Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial Report

as at 30 June 2005

Page Number

Financial Statements

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This financial report combines the disclosure requirements for both Australian and United States generally accepted accounting principles.

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Statement of Financial Performance

for the year ended 30 June 2005

		Telstra Group				Telstra Entity	
		Year ended 30 June				Year ended 30 June	
	Note	2005 $m	2005 US$m	2004 $m	2003 $m	2005 $m	2004 $m
Ordinary activities							
Revenue							
Sales revenue	2	**22,161**	**16,882**	20,737	20,495	**19,587**	18,996
Other revenue (excluding interest revenue)	2,3	**496**	**378**	543	1,121	**357**	391
		22,657	**17,260**	21,280	21,616	**19,944**	19,387
Expenses							
Labour	3	**3,693**	**2,813**	3,218	3,204	**2,916**	2,807
Goods and services purchased	3	**4,147**	**3,159**	3,554	3,713	**2,894**	2,684
Other expenses	3	**4,055**	**3,089**	4,255	4,504	**3,666**	3,844
		11,895	**9,061**	11,027	11,421	**9,476**	9,335
Share of net (profit)/loss from joint venture entities and associated entities	24	**(9)**	**(7)**	78	1,025	**-**	-
		11,886	**9,054**	11,105	12,446	**9,476**	9,335
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**10,771**	**8,206**	10,175	9,170	**10,468**	10,052
Depreciation and amortisation	3	**3,766**	**2,869**	3,615	3,447	**3,298**	3,228
Earnings before interest and income tax expense (EBIT)		**7,005**	**5,337**	6,560	5,723	**7,170**	6,824
Interest revenue	2	**103**	**78**	55	84	**103**	95
Borrowing costs	3	**839**	**639**	767	879	**851**	843
Net borrowing costs		**736**	**561**	712	795	**748**	748
Profit before income tax expense		**6,269**	**4,776**	5,848	4,928	**6,422**	6,076
Income tax expense	4	**1,822**	**1,388**	1,731	1,534	**1,777**	1,697
Net profit		**4,447**	**3,388**	4,117	3,394	**4,645**	4,379
Outside equity interests in net loss		**-**	**-**	1	35	**-**	-
Net profit available to Telstra Entity shareholders		**4,447**	**3,388**	4,118	3,429	**4,645**	4,379
Other valuation adjustments to equity							
Net exchange differences on translation of financial statements of non-Australian controlled entities		**(43)**	**(33)**	21	(161)	**-**	-
Reserves recognised on equity accounting our interest in joint venture entities and associated entities		**3**	**2**	(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		**(40)**	**(31)**	16	1,236	**-**	-
Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners		**4,407**	**3,357**	4,134	4,665	**4,645**	4,379
		¢	**US¢**	¢	¢		
Basic and diluted earnings per share (cents per share)	6	**35.5**	**27.0**	32.4	26.6		
Total dividends paid/declared (cents per share)	7,28	**40.0**	**30.0**	26.0	27.0		

