



Telstra Corporation Limited and controlled entities

Appendix 4E Preliminary final report for the year ending 30 June 2004

Appendix 4E
Preliminary final report

Telstra Corporation Limited ABN 33 051 775 556

Financial year ended
30 June 2004

Results for announcement to the market

	Telstra Group			
	Year ended 30 June			
	2004	2003	Movement	Movement
	\$m	\$m	\$m	%
Extract from the statement of financial performance				
Sales revenue	20,737	20,495	242	1.2%
Revenue from ordinary activities (including interest revenue)	21,335	21,700	(365)	(1.7%)
Net profit available to Telstra Entity shareholders	4,118	3,429	689	20.1%

For fiscal 2004 and fiscal 2003, 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 2004, the following significant items impacted on the results recorded in our statement of financial performance:

- On 28 August 2003, 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 this transaction was a profit of \$19 million (\$58 million after taking into account income tax benefits).

- On 17 June 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 have provided for the non recoverability of the debt, amounting to \$226 million, as we consider that Reach is not in a position where it will be able to repay the amount plus accrued interest in the medium term.

During fiscal 2003, the following significant items impacted on the results recorded in our statement of financial performance:

- Our revenue from ordinary activities included \$570 million from the sale of a portfolio of seven office properties. The carrying value of these properties was \$439 million at the time of sale. The profit on sale of these properties was \$131 million before income tax expense and \$90 million after income tax expense.

- Our share of net loss from associates and joint venture entities included a \$965 million write down of the carrying amount of our investment in Reach. The decision to write down our investment was due to depressed conditions in the global market for international data and internet capacity resulting in high levels of excess capacity, intense price competition and lower than expected revenues.

- Our income tax expense includes a once-off benefit of \$201 million relating to our election to form a tax consolidated group from 1 July 2002 under tax consolidation legislation. Under this legislation, tax values of assets for certain subsidiaries are reset according to set allocation rules. Subsequent analysis of this adjustment has resulted in a further tax benefit of \$58 million being recognised in fiscal 2004. The once-off benefit reflects the increase in the future income tax arising from these reset tax values.

Appendix 4E
Preliminary final report

Telstra Corporation Limited ABN 33 051 775 556

Financial year ended
30 June 2004

Results for announcement to the market (continued)

Capital management program

On 21 June 2004, we announced a capital management program, whereby the Company intends to return approximately \$1.5 billion to ordinary shareholders through special dividends and/or share buy backs each year through to fiscal 2007.

On 12 August 2004, we announced an intention to pay a special dividend of 6 cents per share, fully franked, to be paid to ordinary shareholders with the interim dividend in fiscal 2005 and an intention to undertake an off-market share buy-back up to \$750 million.

	Telstra Group	
	Year ended 30 June	
	2004	2003
	¢	¢
Dividends per share		
Interim dividend paid	13	12
Interim special dividend paid	-	3
Final dividend	13	12
Total dividend	26	27

Our interim, special and final dividends for fiscal 2004 and fiscal 2003 are fully franked at a tax rate of 30%.

The interim dividend for fiscal 2004 had a record date of 26 March 2004 with payment being made on 30 April 2004.

The final dividend is declared subsequent to balance date and paid in the following financial year. Our final ordinary dividend for fiscal 2003 that was provided for and paid during fiscal 2004 had a record date of 26 September 2003 and payment was made on 31 October 2003.

Our final ordinary dividend for fiscal 2004 has been disclosed as an event after balance date. This dividend will have a record date of 24 September 2004, with payment to be made on 29 October 2004.

