Telstra Corporation Limited and controlled entities

Appendix 4E

Preliminary final report

for the year ended 30 June 2005

Appendix 4E
Preliminary final report
30 June 2005
Telstra Corporation Limited ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	As at 30 June			
	2005	2004	Movement	Movement
	$m	$m	$m	%
Extract from the statement of financial performance				
Sales revenue	**22,161**	20,737	1,424	6.9
Revenue from ordinary activities (including interest revenue)	**22,760**	21,335	1,425	6.7
Net profit available to Telstra Entity shareholders	**4,447**	4,118	329	8.0

For fiscal 2005 and fiscal 2004, all items included in our statement of financial performance are considered to be from ordinary activities. As a result, our profit from ordinary activities after tax available to Telstra Entity shareholders is the same as our net profit available to Telstra Entity shareholders.

During fiscal 2005, there were no individual transactions that had a sufficiently significant impact on revenues or expenses that they require specific disclosure. Our results from operating activities have been impacted by the acquisition of a number of controlled entities, as outlined in note 3: 'Details of entities which control has been gained or lost during the period'.

During fiscal 2004, the following significant items impacted on the results recorded in our statement of financial performance:

- We sold our 22.6% shareholding in our associated entity IBM Global Services Australia Ltd (IBMGSA) with a book value of $5 million. Proceeds from the sale of this investment amounted to $154 million, resulting in a profit before income tax expense of $149 million. As part of the disposal, we negotiated changes to a 10 year contract with IBMGSA to provide technology services. This modification to our service contract resulted in an expense of $130 million being recognised and the removal of $1,596 million of expenditure commitments disclosed at 30 June 2003. The net impact on our profit before income tax expense of these transactions was a profit of $19 million ($58 million after taking into account income tax benefits); and
- During fiscal 2004, Telstra and PCCW Limited bought out a loan facility previously owed to a banking syndicate by our 50% owned joint venture Reach Ltd (Reach). Our share of the payment in relation to this acquisition amounted to US$155.5 million. At 30 June 2004, we provided for the non recoverability of the debt, amounting to $226 million, as we considered that Reach was not in a position to repay the amount in the medium term.

Capital management program

During fiscal 2004, we announced our capital management program, whereby the Company intends to return approximately $1,500 million to shareholders through special dividends and/or share buy-backs each year through to fiscal 2007.

In fiscal 2005, as part of this program, we paid an interim special dividend of $747 million (6 cents per share) with the interim. In addition, we completed an off market share buy-back of 185,284,669 ordinary shares. In total, 1.47% of our total issued ordinary shares, or 2.87% of our non-Commonwealth owned ordinary shares were bought back. The cost of the share buy-back comprised purchase consideration of $750 million and associated transaction costs of $6 million. The Commonwealth Government did not participate in the share buy-back. The ordinary shares were bought back at $4.05 per share, comprising a fully franked dividend of $2.55 per share and a capital component of $1.50 per share.

On 11 August 2005, we declared a fully franked special dividend of 6 cents per share ($747 million), payable to our ordinary shareholders with a final fully franked dividend of 14 cents per share. The record date for the final and special dividends will be 30 September 2005 with payment being made on 31 October 2005.

On 11 August 2005, we also disclosed the intention to pay a fully franked special dividend of 6 cents per ordinary share with the interim dividend in respect of fiscal 2006. The proposed special dividend is part of the execution of our capital management program. The financial effect of the special dividend will be reflected in the fiscal 2006 financial statements.

Appendix 4E
Preliminary final report
30 June 2005
Telstra Corporation Limited ABN 33 051 775 556

Results for announcement to market (continued)

Dividends paid or declared

	Year ended 30 June	
	2005	2004
	¢	¢
Dividends per share		
Interim dividend	**14**	13
Special dividend paid with the interim dividend	**6**	-
Final dividend	**14**	13
Special dividend to be paid with the final dividend	**6**	-
Total	**40**	26

Our dividends for fiscal 2005 and fiscal 2004 are fully franked at a tax rate of 30%.

The interim dividend (including the special dividend paid with the interim dividend) for fiscal 2005 had a record date of 1 April 2005 with payment being made on 29 April 2005.

The final dividend (including the special dividend paid with the final dividend) is declared subsequent to balance date and paid in the following financial year. Our final dividend (including the special dividend paid with the final dividend) in respect of fiscal 2005 has been disclosed as an event after balance date. These dividends will have a record date of 30 September 2005 with payment to be made on 31 October 2005. Shares will trade excluding entitlement to the dividend on 26 September 2005.

In addition, our final dividend of 13 cents in respect of fiscal 2004 was provided for and paid during fiscal 2005. The final dividend had a record date of 24 September 2004 and payment was made on 29 October 2004.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Contents and reference page

Appendix 4E Requirements	Reference
1. Reporting period and the previous corresponding period.	Refer to the 30 June 2005 financial report lodged with this document.
2. Results for announcement to the market.	Refer page 2 for "results for announcement to the market".
3. Statement of financial performance with notes to the statement.	Refer to the statement of financial performance on page 5 of this report.
4. Statement of financial position with notes to the statement.	Refer to the statement of financial position on page 6 of this report.
5. Statement of cash flows with notes to the statement.	Refer to the statement of cash flows on page 7 of this report.
6. Details of individual and total dividends or distributions and dividend or distribution payments.	Refer to the "results for announcement to the market" on page 3 of this report. Also refer to note 7: Dividends and note 28: Events after balance date in the 30 June 2005 financial report lodged with this document for additional information, including discussion on franking credits.
7. Details of dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.	Refer item 1 on page 9 of this report.
8. Statement of retained earnings.	Refer statement of changes in shareholders' equity on page 8 of this report.
9. Net tangible assets per security.	Refer item 2 on page 9 of this report.
10. Details of entities over which control has been gained or lost during the period.	Refer item 3 on page 9 of this report.
11. Details of joint venture entities and associated entities.	Refer item 4 on page 10 of this report.
12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.	Refer item 5 on page 12 of this report.
13. Accounting standards used in compiling reports by foreign entities (e.g. International Accounting Standards).	Not applicable.
14. A commentary on the results for the period.	Refer item 6 on page 13 of this report. Also refer to item 8 on page 16 of this report for other factors likely to effect results in the future.
15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.	Refer item 7 on page 16 of this report.
16. If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.	Not applicable.
17. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification.	Not applicable.

Statement of Financial Performance

for the year ended 30 June 2005

	Telstra Group	
	Year ended 30 June	
	2005	2004
	$m	$m
Ordinary activities		
Revenue		
Sales revenue	**22,161**	20,737
Other revenue (excluding interest revenue)	**496**	543
	22,657	21,280
Expenses		
Labour	**3,693**	3,218
Goods and services purchased	**4,147**	3,554
Other expenses	**4,055**	4,255
	11,895	11,027
Share of net (profit)/loss from joint venture entities and associated entities	**(9)**	78
	11,886	11,105
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**10,771**	10,175
Depreciation and amortisation	**3,766**	3,615
Earnings before interest and income tax expense (EBIT)	**7,005**	6,560
Interest revenue	**103**	55
Borrowing costs	**839**	767
Net borrowing costs	**736**	712
Profit before income tax expense	**6,269**	5,848
Income tax expense	**1,822**	1,731
Net profit	**4,447**	4,117
Outside equity interests in net loss	**-**	1
Net profit available to Telstra Entity shareholders	**4,447**	4,118
Other valuation adjustments to equity		
Net exchange differences on translation of financial statements of non-Australian controlled entities	**(43)**	21
Reserves recognised on equity accounting our interest in joint venture entities and associated entities	**3**	(5)
Valuation adjustments attributable to Telstra Entity shareholders and recognised directly in equity	**(40)**	16
Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners	**4,407**	4,134
	¢	¢
Basic and diluted earnings per share (cents per share)	**35.5**	32.4
Total dividends paid/declared (cents per share)	**40.0**	26.0

The above statement of financial performance is an extract from our full financial report. Refer to the 30 June 2005 financial report lodged with this document for the detailed notes to this statement.

Statement of Financial Position

as at 30 June 2005

	Telstra Group	
	As at 30 June	
	2005	2004
	$m	$m
Current assets		
Cash assets	1,540	687
Receivables	3,609	3,608
Inventories	232	229
Other assets	796	803
Total current assets	6,177	5,327
Non current assets		
Receivables	240	740
Inventories	15	10
Investments - accounted for using the equity method	49	40
Investments - other	-	80
Property, plant and equipment	23,351	22,863
Intangibles - goodwill	2,287	2,104
Intangibles - other	1,581	1,501
Other assets	2,610	2,328
Total non current assets	30,133	29,666
Total assets	36,310	34,993
Current liabilities		
Payables	2,809	2,338
Interest-bearing liabilities	1,518	3,246
Income tax payable	534	539
Provisions	389	358
Revenue received in advance	1,132	1,095
Total current liabilities	6,382	7,576
Non current liabilities		
Payables	122	49
Interest-bearing liabilities	11,816	9,014
Provision for deferred income tax	1,885	1,807
Provisions	836	778
Revenue received in advance	388	408
Total non current liabilities	15,047	12,056
Total liabilities	21,429	19,632
Net assets	14,881	15,361
Shareholders' equity		
Telstra Entity		
Contributed equity	5,793	6,073
Reserves	(157)	(105)
Retained profits	9,243	9,391
Shareholders' equity available to Telstra Entity shareholders	14,879	15,359
Outside equity interests		
Contributed equity	2	2
Total outside equity interests	2	2
Total shareholders' equity	14,881	15,361

The above statement of financial position is an extract from our full financial report. Refer to the 30 June 2005 financial report lodged with this document for the detailed notes to this statement.

