**	7	(5)	(71.4)
GST Remitted to the ATO	**(1,056)**	(1,076)	20	(1.9)
Operating Cash Flow	**7,433**	7,057	376	5.3
Operating Capital Expenditure	**(3,087)**	(3,364)	277	(8.2)
Less Capitalised Interest	**74**	105	(31)	(29.1)
Operating Capital Expenditure	**(3,013)**	(3,259)	246	(7.5)
Investment Expenditure	**(668)**	(71)	(597)	840.8
Patents, Trademarks and Licences (including 3G spectrum)	**(2)**	(2)	-	0.0
Capital Expenditure - excluding Capitalised Interest	**(3,683)**	(3,332)	(351)	10.5
Receipts from Asset Sales/Other Proceeds	**413**	840	(427)	(50.8)
Cash flow used in Investing Activities	**(3,270)**	(2,492)	(778)	31.2
Operating Cash Flow less Cash Flow used in Investing Activities	**4,163**	4,565	(402)	(8.8)
Movements in Borrowings/Finance Leases	**(379)**	(1,005)	626	(62.3)
Employee Share Loans (Net)	**24**	33	(9)	(27.3)
Loan to Joint Venture Entity	**(226)**	-	(226)	N/M
Dividends Paid	**(3,186)**	(3,345)	159	(4.8)
Share Buy Back	**(1,009)**	-	(1,009)	N/M
Net Financing Activities	**(4,776)**	(4,317)	(459)	10.6
Net Cash Flow	**(613)**	248	(861)	(347.2)

Statement of financial position summary
As at 30 June 2004

Table 2 - Statement of Financial Position

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Current Assets	**5,327**	5,757	(430)	(7.5)
Intangibles	**3,605**	3,164	441	13.9
Property, Plant and Equipment	**22,863**	23,012	(149)	(0.6)
Total Non-Current Assets	**29,666**	29,842	(176)	(0.6)
Net Debt	**11,167**	10,972	195	1.8
Total Liabilities	**19,632**	20,177	(545)	(2.7)
Gross Debt	**11,854**	12,272	(418)	(3.4)
Net Assets/Shareholders' Equity	**15,361**	15,422	(61)	(0.4)

Statistical data summary
For the full year ended 30 June 2004

Table 3 - Statistical Summary

	Year Ended 30 June 2004			
	2004	2003	Change	Change %
Billable traffic data (in millions)				
Local calls (number of calls)	**9,397**	9,794	(397)	(4.1)
National long distance minutes [(i)]	**8,520**	9,161	(641)	(7.0)
Fixed-to-mobile minutes	**4,226**	3,944	282	7.2
International direct minutes	**651**	740	(89)	(12.0)
Mobile voice telephone minutes[(ii)]	**6,145**	5,255	890	16.9
Inbound Calling Products - B Party Minutes	**2,708**	2,655	53	2.0
Network and operations data				
Basic access lines in service [(iii)]				
Residential	**5.96**	6.20	(0.24)	(3.9)
Business	**2.57**	2.71	(0.14)	(5.2)
Total retail customers	**8.53**	8.91	(0.38)	(4.3)
Domestic wholesale	**1.84**	1.55	0.29	18.7
Total basic access lines in services (in millions)	**10.37**	10.46	(0.09)	(0.9)
ISDN access (basic lines equivalents) (in thousands)[(iv)]	**1,288**	1,213	75	6.2
Mobile services in operation (SIO) (in thousands) [(v)]				
GSM	**6,653**	5,812	841	14.5
CDMA	**951**	757	194	25.6
Mobile services in operations	**7,604**	6,569	1,035	15.8
Number of SMS sent (in millions)	**1,903**	1,413	490	34.7
Online subscribers (in thousands)				
Narrowband subscribers	**1,194**	1,158	36	3.1
Broadband subscribers [(vi)]	**803**	361	442	122.4
Total online subscribers	**1,997**	1,519	478	31.5
FOXTEL subscribers (in thousands)				
FOXTEL cable subscribers	**477**	478	(1)	(0.2)
FOXTEL satellite subscribers	**424**	358	66	18.4
Total FOXTEL subscribers	**901**	836	65	7.8
Employee data				
Domestic full-time staff [(vii)]	**36,159**	37,169	(1,010)	(2.7)
Full-time staff and equivalents [(viii)]	**41,941**	42,064	(123)	(0.3)

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

[(ii)] Includes all calls made from mobile telephones including long distance and international calls, excludes Data, messagebank, international roaming and Hong Kong CSL.

[(iii)] Excludes advanced access services, such as ISDN services

[(iv)] Expressed in equivalent number of clear voice channels.

[(v)] Excludes Hong Kong CSL SIOs and includes the impact of the deactivation policy change to standard re-charge period.

[(vi)] Within Broadband, retail products include cable, satellite, ISP, HyperConnect and ADSL, while wholesale products include Flexstream, DSL layer 2 and DSL layer 3S

[(vii)] Excludes offshore, casual and part time employees

[(viii)] Includes all domestic and offshore employees, including controlled entities.

Summary of operating results
For the year ended 30 June 2004

Telstra Corporation Limited reported a profit after tax and outside equity interests (PAT) of $4,118 million for the year ended 30 June 2004, an increase of $689 million or 20.1% on the prior year.

After adjusting to allow like for like comparisons with the year ended 30 June 2003, as detailed on the normalisation schedule, underlying[1] PAT increased $80 million or 2.0% to $4,154 million, and earnings per share grew 2.8% to 32.6 cents. Underlying[1] EBIT increased by $135 million or 2.1% to $6,692 million, and underlying[1]EBITDA increased by $299 million or 3.0% to $10,303 million. EBITDA Margin improved 1% to 49.8%.

Revenue

Reported total revenue declined by $336 million or 1.6% which was impacted by the inclusion of revenue from the sale of seven commercial properties of $570 million in the year ended 30 June 2003.

Underlying[1] total revenue increased $149 million or 0.7%. **Underlying[1] sales revenue** increased $198 million or 1.0%, and benefited from growth in mobiles, Internet and IP solutions, advertising and directories and Pay TV, offset by a decline in revenues from Hong Kong CSL, other sales and service and other controlled entities. **Underlying[1] domestic sales revenue** increased by $318 million or 1.7% to $19,247 million. Underlying[1] domestic sales revenue, excluding external construction and cable recovery and recycling revenues, increased by 2.4% to $19,165 million.

Expenses

The decrease in **reported total expenses** (before interest and tax) of $1,173 million or 7.4% includes the non cash write down of the investment in Reach Ltd and the cost of assets and investments sold in the year ended 30 June 2003.

Underlying[1] operating expenses (before depreciation, amortisation and interest) declined by $150 million or 1.4%, largely due to the impact of cost reduction programs, reduced network payments for services provided by Reach and the integration of NDC. **Underlying[1] operating expenses** (including depreciation and amortisation but before interest and tax) increased $14 million or 0.1%, and included depreciation and amortisation growth of 4.8%.

Net borrowing costs declined by $83 million or 10.4% due to lower interest expenses resulting from a reduced debt portfolio over the current year and prior year closure of interest rate swaps, offset by lower interest receipts from the PCCW convertible note and a decline in short-term liquid assets held over the current year.

Reported tax expense increased by $197 million or 12.8% primarily due to the $58 million benefit arising from the adoption of the tax consolidation legislation in the current year being lower than the $201 million benefit in the prior year. Underlying[1] tax expense has increased by $104 million or 6.0% attributable to the increase in underlying[1] profit before tax of 3.8% and a prior year under provision of $24 million for income tax expense.

Cash flow

Free cash flow declined 8.8% and includes the acquisition of the Trading Post in the current year and the prior year proceeds from the sale of commercial properties. After removing these impacts free cashflow growth was 20.2%.

Treasury operations

Telstra's financial position remained strong with current long-term credit ratings of A+, A1 and A+ from S&P, Moody's and Fitch respectively. The Net debt position was $11.2 billion, an increase of $195 million or 1.8%, following on from share buybacks and domestic acquisitions in the current year. As previously announced, the Company expects to continue to return $1.5 billion to shareholders each year for the next three years, subject to the Company's target balance sheet ratios being maintained.

Dividend

A fully franked final ordinary dividend of 13c per share has been declared and is payable on 29 October 2004. This was an increase of 8.3% on the final ordinary dividend declared in the prior year and brought the full year ordinary dividends to 26c per share.

Capital Management

Additional capital returns to shareholders in the 2004/05 year will comprise an off market share buyback of up to $750 million and the intention to pay a special dividend of 6c per share with the interim dividend of 2004/05.

For enquiries on these results contact:

John Stanhope
Chief Financial Officer
Telstra Corporation Limited

David Anderson
General Manager, Investor Relations
Telstra Corporation Limited
Phone: 61 3 9634 2410
Email: Investor.relations@team.telstra.com

Operating and Financial Review

Results of operations

The following table illustrates reported and underlying[1] results for the years ended 30 June 2004 and 2003.

Table 4 - Results of operations

	Year Ended 30 June 2004					
	2004		2003		Reported Change %	Underlying[1] Change %
	Reported	Underlying[1]	Reported	Underlying[1]		
	(in $ millions)					
Sales revenue	**20,737**	**20,693**	20,495	20,495	1.2	1.0
Other revenue	**543**	**213**	1,121	262	(51.6)	(18.7)
Total revenue	**21,280**	**20,906**	21,616	20,757	(1.6)	0.7
Expenses before equity acc/depn/amort/interest	**11,027**	**10,525**	11,421	10,669	(3.4)	(1.3)
Share of net loss from associates and joint venture entities	**78**	**78**	1,025	84	(92.4)	(7.1)
Total operating expenses before depn/amort/interest	**11,105**	**10,603**	12,446	10,753	(10.8)	(1.4)
Total depreciation/amortisation	**3,615**	**3,611**	3,447	3,447	4.9	4.8
Total operating expenses before interest	**14,720**	**14,214**	15,893	14,200	(7.4)	0.1
Earnings before interest & tax (EBIT)	**6,560**	**6,692**	5,723	6,557	14.6	2.1

Reported earnings before interest and tax (EBIT) grew 14.6%, impacted by a number of items that occurred in the current year and in the year ended 30 June 2003, making like for like comparisons difficult. After adjusting for these items, underlying[1] EBIT increased by 2.1% or $135 million.

The items that required adjustment for this comparison are reflected on the normalisation schedule on page 54, and consist of:

- The exclusion of the EBIT generated by Trading Post in the year ended 30 June 2004, reducing EBIT by $9 million. Trading Post was acquired by Sensis Ltd in March 2004;
- The exclusion of IBMGSA contract exit costs of $130 million incurred in the year ended 30 June 2004 and EBIT generated from the sale of assets and investments of $216 million in the year ended 30 June 2004 and $198 million in the year ended 30 June 2003;
- The exclusion of the provision for recoverability of the Reach loan of $226 million in the year ended 30 June 2004;
- The exclusion of the reduction in value of investments of $1 million in the year ended 30 June 2004 and $991 million in the prior year, including the non-cash write down of the investment in Reach Ltd of $965 million; and
- The exclusion of Reach contract exit expenses of $41 million in the year ended 30 June 2003.

Operating revenues

The following table includes reported and underlying[1] operating revenues for the years ended 30 June 2004 and 2003.

Table 5 - Operating revenue by major product and service category

	Year Ended 30 June 2004					
	2004		2003		Reported Change	Underlying[1] Change
	Reported	Underlying[1]	Reported	Underlying[1]	%	%
	(in $ millions)					
Mobiles						
Mobile services	**3,455**	**3,455**	3,227	3,227	7.1	7.1
Mobile handsets	**352**	**352**	386	386	(8.8)	(8.8)
Total Mobiles	**3,807**	**3,807**	3,613	3,613	5.4	5.4
BigPond narrowband	**297**	**297**	298	298	(0.3)	(0.3)
BigPond broadband	**274**	**274**	212	212	29.2	29.2
Wholesale broadband	**142**	**142**	49	49	189.8	189.8
Wholesale internet direct	**14**	**14**	20	20	(30.0)	(30.0)
Internet direct	**117**	**117**	111	111	5.4	5.4
IP solutions	**160**	**160**	120	120	33.3	33.3
Other	**6**	**6**	7	7	(14.3)	(14.3)
Total Internet and IP solutions	**1,010**	**1,010**	817	817	23.6	23.6
PSTN Products						
Basic access	**3,237**	**3,237**	3,083	3,083	5.0	5.0
Local calls	**1,504**	**1,504**	1,567	1,567	(4.0)	(4.0)
PSTN value added services	**259**	**259**	280	280	(7.5)	(7.5)
National long distance calls	**1,121**	**1,121**	1,162	1,162	(3.5)	(3.5)
Fixed to mobile	**1,597**	**1,597**	1,517	1,517	5.3	5.3
International direct	**266**	**266**	307	307	(13.4)	(13.4)
Total PSTN	**7,984**	**7,984**	7,916	7,916	0.9	0.9
Specialised Data	**1,018**	**1,018**	1,053	1,053	(3.3)	(3.3)
ISDN (Access and Calls)	**927**	**927**	951	951	(2.5)	(2.5)
Advertising and Directories	**1,351**	**1,307**	1,217	1,217	11.0	7.4
Intercarrier services	**1,138**	**1,138**	1,155	1,155	(1.5)	(1.5)
Inbound calling products	**476**	**476**	494	494	(3.6)	(3.6)
Solutions management	**489**	**489**	487	487	0.4	0.4
Other Controlled Entities (excluding HK CSL & TClear)	**194**	**194**	222	222	(12.6)	(12.6)
HK CSL	**726**	**726**	908	908	(20.0)	(20.0)
TelstraClear	**574**	**574**	548	548	4.7	4.7
Customer premises equipment	**184**	**184**	194	194	(5.2)	(5.2)
Payphones	**141**	**141**	148	148	(4.7)	(4.7)
Other sales & service	**718**	**718**	772	772	(7.0)	(7.0)
Sales revenue	**20,737**	**20,693**	20,495	20,495	1.2	1.0
Other revenue	**543**	**213**	1,121	262	(51.6)	(18.7)
Total revenue	**21,280**	**20,906**	21,616	20,757	(1.6)	0.7
Domestic sales revenue		**19,247**		18,929		1.7
Domestic sales revenue (excl NDC & cable recovery)		**19,165**		18,714		2.4

Reported revenue decreased by 1.6% predominantly due to reduced asset and investment sales of $330 million. The prior year asset and investment sales of $859 million included the sale of seven commercial properties for $570 million. This decrease was partially offset by the inclusion of Trading Post revenue of $44 million in the current year.

After excluding these items, underlying[1] total revenue increased by 0.7% for the year and 1.8% in the second half.

Revenue growth was due to increases in mobiles, internet and IP solutions, advertising and directories and Pay TV offset by declines in revenues from Hong Kong CSL, including foreign exchange impacts, other sales and services, primarily construction revenues and other controlled entities.

Domestic revenue (excluding NDC and cable recovery) grew 2.4% for the year and 3.0% in the second half.