Contents and reference page

Appendix 4E requirements	Reference
1. Reporting period and the previous corresponding period.	Refer to the 30 June 2004 financial report lodged with this document.
2. Results for announcement to the market.	Refer page 1 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 4 of this report.
4. Statement of financial position with notes to the statement.	Refer to the statement of financial position on page 5 of this report.
5. Statement of cash flows with notes to the statement.	Refer to the statement of cash flows on page 6 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 2 of this report. Also refer to note 7: Dividends and note 28: Events after balance date in the 30 June 2004 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 8 of this report.
8. Statement of retained earnings.	Refer statement of changes in shareholders' equity on page 7 of this report.
9. Net tangible assets per security.	Refer item 2 on page 8 of this report.
10. Details of entities over which control has been gained or lost during the period.	Refer item 3 on page 8 of this report.
11. Details of associates and joint venture entities.	Refer item 4 on page 9.
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 10 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 pages 10 to 13 of this report.
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 8 on page 14 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 2004

	Telstra Group	
	Year ended 30 June	
	2004	2003
	\$m	\$m
Ordinary activities		
Revenue		
Sales revenue	20,737	20,495
Other revenue (excluding interest revenue)	543	1,121
	21,280	21,616
Expenses		
Labour	3,218	3,204
Goods and services purchased	3,420	3,615
Other expenses	4,389	4,602
	11,027	11,421
Share of net losses from joint venture entities and associated entities	78	1,025
	11,105	12,446
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	10,175	9,170
Depreciation and amortisation	3,615	3,447
Earnings before interest and income tax expense (EBIT)	6,560	5,723
Interest revenue	55	84
Borrowing costs	767	879
Net borrowing costs	712	795
Profit before income tax expense	5,848	4,928
Income tax expense	1,731	1,534
Net profit	4,117	3,394
Outside equity interests in net loss	1	35
Net profit available to Telstra Entity shareholders	4,118	3,429
Other valuation adjustments to equity		
Net exchange differences on translation of financial statements of non-Australian controlled entities	21	(161)
Reserves recognised on equity accounting our interests in associates and joint ventures	(5)	(18)
Increase to opening retained earnings on adoption of new accounting standard	-	1,415
Valuation adjustments attributable to Telstra Entity shareholders and recognised directly in equity	16	1,236
Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners	4,134	4,665
	¢	¢
Basic and diluted earnings per share (cents per share)	32.4	26.6
Total ordinary dividends per share (cents per share)	26.0	27.0

The above statement of financial performance is an extract from our full financial report. Refer to the 30 June 2004 financial report lodged with this document for the detailed notes to this statement.

Statement of Financial Position

as at 30 June 2004

	Telstra Group	
	As at 30 June	
	2004	2003
	\$m	\$m
Current assets		
Cash assets	687	1,300
Receivables	3,608	3,619
Inventories	229	260
Other assets	803	578
Total current assets	5,327	5,757
Non current assets		
Receivables	740	877
Inventories	10	14
Investments - accounted for using the equity method	40	159
Investments - other	80	96
Property, plant and equipment	22,863	23,012
Intangibles - goodwill	2,104	2,018
Intangibles - other	1,501	1,146
Other assets	2,328	2,520
Total non current assets	29,666	29,842
Total assets	34,993	35,599
Current liabilities		
Payables	2,338	2,525
Interest-bearing liabilities	3,246	1,323
Income tax payable	539	660
Provisions	358	353
Revenue received in advance	1,095	973
Total current liabilities	7,576	5,834
Non current liabilities		
Payables	49	51
Interest-bearing liabilities	9,014	11,232
Provision for deferred income tax	1,807	1,814
Provisions	778	814
Revenue received in advance	408	432
Total non current liabilities	12,056	14,343
Total liabilities	19,632	20,177
Net assets	15,361	15,422
Shareholders' equity		
Telstra Entity		
Contributed equity	6,073	6,433
Reserves	(105)	(150)
Retained profits	9,391	9,137
Shareholders' equity available to Telstra Entity shareholders	15,359	15,420
Outside equity interests		
Contributed equity	2	1
Retained profits	-	1
Total outside equity interests	2	2
Total shareholders' equity	15,361	15,422

The above statement of financial position is an extract from our full financial report. Refer to the 30 June 2004 financial report lodged with this document for the detailed notes to this statement.