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

Statement of Financial Position

as at 30 June 2005

		Telstra Group			Telstra Entity	
		As at 30 June			As at 30 June	
		2005	2005	2004	2005	2004
	Note	$m	US$m	$m	$m	$m
Current assets						
Cash assets	8	**1,540**	**1,174**	687	**1,360**	543
Receivables	9	**3,609**	**2,749**	3,608	**3,566**	3,258
Inventories	10	**232**	**177**	229	**194**	206
Other assets	14	**796**	**606**	803	**679**	687
Total current assets		**6,177**	**4,706**	5,327	**5,799**	4,694
Non current assets						
Receivables	9	**240**	**183**	740	**290**	1,047
Inventories	10	**15**	**11**	10	**15**	10
Investments - accounted for using the equity method	11	**49**	**37**	40	**44**	32
Investments - other	11	**-**	**-**	80	**6,029**	5,435
Property, plant and equipment	12	**23,351**	**17,789**	22,863	**21,573**	21,600
Intangibles - goodwill	13	**2,287**	**1,742**	2,104	**12**	16
Intangibles - other	13	**1,581**	**1,204**	1,501	**182**	220
Other assets	14	**2,610**	**1,988**	2,328	**2,332**	2,160
Total non current assets		**30,133**	**22,954**	29,666	**30,477**	30,520
Total assets		**36,310**	**27,660**	34,993	**36,276**	35,214
Current liabilities						
Payables	15	**2,809**	**2,140**	2,338	**1,957**	1,891
Interest-bearing liabilities	16	**1,518**	**1,156**	3,246	**3,903**	5,527
Income tax payable		**534**	**407**	539	**519**	512
Provisions	17	**389**	**296**	358	**324**	331
Revenue received in advance		**1,132**	**862**	1,095	**912**	885
Total current liabilities		**6,382**	**4,861**	7,576	**7,615**	9,146
Non current liabilities						
Payables	15	**122**	**93**	49	**13**	46
Interest-bearing liabilities	16	**11,816**	**9,001**	9,014	**11,782**	9,014
Provision for deferred income tax		**1,885**	**1,436**	1,807	**1,826**	1,748
Provisions	17	**836**	**637**	778	**779**	740
Revenue received in advance		**388**	**296**	408	**381**	398
Total non current liabilities		**15,047**	**11,463**	12,056	**14,781**	11,946
Total liabilities		**21,429**	**16,324**	19,632	**22,396**	21,092
Net assets		**14,881**	**11,336**	15,361	**13,880**	14,122
Shareholders' equity						
Telstra Entity						
Contributed equity	18	**5,793**	**4,413**	6,073	**5,793**	6,073
Reserves		**(157)**	**(120)**	(105)	**277**	277
Retained profits		**9,243**	**7,041**	9,391	**7,810**	7,772
Shareholders' equity available to Telstra Entity shareholders		**14,879**	**11,334**	15,359	**13,880**	14,122
Outside equity interests						
Contributed equity		**2**	**2**	2	**-**	-
Total outside equity interests		**2**	**2**	2	**-**	-
Total shareholders' equity		**14,881**	**11,336**	15,361	**13,880**	14,122

Expenditure commitments, contingent liabilities and assets 20,21

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

Statement of Cash Flows

for the year ended 30 June 2005

	Note	Telstra Group Year ended 30 June 2005 $m	Telstra Group 2005 US$m	Telstra Group 2004 $m	Telstra Group 2003 $m	Telstra Entity Year ended 30 June 2005 $m	Telstra Entity 2004 $m
Cash flows from operating activities							
Receipts from trade and other receivables (c)		**24,526**	**18,684**	23,205	22,721	**21,343**	20,926
Payments of accounts payable and to employees (c)		**(12,754)**	**(9,716)**	(12,067)	(12,130)	**(10,029)**	(9,862)
Interest received		**80**	**61**	51	70	**81**	92
Borrowing costs paid		**(879)**	**(670)**	(846)	(999)	**(892)**	(922)
Dividends received		**2**	**2**	2	7	**1**	1
Income taxes paid		**(1,718)**	**(1,309)**	(1,856)	(1,536)	**(1,712)**	(1,804)
GST remitted to the Australian Taxation Office (ATO)		**(1,094)**	**(833)**	(1,056)	(1,076)	**(1,050)**	(1,044)
Net cash provided by operating activities (a)		**8,163**	**6,219**	7,433	7,057	**7,742**	7,387
Cash flows from investing activities							
Payments for:							
- property, plant and equipment		**(2,995)**	**(2,282)**	(2,572)	(2,704)	**(2,715)**	(2,505)
- internal use software assets		**(523)**	**(398)**	(435)	(555)	**(446)**	(385)
- intangibles		**(6)**	**(5)**	(2)	(2)	**-**	-
- deferred expenditure		**(15)**	**(11)**	(6)	-	**(14)**	(6)
Capital expenditure (before investments)		**(3,539)**	**(2,696)**	(3,015)	(3,261)	**(3,175)**	(2,896)
- shares in controlled entities		**(574)**	**(437)**	(667)	(25)	**(28)**	(637)
- investment in joint venture entities		**(10)**	**(8)**	(1)	(45)	**(5)**	-
- investment in associated entities (including share buy-back)		**(4)**	**(3)**	1	-	**-**	1
- shares in listed securities and other investments		**(2)**	**(2)**	(1)	(1)	**(1)**	(1)
Investment expenditure		**(590)**	**(450)**	(668)	(71)	**(34)**	(637)
Total capital expenditure		**(4,129)**	**(3,146)**	(3,683)	(3,332)	**(3,209)**	(3,533)
Proceeds from:							
- sale of property, plant and equipment		**68**	**52**	168	797	**79**	197
- sale of shares in controlled entities		**-**	**-**	-	12	**-**	-
- sale of joint venture entities and associated entities		**30**	**23**	221	20	**30**	-
- sale of listed securities and other investments		**146**	**111**	24	7	**134**	41
- sale of business		**-**	**-**	-	4	**-**	-
- redemption of PCCW converting note		**76**	**58**	-	-	**76**	-
Net cash used in investing activities		**(3,809)**	**(2,902)**	(3,270)	(2,492)	**(2,890)**	(3,295)
Operating cash flows less investing cash flows		**4,354**	**3,317**	4,163	4,565	**4,852**	4,092
Cash flows from financing activities							
Proceeds from borrowings		**6,433**	**4,901**	4,119	5,914	**6,611**	4,329
Proceeds from Telstra bonds		**983**	**749**	-	-	**983**	-
Repayment of borrowings		**(5,735)**	**(4,369)**	(4,274)	(6,315)	**(6,478)**	(4,411)
Repayment of Telstra bonds		**(272)**	**(207)**	(211)	(582)	**(272)**	(211)
Repayment of finance leases principal amount		**(16)**	**(12)**	(13)	(22)	**(11)**	(11)
Employee share loans		**19**	**14**	24	33	**19**	24
Loan to joint venture entities and associated entities		**(37)**	**(28)**	(226)	-	**-**	(226)
Dividends paid	7	**(4,131)**	**(3,147)**	(3,186)	(3,345)	**(4,131)**	(3,186)
Share buy-back (d)		**(756)**	**(576)**	(1,009)	-	**(756)**	(1,009)
Net cash used in financing activities		**(3,512)**	**(2,675)**	(4,776)	(4,317)	**(4,035)**	(4,701)
Net increase/(decrease) in cash		**842**	**642**	(613)	248	**817**	(609)
Foreign currency conversion		**(3)**	**(2)**	-	(18)	**-**	-
Cash at the beginning of the year		**687**	**523**	1,300	1,070	**543**	1,152
Cash at the end of the year (b)		**1,526**	**1,163**	687	1,300	**1,360**	543