Statement of Cash Flows

for the year ended 30 June 2005

	Telstra Group	
	Year ended 30 June	
	2005	2004
	$m	$m
Cash flows from operating activities		
Receipts from trade and other receivables	**24,526**	23,205
Payments of accounts payable and to employees	**(12,754)**	(12,067)
Interest received	**80**	51
Borrowing costs paid	**(879)**	(846)
Dividends received	**2**	2
Income taxes paid	**(1,718)**	(1,856)
GST remitted to the Australian Taxation Office (ATO)	**(1,094)**	(1,056)
Net cash provided by operating activities	**8,163**	7,433
Cash flows from investing activities		
Payments for:		
- property, plant and equipment	**(2,995)**	(2,572)
- internal use software assets	**(523)**	(435)
- intangibles	**(6)**	(2)
- deferred expenditure	**(15)**	(6)
Capital expenditure (before investments)	**(3,539)**	(3,015)
- shares in controlled entities	**(574)**	(667)
- investment in joint venture entities	**(10)**	(1)
- investment in associated entities (including share buy-back)	**(4)**	1
- shares in listed securities and other investments	**(2)**	(1)
Investment expenditure	**(590)**	(668)
Total capital expenditure	**(4,129)**	(3,683)
Proceeds from:		
- sale of property, plant and equipment	**68**	168
- sale of joint venture entities and associated entities	**30**	221
- sale of listed securities and other investments	**146**	24
- redemption of PCCW converting note	**76**	-
Net cash used in investing activities	**(3,809)**	(3,270)
Operating cash flows less investing cash flows	**4,354**	4,163
Cash flows from financing activities		
Proceeds from borrowings	**6,433**	4,119
Proceeds from Telstra bonds	**983**	-
Repayment of borrowings	**(5,735)**	(4,274)
Repayment of Telstra bonds	**(272)**	(211)
Repayment of finance leases principal amount	**(16)**	(13)
Employee share loans	**19**	24
Loan to joint venture entities and associated entities	**(37)**	(226)
Dividends paid	**(4,131)**	(3,186)
Share buy-back	**(756)**	(1,009)
Net cash used in financing activities	**(3,512)**	(4,776)
Net increase/(decrease) in cash	**842**	(613)
Foreign currency conversion	**(3)**	-
Cash at the beginning of the year	**687**	1,300
Cash at the end of the year	**1,526**	687

The above statement of cash flows is an extract from our full financial report. Refer to the 30 June 2005 financial report lodged with this document for the detailed notes to this statement.

Statement of Changes in Shareholders' Equity

for the year ended 30 June 2005

Telstra Group

		Reserves						
	Contributed equity $m	Asset revaluation $m	Foreign currency translation $m	General $m	Consolid-ation fair value $m	Retained profits $m	Outside equity interests $m	Total $m
Balance at 30 June 2003	6,433	32	(240)	8	50	9,137	2	15,422
- change in outside equity interests' capital, reserves and accumulated losses (apart from interests in net loss)	-	-	-	-	-	-	1	1
- net profit/(loss)	-	-	-	-	-	4,118	(1)	4,117
- reserves recognised on equity accounting our interest in joint venture entities and associated entities	-	-	(5)	-	-	-	-	(5)
- adjustment on translation of financial statements of non-Australian controlled entities	-	-	21	-	-	-	-	21
- fair value adjustment on acquisition of controlling interest in joint venture entity	-	-	-	-	(6)	6	-	-
- transfer of foreign currency translation reserve and general reserve on sale of controlled entities and associates	-	-	38	(3)	-	(35)	-	-
- share buy-back	(360)	-	-	-	-	(649)	-	(1,009)
- dividends	-	-	-	-	-	(3,186)	-	(3,186)
Balance at 30 June 2004	6,073	32	(186)	5	44	9,391	2	15,361
- net profit	**-**	**-**	**-**	**-**	**-**	**4,447**	**-**	**4,447**
- reserves recognised on equity accounting our interest in joint venture entities and associated entities	**-**	**-**	**(2)**	**5**	**-**	**-**	**-**	**3**
- adjustment on translation of financial statements of non-Australian controlled entities	**-**	**-**	**(43)**	**-**	**-**	**-**	**-**	**(43)**
- fair value adjustment on acquisition of controlling interest in joint venture entity	**-**	**-**	**-**	**-**	**(6)**	**6**	**-**	**-**
- transfer of general reserve on sale of associates	**-**	**-**	**-**	**(6)**	**-**	**6**	**-**	**-**
- share buy-back	**(280)**	**-**	**-**	**-**	**-**	**(476)**	**-**	**(756)**
- dividends	**-**	**-**	**-**	**-**	**-**	**(4,131)**	**-**	**(4,131)**
Balance at 30 June 2005	**5,793**	**32**	**(231)**	**4**	**38**	**9,243**	**2**	**14,881**

The above statement of changes in shareholders' equity is an extract from our full financial report. Refer to the 30 June 2005 financial report lodged with this document for the detailed notes to this statement.

Appendix 4E Year ended 30 June 2005

1. Details of dividend or distribution plans in operation

During fiscal 2005 and fiscal 2004, we had no dividend or distribution reinvestment plans in operation.

2. Net tangible assets per security

	Telstra Group	
	As at 30 June	
	2005	2004
	¢	¢
Net tangible assets per security before providing for estimated tax on unrealised gains and losses	**103.6**	107.4
Net tangible assets per security after providing for estimated tax on unrealised gains and losses	**88.5**	93.1

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

Entities which control has been gained during the period

During fiscal 2005, we gained control of the following significant entities:

KAZ Group Limited

On 19 July 2004, we acquired 100% of the issued share capital of KAZ Group Limited and its controlled entities (KAZ Group) for a total consideration of $340 million, including acquisition costs.

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

PSINet UK Limited

On 25 August 2004, we acquired 100% of the issued share capital of PSINet UK Limited and its controlled entities (PSINet Group) for a total consideration of $124 million, including acquisition costs. Subsequent to acquisition, PSINet UK Limited changed its name to Telstra (PSINet) Limited.

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

ESA Holding Pty Ltd

On 17 September 2004, we acquired 100% of the issued share capital of ESA Holding Pty Ltd and its controlled entity, Damovo (Australia) Pty Ltd, and Damovo HK Limited (Damovo Group) for a total consideration of $66 million, including acquisition costs. Subsequent to acquisition Damovo (Australia) Pty Ltd changed its name to Telstra Business Systems Pty Ltd.

The Damovo Group provides advanced voice and data business communication solutions and services to large enterprises and government departments.

Universal Publishers Pty Ltd

On 20 December 2004, we acquired 100% of the issued share capital of Universal Publishers Pty Ltd for a total consideration of $46 million, including acquisition costs.

Universal Publishers is a publisher of mapping and travel related products. Its publishing program includes street directories, guides, maps and road atlases.

Please refer to note 23: Investments in controlled entities in our 30 June 2005 financial report lodged with this document for additional details regarding our investments in controlled entities.

Other acquisitions

During fiscal 2005, we also acquired control of the following entities:

- Sytec Resources Limited and its controlled entities;
- Chief Entertainment Pty Ltd; and
- 1300 Australia Pty Ltd.

The impact of these acquisitions on our financial results and position has not been significant.

Contribution by new acquisitions

In fiscal 2005, the contribution to our net profit (including all consolidation adjustments) of our recently acquired significant controlled entities was $19 million. No individual recently acquired controlled entity made a significant contribution to our overall net profit in fiscal 2005.

Entities which control has been lost during the period

We did not lose control of any significant entities during the year ended 30 June 2005 that would materially affect users' understanding of the financial report as at 30 June 2005.