Mobiles

Table 6 - Mobiles

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Access fees and call charges	**2,649**	2,570	79	3.1
Value added services				
International roaming	**174**	153	21	13.7
Mobile messagebank	**178**	166	12	7.2
Mobile data	**454**	338	116	34.3
Total value added services	**806**	657	149	22.7
Mobile services revenue	**3,455**	3,227	228	7.1
Mobile handset sales	**352**	386	(34)	(8.8)
Total mobiles goods and services revenue [(i)]	**3,807**	3,613	194	5.4
GSM mobile SIO (in thousands)	**6,653**	5,812	841	14.5
CDMA mobile SIO (in thousands)	**951**	757	194	25.6
Total mobile SIO (in thousands)[(ii)]	**7,604**	6,569	1,035	15.8
Prepaid mobile SIO (in thousands)[(ii)]	**3,102**	2,288	814	35.6
Postpaid mobile SIO (in thousands)	**4,502**	4,281	221	5.2
Total mobile SIO (in thousands)	**7,604**	6,569	1,035	15.8
Number of SMS sent (in millions)	**1,903**	1,413	490	34.7
Deactivation rate [(ii)]	**17.1%**	18.4%	(1.3%)	
Mobile voice telephone minutes (in millions)	**6,145**	5,255	890	16.9
Average revenue per user per month [(iii)]	**40.62**	42.99	(2.37)	(5.5)
Average prepaid revenue per user per month [(iii)]	**13.84**	13.78	0.06	0.4
Average postpaid revenue per user per month [(iii)]	**57.05**	57.59	(0.54)	(0.9)
Average Mobile data revenue per SIO per month	**5.34**	4.51	0.83	18.4

(i) Excludes revenue from:
- call termination charges, including calls from our fixed network which we categorise as fixed to mobile;
- resale of GSM and CDMA services to other carriers which is recognised as intercarrier services revenue; and
- HK CSL which is recognised as various controlled entity revenue.

(ii) Deactivations have been impacted by the "recharge only" period for prepaid services being extended to six months in line with general market position. This change has resulted in the continuation of approximately 202,000 prepaid services which would have been deactivated under the previous contract terms.

(iii) Average revenue per user per month is calculated using average SIOs and includes mobile data and messagebank revenues.

The increase in mobile services revenue of 7.1% or $228 million was largely driven by:

- Mobile Data revenue increases of 34.3% or $116 million due to growth in:
  - Short Message Service (SMS) revenue of 30.5% or $98 million, due to an increase in the number of messages sent of 34.7% to 1,903 million. This was offset by moderate yield reductions from increased discounting initiatives such as Telstra Rewards with up to 150 free SMS per month per customer, and other prepaid promotions.
  - Other mobile data increases of 114% or $16 million due to growth in the General Packet Radio Service (GPRS) product including Telstra wireless access protocols (WAP) and Blackberrys which drove increases in data transmission volumes;

- Access fees and call revenue increases of 3.1% or $79 million comprised of:
  - Growth in prepaid revenues of 25.2% resulting from the increase of 35.6% or 814,000 prepaid services in operation and increases in calling minutes of 52.2%. Growth in services has been driven by successful promotions including “Double your first recharge”, “$100 Bonus” and the Coke/McDonalds promotion. This increase in services includes approximately 202,000 services impacted by the change in the deactivation policy [ii] which also impacts prepaid average revenue per user;

  - Growth in postpaid revenues of 0.9% resulting from the increase of 221,000 postpaid services, which includes a 25.6% growth in CDMA services in operation, and increases in total postpaid calling minutes of 14.5%. However, this growth has been substantially offset by increases in loyalty bonuses of $136 million and increased discounting due to Telstra Rewards offers such as free family call credits.

  - International roaming revenue increased 13.7% due to increased volumes during Rugby World Cup and recovery in international travel after the SARS outbreak and other world events.

  - Messagebank® revenue increase of 7.2% driven by the 8% increase in Messagebank® minutes offset by reduction in retrieval revenues charges and memo usage.

  - Average revenue per user (ARPU) has declined 5.5% as prepaid services become a higher proportion of total services in operation. Mobile data ARPU continued to grow and has helped maintain ARPU levels across prepaid and postpaid.

Mobile handset sales declined by 8.8% largely driven by the move to lower value-prepaid handsets and higher volumes of subsidised handsets expensed particularly in the second half of the current year.

Internet and IP solutions

Table 7 - Internet and IP solutions

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Internet & IP solutions revenue				
BigPond narrowband	**297**	298	(1)	(0.3)
BigPond broadband	**274**	212	62	29.2
Wholesale broadband	**142**	49	93	189.8
Wholesale internet direct	**14**	20	(6)	(30.0)
Internet direct	**117**	111	6	5.4
IP solutions	**160**	120	40	33.3
Other	**6**	7	(1)	(14.3)
Total Internet & IP solutions revenue	**1,010**	817	193	23.6
Broadband subscribers - Wholesale (in thousands)	**379**	121	258	213.2
Broadband subscribers - Retail (in thousands)	**424**	240	184	76.7
Total Broadband subscribers (in thousands)	**803**	361	442	122.4
Narowband subscribers - Retail (in thousands)	**1,194**	1,158	36	3.1
Total online subscribers (in thousands)	**1,997**	1,519	478	31.5

Broadband, Internet and IP solutions revenue increase was driven by:

- Continued strong growth in BigPond™ broadband revenue was driven by subscriber growth of 76.7% with growth in both ADSL and cable. The accelerated growth of this product in the second half was attributable to increased internet usage, self install kits and successful broadband marketing campaigns. This increase was offset by a decline in the average revenue per user due to two weeks of rebates to customers as a result of performance issues in October, the introduction of the usage toolbar in May 2003 reducing excess usage billing, unlimited usage and higher volume capped plans, new pricing plans and two months free broadband offer.

- Wholesale broadband growth was driven by Wholesale DSL Layer 2 revenue growth of $79 million. DSL Layer 2 has seen an increase in the number of SIO's of 363%. Twelve months ago, wholesale DSL was only sold to the business market, but in the current year there was increased take-up in the residential and small business market by on-selling a price-competitive broadband DSL service provided by Telstra's ADSL network. Growth was also seen in wholesale access other of $10 million in line with Wholesale DSL product growth and Flexstream DSL Layer 3 $6 million in line with growth in services.

- Narrowband growth was flat. Subscribers grew by 3.1%, however revenue generated from new customers was offset by two weeks of rebates to customers as a result of performance issues in October.

- Growth in IP solutions of 33.3%. These products have been in the growth phase of the product life cycle with revenue increases in IP WAN and IP MAN/Ethernet. There was migration to these products from ISDN access and ATM accelerate products. Increased growth was also due to wins and winback rate, service innovation and customers adding applications to their IP networks. Though yields decreased in a price aggressive market, they were offset by growth in physicals.

PSTN Products

The following tables explain the increase in total PSTN products revenue of 0.9% or $68 million.

The continued impact of rebalancing initiatives has resulted in an increase in basic access revenue, partly offset by reductions in local calls, international direct® and national long distance revenues. Fixed to mobile revenues continued strong growth as mobile services in operation continue to grow.

Basic access

Table 8 - Basic access

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Basic access revenue				
Retail	**2,717**	2,669	48	1.8
Domestic wholesale	**520**	414	106	25.6
Total basic access revenue	**3,237**	3,083	154	5.0
Basic access lines in service (in millions)				
Residential	**5.96**	6.20	(0.24)	(3.9)
Business	**2.57**	2.71	(0.14)	(5.2)
Sub-total	**8.53**	8.91	(0.38)	(4.3)
Domestic wholesale	**1.84**	1.55	0.29	18.7
Total access lines in service (in millions)	**10.37**	10.46	(0.09)	(0.9)

Retail revenue has increased primarily due to the introduction of pricing packages with higher basic access charges and lower calling rates. These increases have been offset by a decline in the number of basic access lines due to competition and migration to other products such as ISDN, broadband and mobiles. The yield increases have been offset by pensioner discounts applied to basic access charges after these discounts were removed from PSTN calling products in March 2003.

Wholesale revenue growth was driven by an increase in the number of access lines as well as price increases.

Local Calls

Table 9 - Local calls

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Local call revenue				
Retail	**1,263**	1,348	(85)	(6.3)
Domestic wholesale	**241**	219	22	10.0
Total local call revenue	**1,504**	1,567	(63)	(4.0)
Number of local calls (in millions)	**9,397**	9,794	(397)	(4.1)

Local call revenue declined as a result of the 4.1% reduction in the number of local calls due to product substitution to mobiles, fixed to mobile, internet and ISDN products. The yield has been impacted by rebalancing initiatives offering classes of service with reduced calling rates including a reduction in Homeline™ call rates from 22c to 20c and the introduction of T-time, a free call offering. These price reductions have been offset by the transfer of pensioner discounts to basic access and the removal of neighbourhood calls for Businessline Complete, Homeline Complete and Homeline Plus customers.

PSTN value added services

Table 10 - PSTN value added services

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
PSTN value added services revenue				
Retail	**221**	247	(26)	(10.5)
Domestic wholesale	**38**	33	5	15.2
Total PSTN value added services revenue	**259**	280	(21)	(7.5)

Reduction in revenue for PSTN value added services was driven by a decline in Messagebank® usage due to migration to the free product offering Telstra Home Message 101™ and a price decrease in May 2003. Call Return (*10#) usage has also declined after a price increase and new campaigns now focussed on new product offerings such as Call 1# Feature Assistant™ and Telstra Home Message 101™.

National long distance calls

Table 11 - National long distance calls

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
National long distance revenue				
Retail	**1,113**	1,156	(43)	(3.7)
Domestic wholesale	**8**	6	2	33.3
Total national long distance revenue	**1,121**	1,162	(41)	(3.5)
National long distance minutes (in millions)	**8,520**	9,161	(641)	(7.0)

The reduction in national long distance revenue was attributable to the 7.0% decline in call minutes due to shorter call durations, the cessation of the 1c Saturday offer which increased minutes of use in the previous year and product substitution to mobiles, fixed to mobile, internet, and ISDN. This decline was partly offset by an increase in yield as a result of flagfall increases, the cessation of the 1c Saturday offer and the transfer of pensioner discounts to basic access offset by reduced capped calling rates.

Fixed to mobile

Table 12 - Fixed to mobile calls

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Fixed to mobile revenue				
Retail	**1,576**	1,501	75	5.0
Domestic wholesale	**21**	16	5	31.3
Total fixed to mobile revenue	**1,597**	1,517	80	5.3
Fixed to mobile minutes (in millions)	**4,226**	3,944	282	7.2

Fixed to mobile volumes have increased 7.2% largely due to continued growth in the number of mobile services in the Australian market. Yields decreased slightly due to lower capped calling and reduced rates offset by flagfall increases.

International direct

Table 13 - International direct

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
International direct revenue	**266**	307	(41)	(13.4)
International direct minutes (in millions)	**651**	740	(89)	(12.0)

The International direct® revenue decline was mainly driven by the reduction in minutes of 12.0%. This reduction was due to migration to aggressively priced prepaid calling cards and customers using other products such as e-mail and internet chat facilities. The yield has declined as a result of further capped call usage and increased discount plans offered offset by the removal of pensioner concessions from calling products and a flagfall increase.

Specialised Data

Table 14 - Specialised Data

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Data revenue				
Frame relay	**371**	354	17	4.8
ATM	**62**	73	(11)	(15.1)
Digital data services	**256**	287	(31)	(10.8)
Leased lines	**258**	271	(13)	(4.8)
International private lines	**32**	37	(5)	(13.5)
Other specialised data	**39**	31	8	25.8
Total data revenue	**1,018**	1,053	(35)	(3.3)
Permanent Virtual Circuits (in thousands)				
Frame	**30**	28	2	7.1
ATM (incl Wholesale)	**10**	15	(5)	(33.3)

Data revenue declined 3.3% due to product substitution driven by technologically advanced IP and DSL based product options.

Frame relay revenue growth was driven by strong performance domestic frame relay, as there was a migration from digital data services, leased lines and international private lines.

ATM revenue declined due to the loss of a significant contract in the first half of the year, an increase in discounting of 8%, signalling the maturity of this product as it competes with the migration to newer IP based options and movement of wholesale customers to a new wholesale ATM product.

DDS (Digital Data Services) revenue drop was due to the product being a mature product with customers now migrating to newer technologies such as frame relay, exploring other options such as outsourcing and building their own IP platforms.

Leased Lines is a mature product that saw declines in megalink and voice graded dedicated lines revenue.

International private lines revenue decreased due to intense competition and excess capacity in the market driving prices/yields down in the Asian region.

The increase in other data revenue was attributable to EFTPOS product migration to Argent dial-up from the Transend platform.

ISDN

Table 15 - ISDN

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
ISDN revenue				
Access	**401**	390	11	2.8
Calls				
Data	**221**	282	(61)	(21.6)
Voice	**305**	279	26	9.3
Total calls	**526**	561	(35)	(6.2)
Total ISDN revenue	**927**	951	(24)	(2.5)
ISDN access lines (basic access line equivalents) (in thousands)	**1,288**	1,213	75	6.2

ISDN access revenue has grown 2.8% due to the penetration into the SME and consumer market as corporate customers migrate to more advanced data products such as frame relay and the use of ISDN where ADSL coverage limitations exist. Consequently, the number of ISDN access lines has grown 6.2%.

The 6.2% call reduction comprises a 21.6% drop in data call revenue. ISDN data corporate customers have been migrating to products such as ADSL, frame relay and IP solutions as well as competitors' offerings on new technologies at reduced tariffs. This was offset by an increase in voice call revenue of 9.3%. This increase was driven by a greater proportion of customers using ISDN for voice instead of data as this product moves into SME and consumer segments and the introduction of a new pricing structure including a thirty minute block time, rather than per minute charging.

Advertising and directories

Table 16 - Advertising and Directories

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Advertising and Directories - Reported	**1,351**	1,217	134	11.0
Less Adjustments	**44**	0	44	N/M
Advertising and Directories - Underlying	**1,307**	1,217	90	7.4

Reported advertising and directories revenue increased 11.0%. After excluding the Trading Post, underlying advertising and directories revenue increased 7.4%. White Pages revenue increased 12.9% or $27 million due to the continued success of additional colour listing options and continued growth in e-mail and web listings. Yellow Pages revenue increased 3.8% or $37 million due to growth in non-metro publications and the full and half page advertising options and online display advertising options. In addition, other directory products including online and Yellow Pages Connect experienced growth of 41.4% or $27 million largely due to new customer take up and new and attractive product enhancements.

Intercarrier services

Table 17 - Intercarrier services

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Intercarrier services revenue	**1,138**	1,155	(17)	(1.5)

The decline in intercarrier services revenue was driven by:

- A reduction in wholesale transmission products due to pricing pressures from an oversupply of capacity in the market, including a 30% increase in discount on access network transmission contracts and the cancellation of the Optus Nullarbor service; and

- A wholesale long distance and international revenue decline of 67% as volumes were down.

These have been partly offset by:

- An increase in SMS interconnect revenues of 32% or $15 million driven by a 36.9% increase in traffic reflecting a marginally lower yield; and

- Increase in wholesale ATM 197% or $11 million reflecting a steady take-up of the wholesale ATM offer.

Inbound calling products

Table 18 - Inbound calling products

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Inbound calling products revenue	**476**	494	(18)	(3.6)
B party minutes (in millions)	**2,708**	2,655	53	2.0
A party calls (in millions)	**938**	918	20	2.2

Inbound calling products revenue has declined 3.6%, driven primarily by the 12.7% or $12 million decline in Freecall™ 1800. Intense pricing competition leading to yield erosion and a declining customer base has significantly impacted this product. Though call minutes have been down only slightly, usage yield was down 16.7%.

A Party revenue grew $3 million driven by growth in Priority® 1300 call revenue, which has increased 9.9% as reflected by a 2.2% increase in the number of A Party calls and offset by a decline in Priority® One3™ call revenue.

B Party revenue declined $2 million driven by a decline in Priority® One3™. Call minutes grew 2.0% reflecting the revenue growth in Priority® 1300 of $3 million.

Other Inbound product revenue, including Infocall (190) and Infocall Cascade was down 15.7% to $37 million due to the exit of Internet dialler applications in August 2003.

Solutions management

Table 19 - Solutions management

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Solutions management revenue	**489**	487	2	0.4

Revenue from solutions management was derived from managing all or part of a customer's information technology or telecommunications services as well as providing hosting solutions.

Managed solutions grew 0.4% due to the signing of a whole of business contract with a large banking institution, incremental growth in existing contracts and the commencement of other new contracts in 2003/2004. These wins have been offset by a revenue decline due to the close out of some contracts.
Managed WAN is a growth product offering design, install and management of a tailored wide area network. Product revenue growth was 12.3% driven by increased activity in two major corporate contracts.