Statement of Cash Flows

for the year ended 30 June 2004

	Telstra Group	
	Year ended 30 June	
	2004	2003
	\$m	\$m
Cash flows from operating activities		
Receipts from trade and other receivables (inclusive of goods and services tax) (GST)	22,954	22,511
Payments of accounts payable and to employees (inclusive of GST)	(11,816)	(11,920)
Interest received	51	70
Borrowing costs paid	(846)	(999)
Dividends received	2	7
Income taxes paid	(1,856)	(1,536)
GST remitted to the Australian Taxation Office (ATO)	(1,056)	(1,076)
Net cash provided by operating activities	7,433	7,057
Cash flows from investing activities		
- property, plant and equipment	(2,572)	(2,704)
- internal use software assets	(435)	(555)
- patents, trademarks and licences	(2)	(2)
- deferred expenditure	(6)	-
Capital expenditure (before investments)	(3,015)	(3,261)
- shares in controlled entities	(667)	(25)
- investment in joint venture entities	(1)	(45)
- investment in associated entities (including share buy-back)	1	-
- shares in listed securities and other investments	(1)	(1)
Investment expenditure	(668)	(71)
Total capital expenditure	(3,683)	(3,332)
Proceeds from:		
- sale of property, plant and equipment	168	797
- sale of shares in controlled entities	-	12
- sale of joint venture entities and associated entities	221	20
- sale of listed securities and other investments	24	7
- sale of business	-	4
Net cash used in investing activities	(3,270)	(2,492)
Cash flows from financing activities		
Proceeds from:		
- borrowings	4,119	5,914
Repayment of:		
- borrowings	(4,274)	(6,315)
- Telstra bonds	(211)	(582)
- finance leases principal amount	(13)	(22)
Employee share loans (net)	24	33
Loan to joint venture entity	(226)	-
Dividends paid	(3,186)	(3,345)
Share buy-back	(1,009)	-
Net cash used in financing activities	(4,776)	(4,317)
Net increase/(decrease) in cash	(613)	248
Foreign currency conversion	-	(18)
Cash at the beginning of the year	1,300	1,070
Cash at the end of the year	687	1,300

The above statement of cash flows is an extract from our full financial report. Refer to the 30 June 2004 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 2004

Telstra Group

	Contributed equity \$m	Reserves			Consolid- ation fair value \$m	Retained profits \$m	Outside equity interests \$m	Total \$m
		Asset revalua- tion \$m	Foreign currency translation \$m	General \$m				
Balance at 30 June 2002	6,433	32	(55)	(17)	54	7,661	(2)	14,106
- increase to opening retained profits on adoption of new accounting standard	-	-	-	-	-	1,415	-	1,415
- change in outside equity interests' capital, reserves and accumulated losses (apart from interests in net loss)	-	-	-	-	-	(8)	39	31
- net profit/(loss)	-	-	-	-	-	3,429	(35)	3,394
- reserves recognised on equity accounting our interest in associates and joint ventures entities	-	-	(21)	3	-	-	-	(18)
- adjustment on translation of financial statements of non-Australian controlled entities	-	-	(161)	-	-	-	-	(161)
- fair value adjustment on acquisition of controlling interest in joint venture entity	-	-	-	-	(4)	4	-	-
- transfer of foreign currency translation reserve and general reserve on sale of controlled entities and associates	-	-	(3)	22	-	(19)	-	-
- dividends	-	-	-	-	-	(3,345)	-	(3,345)
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 associates and joint ventures 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

The above statement of changes in shareholders' equity is an extract from our full financial report. Refer to the 30 June 2004 financial report lodged with this document for the detailed notes to this statement.

1. Details of dividend or distribution reinvestment plans in operation

During fiscal 2004 and fiscal 2003, we had no dividend or distribution reinvestment plans in operation.

2. Net tangible assets per security

	Telstra Group	
	Year ended 30 June	
	2004	2003
	¢	¢
Net tangible assets per security	107.4	109.4

3. Details of entities which control has been gained or lost having a material affect

During fiscal 2004, we gained control of the following entities:

On 5 March 2004, we purchased 100% of the share capital of Trading Post (Australia) Holdings Pty Ltd and its controlled entities (Trading Post Group) for total consideration of \$638 million. This included payments for shares (including associated acquisition costs) of \$448 million and the repayment of Trading Post Group loans of \$190 million. We recorded goodwill of \$179 million as a result of this purchase.