4. Details of investments in joint ventures and associated entities

Our investment in joint venture entities are listed below:

Name of joint venture entity	Principal activities	Telstra Group Ownership interest As at 30 June 2005 %	2004 %
FOXTEL Partnerships #	Pay television	**50.0**	50.0
Customer Services Pty Ltd	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda)	International connectivity services	**50.0**	50.0
Stellar Call Centres Pty Ltd.	Call centre services and solutions	**-**	50.0
Xantic B.V. (incorporated in Netherlands)	Global satellite communications	**35.0**	35.0
TNAS Limited (incorporated in New Zealand)	Toll free number portability in New Zealand	**33.3**	33.3
1300 Australia Pty Ltd	Acquisition and marketing of 1300 "phone words"	**-**	50.0
Money Solutions Pty Ltd	Financial advice and education services	**50.0**	-
HelpYouPay Systems Pty Ltd (formerly Red2Black Systems Pty Ltd)	Debt management services	**50.0**	-
HelpYouPay Pty Ltd (formerly Red2Black Payment Services Pty Ltd)	Debt management services	**50.0**	-
Enhanced Processing Technologies Pty Ltd	Business process outsourcing	**60.0**	-
Enhanced Processing Technologies Inc (incorporated in United States)	Software sales	**60.0**	-
Adstream (Aust) Pty Ltd	Digital advertising and asset management	**33.3**	-
3GIS Pty Ltd (1)	Management services	**50.0**	-
3GIS Partnership (1)	3G network services	**50.0**	-
Bridge Mobile Pte Ltd (incorporated in Singapore)	Regional roaming provider	**12.5**	-
m.Net Corporation Limited	Mobile phone content provider	**39.5**	8.3

This includes both the FOXTEL partnership and the FOXTEL television partnership.

Unless noted above, all investments are incorporated in Australia.

During fiscal 2005, we invested in the following significant joint venture entity:

(1) On 6 December 2004, we signed agreements with Hutchison 3G Australia Pty Ltd (H3GA), a subsidiary of Hutchison Telecommunications (Australia) Limited, to jointly own and operate H3GA's existing third generation (3G) radio access network and fund future network development.

The 3GIS Partnership has been established to operate this network. 3GIS Pty Ltd was established to act as agent for the 3GIS Partnership.

During fiscal 2005, we have had no significant disposals of our joint venture entities.

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

Our investments in associated entities are listed below:

Name of associated entity	Principal activities	Telstra Group Ownership interest As at 30 June 2005 %	2004 %
Australia-Japan Cable Holdings Limited (incorporated in Bermuda)	Network cable provider	**39.9**	39.9
ECard Pty Ltd	Smart card transaction processing	**-**	50.0
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Keycorp Limited	Electronic transactions solutions	**47.8**	47.9
Telstra Foundation Limited	Charitable trustee organisation	**100.0**	100.0
LinkMe Pty Ltd	Internet recruitment provider	**40.0**	-

Unless noted above, all investments are incorporated in Australia.

During fiscal 2005, we have had no significant acquisitions or significant disposals of associated entities.

Share of joint venture entities' and associated entities' net losses/ (profits)

	Year ended 30 June 2005 $m	2004 $m
Our net loss/(profit) from joint venture entities and associated entities has been contributed by the following entities:		
Joint venture entities		
- FOXTEL Partnerships (#)	**5**	44
- Stellar Call Centres Pty Ltd	**(3)**	(2)
- Xantic B.V.	**(3)**	43
	(1)	85
Associated entities		
- IBM Global Services Australia Limited	**-**	(3)
- ECard Pty Ltd	**-**	2
- Keycorp Limited	**(8)**	-
- PT Mitra Global Telekomunikasi Indonesia	**-**	(6)
	(8)	(7)
	(9)	78

This includes both the FOXTEL partnership and the FOXTEL television partnership.

Refer note 24 in our financial statements lodged with this document for further details on our joint venture and associated entities.

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

Statement of financial position

We continued to maintain a strong financial position with net assets of $14,881 million, compared with net assets of $15,361 million as at 30 June 2004. The decrease in net assets by $480 million comprised an increase in total liabilities of $1,797 million, offset by an increase in our total assets of $1,317 million.

The increase in total liabilities of $1,797 million was primarily due to a $1,074 million increase in total interest-bearing liabilities in order to fund the special dividend and share buy-back during fiscal 2005. The increase was facilitated by bond issues in Europe, Switzerland, New Zealand and Australia. A stronger Australian dollar has also contributed to increased interest-bearing liabilities as our cross currency swap position has moved from a net receivable to a net payable. In addition, our payables have increased by $544 million due to deferred payment terms on our acquisition of the 3G radio access network assets described below.

The increase in total assets of $1,317 million was primarily due to the following movements during the year:

- Cash assets increased by $853 million partially due to the proceeds on our EUR€1 billion Eurobond issue being received just prior to 30 June 2005, which was invested in the short term money market at balance date;
- Our property, plant and equipment increased by $488 million, largely due to the recognition of our share of third generation (3G) radio access network assets acquired as part of the formation of a partnership with Hutchison 3G Australia Pty Ltd;
- Intangibles - goodwill increased by $183 million to $2,287 million (2004: $2,104 million) as a result of goodwill acquired on our investment acquisitions in the KAZ Group (KAZ), the Damovo Group (Damovo) and the PSINet Group (PSINet);
- Non current - other assets increased by $282 million to $2,610 million, mainly due to an arrangement where our joint venture entity, Reach Ltd (Reach), allocated its international cable capacity between us and our joint venture partner, PCCW Limited (PCCW), as an indefeasible right of use agreement with a value of $216 million. As consideration, we discharged Reach's liability to us under the capacity prepayment, previously recognised within non current receivables; and
- Non-current receivables decreased by $500 million to $240 million (2004: $740 million) due to the termination of the capacity prepayment and the movement in our cross currency swaps portfolio to a net payable position.

Share buy-back

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

The shares bought back were subsequently cancelled, reducing the number of fully paid ordinary shares on issue. In total, 1.47% of our total issued ordinary shares, or 2.87% of our non Commonwealth owned ordinary shares, were bought back.

Statement of Cash Flows

The group reported a strong free cash flow position, which enabled the company to increase declared dividends, fund the acquisition of a number of new entities and complete an off market share buy-back. We have sourced our cash through continued strong company operating activities and careful capital and cash management.

Our cash flows from operating activities grew by 9.8% to $8,163 million (2004: $7,433 million). This position was the result of higher sales revenues and continued tight control of expenditure and working capital management.

Cash used in investing activities was $3,809 million, representing an increase of $539 million over the prior year. These cash flows include consideration paid for the acquisition of KAZ, Damovo, PSINet, and various other controlled entities amounting to $574 million and substantial capital expenditure to upgrade our telecommunications networks, eliminate components that are no longer useful and improve the systems used to operate our networks.

Total cash flow before financing activities (free cash flow) increased by 4.6% to $4,354 million (2004: $4,163 million).

Our cash used in financing activities was $3,512 million (2004: $4,776 million) due mainly to dividend payments of $4,131 million (2004: $3,186 million) and a share buy-back of $756 million (2004: $1,009 million). These outflows were partially offset by net proceeds from borrowings of $1,375 million sourced from a number of bond issues during the year (2004: net repayment $581 million).

6. Commentary on the results for the period

Statement of Financial Performance

Our net profit for the year was $4,447 million, representing an increase of 8.0% on the prior year's net profit of $4,118 million. Earnings before interest and income tax expense (EBIT) for fiscal 2005 was $7,005 million representing an increase of 6.8% on the prior year of $6,560 million.

Total revenue (excluding interest revenue) for the year increased by 6.5% to $22,657 million (2004: $21,280 million). Sales revenue was $22,161 million, representing a 6.9% increase on the prior year sales revenue of $20,737 million. Sales and total revenues included $548 million of revenue generated by controlled entities we acquired during the year. The entities acquired included the KAZ, Damovo and the PSINet. The acquisition of KAZ expands our IT services capability, complementing our core strength in telecommunications. Damovo improves our ability to provide advanced voice and data communication solutions, and PSINet assists us in providing converged communication and technology services internationally.

Excluding the impact of our newly acquired entities, revenue growth was mainly attributable to:

- mobile goods and services growth of $319 million or 8.3%;
- an increase in internet and IP solutions revenue of $364 million or 35.9%;
- advertising and directories revenue growth of $244 million or 18.2%; and
- an increase in pay TV bundling of $109 million or 70.8%.

These increases have been partially offset by a decline in PSTN revenues of $275 million or 3.4%. While PSTN remains a significant contributor to our revenue, it is declining as the market continues to move towards new technologies to satisfy its telecommunications requirements.

Mobile goods and services revenue increased largely due to the performance of mobile's data revenue and international roaming. We continue to experience growth in the number of mobiles in operation as well as increased revenue from mobile handset sales.

Internet and IP solutions revenue experienced significant growth, driven by increased numbers of broadband subscribers for both our retail and wholesale offerings. Our advertising and directories revenue increased over the prior year due to the inclusion of a full year of trading activity for the Trading Post Group in fiscal 2005. In addition, further growth was experienced due to the continued take up of our new advertising offerings.

Pay TV bundling increased due to the launch of FOXTEL digital, an increase in the number of services provided and the average spend per subscriber.

Other revenue decreased by $47 million to $496 million, due primarily to the inclusion of proceeds on sale of our shareholding in IBM Global Services Aust Limited (IBMGSA) of $154 million in fiscal 2004. Our other revenue in fiscal 2005 was primarily made up of the redemption of our PCCW converting note realising $76 million and investment sales of our interests in Infonet and Intelsat amounting to $146 million.