Radio Services revenue has declined, due to the completion of a major design & construction contract.

Corporate and SME hosting services experienced growth of 24.2% off a low base of $17m.

Other controlled entities

Table 20 - Other controlled entities

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Total other controlled entity revenue	**1,494**	1,678	(184)	(11.0)
Comprising:				
Hong Kong CSL	**726**	908	(182)	(20.0)
TelstraClear	**574**	548	26	4.7
Telstra Europe	**88**	40	48	120.0
Telstra Inc	**35**	34	1	2.9
Other CE	**71**	148	(77)	(52.0)
	1,494	1,678	(184)	(11.0)

Revenue from controlled entities declined by 11.0%, driven by:

- Declined sales revenue in Hong Kong CSL due to unfavourable currency fluctuations, $149 million and pricing competition, $32 million;

- Other controlled entities revenue decline of 52.0%. Telstra Multimedia sales revenue declined $74 million due to customer sales and service centres now being directly operated by Foxtel and reduction of Foxtel share of cable revenue. The sale of Mobitel in October 2002, represented a decline of $8 million.

These decreases were partly offset by:

- Telstra Europe revenue growth due to the acquisition of customer & network base from Powergen and Cable Telecom in the UK;

- Telstra Clear's revenue grew 4.7%. Retail revenue growth of 8.7% was offset by a decline in wholesale revenue of 8.4 %;

- Other controlled entities increases include Global Business Asia Group $7 million as Singapore and Hong Kong operations were set up toward the end of last financial year and InsNet revenue growth of $5.4 million, was driven by new service initiatives including eTrading and ePayments.

Customer premises equipment

Table 21 - Customer premises equipment

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Customer premises equipment revenue	**184**	194	(10)	(5.2)

Revenue from customer premises equipment has declined by 5.2% due to the continued retail competition for fixed line handsets.

Payphones

Table 22 - Payphones

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Payphones revenue	**141**	148	(7)	(4.7)
Payphones (in thousands)	**64**	67	(3)	(4.5)

Revenue decline in Payphones 4.7% was driven by a decrease in the number of Telstra operated payphones 2.0% and privately operated payphone services 7.2%. The decrease in services was due to the gradual removal of older technology phones such as coin only payphones and the substitution of payphone usage with mobile phones.

Other sales and services

Table 23 - Other sales and services

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Total other sales and services				
Telstra information and connection services	**118**	128	(10)	(7.8)
Customnet & spectrum	**113**	112	1	0.9
Virtual private network	**21**	27	(6)	(22.2)
Card services	**64**	84	(20)	(23.8)
Security Products	**51**	48	3	6.3
Conferlink	**46**	48	(2)	(4.2)
Commercial works	**41**	36	5	13.9
Cable Recovery	**11**	56	(45)	(80.4)
Bundling Pay TV	**150**	23	127	552.2
External Construction	**70**	159	(89)	(56.0)
Other	**33**	51	(18)	(35.3)
Total other sales and services	**718**	772	(54)	(7.0)

Telstra information and connection services have been declining as customers move to online directory services rather than using the traditional operator assisted directory services.

Virtual private network (VPN) revenue declined as customers are being offered new tariff options to migrate to IP technology. International VPN decline was due to a large banking institute no longer using VPN, they have moved to an alternative product and tariff option.

Card services have declined largely due to a reduction in Phoneaway® revenue from international calls, as customers migrate to cheaper calling cards. Telecard usage declined as substitutes are now available such as mobiles, prepaid card and direct dial. Homelink revenues have also declined as the product was substituted by mobiles and reverse charge product by competitors, whilst Say G'day call revenue declined, impacted by a highly competitive and price driven market.

Cable recovery has declined due to the winding down of work to recover and recycle disused copper cable.

Revenue from Pay TV has grown $127 million attributable to the introduction of bundling of Foxtel and Austar services by Telstra in December 2002. Telstra bundled SIOs have increased 85% to 235,000 at June 2004.

External construction revenue has declined 56.0% due to lower industry construction activity levels both domestically and internationally and the break up and re-integration of the network, design and construction (NDC) business.

Other represents miscellaneous products, and includes a prior period accounting adjustment.

Other Revenue

Table 24 - Other revenue

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Total other revenue - reported	**543**	1,121	(578)	(51.6)
Less adjustments	**330**	859	(529)	(61.6)
Total other revenue - underlying	**213**	262	(49)	(18.7)
Comprising:				
Dividends received/receivable	**1**	1	0	0.0
USO Levy Receipts	**71**	72	(1)	(1.4)
Rental/Leases	**23**	33	(10)	(30.3)
Miscellaneous revenue	**118**	156	(38)	(24.4)
	213	262	(49)	(18.7)
Where adjustments comprise:				
Revenue from sale of:				
Property, plant and equipment	**102**	811	(709)	(87.4)
Controlled Entities	**0**	17	(17)	N/M
Listed securities and other corporations	**24**	7	17	242.9
Joint Ventures	**0**	3	(3)	N/M
Associates	**204**	17	187	1,100.0
Business	**0**	4	(4)	N/M
Total adjustments	**330**	859	(529)	(61.6)

The reported other revenue reduction was primarily due to the sale of seven commercial properties for $570 million in the prior year. Sales this financial year include the divestment of IBMGSA, PTMitra, Commander Communications and the write-down in fleet asset value.

Excluding this revenue and other revenue generated from sales of assets and investments, other revenue declined 18.7%.

This decline was due to the completion of the rural telecommunications infrastructure fund project, a decline in IBMGSA Loyalty Receipts and a decline in miscellaneous billings.

The reduction of $10 million in other rental/leases relates to lower levels of Telstra fleet hire and property rental.

Operating expenses

Table 25 - Operating expenses

	Year Ended 30 June 2004					
	2004		2003		Reported Change	Underlying[1] Change
	Reported	Underlying[1]	Reported	Underlying[1]	%	%
	(in $ millions)					
Expenses						
Labour	**3,218**	**3,204**	3,204	3,204	0.4	0.0
Goods and services purchased	**3,420**	**3,409**	3,615	3,550	(5.4)	(4.0)
Other expenses	**4,389**	**3,912**	4,602	3,915	(4.6)	(0.1)
Expenses before equity acc/depn/amort/interest	**11,027**	**10,525**	11,421	10,669	(3.4)	(1.3)
Share of net loss from associates and joint venture entities	**78**	**78**	1,025	84	(92.4)	(7.1)
Total operating expenses before depn/amort/interest	**11,105**	**10,603**	12,446	10,753	(10.8)	(1.4)
Total depreciation/amortisation	**3,615**	**3,611**	3,447	3,447	4.9	4.8
Total operating expenses before interest	**14,720**	**14,214**	15,893	14,200	(7.4)	0.1

Reported operating expenses decreased by 7.4%. Operating expenses in the year ended 30 June 2004 included the net book value of assets sold of $114 million, operating expenses of Trading Post $35 million (Sensis acquired Trading Post in March 2004), IBMGSA contract exit costs of $130 million, the provision for recoverability of Reach loan of $226 million and the reduction in value of investments of $1 million. The year ended 30 June 2003 included net book value of assets sold of $661 million which included the proceeds from the sale of seven commercial properties, a reduction in value of investments of $991 million, including the non-cash write down of the investment in Reach Ltd of $965 million, and one-off Reach contract exit costs of $41 million.

After excluding these items, the full year operating expenses increased by 0.1%. Excluding depreciation and amortisation, operating expenses decreased by 1.4%.

The decrease in expenses was driven by cost reduction programs of $313 million and lower network payments, redundancy costs, and foreign exchange impacts, offset by increased cost of sales, including Pay TV bundling, costs associated with improved customer service and salary rises.

Operating expenses were consistent across the two halves of the current financial year. The operating expense decrease of 1.4% in the current year predominantly resulted from cost levels being higher in the first half of the prior year. The first half of the year ended 30 June 2003 was prior to the renegotiation of international network payments in January 2003, and was at a time of higher levels of mobile handset subsidies.

Labour expense

Table 26 - Labour expense

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions except for statistical data)			%
Total labour expense - reported	**3,218**	3,204	14	0.4
Less adjustments - Trading Post	**14**	0	14	N/M
Labour expense - underlying	**3,204**	3,204	0	0.0
Full time staff & equivalents - reported [i]	**41,941**	42,064	(123)	(0.3)
Less adjustments - Trading Post	**598**	0	598	N/M
Full time staff & equivalents - underlying[i]	**41,343**	42,064	(721)	(1.7)

[i] Includes NDC full time & equivalents. Corresponding labour expense for NDC were recorded in costs of external contracting and cost of sales prior to integration in August 2003.

Reported labour expenses increased slightly, however after excluding Trading Post underlying labour expenses remained flat due to:

- Salary increases of $132 million or 4% due to enterprise agreements and annual reviews;
- Increases in the use of part time, casual staff and overtime, to provide flexibility in meeting customer service demands;
- A change in the accounting treatment of NDC labour, from service contracts and cost of sales to labour expense following integration.

These were offset by reductions in:

- A decline in underlying full time staff and equivalents of 721 or 1.7%;
- A reduction in redundancy expense of $111 million;
- A reduction in Hong Kong CSL labour expense of $12 million due to exchange rate movements;
- Higher prior year superannuation charges in Hong Kong CSL

An actuarial investigation of Telstra Super based on the fund's position as at 30 June 2003 confirmed that a surplus continued to exist in the fund. As per the recommendations of the actuary, a contribution is not expected to Telstra Super during 2004-05.

The continuation of the holiday is dependant on the performance of the fund and the situation will be closely monitored in the light of the current financial market performance.

Goods and services purchased

Table 27 - Goods and services purchased

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Total goods and services purchased - reported	**3,420**	3,615	(195)	(5.4)
Less adjustments	**11**	65	(54)	(83.1)
Total goods and services purchased - underlying	**3,409**	3,550	(141)	(4.0)
Comprising:				
Goods and services purchased - underlying				
Cost of goods sold	**543**	556	(13)	(2.3)
Usage commissions	**241**	235	6	2.6
Handset subsidies	**286**	282	4	1.4
Network payments	**1,788**	1,928	(140)	(7.3)
Commercial Project Payments	**125**	234	(109)	(46.6)
Other	**426**	315	111	35.2
	3,409	3,550	(141)	(4.0)

Reported goods and services purchased decreased 5.4%. After adjusting for the exit costs of the old Reach contract in the year ended 30 June 2003 and Trading Post cost of goods sold in the current year, underlying goods and services purchased declined by 4.0% or $141 million. The reductions mostly comprise:

- Cost of goods sold declined by $13 million or 2.3 % from reduced purchases due to lower sales of handsets with the continual take-up of the mobile repayment option and a shift in product mix towards lower cost prepaid phones. In addition, favourable exchange rate movements impacted the Hong Kong CSL business and contributed to the reduction in cost of goods sold.

- International network payments declined, driven by a reduction of $125 million in charges from Reach for international network connections following the commencement of a new pricing structure from January 2003. Additional reduction of $63 million was due to favourable $US exchange rates this financial year, together with a $35 million reduction from lower in international call volumes.

- Commercial project payments expenditure reduced, which largely comprised costs of construction activities provided by NDC and external parties. The reduction was primarily due to the closure of the international business and the reduction in the domestic construction market. In addition, NDC has been integrated into other Telstra activities, which has resulted in external works costs being classified as labour and other expenses from goods and services purchased.

- Other goods and services decreases include mobile dealer administration fees, $11 million lower from renegotiated rates and the deferment and amortisation over average contract life.

Increases in goods and services purchased comprise:

- Domestic network payments increased $78 million from higher volumes of mobile and SMS terminating traffic. Other network payments, including offshore subsidiaries, increased $4 million.

- Other goods and services purchased includes an increase in PayTV service fees of $127 million due to the increase in bundled Foxtel and Austar subscribers.

- Increased expenditure for usage commissions of 2.6% due to an increase in dealer sales of prepaid and CDMA products

- Increases in handset subsidies expenditure, primarily due to the expansion of market offerings in the second half of the current year.

Other expenses

Table 28 - Other expenses

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Total other expenses - reported	**4,389**	4,602	(213)	(4.6)
Less adjustments	**477**	687	(210)	(30.6)
Total other expenses - underlying	**3,912**	3,915	(3)	(0.1)
Comprising:				
Rental expense on operating leases	**529**	584	(55)	(9.4)
Bad debts/recovery costs/doubtful debts	**182**	193	(11)	(5.7)
Inventory Writedowns	**5**	5	0	0.0
Net foreign currency conversion losses/(gains)	**17**	(17)	34	200.0
Audit fees	**8**	6	2	33.3
Service contracts and other agreements	**1,547**	1,706	(159)	(9.3)
Marketing	**333**	316	17	5.4
General administration	**863**	770	93	12.1
Other operating expense	**428**	352	76	21.6
Total other expenses - underlying	**3,912**	3,915	(3)	(0.1)
Where adjustments comprise:				
Net book value of assets sold:				
Property, plant and equipment	**64**	638	(574)	(90.0)
Investments in controlled entities	**0**	12	(12)	N/M
Investments in associated entities	**34**	8	26	325.0
Investments in listed entities and other corporations	**16**	9	7	77.8
Business	**0**	(6)	6	N/M
Net book value of assets sold:	**114**	661	(547)	(82.8)
Trading Post	**6**	0	6	N/M
Reduction in value of investments	**1**	26	(25)	(96.2)
Reduction in value of amounts owed by Joint Venture	**226**	0	226	N/M
Other adjustments (IBMGSA Exit Costs)	**130**	0	130	N/M
Total Adjustment	**477**	687	(210)	(30.6)

The decrease in reported other expenses has been driven by the cost of asset and investment sales, with the financial year ended June 2003 including the sale of seven commercial properties. This decline was offset by a one-off payment made to exit the IBMGSA IT services contract, the disposal of interests in several associated entities and the provision for the recovery of Reach loan in the current year.

Underlying other expenses decreased 0.1% with:

- Service contracts and other agreements reducing $159 million or 9.3% largely due to:
  - Cost reduction initiatives in the IT services area;
  - The reclassification of wideband and associated recovery costs capitalised in prior periods;
  - The cessation of the cable recovery and recycling project in the year ended 30 June 2003;
  - Foxtel customer sales and service centre costs incurred in the year ended 30 June 2003, now operated directly by Foxtel; and
  - The integration of NDC into Telstra activities, with these savings offset across various expense categories.

Offset by increases in:

- Field work out-sourced due to increased volumes across pre-provisioning, faults arising from bad weather, Foxtel digital migration program and additional broadband demand;
- Consultancy costs for special project work including market research, benchmarking, feasibility studies, productivity projects and to implement changed legislative and regulatory requirements; and
- Expenditure aimed at improving customer service standards and customer retention rates in rural areas.

- A decline in rental expenses on operating leases, which has eventuated from the reclassification of some Telstra Enterprise Services IT costs on integration into Telstra activities, resulting in an offsetting increase in general and administration costs.

- A decrease in bad and doubtful debts due to lower provisions and write offs, offset by a decrease in recoveries as there was no sale of debt in the year ended 30 June 2004.

The decreases were offset by the following increases:

- An increase in other operating expenses primarily due to:
  - integration of NDC into Telstra activities and the removal of the inter-company profit adjustment offset in service contracts and other agreements;
  - increases across repairs and maintenance, materials usage and vehicle operating costs, also impacted by the NDC integration; and
  - reduction in overhead costs capitalised due to a change to the IT overhead capitalisation methodology and reduction of support costs subject to capitalisation.

- An increase in general and administration costs, which has eventuated from the reclassification of some Telstra Enterprise Services IT costs on integration into Telstra activities, and is offset in rental expenses on operating leases. Increases across light & power, training/seminars, postage/freight/courier and travel have also contributed to the increase.