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

Statement of Cash Flows (continued)

for the year ended 30 June 2005

		Telstra Group				Telstra Entity	
		Year ended 30 June				Year ended 30 June	
		2005	**2005**	2004	2003	**2005**	2004
	Note	**$m**	**US$m**	$m	$m	**$m**	$m
Cash flow notes							
(a) Reconciliation of net profit to net cash provided by operating activities							
Net profit		**4,447**	**3,388**	4,117	3,394	**4,645**	4,379
Add/(subtract) the following transactions							
Depreciation and amortisation	3	**3,766**	**2,869**	3,615	3,447	**3,298**	3,228
Accrued interest on notes issued by PCCW		**(4)**	**(3)**	(4)	(15)	**(4)**	(4)
Dividends received from related entities	24	**2**	**2**	1	6	**1**	(142)
Profit on sale of property, plant and equipment	3	**(8)**	**(6)**	(40)	(173)	**(10)**	(40)
Profit on sale of controlled entities	3	**-**	**-**	-	(5)	**-**	-
Profit on sale of joint venture and associated entities	3	**(16)**	**(12)**	(170)	(12)	**(27)**	-
Profit on sale of listed securities and other entities	3	**(67)**	**(51)**	(8)	2	**(63)**	(8)
Profit on sale of business	3	**-**	**-**	-	(10)	**-**	-
Loss on redemption of PCCW converting note	3	**4**	**3**	-	-	**4**	-
Borrowing costs included in the cost of constructed assets	3	**(90)**	**(70)**	(74)	(105)	**(90)**	(74)
Share of joint venture entities' net losses	24	**-**	**-**	85	1,015	**-**	-
Share of associated entities' net (profits)/losses	24	**(9)**	**(7)**	(7)	10	**-**	-
Provision for reduction in value of investments	3	**6**	**5**	-	26	**(310)**	(709)
Provision for reduction in value of controlled entity receivables	3	**-**	**-**	-	-	**460**	709
Provision for reduction in amount owed by joint venture entity	3	**5**	**4**	226	-	**-**	226
Net foreign currency conversion differences		**6**	**5**	3	(39)	**-**	-
Decrease in non cash receivable from related entity		**-**	**-**	-	-	**(361)**	-
Other		**32**	**24**	6	47	**61**	13
Movements in operating assets and liabilities (net of acquistions of controlled entity balances)							
(Increase)/decrease in trade debtors and other debtors		**24**	**18**	143	4	**47**	75
(Increase)/decrease in inventories		**9**	**7**	35	(52)	**7**	60
(Increase)/decrease in deferred expenditure and prepayments		**(7)**	**(5)**	6	48	**(15)**	3
(Increase)/decrease in deferred mobile phone handset subsidies		**(75)**	**(57)**	(104)	(42)	**(75)**	(104)
Increase/(decrease) in accounts payable and other creditors		**15**	**11**	(335)	(271)	**47**	(166)
Increase/(decrease) in revenue received in advance		**(13)**	**(10)**	98	(66)	**10**	69
Increase/(decrease) in net taxes payable		**105**	**80**	(125)	9	**85**	(107)
Increase/(decrease) in provisions		**31**	**24**	(35)	(161)	**32**	(21)
Net cash provided by operating activities		**8,163**	**6,219**	7,433	7,057	**7,742**	7,387
(b) Reconciliation of cash balances							
Cash at the end of the year as shown in the statement of cash flows agrees to the net amount of the following items in the notes to the financial statements:							
Cash assets	8	**1,540**	**1,174**	687	1,300	**1,360**	543
Bank overdraft	16	**(14)**	**(10)**	-	-	**-**	-
		1,526	**1,164**	687	1,300	**1,360**	543