Total expenses (before borrowing costs and income tax expense) increased by 6.3% to $15,652 million from $14,720 million in the prior year. A significant portion of this increase ($566 million) was attributable to our newly acquired controlled entities.

Labour expenses increased by 14.8% to $3,693 million (2004: $3,218 million). This increase was largely attributable to staff taken on as a result of the acquisition of controlled entities, annual salary increases due to enterprise agreements and annual reviews, and increased use of overtime and contract and agency payments to improve our front of house service and meet increased field volumes across broadband, pay TV and PSTN. We have also increased staff numbers and the use of casual staff to improve customer service and account management.

Goods and services purchased increased by 16.7% to $4,147 million in fiscal 2005 (2004: $3,554 million) due to higher handset sales and increased usage commissions due to higher prepaid mobile recharge commissions. Other increases resulted from higher handset subsidies due to the promotions offered in prior periods, growth in broadband volumes, increased bundling of pay TV services and higher network payments as a result of increased international roaming.

Depreciation and amortisation expense increased by 4.2% to $3,766 million (2004: $3,615 million), due mainly to the growth in communications plant and software asset additions required to support the increasing demand for broadband ADSL services.

Other expenses decreased by 4.7% to $4,055 million (2004: $4,255 million) mainly due to fiscal 2004 including a write down of additional funding to Reach of $226 million and $130 million to exit our contracts for information technology services with IBMGSA, corresponding with the sale of our interest in this business. In fiscal 2005 other expenses included costs from our recently acquired controlled entities and an increase in the book value of property sold and investment sales.

Income tax expense increased by 5.3% to $1,822 million in fiscal 2005, giving an overall effective tax rate of 29.1%. The increase in tax expense was primarily due to the higher profit and the fact that the prior year tax expense included a benefit of $58 million associated with the adoption of tax consolidation.

Investor return and other key ratios

Our earnings per share increased to 35.5 cents per share in fiscal 2005 from 32.4 cents per share in the prior year. This increase is due to improved earnings and a reduction in the number of shares on issue as a result of the off market share buy-back completed during fiscal 2005.

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

Investor return and other key ratios (continued)

We have declared a final fully franked dividend of 14 cents per share ($1,742 million) and a fully franked special dividend of 6 cents per share ($747 million) to be paid with the final dividend, bringing dividends per share for fiscal 2005 to 40 cents per share (including special dividends of 12 cents per share). The prior year dividends amounted to 26 cents per share. We also returned $750 million to shareholders through an off market share buy-back during fiscal 2005. Other relevant measures of return to investors include the following:

- Return on average assets - 2005: 20.4% (2004: 19.4%)
- Return on average equity - 2005: 29.4% (2004: 26.8%)

Return on average assets is higher in fiscal 2005 primarily due to the increased profit as previously discussed. The increase in return on average equity is also attributable to higher profits and to the reduced shareholders' equity, resulting from the share buy-back and increased dividend payments in fiscal 2005.

Segment information

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

- Telstra Consumer and Marketing;
- Telstra Country Wide;
- Telstra Business and Government;
- Telstra International;
- Infrastructure Services;
- Telstra Wholesale;
- Telstra Technology, Innovation and Products; and
- Other (including Telstra Bigpond, Telstra Media, Sensis and our corporate areas).

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

The majority of our sales revenue from ordinary activities is derived from Telstra Consumer and Marketing, Telstra Business and Government, Telstra Country Wide and Telstra Wholesale.

Telstra Consumer and Marketing sales revenue increased to $5,030 million in fiscal 2005 compared with $4,956 million in fiscal 2004. This increase was driven by the continued strong performance in mobile services, led by growth in international roaming, mobile data usage and handset sales. In addition, continued strong growth in BigPond broadband and Pay TV services was also experienced due to increased marketing activities and the improved retention of existing customers through bundling initiatives. Total PSTN revenue declined as a result of competition and decreased consumer usage.

Telstra Consumer and Marketing earnings before interest and tax (EBIT) decreased by 2.3% to $2,493 million in fiscal 2005 mainly due to expense growth in dealer remuneration negotiation costs, the resolution of historical issues including dealer claims, and increased labour costs in line with this segments priority on customer focus. In addition, all business expenditure associated with mobile services for our Company is incurred by Telstra Consumer and Marketing. This expenditure includes subsidies and dealer commissions. In fiscal 2005, $205 million of our subsidy expense related to the amortisation of activities that commenced in fiscal 2004 across the business.

Telstra Country Wide sales revenue increased to $5,751 million in fiscal 2005 compared with $5,508 million in fiscal 2004. This increase was primarily due to continued strong growth in services in operation for broadband, ISDN, CDMA mobiles and bundled Pay TV. This segment has also experienced increased volumes for fixed to mobile calling and various mobile products such as mobile calls, mobile data and international roaming. The growth was partially offset by reductions in local and international direct revenues resulting from product substitution and competitor activity. In addition, basic access revenue increased in fiscal 2005 mainly as a result of a price increase in June 2004.

Telstra Country Wide EBIT increased by 3.3% to $4,944 million in fiscal 2005 predominantly due to the continued strong growth in sales revenue, which was partially offset by an increase in expenses. The expense growth was attributable to higher cost of goods sold and service fees associated with the growth in broadband and bundled Pay TV revenue.

Telstra Business and Government sales revenue increased by 8.9% to $5,214 million in fiscal 2005, primarily due to additional revenues from the acquisition of KAZ, Damovo and PSINet. The increase was partially offset by a reduction in sales revenue from the underlying business, mainly due to the decline in total PSTN revenue.

Telstra Business and Government EBIT decreased by 9.7% to $3,263 million in fiscal 2005 predominantly due to the reduction in PSTN revenue, and from the inclusion in fiscal 2004 of profit arising from the sale of our investment in IBMGSA and Commander Communications Limited. In fiscal 2005, this segment had no significant asset and investment sales.

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

Segment information (continued)

Telstra Wholesale sales revenue increased by 11.7% to $2,940 million in fiscal 2005 driven by the growth in the number of local service customers and the demand for broadband services. In fiscal 2005, Telstra Wholesale experienced a continuation of re-balancing initiatives and commercial negotiations, which generally reduced prices across wholesale PSTN call revenue categories, while increasing basic access revenues. Intercarrier service revenue was impacted by continued growth in SMS interconnect revenue and mobile interconnection volumes, driven by mobile substitution and growth in the overall mobile market. However this growth was offset by reduced yields for these products. In fiscal 2005, data and internet service revenues showed solid growth, which was mainly driven by wholesale broadband offerings that led to a significant increase in the number of wholesale broadband subscribers.

Telstra Wholesale EBIT increased by 9.7% to $2,973 million in fiscal 2005 driven by sales revenue growth, partly offset by an increase in expenses. The expense growth consisted of increases in Telstra Wholesale's allocated share of domestic outpayments, offset by a significant reduction in volumes and costs for international voice traffic, which was also assisted by an appreciating Australian dollar. Increases in labour expense were attributable to the increase in staff numbers required to support the significantly higher than planned volumes of access and broadband customers, as well as further development in, and the expansion of, the wholesale market. In addition, total IT professional services costs increased due to the revised contract conditions for system support and increased program of work to support the revenue growth and operational efficiency.

Other information

No significant events have occurred after balance date for the year ended 30 June 2005, other than:

Dividend declaration

On 11 August 2005, we declared a fully franked final dividend of 14 cents per ordinary share and a fully franked special dividend of 6 cents per ordinary share. The record date for the final and special dividends will be 30 September 2005 with payment being made on 31 October 2005. Shares will trade excluding the entitlement to the dividends on 26 September 2005.

A provision for dividend payable has been raised as at the date of declaration, amounting to $2,489 million. The financial effect of the dividend declaration was not brought to account as at 30 June 2005.

On 11 August 2005, we also disclosed the intention to pay a fully franked special dividend of 6 cents per ordinary share with the interim dividend in respect of fiscal 2006. The proposed special dividend is part of the execution of our capital management program, whereby it is our intention to return approximately $1,500 million to shareholders each year through to fiscal 2007. The financial effect of the special dividend will be reflected in the fiscal 2006 financial statements.

Business acquisition

On 28 June 2005, we announced the acquisition of 100% of the issued share capital of Keycorp Solutions Limited for a cash consideration of $55 million plus transaction costs. This acquisition is subject to approval by the shareholders of Keycorp Solutions Limited's parent company, Keycorp Limited, and if approved, will be effective from 1 July 2005.

In conjunction with and conditional upon our purchase of Keycorp Solutions Limited, Keycorp Limited announced, subject to shareholder approval, it would use the proceeds from the sale to enable a pro-rata return of capital to shareholders of 41 cents per share. As a shareholder of Keycorp Limited, we are expecting to receive approximately $16 million in returned capital.