The Trading Post Group contributed \$44 million to sales revenue for the 4 month period ended 30 June 2004. The contribution to profit before income tax expense was \$9 million and profit after income tax expense was \$6 million. The Trading Post Group previously had a financial year end of 31 December 2003. For the year ended 31 December 2003, the Trading Post Group had sales revenue of \$129 million, with profit before income tax expense of \$3 million (profit after income tax expense of \$0.2 million).

Refer note 23: Investments in controlled entities of our 30 June 2004 financial report lodged with this document for additional details regarding our investment in controlled entities.

4. Details of investments in joint ventures and associated entities

Name of joint venture entity	Ownership Interest	
	2004	2003
	%	%
FOXTEL Partnerships #	50.0	50.0
Customer Services Pty Ltd	50.0	50.0
FOXTEL Management Pty Ltd	50.0	50.0
FOXTEL Cable Television Pty Ltd	80.0	80.0
Reach Ltd	50.0	50.0
Stellar Call Centres Pty Ltd	50.0	50.0
Xantic B.V.	35.0	35.0
TNAS Limited	33.3	33.3
1300 Australia Pty Ltd	50.0	-

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

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

Name of associated entity	Ownership Interest	
	2004	2003
	%	%
IBM Global Services Australia Ltd	-	22.6
Australian-Japan Cable Holdings Limited	39.9	39.9
Ecard Pty Ltd	50.0	50.0
PT Mitra Global Telekomunikasi Indonesia	-	20.4
Telstra Super Pty Ltd	100.0	100.0
myinternet Limited	-	21.1
Keycorp Limited	47.9	47.9
Telstra Foundation Limited	100.0	100.0
CityLink Limited	-	27.1

During fiscal 2004, we sold our shareholding in the following significant associated entities:

- On 28 August 2003, we sold our 22.6% shareholding in our associated entity IBM Global Services Australia Limited (IBMGSA) for \$154 million.
- On 20 January 2004, we completed the sale of our 20.4% shareholding in PT Mitra Global Telekomunikasi Indonesia (MGTI). Revenue from the sale of this investment amounted to \$50 million, resulting in a profit before income tax of \$21 million.

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

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

	Year ended 30 June	
	2004	2003
	\$m	\$m
Our net profit/(loss) from joint venture entities and associated entities has been contributed by the following entities:		
Joint venture entities		
FOXTEL Partnerships #	(44)	(47)
Stellar Call Centres Pty Ltd	2	2
Xantic B.V.	(43)	(24)
Reach Ltd	-	(946)
	(85)	(1,015)
Associated entities		
IBM Global Services Australia Limited	3	6
Australian-Japan Cable Holdings Limited	-	(6)
Solution 6 Holdings Ltd	-	(2)
Ecard Pty Ltd	(2)	(10)
PT Mitra Global Telekomunikasi Indonesia	6	2
	7	(10)
	(78)	(1,025)

This includes both the FOXTEL Partnership and the FOXTEL Television Partnership.

The significant decrease in our share of net loss from joint venture entities and associated entities in fiscal 2004 is mainly due to the write down of the carrying amount of our investment in Reach, amounting to \$965 million, in fiscal 2003.

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

Statement of Financial Position

We continued to maintain a strong financial position with net assets of \$15,361 million.

Our net assets decreased by \$61 million, comprising a decrease in our total assets of \$606 million and a decrease in total liabilities of \$545 million.

The decrease in total assets of \$606 million was primarily due to the following movements during the year:

- Cash assets decreased by \$613 million due to our working capital requirements and the off market share buy-back completed in November 2003;
- Our property, plant and equipment decreased by \$149 million, due mainly to depreciation and amortisation charges; and
- Offset by current other assets being higher due to increasing deferred mobile handset subsidies of \$94 million.

The decrease in total liabilities of \$545 million was primarily due to a reduction in total interest-bearing liabilities, which was attributable to the repayment of loans from free cash flow generated during the year.

The group continued to maintain a strong free cash flow position, which enabled the company to increase ordinary dividends, fund an increase in investing activities and complete an off market share buy-back. We have gained cash through continued strong company operating activities and through careful capital and cash management. We have also achieved a sustainable reduction in capital expenditure.

Statement of Cash Flows

We continued to generate strong cash flow from operating activities of \$7,433 million (2003: \$7,057 million). This position was the result of continued tight control of expenditure and improved working capital management, partially offset by higher tax payments.