Statement of Cash Flows (continued)

for the year ended 30 June 2005

Cash flow notes (continued)

(c) Goods and Services Tax (GST)

Our receipts from trade and other receivables includes estimated GST of $2,121 million (2004: $2,030 million; 2003: $2,072 million) collected by us as agent for the ATO. Our payments of accounts payable and to employees include estimated GST payments made by us for goods and services obtained in undertaking both operating and investing activities. GST paid associated with operating activities amounted to $784 million (2004: $750 million; 2003: $639 million) and GST paid relating to investing activities amounted to $243 million (2004: $224 million; 2003: $356 million).

(d) 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 capital management program. The cost of the share buy back comprised purchase consideration of $750 million and associated transaction costs of $6 million. During fiscal 2004, we also completed an off-market share buy-back of 238,241,174 ordinary shares. The cost of the 2004 buy-back comprised purchase consideration of $1,001 million and associated transaction costs of $8 million. Refer to note 18 for further information.

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

Capitalised Interest

Our property, plant and equipment includes borrowing costs of $70 million (2004: $57 million; 2003: $77 million) which have been included in the cost of constructed assets. Our software assets include borrowing costs of $20 million (2004: $17 million; 2003: $28 million) which have been included in the cost of constructed assets. These amounts are included in borrowing costs paid in our statement of cash flows.

Sale and leaseback transactions

There were no significant sale and leaseback transactions entered into during fiscal 2005 or fiscal 2004.

During fiscal 2003, we entered into a sale and leaseback on a portfolio of seven office properties for $570 million. We entered into operating leases totalling $518 million in relation to these properties on normal commercial terms of between five and twelve years. The profit on the sale of this property, plant and equipment was $131 million before income tax expense. The cash inflow from this sale is recognised in our proceeds from the sale of property, plant and equipment (refer to note 3 for further information).

Acquisition of 3G assets

During fiscal 2005, we acquired a 50% interest in Hutchison 3G Australia Pty Ltd's existing third generation (3G) radio access network amounting to $428 million at acquisition date. This acquisition is not fully reflected in our statement of cash flows as the purchase price is being paid in instalments through to 1 July 2006. As at 30 June 2005, we have paid $22 million to our joint venture partner for the acquisition of these assets. The balance is reflected in our deferred liabilities. Refer to note 15 for further information.

(f) Financing facilities

Details of credit standby arrangements and loan facilities are shown in note 16.

(g) Acquisitions

Fiscal 2005 - Telstra Group

During fiscal 2005 we acquired the following controlled entities:

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

On 25 August 2004, we acquired 100% of the issued share capital of PSINet UK Limited and its controlled entities for an initial cash consideration of $111 million, including acquisition costs, and deferred consideration amounting to $13 million.

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

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

In addition to the above, we made a number of other minor acquisitions for a total consideration of $16 million during the year. Included in these acquisitions was an additional 10% interest in 1300 Australia Pty Ltd, which gave us a controlling interest in this entity.