Keycorp Solutions Limited is a subsidiary of Keycorp Limited, an associated entity of ours, in which we hold 47.8% of the issued share capital. Keycorp Solutions Limited has previously partnered with us to provide payment transaction network carriage services to customers. In acquiring this entity, we will now provide the services in our own right.

As at 30 June 2005 neither the acquisition nor the return of capital has been recognised in our financial statements.

Appointment of CEO

We have appointed Sol Trujillo as our new Chief Executive Officer (CEO), effective 1 July 2005. The new CEO is undertaking an operational and strategic review to be completed within 3 to 4 months of his appointment.

7. Statement about the audit status

Our preliminary final report is based on the Telstra Corporation Limited and controlled entities financial report as at 30 June 2005, which has been audited by the Australian National Audit Office (ANAO). Refer to the 30 June 2005 financial report for the independent audit report to the members of Telstra Corporation Limited.

8. Other factors likely to affect results in the future

Adoption of International Financial Reporting Standards

Australian entities reporting under the Corporations Act 2001 must prepare their financial statements for financial years commencing on or after 1 January 2005 under the Australian equivalents of International Financial Reporting Standards (A-IFRS) as adopted by the Australian Accounting Standards Board (AASB). This will involve preparing our first set of financial statements applying A-IFRS for the half-year ending 31 December 2005 and for the financial year ending 30 June 2006.

The transitional rules for first time adoption of A-IFRS require that we restate our comparative financial statements using A-IFRS, except for AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement" where comparative information is not required to be restated.

Currently we provide two years of comparative financial information in our year end financial statements to comply with applicable US Securities and Exchange Commission (SEC) requirements. The SEC has granted a one-time relief from this requirement for foreign registered companies preparing their first set of financial statements in compliance with International Financial Reporting Standards. We have elected to apply this relief and will only provide one year of comparative information in our 30 June 2006 financial statements.

For reporting in the 2006 fiscal year, comparatives will be remeasured and restated for the half-year ending 31 December 2004 and the financial year ending 30 June 2005. Most of the adjustments on transition are required to be made to opening retained profits at the beginning of the first comparative period (ie. at 1 July 2004).

We have a formal IFRS project team to manage the convergence to A-IFRS and enable us to be prepared to report for the first time in accordance with the timetable outlined above. The project team is monitored by a governance committee comprising senior members of management, which reports regularly on progress to the Audit Committee of the Telstra Board of Directors. The governance committee is monitoring our adoption of A-IFRS in accordance with an established project implementation plan. The committee has also been following the developments in IFRS and the potential impact for our transition to A-IFRS.

The IFRS project is comprised of dedicated workstreams with project teams responsible for evaluating the impact of a specific group of accounting changes resulting from the adoption of A-IFRS. The technical evaluation phase of each workstream is substantially complete and the project is in the implementation and review phases. The project is achieving its scheduled milestones and we expect to be in a position to fully comply with the requirements of A-IFRS for the 2006 fiscal year.

The following disclosures reflect the adjustments based on the work of our IFRS project team for both the Telstra Group and the Telstra Entity. The adjustments reported are based on the A-IFRS standards released as at 30 June 2005. These are subject to ongoing review and any amendments by the AASB, or by interpretative guidance from the IASB or AASB, could change the adjustments reported. The adjustments identified are our best judgements as at reporting date. The figures presented are our current best estimate of the consequences for the Company adopting A-IFRS and accordingly they remain subject to change.

There are certain items that still require resolution. We have not recognised a deferred tax liability in relation to indefinite lived intangibles as detailed in note 8 (c). Also, in respect of the Urgent Issues Group (UIG) release UIG 1042: "Subscriber Acquisition Costs in the Telecommunication Industry", we have not changed the accounting for mobile phone handset subsidies as detailed in note 8 (j).

We set out below the key differences in accounting policy and our known estimable transitional differences from application of A-IFRS. In addition, we have included the likely impacts on the 2005 fiscal year result and financial position where known and the transitional adjustments for AASB 132/139 as at 1 July 2005.

(a) AASB 2: "Share-Based Payment" (AASB 2)

Under current AGAAP we recognise an expense for all restricted shares, performance rights, deferred shares, other like instruments and Telstra shares (consisting of "directshares" and "ownshares") issued. This expense is equal to the funding provided to the Telstra Growthshare Trust to purchase Telstra shares on market to underpin these equity instruments, and is recognised in full in the statement of financial performance when the funding is provided. Under current AGAAP, we do not recognise an expense for options issued on the basis that instrument holders will be required to pay the option exercise price once the options vest and are exercised. We have not issued options subsequent to fiscal 2002.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(a) AASB 2: "Share-Based Payment" (AASB 2) (continued)

On adoption of AASB 2 we will recognise an expense for all share-based remuneration determined with reference to the fair value of the equity instruments issued. The fair value of our equity instruments will be calculated using an appropriate valuation technique to estimate the price of those equity instruments in an arm's length transaction between knowledgeable, willing parties. The fair value calculated in accordance with AASB 2 will be charged against profit over the relevant vesting periods, and adjusted as required by the standard.

Under the transitional exemptions of AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" (AASB 1) we have elected not to apply AASB 2 to equity instruments issued prior to 7 November 2002 (the effective date of IFRS 2). This approach gives rise to a positive transitional adjustment to retained profits.

A transitional adjustment to increase Telstra Group opening retained profits by $55 million (Telstra Entity: $55 million) represents the reversal of the expense previously recorded under AGAAP. We will also recognise a transitional expense in Telstra Group retained profits under AASB 2 of $4 million (Telstra Entity: $4 million) relating to the amortisation over the vesting period of issues subsequent to 7 November 2002. This transitional expense will increase share capital by $4 million.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for the Telstra Growthshare Trust, which administers our share based payment plans. Under current AGAAP we do not control or significantly influence the trust, as beneficial ownership and control remains with the employees who participate in the share plans, administered by the Trustee on their behalf.

Under A-IFRS, we believe that from transition date we will be required to include the results, financial position and cash flows of the Telstra Growthshare Trust within our financial statements. The following adjustments will be recorded on initial recognition within the Telstra Group and Telstra Entity:

- elimination of the loan receivable from the Telstra Growthshare Trust ($65 million);
- reduction in share capital to reflect the shares held in the Telstra Entity by the Telstra Growthshare Trust ($117 million); and
- the recognition of cash assets held by the Telstra Growthshare Trust ($3 million).

Other assets and liabilities held by the Trust are insignificant to the Telstra Group and Telstra Entity.

Our interpretation of AASB 2 is that shares issued under the Telstra Employee Share Ownership Plans (TESOP 97 and TESOP 99), in conjunction with the non-recourse loans, are to be accounted for as options. As a result, the outstanding balance of the Telstra Group and Telstra Entity loans to employees under TESOP 97 and TESOP 99 amounting to $174 million (comprising $24 million current receivables and $150 million non-current receivables), will be deducted from share capital on transition to A-IFRS.

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). Under current AGAAP, we do not control or significantly influence these trusts as beneficial ownership and control remains with the employees who participate in the share plans administered by the Trustee on their behalf.

Under A-IFRS we will also include TESOP 97 and TESOP 99 within our financial statements from transition date. The assets and liabilities held by these trusts are insignificant to the Telstra Group and Telstra Entity.

Comparative information

The cumulative effect on the Telstra Group and Telstra Entity financial position at 30 June 2005 will be to increase cash assets by $8 million, decrease current receivables by $24 million, non current receivables by $175 million, and share capital by $257 million. Telstra Group labour expense will decrease by $10 million, interest revenue will decrease by $2 million, and dividends will decrease by $7 million for the year ended 30 June 2005.

(b) AASB 3: "Business Combinations" (AASB 3)

Our current accounting policy is to amortise goodwill over the period of expected benefit. Under A-IFRS goodwill acquired in a business combination will no longer be amortised, but instead will be subject to impairment testing at each reporting date, or upon the occurrence of triggers that may indicate a potential impairment. If there is an indication of impairment resulting in an impairment loss, it will be recognised immediately in the statement of financial performance.

Under the transitional arrangements of AASB 1 we have the option of applying AASB 3 prospectively from the transition date to A-IFRS. We have chosen this option rather than to restate all previous business combinations. The impact of AASB 3 and associated transitional arrangements will be as follows:

- all prior business combination accounting will be frozen as at 1 July 2004; and
- the value of goodwill will be frozen as at transition date, with any amortisation that has been, or will be, reported under AGAAP subsequent to transition date reversed for A-IFRS restatements.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(b) AASB 3: "Business Combinations" (AASB 3) (continued)

Comparative information

The prohibition of amortisation of goodwill will have the effect of reducing expenses and therefore improving reported profits, subject to any impairment charges that may be required from time to time. This change in policy under A-IFRS may result in increased volatility of future earnings where impairment losses are incurred. The cumulative effect on the Telstra Group financial position at 30 June 2005 will be to increase intangibles - goodwill by $145 million (Telstra Entity: $4 million). The AGAAP amortisation charge for the Telstra Group for the year ended 30 June 2005 was $145 million (Telstra Entity: $4 million), which will be reversed for A-IFRS purposes.