Cash used in investing activities was \$3,270 million, representing an increase of \$778 million from the prior year. The increase is mainly attributable to the acquisition of the Trading Post Group for \$634 million and the Cable Telecom group for \$31 million net of cash balances acquired. In addition, a decrease of \$629 million in our proceeds from property, plant and equipment was due mainly to the sale of a portfolio of seven office properties in fiscal 2003. The current year proceeds on sale included \$154 million from the sale of our interest in IBMGSA, \$50 million from the sale of our interest in PT Mitra Global Telekomunikasi Indonesia (PT Mitra) and \$168 million from the sale of property, plant and equipment.

Total cash flow before financing activities (free cash flow) decreased to \$4,163 million (2003: \$4,565 million).

Our cash used in financing activities was \$4,776 million (2003: \$4,317 million) after dividend payments of \$3,186 million (2003: \$3,345 million), share buy-back of \$1,009 million (2003: nil) and net repayment of borrowings of \$581 million (2003: \$972 million).

6. **Commentary on the results for the period**

Our net profit after outside equity interests for the year was \$4,118 million, representing an increase of 20.1% on the prior year's net profit of \$3,429 million. The increase in net profit arose largely due to a \$965 million write down of the investment in our 50% owned joint venture Reach Ltd (Reach) during fiscal 2003.

Earnings before interest and income tax expense (EBIT) for fiscal 2004 was \$6,560 million (2003: \$5,723 million).

Total revenue (including interest revenue) for the year decreased by 1.7% to \$21,335 million (2003: \$21,700 million). This decrease was primarily due to revenue in fiscal 2003 including proceeds from the sale of seven office properties, which contributed gross proceeds of \$570 million.

Sales revenue was \$20,737 million, representing a 1.2% increase on the prior year sales revenue of \$20,495 million. This increase was attributable to growth in mobiles, Internet and IP solutions, PSTN products and advertising and directories, offset by a decline in revenues from CSL.

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

We operate a full service telecommunications model. Basic access revenue increased due to the introduction of pricing packages with higher access charges and lower call rates, but was offset by lower local call, international direct and national long distance revenues. Mobile services and fixed to mobile call revenue increased, largely due to the strength of mobile's data revenue and the continued growth in the number of mobiles in the Australian market. The higher mobile services and fixed to mobile call revenue was, however, partially offset by lower revenue from mobile handset sales. Internet and IP solution revenue experienced significant growth due to increased numbers of broadband subscribers. Advertising and directory services revenue grew due to the continued take up of new advertising offerings. ISDN revenue decreased mainly due to the migration of corporate customers to other products such as ADSL and frame relay. Inbound calling products also decreased due to intense price competition and a declining customer base.

Our total revenue from other controlled entities was lower due to a decline in revenue from CSL as a result of unfavourable currency fluctuations and extremely competitive market conditions in the region. This was moderated by increases achieved by our New Zealand subsidiary, TelstraClear.

Other revenue decreased by \$578 million to \$543 million, due primarily to the sale of the seven office properties in fiscal 2003 referred to above. In fiscal 2004, other revenue included the sale of our shareholding in our associated entity, IBM Global Services Australia Limited (IBMGSA), contributing proceeds on sale of \$154 million.

We continued to focus on cost control in fiscal 2004. Overall expenses decreased by 7.7% to \$15,487 million from \$16,772 million in the prior year. A significant portion of this decrease was due to the \$965 million write down of the investment in our 50% owned joint venture, Reach, and the cost of assets and investments sold during fiscal 2003.

Labour expenses were in line with the prior year at \$3,218 million (2003: \$3,204 million). Goods and services purchased decreased by 5.4% to \$3,420 million in fiscal 2004 (2003: \$3,615 million) due to a reduction in handset sales, lower network payments and lower commercial project payments. Depreciation and amortisation expense increased by 4.9% to \$3,615 million (2003: \$3,447 million), due mainly to the growth in communications asset additions. Other expenses decreased by 4.6% to \$4,389 million (2003: \$4,602 million), mainly due to the carrying value of assets and investments sold in the prior year being significantly larger than the current year. This decrease in other expenses was partly offset by 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.