- Currency conversion costs increased primarily due to the currency gains in the year ended 30 June 2003 from the revaluation of borrowings to reflect the fluctuation in exchange rates, with no such borrowings exposure in the year ended 30 June 2004.

- Marketing costs increased primarily due to new initiatives and sponsorships. With the Corporate focus on the broadband product set as a major growth opportunity for Telstra, considerable resources have been devoted to the promotion of broadband through various media advertising outlets, relative to the corresponding period.

Share of net loss from associates and joint venture entities

Table 29 - Share of net loss from associates and joint venture entities

	Year Ended 30 June 2004			
	2004	2003 (in $ millions)	Change	Change %
Share of net loss from associates and joint venture entities - reported	**78**	1,025	(947)	(92.4)
Less adjustments	**0**	941	(941)	N/M
Share of net loss from associates and joint venture entities - underlying	**78**	84	(6)	(7.1)

Reported net equity accounted losses decreased as a result of higher activity in the prior year, including a non-cash write-off of the investment in Reach Ltd of $965 million, which was partly offset by the impact of Reach contract exit benefit to the equity accounted result for the year ended 30 June 2003.

After excluding these items, equity accounted losses remained relatively flat and comprised of:

- decreased losses in E-card of $8 million as it was in the process of being liquidated and Solution 6 $2.6 million due to the sale of the investment;
- reduced losses in Australian Japan Cable (AJC), Reach and Foxtel following the suspension of equity accounting when the carrying value of the investment was written-down to zero; and
- increased profits in PT Mitra Global Telekomunikasi Indonesia of $3.5 million relates to normal trading activity growth over the financial year.

These were offset by:

- increased losses in Xantic due to an abnormal write-off as a result of restructuring; and
- reduced profits in IBMGSA following the divestment of a 22.6% interest in IBMGSA in September 2003.

Depreciation and Amortisation

Table 30 - Depreciation and amortisation

	Year Ended 30 June 2004			
	2004	2003 (in $ millions)	Change	Change %
Total depreciation and amortisation - reported	**3,615**	3,447	168	4.9
Less adjustments	**4**	0	4	N/M
Total depreciation and amortisation - underlying	**3,611**	3,447	164	4.8
Comprising:				
Depreciation	**2,872**	2,754	118	4.3
Amortisation (excl goodwill)	**619**	577	42	7.3
Goodwill amortisation	**120**	116	4	3.4
	3,611	3,447	164	4.8

Depreciation and amortisation increase of 4.8% was due to an increase in depreciation on communications plant and software, attributable to asset additions of $2.4 billion, which was consistent with the level of capital expenditure over recent years. This was partially offset by a decrease in depreciation on communications plant following service life changes, reclassification of assets, lower IT Server depreciation from the sale of leaseback transactions and the retirement of test equipment.

International

Hong Kong CSL financial summary

Table 31 - Hong Kong CSL Financial Summary

	Year Ended 30 June 2004			
	2004	2003	**2004**	2003
	(in A$ millions)		(in HK$ millions)	
Total revenue	**726**	920	**4,022**	4,224
Total opex	**492**	568	**2,729**	2,610
EBITDA	**234**	352	**1,293**	1,614
EBIT	**9**	108	**477**	770
CAPEX	**94**	68	**524**	320
EBITDA margin	**32.2%**	38.3%	**32.1%**	38.2%

Amounts presented in HK$ have been prepared in accordance with AGAAP.
Amounts presented in A$ represent amounts included in Telstra's consolidated result.

Hong Kong CSL continued to perform in a challenging market, mainly due to significantly increased market competition and local voice price erosion.

The results in HK$ for the year ended 30 June 2003, included HK$234 million in one-offs, being proceeds of asset sales of HK$56 million, decreases in labour provision of HK$44 million and gain on Treasury Fund of HK$222 million. When these transactions are excluded, Hong Kong CSL's EBITDA decreased 6.3% as opposed to a decrease of 19.9% when included.

Hong Kong CSL has maintained its brand and technology lead in Hong Kong despite the recent Hutchinson 3G launch.

Sales revenue has declined HK$147 million year on year as a result of aggressive competitive pricing, including prior year asset sales, total revenue decreased HK$202 million. Voice revenue declined significantly and was partially offset by strong growth in handset sales, attributable mainly to the introduction of new handset models. As well as data revenue through the launch of new MMS handsets and innovative contents and applications and recovery in International revenue to pre SARS levels.

The decline in total revenue has been exaggerated by the depreciating HK$ against A$. A$ EBIT includes amortisation of goodwill.

Hong Kong CSL is Hong Kong's leading provider of mobile voice and data services, serving over one million customers, equating to approximately 32% of the value of Hong Kong's mobile market.

REACH financial summary

Table 32 - REACH Financial Summary

	Year Ended 30 June 2004	
	2004	**2003**
(In US$ millions)		
Total revenue	**858**	1074
EBITDA	**85**	246
EBIT	**(2,719)**	61
Net Profit	**(2,744)**	(46)
(in A$ millions)		
Telstra 50% Share	N/A	57
Less Amortisation of Goodwill	N/A	(60)
Add Amortisation of Unrealised Profit	N/A	22
Equity accounted profit (Excl Investment Write off)	N/A	19
Net write down of investment in reach	N/A	(965)
Equity accounted profit/(loss)	N/A	(946)
Less Adjustments		
Net write off of investment in reach	N/A	965
Reach contract exit	N/A	(24)
Equity Accounted profit/(loss) - underlying	N/A	(5)
Provision for recoverability of REACH loan	**226**	N/A

Amounts presented in US$ have been prepared in accordance with USGAAP.
Amounts presented in A$ represent amounts included in Telstra's consolidated result.
Equity accounting of REACH ceased as at 31 December 2002.

REACH has been operating in a difficult environment for a sustained period and the industry is expected to remain challenged for a period of time. This has been mainly due to aggressive pricing; due to excess capacity in the international cable industry. However there has been some evidence of improved pricing stability on certain routes

During 2004, REACH took an impairment write-down on property, plant & equipment and intangibles of US$2.6 billion as a result of the continued deterioration in the global wholesale communications industry, as well as other one-off provisions of US$80 million.

Total revenue has declined 20% due to prices for International voice and data carriage falling at a rapid rate and the growth in usage not being sufficient to compensate for the loss in revenue due to price reductions.

Revenue declines have been partially offset by increases in internet volumes of 110% and private lines bandwidth volumes of 85% . Progress has been made on cost containment of key operating expense drivers

REACH is Asia's largest international wholesale carrier of combined voice, International Private Leased Lines and Internet protocol data services. It has been ranked among the top carriers of international voice traffic in the world as well as being named Asia Pacific's best IP backbone operator for three years in succession.

Telstra and its joint venture partner PCCW have agreed with REACH's banking syndicate to buy REACH's $US1.2 billion term loan for $US311 million. This places REACH on a more equal footing with its competitors.

Telstra has raised a provision for the recoverability of a $226 million loan made to REACH.

The outlook for the REACH business is expected to remain challenging for a period of time. The focus will continue to be on improvements in customer service and productivity, which includes a suite of new IT systems platforms aimed at enhancing operational performance and customer satisfaction.

TelstraClear financial summary

Table 33 - TelstraClear Financial Summary

	Year Ended 30 June 2004			
	2004	2003	**2004**	2003
	(in A$ millions)		(in NZ$ millions)	
Total revenue	**574**	548	**652**	615
Total opex	**469**	467	**533**	524
EBITDA	**105**	81	**119**	91
EBIT	**(33)**	(60)	**(33)**	(70)
CAPEX	**94**	119	**106**	134
EBITDA margin	**18.3%**	14.8%	**18.3%**	14.8%

Amounts presented in NZ$ have been prepared in accordance with AGAAP.
Amounts presented in A$ represent amounts included in Telstra's consolidated result.

Revenue growth of NZ$37 million or 6.0% has been achieved from continued strong retail revenue growth of 8.5%. This was partially offset by a wholesale decrease of 7.1% due to rate reductions in the wholesale market with international carriers. The company is now performing ahead of expectations when acquired and is serving over 400,000 residential, business and government customers.

Improved year on year EBIT reflects continued focus on growing revenue, driving expense efficiencies and investing capital wisely

Broadband leadership has led to a 10% uptake for TelstraClear's residential network customers due to their pricing and traffic plans.

Leadership in Internet Protocol network has been maintained with 100% customer growth.

TelstraClear has achieved and continues to seek improved regulatory and commercial outcomes to help access and service customers in all market segments. An example of this has been the ability to begin reselling residential services to the 90% of New Zealand homes that have had no choice of service provider.

TelstraClear continues to be the second largest full service carrier in New Zealand with approximately 12% revenue market share.

Net borrowing costs

Table 34 - Net borrowing costs

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Gross borrowing costs	**841**	984	(143)	(14.5)
less capitalised interest	**(74)**	(105)	31	(29.5)
Borrowing Costs	**767**	879	(112)	(12.7)
Interest received/receivable	**55**	84	(29)	(34.5)
Net borrowing costs	**712**	795	(83)	(10.4)

Net borrowing costs declined for the year ended 30 June 2004 due to:

- Reduction of interest expense as a result of the reduced average debt portfolio in the current year and close out of interest rate swaps in the prior corresponding period;

Offset by

- Reductions in interest received as a result of lower holdings of short-term liquid assets and interest revenue generated by the PCCW convertible note following partial redemption in the prior year.

Income tax expense

Table 35 - Income Tax Expense

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Income Tax Expense - Reported	**1,731**	1,534	197	12.8
Add adjustments	**96**	189	(93)	(49.2)
Income Tax Expense - underlying	**1,827**	1,723	104	6.0

Reported income tax expense increased by 12.8% due to:

- the $58 million benefit arising from the adoption of the tax consolidation legislation in the current year being lower than the $201 million benefit recognised in the prior year. These once off benefits reflect the increase in the future income tax benefit arising from the resetting of taxable values of the subsidiary's assets;
- Offset by increase of non deductible expenses in the current year including the non-deductibility of the provision of recoverability of the Reach loan;

After taking into account the tax consolidation benefit, the tax effect on asset and investment sales, IBM GSA contract exit costs in the current year and Reach contract exit cost in the prior year, underlying income tax expense increased by 6.0% which was attributable to an increase in the underlying profit before tax of 3.8% and an under provision for income tax expense of $24 million from the previous year.

Cash flow

Table 36 - Cash flow data

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Net cash provided by operating activities	**7,433**	7,057	376	5.3
Net cash used in investing activities	**(3,270)**	(2,492)	(778)	31.2
Operating Cash Flow less Cash Flow used in Investing Activities	**4,163**	4,565	(402)	(8.8)
Net cash used in financing activities	**(4,776)**	(4,317)	(459)	10.6
Net increase/(decrease) in cash	**(613)**	248	(861)	(347.2)
Operating Cash Flow less Cash Flow used in Investing Activities	**4,163**	4,565	(402)	(8.8)
Less Adjustment: Large one off acquisition and asset or investment sales	**(638)**	570	(1,208)	N/M
Operating Cash Flow less Cash Flow used in Investing Activities (excl Large one off acquisition and asset or investment sales)	**4,801**	3,995	806	20.2

Operating cash flow less cash flow used in investing activities (free cashflow) declined 8.8% for the year ended 30 June 2004, and included the acquisition of Trading Post. In the prior year investing cashflows included the proceeds from the sale of commercial properties. After removing the impact of the Trading Post acquisition and the prior year sale of commercial properties, free cashflow growth was 20.2% or $806 million.

Operating cashflow of $7.4 billion increased by 5.3% due to improvements in working capital, reductions in interest paid from lower debt levels and prior year closure of interest rate swaps, offset by growth in income tax paid due to a higher instalment rate driven by lower tax depreciation levels.

Cash used in investing activities increased 31.2% or $778 million and included the Trading Post acquisition and lower asset sales offset by lower operating capital expenditure.

Net cash used in financing activities increased due to the $1.0 billion share buy back in November 2003.

Table 37 - Net cash used in investing activities

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Switching	**298**	376	(78)	(20.7)
Transmission	**378**	378	-	0.0
Customer access	**844**	959	(115)	(12.0)
Mobile telecommunications networks	**416**	449	(33)	(7.3)
International assets	**192**	193	(1)	(0.5)
Capitalised software[(ii)]	**452**	583	(131)	(22.5)
Other	**507**	426	81	19.0
Operating capital expenditure	**3,087**	3,364	(277)	(8.2)
Capitalised interest included in above	**(74)**	(105)	31	(29.5)
Capital expenditure excluding capitalised interest	**3,013**	3,259	(246)	(7.5)
Add: patents, trademarks and licences (including 3G spectrum)	**2**	2	-	0.0
Add: investments	**668**	71	597	840.8
Capitalised expenditure (excl. int.) and investments	**3,683**	3,332	351	10.5
Sale of capital equipment, investments and other	**(413)**	(840)	427	(50.8)
Net cash used in investing activities	**3,270**	2,492	778	31.2
Capital expenditures (including interest) and investments	**3,757**	3,437	320	9.3
Domestic core operating capital expenditure[(i)]	**2,895**	3,177	(282)	(8.9)

(i) Domestic core operating capital expenditure is operating capital expenditure excluding HKCSL & TelstraClear operating capital expenditure.

(ii)Capitalised software for 2003 includes capitalised interest of $28 million which was previously classified in other.

Operating capital expenditure for the year ended 30 June 2004, declined 8.2% to $3.1 billion. Domestic core operating expenditure reduced 8.9% to $2.9 billion due to tighter control over the capital expenditure program resulting from process efficiencies. The key areas of movement on capital expenditure for the full year include:

- lower domestic switching expenditure due to lower demand for specialised services and a more efficient utilisation of existing infrastructure to support high-speed products and headroom to meet customer demand. Underpinning the reduction was the continued trend to deliver services utilising broadband technology alternatives. The lower spend was also due to some major software upgrade programs in the 2003 year including AXE switching equipment and the SAS 7 operating system for the system 12 switch;

- expenditure on developing the transmission assets was flat including the acquisition of the IP1 transmission system from Perth to Adelaide, providing additional capacity supporting the full range of Telstra products. Transmission based solutions have trended down with Telstra offering its traditional services using newer technologies such as Broadband based solutions;

- decreased expenditure in mobile technologies as the current CDMA 1XRTTdeployment program and government sponsored works near completion. Also, completion of the CDMA wireless local loop (WLL) project and the majority of customer demand capacity and core installation requirements for data bearer networks has reduced expenditure. Offsetting the reduction was the one off purchase of the 1xEVolution data only equipment. This broadband-like wireless service creates 'Hot Regions' of high speed data in capital cities, key regional cities and all major airports.

- decreased expenditure on the customer access network (CAN) mainly due to increased efficiency of the combined broadband and narrowband program. This reduction has been achieved in part due to an improved focus on pro-active works programs and improved processes resulting in lower unit costs and reduced held orders, as well as more targeted technology deployment. The remote network program targeted the worst performing network tails in 02/03 and the reactive rehabilitation work previously done consisted of large improvement jobs. Offsetting the reduction was the increase in demand for new estates and redevelopment programs particularly in regional areas and increased demand for ADSL broadband technology.

- expenditure on software development has reduced primarily due to the reclassification of prior year expenditure in the current year. There have also been improvements in productivity, reduced cycle times as the IT transformation begins to take effect. Expenditure in the prior year included the rollout of some significant projects such as FuturEdge (amalgamation of the field workforce systems).

Investments for the period ending 30 June 2004 of $668 million include the acquisitions of Trading Post for $638 million and Cable Telecom $31 million. Investment expenditure of $71 million for the prior year included Foxtel Equity injections and purchase of the remaining interest in Telstra Clear.

Corporate Governance and Board Practices

The Telstra Board aims for best practice in the area of corporate governance. This section describes the main corporate governance practices in place during fiscal 2004. Further information in relation to our corporate governance and board practices will be included in our 2004 Annual Report, including information as to our adoption of the best practice recommendations of the Australian Stock Exchange (ASX).