In addition, the amortisation charge for notional goodwill that has previously been included in the share of net loss from joint venture entities and associated entities will cease. The cumulative effect on the Telstra Group financial position at 30 June 2005 will be to increase investments accounted for using the equity method by $2 million. The AGAAP notional amortisation charge for the Telstra Group for the year ended 30 June 2005 was $2 million and will be reversed for A-IFRS purposes. There is no impact on the Telstra Entity.

The adoption of AASB 3 results in adjustments being recognised for acquisitions completed subsequent to transition date in the 12 months to 30 June 2005. This means that deferred tax balances related to assets and liabilities acquired are to be recognised as part of an acquisition, subsequently resulting in adjusted goodwill balances. The effect on the Telstra Group financial position at 30 June 2005 will be to increase intangibles - goodwill by $68 million and deferred tax liabilities by $68 million. There is no impact on the Telstra Entity.

(c) AASB 112: "Income Taxes" (AASB 112)

On transition to A-IFRS, a new method of accounting for income taxes, known as the "balance sheet approach", will be adopted, replacing the "income statement approach" currently used by Australian companies. Under the new method we will generally recognise deferred tax balances in the statement of financial position when there is a difference between the carrying value of an asset or liability and its tax base.

The identified tax adjustments to Telstra Group deferred tax liabilities that arise on transition to other A-IFRS standards, comprise an increase of $137 million associated with the pension asset as detailed in note 8 (e), and a decrease of $138 million for the tax effect of the transitional adjustment relating to borrowing costs as detailed in note 8 (g). Opening retained earnings increase by $1 million as a result of these entries.

The identified tax adjustments to Telstra Entity deferred tax liabilities that arise on transition to other A-IFRS standards, comprise an increase of $135 million associated with the pension asset as detailed in note 8 (e), and a decrease of $129 million for the tax effect of the transitional adjustment relating to borrowing costs as detailed in note 8 (g). Opening retained earnings decrease by $6 million as a result of these entries.

In addition, a net transitional increase to Telstra Group deferred tax liabilities of $234 million will arise from the change in method of accounting for income taxes from an income statement approach to a balance sheet approach, for items not previously required to be recognised. For the Telstra Group, this comprises $93 million for the tax effect of fair value adjustments on entities acquired by us and tax base differences on buildings of $169 million, partially offset by tax losses of $28 million. Opening retained earnings decrease by $202 million and the asset revaluation reserve reduces by $32 million as a result of these entries.

In June 2005, the Urgent Issues Group released UIG 1052: "Tax Consolidation Accounting". This interpretation does not result in a change to reporting by the Telstra Group, but will impact on reporting for the Telstra Entity. The interpretation must be applied for the year ending 30 June 2006. Due to the timing of this release, it has not been possible to ascertain the impact on the Telstra Entity. As a result, the net transitional adjustment that will arise from the change in method of accounting for income taxes from an income statement approach to a balance sheet approach has not been finalised for the Telstra Entity.

The tax consequences of some aspects of the adoption of A-IFRS are still unclear. The Australian Taxation Office has established a national tax liaison group IFRS sub-committee to identify, calculate and manage the consequences arising from IFRS adoption. There are also some technical aspects of AASB 112 that are the subject of further clarification as to how they will apply to us. Finalisation of these matters could give rise to further transitional adjustments from the adoption of AASB 112.

We have not recognised a deferred tax liability in relation to indefinite lived intangibles as we do not believe that this asset balance gives rise to a future tax consequence. The AASB has referred this matter to the International Financial Reporting Interpretations Committee (IFRIC), who has added this to their August 2005 agenda for consideration. The IFRIC interpretation of this issue could increase the transitional deferred tax liability adjustment by $135 million in the event that our interpretation is not supported. Subsequent to transition date another indefinite lived intangible has been acquired. Resolution of this issue could give rise to an increase in intangibles - goodwill by $2 million and deferred tax liabilities by $2 million.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(c) AASB 112: "Income Taxes" (AASB 112) (continued)

Comparative information

The likely impact on the Telstra Group and Telstra Entity financial position at 30 June 2005, and for the financial performance for the year then ended, has not currently been determined.

(d) AASB 116: "Property, Plant and Equipment" (AASB 116)

Under A-IFRS, we will deem the carrying value of our property, plant and equipment to be cost from the date of transition.

Comparative information

On 6 December 2004, we acquired a 50% interest in the 3G Radio Access Network (RAN) assets of Hutchison 3G Australia Pty Ltd (H3GA) for $450 million, payable over 2 years. Due to the deferred payment terms, under current AGAAP our property, plant and equipment balance increased by $428 million, representing the present value of the purchase price calculated using our incremental borrowing rate. AASB 116 requires that a discount rate specific to the asset be used, rather than our incremental borrowing rate.

Under AGAAP, the release of interest associated with the unwinding of the present value discount is being capitalised as part of property, plant and equipment until the assets are installed ready for use. Under A-IFRS the release of interest will be expensed as incurred.

For the Telstra Group, this change in the discount rate and capitalisation of interest will result in a decrease in our property, plant and equipment of $38 million, decrease in current and non current deferred liabilities of $10 million, and decrease in deferred tax liability of $12 million as at 30 June 2005. Interest expense of the Telstra Group for the year ended 30 June 2005 will increase by $28 million, and income tax expense will decrease by $12 million. There will be no impact on the Telstra Entity.

(e) AASB 119: "Employee Benefits" (AASB 119)

Under current AGAAP, we do not recognise an asset or liability in our statement of financial position for the net position of the defined benefit schemes we sponsor in Australia and Hong Kong.

On adoption of A-IFRS, AASB 119 requires us to recognise the net position of each scheme as a transitional adjustment in the statement of financial position, with a corresponding entry to retained profits. The transitional adjustment is based on an actuarial valuation of each scheme at transition date determined in accordance with AASB 119. This Telstra Group adjustment will result in a $537 million defined benefit pension asset, an increase to opening retained profits of $400 million, and a $137 million increase to the deferred tax liability, as detailed in note 8 (c). The Telstra Entity adjustment will result in a $528 million defined benefit pension asset, an increase to opening retained profits of $393 million, and a $135 million increase to the deferred tax liability.

We have elected to early adopt the revised AASB 119. This revised version permits a number of options for recognising actuarial gains and losses on an ongoing basis. We have elected to apply the option to recognise actuarial gains and losses directly in retained profits. Other components of pension costs will be recognised in the statement of financial performance.

Comparative information

The cumulative effect on the Telstra Group financial position at 30 June 2005 will be to increase the defined benefit pension asset by $247 million, increase property, plant and equipment by $24 million, representing the capitalised portion of the additional labour cost, increase deferred tax liabilities by $63 million, and decrease retained earnings for actuarial losses by $67 million. Telstra Group labour expense will increase by $174 million, depreciation expense will increase by $2 million, and income tax expense will decrease by $51 million for the year ended 30 June 2005.

The cumulative effect on the Telstra Entity financial position at 30 June 2005 will be to increase the defined benefit pension asset by $241 million, increase property, plant and equipment by $24 million, increase deferred tax liabilities by $61 million, and decrease retained earnings for actuarial losses by $64 million. Telstra Entity labour expense will increase by $175 million, depreciation expense will increase by $2 million, and income tax expense will decrease by $52 million for the year ended 30 June 2005.

(f) AASB 121: "The Effects of Changes in Foreign Exchange Rates" (AASB 121)

The Telstra Group transitional adjustments to reset the goodwill and fair value adjustments of foreign controlled entities will result in a decrease to the foreign currency translation reserve (FCTR) of $297 million, corresponding with an increase to property, plant and equipment of $3 million, an increase of $14 million to intangible assets, and a decrease in goodwill of $314 million. The FCTR will be reset to nil following these adjustments.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(f) AASB 121: "The Effects of Changes in Foreign Exchange Rates" (AASB 121) (continued)

On an ongoing basis, AASB 121 requires goodwill and fair value adjustments arising on the acquisition of a foreign controlled entity to be expressed in the functional currency of the foreign operation. In conjunction with the transitional adjustments, this may result in additional fluctuations in our FCTR on an ongoing basis.

Under the transitional rules of AASB 1 we will be taking advantage of an exemption that permits the resetting of the FCTR to nil as at the date of transition to A-IFRS. The A-IFRS FCTR balance prior to reset is $343 million. The decision to reset will give rise to a decrease to opening retained profits of this amount. There will be no adjustment related to the Telstra Entity.

Translation differences in relation to our foreign controlled entities subsequent to transition to A-IFRS will continue to be recorded in the FCTR. The gain or loss on a future disposal of a foreign controlled entity will exclude the translation differences that arose before the date of transition to A-IFRS and the resetting of the FCTR.