Income tax expense increased by 12.8% to \$1,731 million in fiscal 2004, primarily due to a \$201 million tax benefit recognised in the prior year on initial adoption of the tax consolidation legislation. Tax expense also increased due to the higher profit of the group, giving an overall effective tax rate of 29.6%.

Investor return and other key ratios

Our earnings per share increased to 32.4 cents per share in fiscal 2004 from 26.6 cents per share in the prior year. This increase was 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 2004.

The directors have declared a final fully franked ordinary dividend of 13 cents per share, bringing dividends per share for fiscal 2004 to 26 cents per share. The prior year dividends amounted to 27 cents per share, which included a special dividend of 3 cents per share. The directors also returned \$1,001 million to shareholders through an off market share buy-back.

Other relevant measures of return to investors include the following:

- Return on average assets - 2004: 19.4% (2003: 16.3%)
- Return on average equity - 2004: 26.8% (2003: 23.2%)
- Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) - 2004: \$10,175 million (2003: \$9,170 million)

Return on average assets is higher in fiscal 2004 primarily due to the write down of the investment in Reach in fiscal 2003. Return on average equity was higher partially due to the share buy-back in fiscal 2004 and for the reasons noted in the discussion and analysis on our statement of financial position and statement of financial performance.

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

Share buy-back

On 24 November 2003, we completed an off-market share buy-back of 238,241,174 ordinary shares as part of our ongoing capital management program. The ordinary shares were bought back at \$4.20 per share, comprising a fully franked dividend component of \$2.70 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, 1.85% of our total issued ordinary shares, or 3.71% of our non Commonwealth owned ordinary shares, were bought back.

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;
- Bigpond, Media Services and Sensis; and
- 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 and Telstra Country Wide.

Telstra Consumer and Marketing's sales revenue increased by 2.4% in fiscal 2004 to \$5,719 million due mainly to the continued strong performance of its mobile services, especially in data and prepaid usage. We also experienced strong growth in data and internet which was mainly driven by increased broadband customers, slightly offset by lower yields with our new broadband plans. Despite intense competition in fixed line calling services, and migration to other products, fixed line revenues only declined slightly for this segment.

Telstra Consumer and Marketing earnings before interest and income tax expense (EBIT) increased by 0.9% in fiscal 2004 as the revenue growth was offset to some extent by the growth in expenses. Expense growth resulted from an increase in labour costs driven by increased staff numbers to support the higher customer base and growth in FOXTEL bundling costs. This was offset by decreased domestic and international network payments due to lower termination rates and the stronger Australian dollar.

Telstra Country Wide sales revenue totalled \$5,224 million in fiscal 2004. Sales revenue growth of 3.3% was achieved in fiscal 2004, predominantly due to solid growth in data and internet services, fixed to mobile and mobiles revenue (due to the increased volumes and the number of services) and national long distance calls, as well as new revenue streams from Pay TV. This growth was partially offset by a reduction in basic access, local calling and international long distance revenues due to increased competitor activity and product substitutions.

Telstra Country Wide EBIT increased 2.7% compared with fiscal 2003 with solid growth in revenue, which was partially offset by increased costs. The main contributing factors to the increased costs in fiscal 2004 were increased volumes for calls terminating on other carriers' networks and costs associated with new Pay TV revenue streams.

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

Segment information (continued)

Telstra Business and Government sales revenue totalled \$4,335 million in fiscal 2004. Sales revenue growth in fiscal 2004 remained flat compared with fiscal 2003, predominantly due to an environment of on-going price re-balancing initiatives and tough competition. Solid growth in fixed to mobile revenue in fiscal 2004 was achieved, due to increased call volumes and growth in the number of mobile phone users in the Australian market and continued growth in internet and IP solutions related revenue. Basic access revenue increased in fiscal 2004 due to higher rental and subscription, however local call revenue, national long distance call revenue and international direct revenue decreased, mainly due to migration to other telecommunication solutions. Further contributions to sales revenue occurred in fiscal 2004, as a result of the acquisition of the United Kingdom based Cable Telecom Limited group in February 2004 and the business assets of Powergen in October 2003.