Further information regarding our corporate governance and board practices can also be found on our website, www.telstra.com.au/communications/corp/governance.cfm.

1. The Board of Directors

Role and responsibilities of the Board

Telstra Directors are accountable to shareholders for the management of Telstra's business and affairs and the Board is responsible to shareholders for the overall strategy, governance and performance of the Company. The Board's role includes:

- providing strategic direction to the Company by working with management to establish, monitor, develop and modify the Company's strategy and performance objectives;
- approving significant business decisions;
- approving the annual corporate plan;
- establishing procedures for best practice corporate governance;
- appointing and monitoring the performance of the CEO and approving succession plans and senior management remuneration policies and practices;
- reporting to shareholders;
- overseeing the establishment of appropriate compliance frameworks and controls and monitoring their operational effectiveness;
- monitoring the integrity of internal control and reporting systems and monitoring strategic risk management systems;
- reviewing and approving statutory accounts and monitoring financial results;
- approving decisions concerning the capital of the Company, including capital restructures and dividend policy; and
- complying with the reporting and other requirements of the Telstra Corporation Act.

The Board has adopted a charter and operating principles that detail the role and responsibilities of the Board and its members.

The Board delegates responsibility for day-to-day management of the Company to the Chief Executive Officer (CEO) and has put a formal delegations structure in place which sets out the powers delegated to the CEO and those specifically retained by the Board.

Board membership, size and composition

The maximum number of Directors provided for by our constitution is 13 and we currently have 10 Directors on the Board. A casual vacancy to the Board may be filled or an additional Director appointed, up to the maximum number of Directors, either:

- by the Directors after consulting with the Communications Minister; or
- by an ordinary resolution of shareholders.

The tenure of the CEO is linked to his executive office, while one third of all other Directors are subject to retirement by rotation each year. Directors who retire by rotation may be re-elected. A Director appointed by the Directors is subject to re-election at the next annual general meeting. The Board's general policy on Board membership for non-executive Directors is:

- the maximum retirement age is 72 years; and
- the maximum tenure is 12 years (ie. four terms of three years).

A brief biography for each Director setting out their experience and expertise, together with details of the year of initial appointment and re-election (where applicable) of each Director, is outlined in the Directors' Report.

Role of the Chairman

The Chairman is appointed by the Board. The Chairman's responsibilities include:

- chairing Board meetings and shareholder meetings;
- providing the appropriate leadership to the Board and the Company;
- determining that membership of the Board is skilled and appropriate for the Company's needs;
- facilitating Board discussions with the aim of ensuring that the core issues facing the Company are addressed;
- maintaining a regular dialogue and mentoring relationship with the CEO and Group Managing Directors;
- monitoring Board performance; and
- guiding and promoting the on-going effectiveness and development of the Board and individual Directors.

Director Independence

With the exception of the CEO, all Directors are non-executive Directors and each non-executive Director is considered by the Board to be independent.

Generally speaking, an independent Director is a Director who is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Director's unfettered and independent judgment.

The Board assessed the independence of each Director at the end of fiscal 2004. The Board considered the effect of a Director's business and other relationships and interests from the perspective of both the Company and the Director and had regard to a specific set of criteria set out in the Board's charter which are consistent with the definition of independence set out in the best practice recommendations of the ASX. Materiality was assessed on a case-by-case basis from the perspective of both the Company and the relevant Director and having regard to the Director's individual circumstances.

Meetings of the Board

The Board meets for both scheduled meetings and on other occasions to deal with specific matters that require attention between scheduled meetings.

The regular business of the Board includes business investments and strategic matters, governance and compliance, the CEO's report, financial reports and, on a rotational basis, business unit reviews. The Board also liaises with senior management as required and may consult with other Telstra employees and advisers and seek additional information.

Performance Evaluation

The Board regularly reviews its performance. In fiscal 2004, the Board engaged an external consultant to conduct interviews with each of the Directors to assist in evaluating the performance of the Board and the external consultant's report was provided to each Director.

Conflicts of Interest

The Corporations Act and our constitution require Directors to disclose any conflicts of interest and to generally abstain from participating in any discussion or voting on matters in which they have a material personal interest. A Director who believes he or she may have a conflict of interest or material personal interest in a matter is required to disclose the matter in accordance with the relevant Corporations Act and constitutional requirements.

Board access to management and independent professional advice

Directors have complete access to the Company's senior management. In addition to regular presentations by senior management to Board meetings, Directors may seek briefings from senior management on specific issues. Directors and Board committees are also able to obtain independent professional advice at Telstra's cost.

2. Committees of the Board

The Board also operates through committees that hold responsibility for particular areas. The two main committees are the Audit Committee and the Nominations & Remuneration Committee. Each committee operates in accordance with a written charter, operating principles and Telstra's constitution. There is also a Technology Committee which provides a forum to brief Directors on emerging technologies and the Company's technology strategy. Meetings of the Technology Committee are open to all Directors.

Audit Committee

Role and responsibilities of the Audit Committee

The Audit Committee is a committee of the Board whose primary functions are to:

- assist the Board in its oversight of the reliability and integrity of accounting policies and financial reporting and disclosure practices;
- provide advice to the Board on financial statements, due diligence, financial systems integrity and business risks to enable the Board to fulfil its fiduciary and stewardship obligations; and
- assist the Board in establishing and maintaining processes intended to ensure that there is:
    - compliance with all applicable laws, regulations and company policies; and
    - an adequate system of internal control, management of business risks and safeguard of assets.

Subject to the role of the Auditor-General (as explained below), the Audit Committee (not management) is also responsible for approving all audit engagement fees and programs, as well as all non-audit engagements by Telstra's external auditors.

Composition and membership of the Audit Committee

The Audit Committee is comprised of at least three members who must be non-executive Directors who are independent of Telstra management and free from any relationship that, in the business judgment of the Board, would interfere with the exercise of their independent judgment as a member of the committee Members of the committee must also be financially literate and have sufficient financial knowledge and understanding to allow them to discharge their duties.

In addition, the chairman of the Audit Committee must not be the chairman of the Board of Directors and no Director may serve as a member of the committee if such Director serves on the audit committees of more than two other public companies.

The members of the Audit Committee during fiscal 2004 were:

- John Stocker (Chairman);
- John Ralph;
- Charles Macek;
- Anthony Clark; and
- Catherine Livingstone.

Details of the qualifications of each member of the Audit Committee are outlined in the Directors' Report.

John Ralph stood aside from the Audit Committee while he held the position of interim Chairman from 14 April 2004 to 20 July 2004.

During fiscal 2004, Telstra together with the Commonwealth Auditor General (acting through the Australian National Audit Office) conducted a tender process in respect of Telstra's audit services requirements (the tender process sought tenders for the audit services sought by both Telstra and the Auditor-General). John Stocker and Anthony Clark did not participate in the deliberations of the Audit Committee as a result of associations with the tendering firms. Belinda Hutchinson and Donald McGauchie were appointed to the Audit Committee for the purposes of assisting in consideration of the audit tenders and such appointments terminated on completion of the tender process.

Meetings of the Audit Committee

The Audit Committee meets at least four times a year or more frequently as circumstances require. Board members are entitled to attend Audit Committee meetings and the committee may ask management, the external auditors and/or others to attend meetings and provide such input and advice as required. The committee also regularly meets with the internal auditor and the external auditors in the absence of management.

Details of the number of meetings held by the Audit Committee during fiscal 2004 and attendance by the committee members are set out in the Directors' Report.

Nominations & Remuneration Committee

Role and responsibilities of the Nominations & Remuneration Committee

The Nominations & Remuneration Committee (N&RC) (previously known as the Appointments and Compensation Committee) is a committee of the Board whose primary functions include advising the Board on matters regarding the composition and remuneration of the Board, remuneration, appointment and performance of the CEO, remuneration of senior management and Telstra remuneration strategies and practices generally.

Composition and membership of the N&RC

The N&RC is comprised of at least three members and all members must be independent non-executive Directors, as determined by the Board. The members of the N&RC during fiscal 2004 were:

- Donald McGauchie (Chairman from December 2003);
- John Ralph;
- Robert Mansfield (Chairman from 1 July 2003 to December 2003)(resigned in April 2004);
- Charles Macek (appointed in December 2003); and
- John Stocker (appointed in March 2004).

Robert Mansfield resigned as a member of the N&RC prior to his resignation as Chairman of the Board and as a Director of the Company on 14 April 2004.

Details of the qualifications of each member of the N&RC are outlined in the Directors' Report.

Meetings of the N&RC

The N&RC meets at least twice a year or more frequently as required. The N&RC may request any Telstra employee to attend any meeting as it considers appropriate. However, if an employee has a material personal interest in a matter that is being considered at a meeting, he/she must not be present for consideration of that matter.

Details of the number of meetings held by the N&RC during fiscal 2004 and attendance by the committee members are set out in the Directors' Report.

3. Telstra's Remuneration Framework

Information in relation to the Company's remuneration framework (including information regarding our remuneration strategy and policies and their relationship to company performance), together with details of the emoluments paid to Board members and senior executives during fiscal 2004, can be found in the Directors' Report.

4. Audit Governance and Financial Reporting

Relationship with external auditor

In accordance with section 36 of the Telstra Act, it is a legislative requirement that the Auditor-General of Australia is the auditor of Telstra Corporation Limited for Australian Corporations Act purposes. The Auditor-General has appointed an agent, Ernst & Young, to assist in performing independent external audit duties at Telstra.

The Audit Committee has the authority and responsibility to select, evaluate and, where appropriate, replace the external auditor for filings outside of Australia. Telstra, through the Audit Committee, has appointed Ernst & Young as its external auditor for filings outside Australia and in this respect and for the purposes of these audits, Ernst & Young is responsible for financial reporting purposes rather than the Auditor-General.

The Auditor-General, as auditor of Telstra, owes duties to Telstra and its shareholders as a whole. The Auditor-General also owes statutory duties as an independent officer of the Commonwealth. Ernst & Young, as the external auditor appointed by Telstra for filings outside Australia, is accountable to the Board, the Audit Committee and shareholders.

Restrictions on performance of non-audit services and auditor independence

The Auditor-General and Ernst & Young are authorised to perform all "audit services", being an examination or review of the financial statements of the Company in accordance with the laws and rules of each jurisdiction in which filings are made for the purpose of expressing an opinion on such statements. The Audit Committee approves the provision of audit services as part of the annual approval of the audit plan.

The Auditor-General does not provide non-audit services. Telstra does not engage Ernst & Young to perform any of the following non-audit services:

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

In addition, Ernst & Young does not provide taxation advice of a strategic or tax planning nature.

All other non-audit services may only be provided by Ernst & Young if the Audit Committee and the Auditor-General have expressly approved the provision of the non-audit service and the performance of the non-audit service will not cause the total annual revenue to Ernst & Young from non-audit work to exceed the aggregate annual amount of Ernst & Young's audit fees. The Audit Committee will not approve the provision of a non-audit service by Ernst & Young if the provision of the service would compromise Ernst & Young's independence.

The Audit Committee expects the Auditor-General and requires Ernst & Young to submit annually to the Audit Committee a formal written statement delineating all relationships between the Auditor-General, Ernst & Young and Telstra or any of its controlled entities. The statement includes a report of all audit and non-audit fees billed by the Auditor-General and Ernst & Young during the most recent fiscal year, a statement of whether the Auditor-General and Ernst & Young are satisfied that the provision of the audit and any non-audit services is compatible with auditor independence and a statement regarding the Auditor-General's and Ernst & Young's internal quality control procedures.

The Audit Committee considers whether Ernst & Young's provision of non-audit services to the Company is compatible with maintaining the independence of Ernst & Young. The Audit Committee also submits annually to the Board a formal written report describing any non-audit services rendered by Ernst & Young during the most recent fiscal year, the fees paid for those non-audit services and explaining why the provision of those non-audit services is compatible with auditor independence. If applicable, the Audit Committee recommends that the Board take appropriate action in response to the Audit Committee's report to satisfy itself of Ernst & Young's independence.

External Auditor Rotation

As it is a legislative requirement that the Auditor-General is the Company's auditor for Australian Corporations Act purposes, the Auditor-General is not subject to rotation. As noted above, during fiscal 2004 Telstra and the Auditor-General conducted a tender process in respect of the Company's audit requirements. On 22 June 2004, Telstra in conjunction with the Auditor-General announced that Ernst & Young had been reappointed as the Auditor-General's sub-contractor to assist it with audit functions for the Company in Australia and as Telstra's auditor for its US and other overseas auditing requirements. In accordance with a practice of 5 yearly rotation of the lead audit partner, during fiscal 2004 Ernst & Young appointed a new lead audit partner.

External Auditors' Attendance at Annual General Meeting

Our external auditors attend our annual general meeting and are available to answer shareholder questions about the conduct of our audit and the preparation and content of the auditor's report.

Audit Committee Processes

The Audit Committee, on an annual basis:

- reviews its charter and operating principles to determine their adequacy for current circumstances and recommends to the Board the formal adoption of the revised charter and operating principles for future operations of the Audit Committee;
- meets separately with the internal auditor, the Auditor-General and Ernst & Young, with and without management, to discuss the results of their audits;
- considers reports and other disclosures to be included in the Company's annual report or other communications to shareholders on the relationships between the Auditor-General, Ernst & Young and the Company; and
- reviews with management, the Auditor-General and Ernst & Young, the financial report to be included in the annual report, including the Auditor-General's and Ernst & Young's responsibilities under generally accepted auditing standards, significant accounting policies, management judgments and accounting estimates and adjustments arising from the audit, and discusses the Auditor General's and Ernst & Young's judgments about the quality, not just the acceptability, of accounting principles as applied in the financial report.

Adoption of International Financial Reporting Accounting Standards

We will be required to comply with the Australian equivalents of the International Financial Reporting Standards (IFRS), as issued by the Australian Accounting Standards Board, when the Company reports for the half-year ending 31 December 2005 and year ending 30 June 2006. Further information regarding IFRS can be found in note 1.4 to our financial statements.

5. Risk oversight and management

Some of the significant risks that could affect the Company are described in our annual reports. Additionally, some risks may be unknown to us and other risks, currently believed to be immaterial, could turn out to be material. We are committed to the management of risks throughout our operations. The role of the Board includes monitoring the integrity of internal control and reporting systems and monitoring the effectiveness of how strategic, financial, operational and compliance risks are being managed. The Audit Committee provides advice to the Board on the status of business risks to the Company and relies on the work undertaken by the risk management and assurance function, which independently assesses the adequacy and operating effectiveness of the controls in place surrounding the management of risk.

Primary responsibility for risk oversight and management lies with Company management, who periodically review and update their significant business risks. The risk management and assurance function also plays a key role in this process, developing and promoting a common language and approach to be used by business units to enable them to proactively identify, manage and control their risks and transferring risk management expertise to them. The Audit Committee regularly receives reports independently prepared by the risk management and assurance function on significant business risks with an evaluation as to the adequacy and effective operation of controls that are in place surrounding the strategies applied by business units to manage these risks.

The financial risk arising from the Company's underlying business activities is largely managed through a central treasury function which applies a prudential approach. Insurance is used to transfer significant risk exposures arising in the key areas of properties, public and product liability, and directors and officers. However, in view of its size, the Company accepts substantial "excess levels" and does not insure for risks that it can readily accommodate. Some risks cannot be effectively insured such as claims in relation to electromagnetic energy and business interruption. The central treasury function manages the liquidity, cash flow, foreign exchange, interest rate, borrowing and other financial terms and conditions, financial support arrangements, counterparty credit risk and derivatives, with the principal objectives being to minimise the volatility of economic and financial outcomes and to establish sound operational controls.

Evaluation of disclosure controls and procedures

The CEO and CFO have provided the Board with confirmation that, in all material respects, the Company's risk management and internal compliance and control systems are sound and operating efficiently and effectively. The CEO and CFO have also provided the Board with confirmation that, in all material respects, the Company's financial reports for the year ended 30 June 2004 present a true and fair view of the Company's financial condition and operational results.