Under the transitional rules of AASB 1 we will be taking advantage of an exemption that permits goodwill and fair value adjustments related to foreign controlled entities to be reset to the functional currency of the foreign operations at the original date of acquisition. The financial impact of restating goodwill and fair value adjustments not denominated in functional currencies of that entity are primarily attributable to our investments in the Telstra CSL Group (HKCSL) and TelstraClear Limited (TelstraClear).

Comparative information

The cumulative effect on the Telstra Group financial position at 30 June 2005 will be to decrease intangibles - goodwill by $447 million, increase intangibles - other by $11 million, increase property, plant and equipment by $3 million and decrease FCTR by $90 million. The impact on financial performance for the year ended 30 June 2005 will be insignificant. In addition, there will be no adjustment related to the Telstra Entity.

(g) AASB 123: "Borrowing Costs" (AASB 123)

In accordance with AGAAP, we capitalise borrowing costs incurred in respect of internally constructed property, plant and equipment and software assets that meet the criteria of qualifying assets. The benchmark treatment required under A-IFRS is to expense borrowing costs. AASB 123 does however permit the alternative treatment of capitalising these costs where they relate to qualifying assets. We have elected to change our policy in line with the benchmark treatment and expense our borrowing costs.

On transition to A-IFRS we will transfer the unamortised capitalised borrowing costs included in property, plant and equipment and software assets to retained profits. This will give rise to a reduction in Telstra Group property, plant and equipment of $396 million, a reduction in software assets of $63 million, a decrease to opening retained profits of $321 million and a $138 million decrease to deferred tax liabilities.

In relation to the Telstra Entity, this will give rise to a reduction in property, plant and equipment of $368 million, a reduction in software assets of $63 million, a decrease to opening retained profits of $302 million and a $129 million decrease to deferred tax liabilities. This election will have the impact of reducing depreciation and increasing our interest expense in subsequent reporting periods.

Comparative information

The cumulative effect on the Telstra Group financial position at 30 June 2005 will be to decrease property, plant and equipment by $399 million, reduce software assets by $57 million, and increase deferred tax liabilities by $138 million. Telstra Group depreciation expense will decrease by $93 million and borrowing costs will increase by $90 million for the year ended 30 June 2005.

The cumulative effect on the Telstra Entity financial position at 30 June 2005 will be to decrease property, plant and equipment by $374 million, a reduction in software assets of $57 million and increase deferred tax liabilities by $129 million. Telstra Entity depreciation expense will decrease by $90 million, and borrowing costs will increase by $90 million for the year ended 30 June 2005.

(h) AASB 128: "Investments in Associates" (AASB 128) and AASB 131: "Interests in Joint Ventures" (AASB 131)

AASB 128/131 requires amounts that are in substance part of the net investment in associates or joint venture entities to be accounted for as part of the carrying value of the investment for the purposes of equity accounting the results of the associate or joint venture entity. Accordingly, we have reclassified amounts that are not currently recorded in the carrying value of our investment in associates or joint venture entities to now be treated as an extension of our equity investment. This treatment gives rise to the continuation of equity accounting of our share of the operating losses in respect of those associates and joint venture entities that are incurring losses and have balances as described above.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(h) AASB 128: "Investments in Associates" (AASB 128) and AASB 131: "Interests in Joint Ventures" (AASB 131) (continued)

On transition to AASB 128/131, there will be a decrease to Telstra Group non current receivables of $208 million representing a capacity prepayment with our joint venture entity Reach Ltd (Reach). This non current asset will be deemed to be an extension of our investment in Reach under A-IFRS. This will result in equity accounting being reinstated against the capacity prepayment as part of the transition to A-IFRS. The increase in our deemed investment balance in Reach will, however, be absorbed by the carried forward losses in Reach not previously recognised. The impact of this change on the Telstra Group will be to decrease opening retained profits by $348 million for our share of the accumulated losses, offset by an increase of $140 million to the FCTR for the translation differences on our investment in Reach. The FCTR attributable to Reach will be reset to nil as detailed in the adjustment outlined in note 8 (f). There will be no adjustment related to the Telstra Entity.

During the 2005 fiscal year we swapped our capacity prepayment with Reach for an Indefeasible Right of Use (IRU). This IRU is recorded as a deferred expense under AGAAP and is being amortised over the term of the IRU being 15 years. Refer to note 14 of our 2005 full financial report lodged with this document for further information. Under A-IFRS, this IRU will be deemed to be an extension of our investment in Reach, similar to the capacity prepayment. As such, we will continue to record the equity accounted losses in Reach against this IRU in the Telstra Group.

Comparative information

The cumulative effect on the Telstra Group financial position at 30 June 2005 will be to decrease intangibles - other by $216 million. The Telstra Group share of net profit from joint venture entities and associated entities will reduce by $14 million, amortisation expense will decrease by $3 million, interest revenue will decrease by $18 million and exchange losses will decrease by $21 million for the year ended 30 June 2005. There will be no adjustment related to the Telstra Entity.

(i) AASB 136: "Impairment of Assets" (AASB 136)

Our current accounting policy under AGAAP is to assess our current and non current assets for impairment by determining the recoverable amount of those assets. We then write down the value of the non current asset where the carrying amount exceeds recoverable amount. Current AGAAP enables us to assess recoverable amount for a group of non current assets where those assets are considered to work together as one.

On adoption of AASB 136, impairment of assets will be assessed on the basis of individual cash generating units. We have assessed our Australian telecommunications network to be a single cash generating unit for the purpose of this standard. This approach has been adopted as we consider that, in the generation of our revenue streams, the delivery of our end products or services is heavily reliant on the use of one core of commonly shared communication assets, encompassing the customer access network and the core network. This ubiquitous network carries all our telecommunications traffic throughout Australia.

Under current AGAAP, we assess recoverable amount on this same ubiquitous network basis, and as a result, there will be no initial adjustments to the value of our assets under A-IFRS.

Each of our controlled entities, joint venture entities and associated entities have also been assessed, and generally each significant entity will have at least one separate cash generating unit in their own right. Under current AGAAP, we generally assess recoverable amount on a similar basis, and there is not expected to be an initial adjustment to the value of our assets. In accordance with AASB 1, the carrying amount of goodwill at transition date has been tested for impairment and no initial impairment losses are to be recognised on transition to A-IFRS.

(j) AASB 138: "Intangible Assets" (AASB 138)

As part of the IFRS project, intangibles recognised under AGAAP, including software assets developed for internal use and deferred expenditure, were reviewed to confirm that the criteria in AASB 138 have been met. Software assets developed for internal use, net deferred mobile phone handset subsidies and other deferred expenditure will be reclassified from other current and non current assets to intangible assets on transition to AASB 138. This reclassification adjustment for the Telstra Group amounts to $2,817 million (Telstra Entity: $2,614 million) as at transition date.

UIG 1042: "Subscriber Acquisition Costs in the Telecommunication Industry", was released in December 2004 and is applicable to us from 1 July 2005. It requires the costs of telephones provided to subscribers to be excluded from subscriber acquisition costs, with the provision of the telephone being accounted for as a separate sale under AASB 118: "Revenue" (AASB 118). However, neither UIG 1042 nor AASB 118 specifies how to account for the separately identifiable component.

We have previously applied US GAAP to these transactions, which also require the provision of a handset to be accounted for as a separately identifiable component. However, the detailed guidance contained under US GAAP allows us to defer these handset subsidies as the revenue allocated to a subsidised mobile handset is contingent on the delivery of the contracted services. As a result, our current accounting policy is to defer handset subsidies and amortise them over the term of the contract.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(j) AASB 138: "Intangible Assets" (AASB 138) (continued)

We have written to the UIG expressing the view that our handset subsidies do represent our subscriber acquisition costs. As a result we have not adjusted our deferred handset subsidies at transition date. As at transition date, the Telstra Group deferred handset subsidies balance was $264 million (Telstra Entity: $264 million). Resolution of this issue may give rise to an additional transition adjustment, reducing retained earnings by $264 million and could also impact the financial performance and position for the year ended 30 June 2005. At this stage we are yet to quantify the potential impact on the financial performance and position in the 2005 fiscal year.

Comparative information

The cumulative effect on the Telstra Group financial position at 30 June 2005 will be to increase intangibles - other by $3,154 million (Telstra Entity: $2,837 million). There will be no impact on financial performance for the year ended 30 June 2005.

(k) AASB 132: "Financial Instruments: Disclosure and Presentation" (AASB 132) and AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139)

Under AASB 132/139, our accounting policy will change to recognise our financial instruments in the statement of financial position and to record all derivatives and some financial assets and financial liabilities at fair market value. Those financial assets and financial liabilities which are not at fair value will be carried at cost or amortised cost.

AASB 139 recognises fair value hedge accounting, cash flow hedge accounting and hedges of investments in foreign operations. Fair value hedges are used to hedge against changes in fair values, whereas cash flow hedges are used to hedge against variability in cash flows. Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness outside the prescribed range precludes the use of hedge accounting, which may result in significant volatility in the statement of financial performance.