Statement of Cash Flows (continued)

for the year ended 30 June 2005

Cash flow notes (continued)

(g) Acquisitions (continued)

Details of the acquisitions are as follows:

Acquisition of controlled entities	Year ended 30 June 2005 $m
Consideration for acquisitions	
Cash	565
Deferred consideration	13
Costs of acquisitions	14
	592
Fair value of assets and liabilities acquired by major class	
Cash assets	13
Receivables	117
Inventories	17
Property, plant and equipment	77
Intangibles	235
Software	15
Other assets	15
Deferred tax assets	21
Payables	(99)
Provisions	(58)
Finance lease liability	(39)
Interest-bearing liabilities	(8)
Other liabilities	(39)
Fair value of net assets on gaining control	267
Adjustment upon increase in ownership interest from associated entity to controlled entity	(2)
Goodwill on acquisition	327
	592
Outflow of cash on acquisitions	
Consideration for acquisitions	(565)
Cash balances acquired	13
Costs of acquisitions	(14)
Payments of deferred consideration for prior years' acquisitions	(8)
	(574)

Fiscal 2005 - Telstra Entity

During fiscal 2005 there were no businesses acquired by the Telstra Entity. However, funding has been provided by the Telstra Entity to facilitate acquisitions within the Telstra Group and this has been reflected in investments where additional share capital has been issued by subsidiaries.

Fiscal 2004 - Telstra Group

During fiscal 2004 we acquired the following controlled entities:

On 13 February 2004, we acquired 100% of the share capital of Cable Telecom (GB) Limited (Cable Telecom) for an initial cash consideration of $31 million (GBP 13 million) and deferred consideration of $7 million (GBP 3 million).

On 5 March 2004, we acquired 100% of the share capital of Trading Post (Australia) Holdings Pty Ltd and its controlled entities (Trading Post Group) for an initial cash consideration of $636 million and deferred consideration of $2 million.

On 31 March 2004, we acquired 75% of the share capital of Invizage Pty Ltd (Invizage) for an initial cash consideration of $4 million and deferred consideration of $3 million.

Details of the acquisitions are as follows:

Acquisition of controlled entities	Year ended 30 June 2004 $m
Consideration for acquisitions	
Cash	673
Deferred consideration	11
Costs of acquisitions	1
	685
Fair value of assets and liabilities acquired by major class	
Cash assets	7
Receivables	9
Property, plant and equipment	8
Intangibles	477
Other assets	5
Deferred tax assets	2
Payables	(28)
Provisions	(3)
Finance lease liability	(1)
Fair value of net assets on gaining control	476
Goodwill on acquisition	209
	685
Outflow of cash on acquisitions	
Consideration for acquisitions	(673)
Cash balances acquired	7
Costs of acquisitions	(1)
	(667)

Statement of Cash Flows (continued)

for the year ended 30 June 2005

Cash flow notes (continued)

Fiscal 2004 - Telstra Entity

During fiscal 2004, the Telstra Entity acquired the NDC construction business from our wholly owned subsidiary Network Design and Construction Limited (NDC). This involved the transfer of NDC's assets, including customer bases and the recognition of $16 million in goodwill, which is eliminated on consolidation.

The Telstra Entity also acquired the assets of its wholly owned subsidiary Telstra New Wave Pty Ltd (Telstra New Wave), which involved the acquisition of $14 million in identifiable intangible assets.

Details of the acquisition are as follows:

Acquisition of business	Year ended 30 June 2004 $m
Consideration for acquisition	
Intercompany loan	39
Fair value of assets and liabilities acquired by major class	
Construction WIP	34
Inventory	3
Property, plant and equipment	49
Identifiable intangible assets	18
Software	6
Other assets	1
Payables	(3)
Provisions	(65)
Accrued expenses	(12)
Finance lease liability	(8)
Fair value of net assets on gaining control	23
Goodwill on acquisition	16
	39

There was no cash consideration paid as part of these acquisitions.

Fiscal 2003 - Telstra Group

On 9 April 2003, we acquired an additional 41.6% interest in TelstraClear Limited (TelstraClear) giving us 100% ownership of this company and its controlled entities.

Cash consideration for this additional acquisition was $25 million (NZ$26.9 million). As we controlled TelstraClear prior to this transaction, we were already consolidating their results, financial position and cash flows in to the Telstra Group.

Fiscal 2003 - Telstra Entity

There were no significant acquisitions of businesses by the Telstra Entity other than those noted above during fiscal 2003.