6. Business values, code of conduct and other company policies

Telstra has a number of internal operating policies and principles which promote ethical and responsible decision making and timely and balanced disclosure.

Telstra Values and Code of Conduct

We provide guidance to our Directors, senior management and employees on the standards of personal and corporate behaviour required of all Telstra officers and employees and how to deal with business issues through our company values and code of conduct policies. Through these policies we reinforce the standards of ethical behaviour we expect from all employees, which are aimed at understanding and complying with the spirit and letter of legal and regulatory standards. We have a mandatory ethics training program for all employees to reinforce these standards. We also provide assistance to employees on the application and interpretation of the Telstra Values and code of conduct policies through employee help lines.

Whistleblowers

We have in place a Telstra Whistleblowing Service and whistleblowing policy which give Telstra staff the opportunity to raise concerns they might have with respect to actual or suspected illegal, unethical or improper business behaviour within Telstra. The service is operated by an independent third party and matters may be notified to the service confidentially and, if the employee wishes, anonymously. This service and policy provide protection for people who make disclosures, as well as the rights of anyone who may be named or affected by a report. They are also designed to complement existing policies and procedures such as the Telstra code of conduct policy and the fair treatment and equal employment opportunity procedures.

Share Trading

We have in place a share trading policy that prohibits Directors, senior management and certain other employees (and their associates) from engaging in short-term trading of our securities (including the acquisition of derivatives and financial and other products issued or created over Telstra's shares by Telstra or any third party). This policy also restricts the buying or selling of our securities to three "window" periods (between 24 hours and 1 month following the release of our annual results, the release of our half-yearly results and the close of our annual general meeting) and at such other times as the Board permits. Trading during these window periods is subject to the overriding requirement that buying or selling of our securities is not permitted at any time by any person who possesses price-sensitive information which is not generally available in relation to those securities.

In addition, Directors, senior management and relevant employees must notify the Company Secretary before they or their close relatives buy or sell our securities. Changes to the interests of Directors in our securities are, as required by law, notified to the ASX.

Market disclosure

We have established procedures intended to ensure that we comply with our market disclosure obligations. In particular, we have in place a comprehensive continuous disclosure procedure which is reviewed and updated on a regular basis. The aim of this procedure is to ensure that we release price-sensitive information in a timely fashion to the various stock exchanges on which our shares and debt securities are listed. Our procedure runs as follows:

- ultimate management responsibility for continuous disclosure rests with the CEO and the Chief Financial Officer (CFO);
- our Continuous Disclosure Committee (Committee), chaired by the Company Secretary, advises the CEO and the CFO on disclosure matters. The Committee is responsible for an internal disclosure system, which aims to ensure that information that might be discloseable is identified and reviewed quickly. The Committee's membership includes the CFO, the Company Secretary, the Managing Director - Corporate Relations, the General Counsel - Finance & Administration, the Director - Business and Finance Services and the General Manager - Investor Relations;
- senior management (including the CEO, the CFO, all other Group Managing Directors and their direct reports, all group financial controllers and all legal and regulatory counsel) must immediately inform the Committee of any potentially price-sensitive information or proposal as soon as they become aware of it;
- a collective recommendation regarding disclosure is then made to the CEO and the CFO. If the matter is disclosable, an announcement is prepared and immediately sent via the Company Secretary's office electronically to all relevant stock exchanges.

We implement several practices internally to reinforce the importance of Telstra's continuous disclosure obligations and the need to keep the Committee informed about potentially disclosable matters. These practices are reviewed regularly and include the following:

- every Director is made aware of our continuous disclosure obligations upon taking office and each member of senior management undertakes training with the General Counsel - Finance and Administration, in relation to Telstra's continuous disclosure obligations;
- a weekly e-mail is sent to all senior management reminding them to notify the Committee immediately if they become aware of any potentially price-sensitive information or proposals;
- the Committee maintains a list of issues which, although not yet disclosable, are monitored in case they become disclosable;
- all proposed media releases and external speeches and presentations to be made by senior management are reviewed by internal legal counsel to determine whether they should be disclosed;
- an internal policy is in place governing communications with and provision of information to shareholders, brokers, analysts and financial media;
- the Legal and Regulatory Compliance and Risk Report prepared for the Audit Committee every quarter includes reporting on continuous disclosure; and
- the Office of the Company Secretary maintains a record of all market announcements made. The announcements are also posted on our website after market release is confirmed.

We also have in place an investor relations policy in relation to our dealings with external parties, including shareholders, brokers and analysts. The aim of this policy is to ensure that we provide investors and the financial community with appropriate and timely information whilst at the same time ensuring that we fulfil our statutory reporting obligations under the Corporations Act and the ASX Listing Rules.

Legal and Regulatory Compliance

Telstra is committed to conducting its businesses in compliance with all of its legal and regulatory obligations. Compliance with these obligations is not just a legal requirement but is integral to Telstra's commitment to its employees, customers, shareholders and the community.

The Board is responsible for overseeing the establishment of appropriate compliance frameworks and controls and monitoring their operational effectiveness. The Audit Committee has been delegated specific responsibility for assisting the Board in discharging this responsibility and in the oversight of the Company's compliance programs. This oversight is facilitated by the preparation of a quarterly legal and regulatory compliance and risk report summarising compliance initiatives and issues across the Company.

Telstra has a number of compliance programs in place to address specific legal and regulatory obligations. These include programs directed to health, safety and environment, equal employment opportunity, privacy, trade practices and industry regulation.

The principles of the Australian Standard on Compliance Programs, AS 3806, have been incorporated into these programs and a number of programs, including the privacy compliance program, are subject to periodic, independent external audits which are intended to ensure that the Company's approach is comprehensive, robust and rigorous.

This program based approach is supported by the corporate wide, legal and regulatory compliance framework and a network of compliance managers. This structure has been designed with the aim of ensuring that each business unit's operations are conducted in accordance with Telstra's obligations. This is achieved through a focus on policies, procedures and work instructions that is intended to ensure that Telstra and its employees achieve transparent compliance with these obligations. There is a complementary focus on training, dissemination of information and monitoring of compliance outcomes.

These initiatives reflect the Company's commitment to maintaining a strong compliance record and reducing the risk of future legal and regulatory compliance issues.

Corporate Social Responsibility

At Telstra, we believe that corporate social responsibility (CSR) is a values-based approach to how we do business, leading us beyond legal compliance to make a positive contribution to the industries and communities in which we participate. Being a successful company is not just about financial performance, it is also about being a good corporate citizen, living our Telstra Values in every decision we make, every day.

On 31 October 2003, we released our first report on our performance in areas that fall into our definition of CSR. The report aimed to provide an overview of Telstra's impact, performance and future commitments across four categories - the community, environment, economy and industry. The report was presented as a short booklet which can be found on our website, www.telstra.com.au/communications/csr. We intend to produce an online report for this year's CSR performance and commitments.

During fiscal 2004, CSR was allocated as a responsibility to the Community Relations Group of Corporate Relations, part of the Regulatory, Corporate and Human Relations business unit. However, all parts of the business have accountability for their own CSR activities. Telstra has begun working through how CSR may be integrated long-term into our operations. We participated in the first Australian CSR Index survey devised by Business in the Community in the UK and conducted by St James Ethics Centre. The results of this review will contribute to Telstra's future considerations and planning.

Political and Other Donations

Telstra does not make political donations. However, in line with other major publicly listed companies, we do pay fees to attend a range of functions organised by the major political parties where those functions allow for discussion on major policy issues with key opinion leaders and policy makers.

Telstra does make donations and contribute funds to community and other organisations as part of our approach to corporate social responsibility.

Shareholder Communications Strategy

We have implemented a number of initiatives to promote effective communication with our shareholders. These include:

- maintaining an investor relations website;
- placing all relevant announcements made to the market and related information on our website;
- webcasting certain events such as briefings and our annual general meeting; and
- using electronic communications to advise certain investors of significant matters that may be of interest to them.

We are also seeking to encourage our shareholders to receive their communications from us electronically through our participation in the eTree program, of which we are a foundation member. Through the eTree program, we currently donate to Landcare Australia:

- $2 for every shareholder who chooses to receive all of their communications from us electronically ; and
- $1 for those shareholders who choose just to receive electronic shareholder reports and notices of meetings from us.

During fiscal 2004, we donated over $125,000 to Landcare Australia through this initiative.

Review of Corporate Governance and Board Practices

Telstra is committed to continually reviewing and updating its practices. As new corporate governance requirements and guidance notes are issued by the New York Stock Exchange, the US Securities and Exchange Commission or the ASX, the Board evaluates and, where appropriate, implements the relevant proposals with the aim of ensuring that we maintain best practice in corporate governance.

7. Other Considerations

While the Commonwealth owns more than 50% of the shares in Telstra, we will remain subject to various ministerial and other controls which other publicly listed companies are not subject to. This includes a ministerial power to give us written directions that the Communications Minister believes are in the public interest (section 9 of the Telstra Corporation Act). The Board continues to strive to achieve best corporate governance practice, in the context of this shareholding structure.

Application of critical accounting policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Australia. Our significant accounting policies are more fully described in note 1 to our financial statements. The preparation of our financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of off balance sheet arrangements including contingent liabilities. We continually evaluate our estimates and judgements including those related to investments, intangible assets, capitalisation of costs, property plant and equipment, software assets developed for internal use, receivables, revenue recognition and provisions. We base our estimates and judgements on historical experience, various other assumptions we believe to be reasonable under the circumstances and, where appropriate, practices adopted by international telecommunications companies. This forms the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates in the event that the scenario on which our assumptions are based proves to be different.

Our accounting policies have been developed over many years as the telecommunications industry and Generally Accepted Accounting Principles or "GAAP" have evolved. As our financial statements are prepared under AGAAP our accounting policies are necessarily compliant with all aspects of AGAAP.
In developing accounting policies, in addition to AGAAP requirements, we also consider telecommunications industry practice in other countries. Further to this, where there is no conflict with AGAAP, we also align our accounting policies with USGAAP. This reduces the number of AGAAP/USGAAP reconciliation differences required to be adjusted in note 30 to our financial statements.
In all material respects, our accounting policies are applied consistently across the Telstra group of companies. To the extent that the accounting policies of entities we account for under the equity accounting method differ materially from ours, adjustments are made to the results of those entities to align them with our accounting policies. The critical accounting policies discussed below apply to all segments of the Company.

The following are the critical accounting policies we apply in producing our AGAAP financial statements.

Carrying value of investments, goodwill and other intangibles

We assess the carrying value of our investments in controlled entities, associates, partnerships and other investments, including acquired goodwill and other intangible assets, for impairment bi-annually. Our assessments vary depending on the nature of the particular investment concerned and generally include methodologies such as discounted cash flow analysis, review of comparable revenue or earnings multiples, or in the case of listed investments, monitoring of market share prices. These methodologies rely on factors such as forecasts of future operating performance and long-term growth rates in the business, and the selection of appropriate market determined, risk adjusted, discount rates.

If these forecasts and assumptions prove to be incorrect or circumstances change, we may be required to write down the carrying value of our investments and intangibles. In applying our assessments, we have not written down significant amounts of investments, goodwill and other intangible assets during the three-year period except for the write down of our joint venture investment, REACH, amounting to A$965 million in fiscal 2003. This investment was written down due to the strong competition and excess capacity in the market that adversely impacted the recoverability.

The carrying value of our investments in joint venture entities and associated entities and other listed and unlisted entities was A$120 million at 30 June 2004, A$255 million at 30 June 2003 and A$1,302 million at 30 June 2002. The reduction in the value of our investments in fiscal 2003 reflects the impact of the write down of our investment in REACH.

The carrying value of goodwill was A$2,104 million at 30 June 2004, A$2,018 million at 30 June 2003 and A$2,063 million at 30 June 2002. On initial acquisition and at each subsequent reporting date, we assess the useful life of goodwill and other intangible assets as part of our assessment of the carrying value of the investments.

The carrying value of our patents, trademarks and licences, brand names, customer bases and mastheads was A$1,501 million at 30 June 2004, A$1,146 million at 30 June 2003 and A$1,358 million at 30 June 2002. The patents, trademarks and licenses are amortised on a straight-line basis over the period of expected benefit (average 12 years). The 3G-spectrum license amounting to A$302 million of this balance has been held since 22 March 2001 and is not yet being amortised. Amortisation of this license will commence as soon as the first customer is connected or within 5 years from date of payment of the license fee, whichever is sooner. Brand names are amortised on a straight-line basis over an average life of 20 years and customer bases are amortised on a straight-line basis over an average life of 13 years. The mastheads were acquired as part of our acquisition of the Trading Post Group during the current year. The mastheads have been assessed as having an indefinite life and is not being amortised, however the carrying value will be re-assessed at each reporting date.

Based on our most recent assessment of recoverable amount, we believe that as at 30 June 2004 our investments and intangible assets are recoverable at the amounts at which they are stated in our financial statements.

Capitalisation of costs

When we incur costs, we classify them as either operating expenses or capital costs. We expense operating expenses to the statement of financial performance as they are incurred. We only capitalise costs where we consider that they will generate future economic benefits. Capital costs are recorded as assets and shown in our statement of financial position based on the asset class considered most appropriate to those costs. Management judgement is used in determining costs to be capitalised in relation to the following major asset categories:

- **Deferred expenditure**

  We defer expenditure where it is probable that the future benefits embodied in the particular asset will eventuate and can be reliably measured. Otherwise expenditures are expensed as incurred. We amortise deferred expenditure over the average period in which the related benefits are expected to be realised. Expenditure is not deferred if it only relates to revenue that has already been recorded. Each year we also review expenditure deferred in previous periods to determine the amount, if any, that is no longer recoverable. The amount of deferred expenditure that is no longer recoverable is written off as an expense in the statement of financial performance. A substantial portion of our deferred expenditure relate to costs deferred under SAB 104 "Revenue recognition." These costs directly relate to the deferred revenue associated with basic access connection costs and are taken to the statement of financial performance in line with the release of revenue as earned. Our deferred expenditure after amortisation, including deferred mobile handset subsidies, was A$894 million at 30 June 2004, A$796 million at 30 June 2003 and A$819 million at 30 June 2002.

- **Capitalisation of software assets developed for internal use**

  We capitalise direct costs associated with the development of network and business software for internal use where we regard the success of a project to be probable. Management applies judgement to assess this probability.

  We capitalise costs such as external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees directly associated with a project and borrowing costs incurred while developing the software.

  Our capitalised software assets for internal use, after amortisation, were A$1,923 million at 30 June 2004, A$2,001 million at 30 June 2003 and A$1,804 million at 30 June 2002. If management has incorrectly assessed the probability of the success of a project we may be required to write down the value of the software assets we have recorded.

- **Indirect overheads and borrowing costs related to construction activities**

The cost of our constructed property, plant and equipment includes purchased materials, direct labour, direct and indirect overheads and borrowing costs. Indirect overheads are generally attributable to the construction of assets, but can only be allocated to specific projects on an arbitrary basis, as they do not usually vary with construction activity volumes. Examples of indirect costs include planning and design of construction projects and the management of construction contracts.

Where a part of a business unit consists of a work force whose role is predominantly the management, design and construction of communication assets, then all indirect overheads associated with the operations and management of that work force are allocated to the projects undertaken by them. Where some projects undertaken by an organisational area do not relate to capital projects, indirect overheads are only allocated to capital projects based on the proportion that capital projects make up of the total costs of that organisational area. The remaining costs of that work force are expensed as incurred.

Borrowing costs are capitalised on all assets constructed up to the point of completion of construction. We do not specifically borrow to fund construction of assets due to the constant nature of our construction process. As a result, the allocation of borrowing costs to these assets is general and does not reflect funds specifically borrowed for each asset.