Our major exposure to interest rate risk and foreign currency risk arises from our foreign currency borrowings. We expect to use a combination of fair value and cash flow hedges to hedge against these risks. Cash flow hedges will hedge foreign exchange risk arising from payments on our foreign currency borrowings. Fair value hedges will hedge exposure to changes in the fair value of foreign borrowings attributable to foreign currency and interest rate risk.

Exposure to foreign currency risk also arises through our ongoing business activities, predominantly where we have purchase or settlement commitments in foreign currencies. Cash flow hedges are used to hedge foreign currency exposures of anticipated foreign currency transactions that are considered to be highly probable.

In addition, we hedge our exposure to foreign currency risk as a result of our investments in foreign operations, including our investments in TelstraClear and HKCSL. This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars.

The use of hedging instruments is governed by the guidelines set by our Board of Directors. These guidelines are currently being reviewed for potential changes from the adoption of A-IFRS.

We are required to comply with AASB 132/139 from 1 July 2005. An exemption is available under AASB 1 such that comparative information does not need to be restated under these standards. We have elected to apply the exemption and accordingly, there will be no impact on the 30 June 2005 financial statements.

However, it is expected that the application of the recognition and measurement criteria of AASB 139 at 1 July 2005 on the Telstra Group financial assets and financial liabilities, including derivatives, will give rise to an increase in borrowings of $220 million, a decrease in net cross currency and interest rate swap liability of $343 million, an increase in reserves of $151 million and a decrease in retained earnings of $31 million. There will also be an increase in forward foreign exchange contract liabilities of $3 million.

It is expected that the application of the recognition and measurement criteria of AASB 139 at 1 July 2005 on the Telstra Entity financial assets and financial liabilities, including derivatives will give rise to an increase in borrowings of $220 million, a decrease in net cross currency and interest rate swap liability of $343 million, an increase in reserves of $154 million and a decrease in retained earnings of $31 million.

The gains and losses on hedging instruments that arise from the use of fair value hedges will be recognised in the statement of financial performance and increase volatility in reported profits. The increase in volatility of reported profits will include some ineffectiveness arising from the application of hedge accounting. The gains and losses on hedging instruments that arise from the use of cash flow hedges, to the extent they are considered effective, will be deferred to equity until the hedged item is recognised in the statement of financial performance. This will create some volatility in equity reserve balances. Gains and losses on hedging instruments used in hedges of net investments in foreign operations will be recognised in the foreign currency translation reserve in equity.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(k) AASB 132: "Financial Instruments: Disclosure and Presentation" (AASB 132) and AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139)

Under existing AGAAP, the gain or loss arising from our hedge activities is treated consistently with the gain or loss arising on the original hedged transaction or balance. This results in the majority of movements being recognised in the statement of financial performance, with the majority of hedging activities of net investments in foreign operations taken to the FCTR.

In addition to the above, AASB 139 requires that we recognise certain embedded derivatives that exist within contracts to which we are a party. Based on the work- in- progress of our IFRS project team we are not aware of any significant embedded derivatives that require separate measurement and reporting as at the transition date of 1 July 2005. This may be subject to change following finalisation of our review of all our contracts as at the transition date.

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(l) Summary of transitional adjustments

The following provides a summary of the known estimable transitional adjustments from AGAAP to A-IFRS for the Telstra Group as at 1 July 2004, based on the A-IFRS's as currently issued and interpreted.

The transitional impacts disclosed below do not include any adjustments from applying AASB 132/139, on the basis that these standards are to be applied prospectively, with the transition only required to be recognised at 1 July 2005. Refer to note 8 (k) for further information.

Any transitional adjustments identified are based on the work-in-progress of our IFRS project team and our best judgements at reporting date and may be subject to change.

There are certain items that still require resolution. We have not recognised a deferred tax liability in relation to indefinite lived intangibles or determined the impact on the Telstra Entity of UIG 1052: "Tax Consolidation Accounting" as detailed in note 8 (c). Also, in respect of UIG 1042 "Subscriber Acquisition Costs in the Telecommunications Industry", we have not changed the accounting for mobile phone handset subsidies as detailed in note 8 (j).

		Telstra Group			
		1 July 2004			
			Effect of transition to A-IFRS		
	Note	AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	Australian equivalent of IFRS $m
Current assets					
Cash and cash equivalents	8 (a)	687	-	3	690
Trade and other receivables	8 (a)	3,608	(24)	-	3,584
Inventories		229	-	-	229
Other assets	8 (j)	803	(491)	-	312
Total current assets		5,327	(515)	3	4,815
Non current assets					
Trade and other receivables	8 (a),(h)	740	(150)	(273)	317
Inventories		10	-	-	10
Investments - accounted for using the equity method		40	-	-	40
Investments - available for sale		80	-	-	80
Property, plant and equipment	8 (f),(g)	22,863	-	(393)	22,470
Intangibles - goodwill	8 (f)	2,104	-	(314)	1,790
Intangibles - other	8 (f),(j)	1,501	2,817	(49)	4,269
Defined benefit pension asset	8 (e)	-	-	537	537
Other assets	8 (g),(j)	2,328	(2,326)	-	2
Total non current assets		29,666	341	(492)	29,515
Total assets		34,993	(174)	(489)	34,330

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(l) Summary of transitional adjustments (continued)

		Telstra Group			
		1 July 2004			
			Effect of transition to A-IFRS		Australian
			Presentation	Accounting	equivalent
		AGAAP	adjustments	adjustments	of IFRS
	Note	$m	$m	$m	$m
Current liabilities					
Trade and other payables		2,338	-	-	2,338
Borrowings		3,246	-	-	3,246
Current tax payable		539	-	-	539
Provisions		358	-	-	358
Revenue received in advance		1,095	-	-	1,095
Total current liabilities		7,576	-	-	7,576
Non current liabilities					
Trade and other payables		49	-	-	49
Borrowings		9,014	-	-	9,014
Deferred tax liabilities	8 (c),(e),(g)	1,807	-	233	2,040
Provisions		778	-	-	778
Revenue received in advance		408	-	-	408
Total non current liabilities		12,056	-	233	12,289
Total liabilities		19,632	-	233	19,865
Net assets		15,361	(174)	(722)	14,465
Shareholders' equity					
Telstra Entity					
Share capital		6,073	(174)	(113)	5,786
Reserves		(105)	-	154	49
Retained profits		9,391	-	(763)	8,628
Equity available to Telstra Entity shareholders		15,359	(174)	(722)	14,463
Minority interests		2	-	-	2
Total shareholders' equity		15,361	(174)	(722)	14,465

8. Other factors likely to affect results in the future (continued)

Adoption of International Financial Reporting Standards (continued)

(m) Statement of changes in shareholders' equity

The following statement of changes in shareholders' equity provides a summary of the known estimable transitional adjustments from AGAAP to A-IFRS for the Telstra Group as at 1 July 2004, based on the A-IFRS's as currently issued and interpreted. The transitional impacts disclosed below do not include any adjustments from applying AASB 132/139, on the basis that these standards are to be applied prospectively, with the transition only required to be recognised at 1 July 2005. Refer to note 8 (k) for further information.

Any transitional adjustments identified are based on the work-in-progress of our IFRS project team and our best judgements at reporting date, and may be subject to change.

There are certain items that still require resolution. We have not recognised a deferred tax liability in relation to indefinite lived intangibles as detailed in note 8 (c). Also, in respect of UIG 1042 "Subscriber Acquisition Costs in the Telecommunications Industry", we have not changed the accounting for mobile phone handset subsidies as detailed in note 8 (j).

		Telstra Group							
			Reserves						
	Note	Share capital/ Contributed equity $m	Asset revaluation $m	Foreign currency translation $m	General $m	Consoli-dation fair value $m	Retained profits $m	Outside equity interests $m	Total $m
Balance at 1 July 2004 under AGAAP . .		6,073	32	(186)	5	44	9,391	2	15,361
Share loans to employees	8 (a)	(174)	-	-	-	-	-	-	(174)
Shares held by employee share plan trusts	8 (a)	(117)	-	-	-	-	-	-	(117)
Services received under employee share plans	8 (a)	4	-	-	-	-	(4)	-	-
Share-based payments.	8 (a)	-	-	-	-	-	55	-	55
Carrying value differences from the tax base	8 (c)	-	(32)	-	-	-	(202)	-	(234)
Net defined benefit pension asset . .	8 (e)	-	-	-	-	-	400	-	400
Retranslation of overseas goodwill balances.	8 (f)	-	-	(297)	-	-	-	-	(297)
Resetting the foreign currency translation reserve to zero.	8 (f)	-	-	343	-	-	(343)	-	-
Expensing of borrowing costs previously capitalised	8 (g)	-	-	-	-	-	(321)	-	(321)
Equity accounting for Reach Ltd . . .	8 (h)	-	-	140	-	-	(348)	-	(208)
Balance at 1 July 2004 under A-IFRS for known estimable transitional adjustments		5,786	-	-	5	44	8,628	2	14,465