(h) Disposals of entities

There were no significant disposals of controlled entities during fiscal 2005, fiscal 2004 or fiscal 2003.

Statement of Changes in Shareholders' Equity

for the year ended 30 June 2005

Telstra Group

	Contributed equity (i) $m	Reserves: Asset revaluation (ii) $m	Reserves: Foreign currency translation (iii) $m	Reserves: General (iv) $m	Reserves: Consolidation fair value (v) $m	Retained profits $m	Outside equity interests $m	Total $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 (vi)	-	-	-	-	-	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 joint venture entities and associated 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 on sale of controlled entities and associates	-	-	(3)	22	-	(19)	-	-
- dividends (note 7)	-	-	-	-	-	(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 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 (vii)	(360)	-	-	-	-	(649)	-	(1,009)
- dividends (note 7)	-	-	-	-	-	(3,186)	-	(3,186)
Balance at 30 June 2004	6,073	32	(186)	5	44	9,391	2	15,361

(continued over page)

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

Statement of Changes in Shareholders' Equity (continued)

Telstra Group

	Contributed equity (i) $m	Reserves: Asset revaluation (ii) $m	Reserves: Foreign currency translation (iii) $m	Reserves: General (iv) $m	Reserves: Consolidation fair value (v) $m	Retained profits $m	Outside equity interests $m	Total $m
Balance at 30 June 2004	6,073	32	(186)	5	44	9,391	2	15,361
- net profit	-	-	-	-	-	4,447	-	4,447
- reserves recognised on equity accounting our interest in joint venture entities and associated entities	-	-	(2)	5	-	-	-	3
- adjustment on translation of financial statements of non-Australian controlled entities	-	-	(43)	-	-	-	-	(43)
- fair value adjustment on acquisition of controlling interest in joint venture entity	-	-	-	-	(6)	6	-	-
- transfer of general reserve on sale of associates	-	-	-	(6)	-	6	-	-
- share buy-back (vii)	(280)	-	-	-	-	(476)	-	(756)
- dividends (note 7)	-	-	-	-	-	(4,131)	-	(4,131)
Balance at 30 June 2005	5,793	32	(231)	4	38	9,243	2	14,881
Balance at 30 June 2005 US$m	4,413	24	(176)	3	29	7,041	2	11,336

(i) Refer to note 18 for details of our contributed equity.

(ii) The asset revaluation reserve was previously used to record changes in the value of non current assets. Under AASB 1041: "Revaluation of Non-Current Assets", we have previously deemed the carrying value of our property, plant and equipment assets (refer to note 12) to be cost. As a result, the asset revaluation reserve may no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount must be made through the statement of financial performance.

As a consequence of applying the cost method of accounting, we have discontinued our policy of revaluing property, plant and equipment upwards. The asset revaluation reserve can no longer be used for distribution to shareholders or for offsetting revaluation decrements due to legal and accounting restrictions.

(iii) The foreign currency translation reserve is used to record exchange differences arising from the conversion of the financial statements of our self sustaining non-Australian operations into Australian dollars. Conversion of operations where entities operate on their own are taken to the foreign currency translation reserve, while conversion of those entities that operate with us are taken to the statement of financial performance.

This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in joint venture entities and associated entities. The foreign currency translation reserve applicable to joint venture entities and associated entities is shown in note 24.

(iv) The general reserve represents our share of the capital reserve of joint venture entities and associated entities as a result of equity accounting. The reserves applicable to these investments is shown in note 24.

(v) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets on acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets (average of 18 years).

(vi) Due to the first time application of accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets" during fiscal 2003, we adjusted the opening balance of retained profits at 1 July 2002 by the amount of the dividend provided for as at 30 June 2002.

(vii) On 15 November 2004, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our capital management program. During fiscal 2004, we also completed an off-market share buy-back of 238,241,174 ordinary shares. Refer to note 18 for further details.