Carrying value and depreciation of property, plant and equipment assets and software assets developed for internal use

Property, plant and equipment assets made up 65% of our total assets in fiscal 2004, 65% in fiscal 2003 and 61% in fiscal 2002. We therefore consider our accounting policies around the carrying value and depreciation of these assets to be critical. We have adopted the cost basis of recording our property, plant and equipment, rather than the fair value basis. Land and buildings are subject to a valuation for disclosure purposes at least every three years or earlier if required, except properties that are on a disposal program, which are subject to valuation every year.

We assess the recoverable amounts of our property, plant and equipment bi-annually, based on expected future net cash flows discounted to present value. Where assets can be shown to be working together to generate net cash flows, this assessment is performed over the group of assets rather than individually. When considering this assessment, we exclude the broadband network asset, as we do not consider the broadband Hybrid Fibre Cable (HFC) network to be integrated with the rest of our telecommunications infrastructure. If our estimates of future cash flows prove to be incorrect we may be required to write down our assets in the future. In applying this policy we have not written down significant amounts of property, plant and equipment assets during the three-year period.

In addition, we assess the appropriateness of the service lives of our property, plant and equipment assets on an annual basis. This assessment includes a comparison against our service life estimates and international trends for other telecommunications companies. In relation to communications assets, this assessment includes a determination of when the asset may be superseded technologically. We use an "end date lifing" methodology where we believe technologies will be replaced by a certain date. Assets are grouped into classes based on technologies when making the assessments of useful lives. The review of service lives is carried out prior to commencement of each new financial year. If our assessments of useful lives prove to be incorrect we may incur either higher or lower depreciation charges in the future or, in certain circumstances, be required to write down these assets.

Software developed for internal use is an exception to the above annual revision of service lives. With reference to global industry practice it was judged that for administrative simplicity, internally developed software would, on average, have a useful life of 6 years in fiscal 2004, 6 years in fiscal 2003 and 5 years in fiscal 2002. In fiscal 2003, the weighted average useful life increased to 6 years due to a reassessment of useful lives for some major software assets. The increase in average useful life resulted in the amortisation of these assets being spread over a longer duration, decreasing our yearly amortisation charge in the statement of financial performance. However, this decrease has been offset by our growth in capitalised software assets resulting in an overall increase in amortisation expense for these assets.

Valuation of receivables

We maintain provisions for doubtful debts based on an estimate of the inability of our customers to pay amounts due to us for services rendered to them. These provisions are based on historical trends and management's assessment of general economic conditions. A provision for doubtful debts is raised when it is considered there is a credit risk, insolvency risk or incapacity to pay a legally recoverable debt. If the financial condition of our customers deteriorates, these provisions may not be sufficient and may lead to an increase in bad and doubtful debt expenses. We have no reason to believe that the provisions we have raised will not sufficiently cover bad debts arising out of the receivables we currently have on hand.

Our provision for doubtful debts was A$196 million at 30 June 2004, A$199 million at 30 June 2003 and A$221 million at 30 June 2002. Trade debtors before any provision for doubtful debts were A$2,459 million at 30 June 2004, A$2,436 million at 30 June 2003 and A$2,535 million at 30 June 2002.

Revenue recognition

We generally recognise revenues when they are earned through the delivery of a product or service. Telecommunications revenues are recorded at amounts billed plus an appropriate accrual for calls made since the last billing date.

Revenues that relate to more than one period, such as installation and connection fees, are deferred and amortised into sales revenue over the expected period of benefit in accordance with SAB 104. Deferred revenue comprises deferral of revenue from Sensis Pty Ltd relating to White Pages® and Yellow Pages® products, deferral of connection fees over the period of service and deferral by our billing system of telephone rental paid in advance.

Our Yellow Pages® and White Pages® directory advertising revenue are recognised on delivery of the published directories. We consider our directories delivered when they have been published and delivered to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average 1 year. Voice directory revenues are recognised at the time of providing the service to customers. Classified advertisements and display advertisements revenues are recognised when the advertisement is published.

Accrued revenue comprises mainly the recognition of unbilled amounts relating to telephone usage, service and maintenance. Our billing system generates most of the accrued revenue and automatically accrues revenue for billing cycles that remain unbilled at the end of each month.

Provisions

Our calculation of annual leave entitlements is based on remuneration rates expected to be paid when the obligation is settled. We determine the accrual for annual leave entitlements using estimated remuneration rates at the time leave is expected to be settled or taken. We accrue for long service leave entitlements not expected to be paid or settled within 1 year of balance date at present values of the future amounts expected to be paid. The calculation is actuarially determined based on estimated projected increases in wage and salary rates over an average of 10 years and the probability of employees reaching their long service leave entitlement. We apply the weighted average government bond rate for the 1-year period ended on the reporting date as the discount rate. This approach was taken to limit the impact of volatility in government bond rates experienced in recent times. Our provision for employee benefits predominantly relates to the provisions for annual leave and long service leave entitlements. Our provision for employee benefits was A$871 million at 30 June 2004, A$851 million at 30 June 2003 and A$945 million at 30 June 2002. We self-insure for workers' compensation liabilities. A provision is taken up for the present value of the estimated liability, based on an actuarial review of the liability. This review includes an assessment of actual accidents and estimated claims incurred but not yet reported. Our provision for workers' compensation was A$216 million at 30 June 2004, A$236 million at 30 June 2003 and A$270 million at 30 June 2002.

Telstra Corporation Limited (ABN 033 051 775 556)

Normalisation Schedule
Year Ended 30 June 2004

This schedule details the adjustments made to the reported results for the fiscal of years 30 June 2004 and 2003 to arrive at the underlying business performance.

$m	June 03/04 Reported	Asset / Investment Sales	Diminution [i]	Tax consolidation benefit	Trading Post	Total Adjust.	June 03/04 Underlying	June 02/03 Reported	Reach contract exit	Tax consolidation benefit	Asset / Investment Sales	Diminution	Total Adjust.	June 02/03 Underlying	Reported Growth %	Underlying Growth %	Underlying M/ment $m
Mobiles																	
Mobile services	3,455						3,455	3,227						3,227	7.1%	7.1%	228
Mobile handsets	352						352	386						386	(8.8%)	(8.8%)	(34)
Total Mobiles	3,807						3,807	3,613						3,613	5.4%	5.4%	194
Internet and IP solutions	1,010						1,010	817						817	23.6%	23.6%	193
PSTN Products																	
Basic access	3,237						3,237	3,083						3,083	5.0%	5.0%	154
Local calls	1,504						1,504	1,567						1,567	(4.0%)	(4.0%)	(63)
PSTN value added services	259						259	280						280	(7.5%)	(7.5%)	(21)
National long distance calls	1,121						1,121	1,162						1,162	(3.5%)	(3.5%)	(41)
Fixed to mobile	1,597						1,597	1,517						1,517	5.3%	5.3%	80
International direct	266						266	307						307	(13.4%)	(13.4%)	(41)
Total PSTN	7,984						7,984	7,916						7,916	0.9%	0.9%	68
Specialised Data	1,018						1,018	1,053						1,053	(3.3%)	(3.3%)	(35)
ISDN (Access and calls)	927						927	951						951	(2.5%)	(2.5%)	(24)
Advertising and Directories	1,351				(44)	(44)	1,307	1,217						1,217	11.0%	7.4%	90
Intercarrier services	1,138						1,138	1,155						1,155	(1.5%)	(1.5%)	(17)
Inbound calling products	476						476	494						494	(3.6%)	(3.6%)	(18)
Solutions management	489						489	487						487	0.4%	0.4%	2
Other Controlled Entities (excluding HK CSL & TClear)	194						194	222						222	(12.6%)	(12.6%)	(28)
HK CSL	726						726	908						908	(20.0%)	(20.0%)	(182)
Telstra Clear	574						574	548						548	4.7%	4.7%	26
Customer premises equipment	184						184	194						194	(5.2%)	(5.2%)	(10)
Payphones	141						141	148						148	(4.7%)	(4.7%)	(7)
Other sales & service	718						718	772						772	(7.0%)	(7.0%)	(54)
Sales revenue	20,737				(44)	(44)	20,693	20,495						20,495	1.2%	1.0%	198
Other revenue	543	(330)				(330)	213	1,121			(859)		(859)	262	(51.6%)	(18.7%)	(49)
Total revenue	21,280	(330)			(44)	(374)	20,906	21,616			(859)		(859)	20,757	(1.6%)	0.7%	149
Expenses																	
Labour	3,218				(14)	(14)	3,204	3,204						3,204	0.4%		
Goods and services purchased	3,420				(11)	(11)	3,409	3,615	(65)				(65)	3,550	(5.4%)	(4.0%)	(141)
Other expenses	4,389	(244)	(227)		(6)	(477)	3,912	4,602			(661)	(26)	(687)	3,915	(4.6%)	(0.1%)	(3)
Expenses before equity acc/depn/amort/interest	11,027	(244)	(227)		(31)	(502)	10,525	11,421	(65)		(661)	(26)	(752)	10,669	(3.4%)	(1.3%)	(144)
Share of net loss from associates and joint venture entities	78						78	1,025	24			(965)	(941)	84	(92.4%)	(7.1%)	(6)
Total operating expenses before depn/amort/interest	11,105	(244)	(227)		(31)	(502)	10,603	12,446	(41)		(661)	(991)	(1,693)	10,753	(10.8%)	(1.4%)	(150)
EBITDA	10,175	(86)	227		(13)	128	**10,303**	9,170	41		(198)	991	834	**10,004**	11.0%	3.0%	299
EBITDA excl share of net loss from associates & joint ventures entities	10,253	(86)	227		(13)	128	10,381	10,195	65		(198)	26	(107)	10,088	0.6%	2.9%	293
Depreciation	2,873				(1)	(1)	2,872	2,754						2,754	4.3%	4.3%	118
Amortisation (excl goodwill)	619						619	577						577	7.3%	7.3%	42
Goodwill amortisation	123				(3)	(3)	120	116						116	6.0%	3.4%	4
Total depreciation/amortisation	3,615				(4)	(4)	3,611	3,447						3,447	4.9%	4.8%	164
Total operating expenses before interest	14,720	(244)	(227)		(35)	(506)	**14,214**	15,893	(41)		(661)	(991)	(1,693)	**14,200**	(7.4%)	0.1%	14
EBIT	6,560	(86)	227		(9)	132	6,692	5,723	41		(198)	991	834	6,557	14.6%	2.1%	135
EBIT excl share of net loss from associates & joint venture entities	6,638	(86)	227		(9)	132	6,770	6,748	65		(198)	26	(107)	6,641	(1.6%)	1.9%	129
Net borrowing cost (*)	712						712	795						795	(10.4%)	(10.4%)	(83)
Profit before income tax	5,848	(86)	227		(9)	132	5,980	4,928	41		(198)	991	834	5,762	18.7%	3.8%	218
Tax (excl. unusuals effect) (*)	1,731	41		58	(3)	96	1,827	1,534	10	201	(22)		189	1,723	12.8%	6.0%	104
Profit after tax (bef. Outside equity interests)	4,117	(127)	227	(58)	(6)	36	4,153	3,394	31	(201)	(176)	991	645	4,039	21.3%	2.8%	114
Outside equity interests in net (profit)/loss	1						1	35						35	(97.1%)	(97.1%)	(34)
Profit after tax	4,118	(127)	227	(58)	(6)	36	**4,154**	3,429	31	(201)	(176)	991	645	4,074	20.1%	2.0%	80
Effective tax rate	29.6%						30.6%	31.1%						29.9%	(1.5%)	0.7%	
EBITDA margin on sales revenue	49.1%						49.8%	44.7%						48.8%	4.3%	1.0%	
EBIT margin on sales revenue	31.6%						32.3%	27.9%						32.0%	3.7%	0.3%	
Earnings per share (12723.39m shares)	32.4						32.6	26.6						31.7	21.8%	2.8%	

(i) write-off of Reach shareholder loans

Note: (*) Underlying interest & tax calculations represent management's best estimates

N/M refers to not meaningful

Adjustments to Underlying Results
Year Ended 30 June 2004

Adjustments Year Ended 30 June 2004

(A) Asset Sales ($m)	30 June 2004 Proceeds	30 June 2004 NBV	30 June 2004 Profit	30 June 2004 Tax Effect @ 30% if applicable	30 June 2004 Profit after tax
Commander Communications Ltd	24	16	8	2	6
IBMGSA	154	5	149		149
PT Mitra	50	29	21		21
Total Investment Sales	228	50	178	2	176
Property sales	61	21	40		40
Fleet	21	26	(5)	(2)	(3)
Other Plant & Equipment	20	17	3	(2)	5
Total Property Plant and Equipment Sales	102	64	38	(4)	43
IBMGSA exit costs		130	(130)	(39)	(91)
Total Asset/Investment Sales and other costs	**330**	**244**	**86**	**(41)**	**128**

(B) Tax Consolidation Benefit

Income tax expense for half year ended 31 December 2003 includes a benefit of $58 million relating to our election to form a tax consolidation group from 1 July 2002. Under this legislation, certain tax values of a subsidiary's (Telstra Multimedia Pty Ltd) assets are reset according to set allocation rules. The benefit reflects the increase in the future income tax benefit arising from these reset tax values.

(C) Diminution ($m)	30 June 2004 Diminution	30 June 2004 Associates	30 June 2004 Total
Provision for Recoverablity of Reach loan	226		226
Other	1		1
Total Diminution	**227**		**227**

Adjustments Year Ended 30 June 2003

(A) Asset Sales ($m)	30 June 2003 Proceeds	30 June 2003 NBV	30 June 2003 Profit	30 June 2003 Tax Effect @ 30% if applicable	30 June 2003 Profit after tax
Mobitel	17	12	5		5
DataOne	3		3		3
New Skies - partial sale	6	10	(4)		(4)
Solution 6	17	8	9		9
Various	1		1		1
Sale of listed & other invest.	44	30	14		14
Sale of PABX business	2	(6)	8		8
Sale of Cambodian Internet Business	2		2		2
Total Investment sales	48	24	24		24
Property sales	716	544	172		172
Fleet	32	36	(4)	(1)	(3)
Other Plant & Equipment	63	57	6	23	(17)
Total Property Plant and Equipment S	811	637	174	22	152
Total Asset/Investment Sales	**859**	**661**	**198**	**22**	**176**

(C) Diminution ($m)	30 June 2003 Diminution	30 June 2003 Associates	30 June 2003 Total
PT Mitra	2		2
Reach		965	965
AJC	24		24
Total Diminution	**26**	**965**	**991**

(D) Reach contract exit ($m)	30 June 2003
Contract exit payments made to Reach Ltd	(65)
Reach equity accounted losses reflecting the exit payments	24
Total	**(41)**

Telstra Corporation Limited (ABN 033 051 775 556)