Telstra Business and Government EBIT grew by 4.5% to \$3,118 million in fiscal 2004. This growth was driven by profits made on the disposal of IBM Global Services Australia Limited (IBMGSA) and Commander Communications Limited.

Other information

No significant events have occurred after balance date for the year ended 30 June 2004, other than:

Dividend declaration

On 12 August 2004, we declared a fully franked final ordinary dividend of 13 cents per ordinary share, payable on 29 October 2004 to those shareholders on record at 24 September 2004. A provision for dividend payable has been raised as at the date of declaration, amounting to \$1,642 million. The financial effect of the dividend declaration was not brought to account as at 30 June 2004.

Company acquisition

On 19 July 2004, we finalised the acquisition of 100% of the issued share capital of KAZ Group Limited and its controlled entities (the KAZ Group). We paid 40c per share via a Scheme of Arrangement, resulting in the payment of cash consideration of \$333 million.

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

The financial effects of the acquisition of the KAZ Group were not brought to account as at 30 June 2004. The operating results and assets and liabilities of the KAZ Group will be consolidated into our statement of financial performance and statement of financial position from 19 July 2004. No provision for restructuring has been raised on acquisition.

Special dividend and share buy-back

On 12 August 2004, we disclosed the intention to pay a fully franked special dividend of 6 cents per share (approximately \$750 million), as part of the interim dividend in fiscal 2005 and the intention to undertake an off-market share buy-back to a maximum of \$750 million, which is expected to be completed in the first half of fiscal 2005. The proposed special dividend and share buy-back are in accordance with our capital management program and intention to return approximately \$1,500 million to shareholders each year through to fiscal 2007. The financial effect of the special dividend and share buy-back will be reflected in the financial statements in fiscal 2005.

Third generation (3G) network sharing arrangement

On 4 August 2004, we announced the signing of a Heads of Agreement to establish a 50/50 joint venture with Hutchison 3G Australia Pty Ltd (H3GA), a subsidiary of Hutchison Telecommunications (Australia) Limited, to jointly own and operate H3GA's existing 3G radio access network and fund future network development. The arrangement is subject to due diligence by us, consent from the Australian Competition and Consumer Commission and final approval of the arrangement by the boards of both companies.

Under the Heads of Agreement, the H3GA radio access network is proposed to become the core asset of the joint venture. In return for 50% ownership of the asset, it is proposed that we will pay H3GA \$450 million under a fixed payment schedule in four instalments beginning in November 2004.

The financial effect of the arrangement was not brought to account as at 30 June 2004.

7.

Other factors likely to affect results in the future**Adoption of International Financial Reporting Standards**

In fiscal 2004, Australian Accounting Standard AASB 1047: "Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards" was introduced. This standard requires us to explain how our transition to international financial reporting standards (IFRS) is being managed and a narrative explanation of the key differences in accounting policies that are expected to arise from adoption of Australian equivalents of IFRS.

We have established a formal IFRS project team to manage the convergence to IFRS and ensure we are prepared to report under IFRS as adopted by the Australian Accounting Standards Board for the half-year ended 31 December 2005 and full year ended 30 June 2006. The IFRS project team is monitored by a governance committee comprising senior members of management, and reports regularly to the audit committee on the progress towards adoption.

The planning and technical evaluation phases of the IFRS project have largely been completed, and we are well advanced in determining the impact of adopting IFRS. We expect the impact analysis phase to be completed during fiscal 2005, enabling us to effectively manage the implementation of changes required ahead of its application date.

The following areas have been identified as significant in terms of level of activity to substantiate the impact on our financial report and/or the potential transitional adjustment:

- share based payments;
- income taxes;
- employee benefits;
- changes in foreign exchange rates;
- borrowing costs;
- investment in associates;
- intangible assets; and
- financial instruments.

Refer to note 1.4 of our financial report for further details regarding our management of the convergence to IFRS and explanation of key differences in accounting policies expected to arise on adoption of Australian equivalents of IFRS.

8. 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 2004, which has been audited by the Australian National Audit Office (ANAO). Refer to the 30 June 2004 financial report for the independent audit report to the members of Telstra Corporation Limited.