Quarterly Data
Year Ended 30 June 2004

Summary Underlying[i] Quarterly Data	Q1 Sep-02	QTR PCP[ii] Sep-02	Q2 Dec-02	QTR PCP[ii] Dec-02	Half 1 Dec-02	YTD PCP[ii] Dec-02	Q3 Mar-03	QTR PCP[ii] Mar-03	Q4 Jun-03	QTR PCP[ii] Jun-03	Full Year Jun-03	YTD PCP[ii] Jun-03	Q1 Sep-03	QTR PCP[ii] Sep-03	Q2 Dec-03	QTR PCP[ii] Dec-03	Half 1 Dec-03	YTD PCP[ii] Dec-03	Q3 Mar-04	QTR PCP[ii] Mar-04	Q4 Jun-04	QTR PCP[ii] Jun-04	Full Year Jun-04	YTD PCP[ii] Jun-04
Revenue																								
Mobiles																								
Mobile services	817	2.9%	815	(2.6%)	1,632	0.1%	775	(1.4%)	820	(0.6%)	3,227	(0.5%)	845	3.4%	889	9.1%	1,733	6.2%	850	9.7%	872	6.3%	3,455	7.1%
Mobile handsets	69	56.8%	102	37.8%	172	45.8%	104	108.0%	110	89.7%	386	70.8%	97	40.6%	89	(12.7%)	186	8.1%	79	(24.0%)	87	(20.9%)	352	(8.8%)
Mobiles	**886**	5.7%	**917**	0.7%	**1,804**	3.1%	**879**	5.1%	**930**	5.3%	**3,613**	4.2%	**942**	6.3%	**978**	6.7%	**1,919**	6.4%	**929**	5.7%	**959**	3.1%	**3,807**	5.4%
Internet and IP solutions	190	46.2%	201	37.7%	391	42.7%	198	32.0%	228	25.3%	817	34.8%	237	24.7%	231	14.9%	468	19.7%	254	28.3%	288	26.3%	1,010	23.6%
PSTN products																								
Basic access	765	10.2%	791	9.4%	1,556	9.8%	778	8.2%	748	0.7%	3,083	7.1%	791	3.4%	819	3.5%	1,610	3.5%	795	2.2%	832	11.2%	3,237	5.0%
Local calls	397	(11.0%)	399	(6.3%)	796	(8.7%)	384	(0.3%)	387	0.3%	1,567	(4.6%)	394	(0.8%)	384	(3.8%)	778	(2.3%)	370	(3.6%)	356	(8.0%)	1,504	(4.0%)
PSTN value added services	68	3.0%	74	12.1%	141	6.8%	71	9.2%	68	6.3%	280	6.9%	68	0.0%	66	(10.8%)	134	(5.0%)	62	(12.7%)	63	(7.4%)	259	(7.5%)
National long distance calls	285	(6.3%)	298	(2.9%)	582	(4.7%)	288	(6.2%)	292	(2.0%)	1,162	(4.4%)	292	2.5%	286	(4.0%)	578	(0.7%)	278	(3.5%)	265	(9.2%)	1,121	(3.5%)
Fixed to mobile	371	7.5%	382	5.5%	753	6.5%	375	5.9%	389	8.7%	1,517	6.9%	402	8.4%	407	6.5%	808	7.3%	398	6.1%	391	0.5%	1,597	5.3%
International direct	80	(9.1%)	80	(7.0%)	161	(6.9%)	73	(9.9%)	71	(12.3%)	307	(8.6%)	68	(15.0%)	71	(12.3%)	139	(13.7%)	65	(11.0%)	62	(12.7%)	266	(13.4%)
Total PSTN products	**1,966**	1.2%	**2,024**	2.7%	**3,989**	2.0%	**1,969**	3.0%	**1,955**	1.3%	**7,916**	2.1%	**2,015**	2.5%	**2,033**	0.4%	**4,047**	1.5%	**1,968**	0.0%	**1,969**	0.7%	**7,984**	0.9%
Specialised Data	264	(4.3%)	262	(2.2%)	526	(3.5%)	261	7.4%	267	1.5%	1,053	0.2%	260	(1.5%)	249	(5.0%)	509	(3.2%)	253	(3.1%)	256	(4.1%)	1,018	(3.3%)
ISDN (Access and Calls)	255	(7.9%)	241	(7.7%)	496	(8.0%)	227	(10.3%)	227	(7.7%)	951	(8.3%)	237	(7.1%)	233	(3.3%)	471	(5.0%)	227	0.0%	229	0.9%	927	(2.5%)
Advertising and Directories	169	13.4%	562	2.4%	731	4.7%	214	18.9%	273	5.8%	1,217	7.2%	185	9.5%	584	3.9%	769	5.2%	237	10.7%	301	10.3%	1,307	7.4%
Intercarrier services	300	7.9%	292	0.7%	591	4.0%	278	1.8%	285	0.7%	1,155	2.8%	285	(4.7%)	292	0.3%	578	(2.2%)	276	(0.7%)	284	(0.4%)	1,138	(1.5%)
Inbound calling products	126	(17.1%)	124	(15.6%)	250	(16.4%)	122	(12.9%)	122	0.0%	494	(12.1%)	119	(5.6%)	119	(4.0%)	238	(4.8%)	119	(2.5%)	119	(2.5%)	476	(3.6%)
Solutions management	114	2.7%	125	13.6%	239	8.1%	113	5.6%	135	(9.4%)	487	2.1%	126	10.5%	107	(14.4%)	233	(2.5%)	117	3.5%	139	3.0%	489	0.4%
Other controlled entities (excl HK CSL & TClear)	63	(41.1%)	53	(51.8%)	117	(46.1%)	51	(49.0%)	55	(32.9%)	222	(44.4%)	31	(50.8%)	48	(9.4%)	79	(32.5%)	55	7.8%	60	9.1%	194	(12.6%)
Hong Kong CSL	244	(17.0%)	240	(14.9%)	484	(16.1%)	243	(7.3%)	181	(25.2%)	908	(15.9%)	191	(21.7%)	186	(22.5%)	377	(22.1%)	167	(31.3%)	182	0.6%	726	(20.0%)
TelstraClear	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	142	2.9%	140	3.7%	282	3.3%	144	2.1%	148	10.4%	574	4.7%
Customer premises equipment	49	(3.9%)	51	(3.8%)	100	(3.8%)	49	11.4%	45	(21.1%)	194	(4.9%)	46	(6.1%)	46	(9.8%)	92	(8.0%)	47	(4.1%)	45	0.0%	184	(5.2%)
Payphones	37	(2.6%)	38	(2.6%)	75	(3.8%)	38	(2.6%)	35	(5.4%)	148	(3.9%)	36	(2.7%)	37	(2.6%)	72	(4.0%)	36	(5.3%)	33	(5.7%)	141	(4.7%)
Other sales & service	205	19.9%	197	(21.2%)	402	(4.5%)	182	12.3%	190	(11.6%)	772	(3.1%)	180	(12.2%)	141	(28.4%)	322	(19.9%)	177	(2.7%)	219	15.3%	718	(7.0%)
Sales revenue	**4,868**	1.1%	**5,327**	(1.1%)	**10,195**	(0.1%)	**4,824**	2.6%	**4,928**	(0.4%)	**19,947**	0.5%	**5,032**	0.5%	**5,424**	(0.7%)	**10,456**	(0.1%)	**5,006**	0.8%	**5,231**	3.3%	**20,693**	1.0%
Other revenue	54	(46.0%)	57	5.6%	111	(27.9%)	47	(7.8%)	104	20.9%	262	(10.0%)	52	(3.7%)	42	(26.3%)	94	(15.3%)	55	17.0%	64	(38.5%)	213	(18.7%)
Total revenue	**4,922**	0.1%	**5,384**	(1.0%)	**10,306**	(0.5%)	**4,871**	2.5%	**5,032**	(0.1%)	**20,209**	0.3%	**5,084**	0.5%	**5,466**	(1.0%)	**10,550**	(0.3%)	**5,061**	1.0%	**5,295**	2.5%	**20,906**	0.7%
Selected statistical data[iv]																								
Mobile voice telephone minutes	1,270	7.1%	1,323	5.5%	2,594	6.3%	1,289	7.9%	1,372	12.7%	5,255	8.3%	1,473	15.9%	1,538	16.2%	3,011	16.1%	1,554	20.6%	1,580	15.2%	6,145	16.9%
Short Message Service (SMS) (number of messages)	290	26.5%	342	35.0%	632	31.0%	380	42.0%	401	53.9%	1,413	39.8%	432	49.0%	478	39.8%	910	44.0%	489	28.6%	504	25.7%	1,903	34.7%
Mobile services in operation (thousands)[iii]	5,884	8.7%	6,098	8.2%	6,098	8.2%	6,338	9.5%	6,569	10.6%	6,569	10.6%	6,720	14.2%	6,985	14.5%	6,985	14.5%	7,169	13.1%	7,604	15.8%	7,604	15.8%
Broadband subscribers (thousands)	206	120.1%	244	121.7%	244	121.7%	290	125.8%	361	113.6%	361	113.6%	439	113.1%	507	107.8%	507	107.8%	617	112.8%	803	122.4%	803	122.4%
Narrowband subscribers (thousands)	1,084	15.4%	1,103	7.1%	1,103	7.1%	1,134	6.7%	1,158	9.6%	1,158	9.7%	1,180	8.9%	1,178	6.8%	1,178	6.8%	1,197	5.6%	1,194	3.1%	1,194	3.1%
Total On-line subscribers (thousands)	1,290	24.4%	1,347	18.2%	1,347	18.2%	1,424	19.5%	1,519	24.0%	1,519	24.0%	1,619	25.5%	1,685	25.1%	1,685	25.1%	1,814	27.4%	1,997	31.5%	1,997	31.5%
Basic access lines in service[v]	10.53	(0.4%)	10.48	(0.5%)	10.48	(0.5%)	10.48	(0.8%)	10.46	(0.8%)	10.46	(0.8%)	10.45	(0.8%)	10.44	(0.4%)	10.44	(0.4%)	10.43	(0.5%)	10.37	(0.9%)	10.37	(0.9%)
Local calls (number of calls)	2,527	(3.9%)	2,491	(4.8%)	5,019	(4.3%)	2,395	(4.3%)	2,380	(5.6%)	9,794	(4.6%)	2,435	(3.7%)	2,396	(3.8%)	4,831	(3.7%)	2,324	(3.0%)	2,242	(5.8%)	9,397	(4.0%)
National long distance minutes	2,346	3.4%	2,310	0.1%	4,656	1.7%	2,278	(0.3%)	2,227	(3.5%)	9,161	(0.1%)	2,193	(6.5%)	2,150	(6.9%)	4,343	(6.7%)	2,128	(6.6%)	2,049	(8.0%)	8,520	(7.0%)
Fixed to mobile minutes	970	8.1%	985	5.3%	1,955	6.7%	990	7.6%	999	6.4%	3,944	6.9%	1,041	7.3%	1,058	7.5%	2,099	7.4%	1,070	8.1%	1,057	5.8%	4,226	7.1%
International direct minutes	191	(2.7%)	196	(3.7%)	387	(2.9%)	180	(5.9%)	173	(9.5%)	740	(5.2%)	165	(13.4%)	173	(11.9%)	338	(12.7%)	161	(10.7%)	152	(11.8%)	651	(12.0%)
ISDN access (basic lines equivalents) (thousands)	1,225	(1.3%)	1,190	(4.5%)	1,190	(4.5%)	1,199	(2.4%)	1,213	(4.4%)	1,213	(4.4%)	1,210	(1.2%)	1,224	2.9%	1,224	2.8%	1,250	4.2%	1,288	6.2%	1,288	6.2%
Foxtel SIOs (thousands)	805	15.4%	809	4.5%	809	4.5%	816	2.8%	836	4.5%	836	4.5%	849	5.6%	862	6.6%	862	6.6%	867	6.3%	901	7.9%	901	7.9%

Footnotes:

(i) Fiscal 2003/2004 and its comparative year exclude Trading Post and asset sales from the revenue underlying base. Fiscal 2002/2003 and its comparative year exclude TelstraClear, Keycorp and asset sales from the underlying revenue base. .

(ii) All percentages relate to growth on prior corresponding period.

(iii) Mobile Services in Operation(SIOs) are net of deactivated prepaid customers who were outside the recharge only period and reflects recent changes in deactivation policy.

(iv) Statistical data is represented in millions unless otherwise stated.

(v) Basic access lines in service prior periods have been adjusted to correct an error in the accumulation process. Prior periods have been increased by between 130,000 and 170,000 services.

Telstra Corporation Limited (ABN 033 051 775 556)

Product reconciliation to align comparative figures with the reported format for year ended 30 June 2003

Year Ended 30 June 2004

	Underlying[i] previously released Jun-03 $m	Underlying[i] New Hierarchy Jun-03 $m	Movement $m	Included	Amount $m	Excluded	Amount $m
Mobile services	3,227	3,227	-				
Mobile handsets	381	386	5				
Mobiles	3,608	3,613	5	Mobile satellite equipment	5		
Internet and IP solutions	802	817	15	DSL Layer 2 and 3S	15		
PSTN products							
Basic access	3,091	3,083	(8)			Fax Duet	8
Local calls	1,567	1,567	-				
PSTN value added services	272	280	8	Fax Duet	8		
National long distance calls	1,162	1,162	-				
Fixed to mobile	1,517	1,517	-				
International direct	307	307	-				
Total PSTN products	7,916	7,916	-				
Specialised Data	1,053	1,053	-				
ISDN (Access and Calls)	951	951	-				
Advertising and Directories	1,217	1,217	-				
Intercarrier services	1,170	1,155	(15)			DSL Layer 2 and 3S	15
Inbound calling products	494	494	-				
Solutions management	487	487	-				
Various controlled entities	1,288	1,678	390	TelstraClear now included in underlying[1] results	548	NDC	158
Customer premises equipment	202	194	(8)			Mobile satellite equipment	5
						PABX	3
Payphones	148	148	-				
Other sales & service	611	772	161	NDC	158		
				PABX	3		
Sales revenue	11,929	20,495	8,566	TelstraClear now included in underlying[1] results	548		
Other revenue	262	262	-				
Total revenue	12,191	20,757	8,566	TelstraClear now included in underlying[1] results	548		

i Underlying numbers exclude Asset and Investment sales

Statement of Financial Position – detail

Table 38 - Statement of Financial Position - detail

	Year Ended 30 June 2004			
	2004	2003	Change	Change
	(in $ millions)			%
Current Assets				
Cash Assets	**687**	1,300	(613)	(47.2)
Receivables	**3,608**	3,619	(11)	(0.3)
Inventories	**229**	260	(31)	(11.9)
Other Assets	**803**	578	225	38.9
Total Current Assets	**5,327**	5,757	(430)	(7.5)
Non-Current Assets				
Receivables	**740**	877	(137)	(15.6)
Inventories	**10**	14	(4)	(28.6)
Investments - accounted for using the equity method	**40**	159	(119)	(74.8)
Investments - other	**80**	96	(16)	(16.7)
Property, Plant and Equipment	**22,863**	23,012	(149)	(0.6)
Intangibles - goodwill	**2,104**	2,018	86	4.3
Intangibles - other	**1,501**	1,146	355	31.0
Other Assets	**2,328**	2,520	(192)	(7.6)
Total Non-Current Assets	**29,666**	29,842	(176)	(0.6)
Total Assets	**34,993**	35,599	(606)	(1.7)
Current Liabilities				
Payables	**2,338**	2,525	(187)	(7.4)
Interest-bearing liabilities (borrowings)	**3,246**	1,323	1,923	145.4
Income Tax Payable	**539**	660	(121)	(18.3)
Provisions	**358**	353	5	1.4
Revenue Received in Advance	**1,095**	973	122	12.5
Total Current Liabilities	**7,576**	5,834	1,742	29.9
Non-Current Liabilities				
Payables	**49**	51	(2)	(3.9)
Interest-bearing liabilities (borrowings)	**9,014**	11,232	(2,218)	(19.7)
Provisions	**778**	814	(36)	(4.4)
Provision for Deferred Tax	**1,807**	1,814	(7)	(0.4)
Revenue Received in Advance	**408**	432	(24)	(5.6)
Total Non-Current Liabilities	**12,056**	14,343	(2,287)	(15.9)
Total Liabilities	**19,632**	20,177	(545)	(2.7)
Net Assets	**15,361**	15,422	(61)	(0.4)
Shareholders Equity				
Contributed Equity	**6,073**	6,433	(360)	(5.6)
Reserves	**(105)**	(150)	45	(30.0)
Retained Profits	**9,391**	9,137	254	2.8
Shareholders' equity available to Telstra Entity Shareholders	**15,359**	15,420	(61)	(0.4)
Outside Equity Interest				
Contributed Equity	**2**	1	1	100.0
Reserves	**(0)**	(0)	-	0.0
Retained Profits	**0**	1	(1)	N/M
Total Outside Equity Interest	**2**	2	-	0.0
Total Shareholders Equity	**15,361**	15,422	(61)	(0.4)