Statement of Changes in Shareholders' Equity (continued)

for the year ended 30 June 2005

Telstra Entity

	Contributed equity $m	Asset revaluation reserve $m	Retained profits $m	Total $m
Balance at 30 June 2002	6,433	277	6,907	13,617
- increase to opening retained profits on adoption of new accounting standard	-	-	1,415	1,415
- net profit	-	-	2,251	2,251
- dividends (note 7)	-	-	(3,345)	(3,345)
Balance at 30 June 2003	6,433	277	7,228	13,938
- net profit	-	-	4,379	4,379
- share buy-back	(360)	-	(649)	(1,009)
- dividends (note 7)	-	-	(3,186)	(3,186)
Balance at 30 June 2004	6,073	277	7,772	14,122
- net profit	**-**	**-**	**4,645**	**4,645**
- share buy-back	**(280)**	**-**	**(476)**	**(756)**
- dividends (note 7)	**-**	**-**	**(4,131)**	**(4,131)**
Balance at 30 June 2005	**5,793**	**277**	**7,810**	**13,880**

Notes to the Financial Statements

1. Summary of accounting policies

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation, and its controlled entities as a whole. Telstra Entity refers to the legal entity, Telstra Corporation Limited.

Our financial or fiscal year ends on 30 June. Unless we state differently, the following applies:

- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2005 means fiscal 2005 and similarly for other fiscal years.

The principal accounting policies we used in preparing the financial report of the Telstra Entity and the Telstra Group are listed below. These are presented to assist your understanding of the financial reports. These accounting policies are consistent with those adopted in previous periods, unless a change in accounting policy has been made and brought to your attention.

1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report prepared in accordance with:

- the Australian Corporations Act 2001;
- Accounting Standards applicable in Australia;
- other authoritative pronouncements of the Australian Accounting Standards Board;
- Urgent Issues Group Consensus Views; and
- Australian generally accepted accounting principles (AGAAP).

This financial report is prepared in accordance with historical cost, except for some categories of investments that are equity accounted. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this financial report, we have been required to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities;
- the disclosure of contingent assets and liabilities; and
- revenues and expenses for the year.

Actual results could differ from those estimates.

Note 30 contains a reconciliation of the major differences between our financial report prepared under Australian generally accepted accounting principles (AGAAP) and those applicable under United States generally accepted accounting principles (USGAAP).

United States dollar conversions

This financial report has been prepared using Australian dollars (A$). For the convenience of readers outside Australia we have converted our statement of financial performance, statement of financial position, statement of cash flows and USGAAP disclosures from A$ to US$ for fiscal 2005.

These conversions appear under columns headed "US$m" and represent rounded millions of US dollars. The conversion has been made using the noon buying rate in New York City for cable transfers in non-US currencies. This rate is certified for custom purposes by the Federal Reserve Bank of New York. The rate on 30 June 2005 was A$1.00 = US$0.7618.

These conversions are indicative only and do not mean that the A$ amounts could be converted to US$ at the rate indicated.

1.2 Change in accounting policies

No accounting policy changes occurred during fiscal 2005.

The following accounting policy changes occurred during fiscal 2004.

Revenue arrangements with multiple deliverables

It is our policy to prepare our financial statements to satisfy both AGAAP and USGAAP in relation to revenue recognition and, in cases where there is no conflict between the two, we ensure that we incorporate the more detailed requirements in both AGAAP and USGAAP financial statements.

In November 2002, the Emerging Issues Task Force in the US reached a consensus on Issue No. 00-21 (EITF 00-21), "Revenue Arrangements with Multiple Deliverables". EITF 00-21 is applicable to us from 1 July 2003.

EITF 00-21 requires that where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting under EITF 00-21 should be accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

We allocate the consideration from the revenue arrangement to its separate units based on the relative fair values of each unit. If the fair value of the delivered item is not available, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The revenue allocated to each unit under EITF 00-21 is then recognised in accordance with our revenue recognition policies described in note 1.21 "Revenue recognition".

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.2 Change in accounting policies (continued)

We have a number of arrangements with our customers that are considered to be distinguishable into separate units of accounting under EITF 00-21. These are:

- mobile handsets that are offered as part of a mobile network contract or sold as part of a prepaid phone package;
- broadband internet installation kits, where a modem is provided, and satellite internet packages; and
- advertising in the Yellow Pages printed and online directories.

We assessed the requirements of EITF 00-21 and determined that there was no material impact on our statement of financial performance or statement of financial position as at, and for the year ended, 30 June 2004 and 30 June 2003 in relation to these arrangements.

1.3 Recently issued accounting standards to be applied in Australia in future periods

The adoption of the Australian equivalents of International Financial Reporting Standards (A-IFRS) will apply in future financial reports. Refer to 1.4 Adoption of International Financial Reporting Standards for the impact we are expecting these standards to have on Telstra.

1.4 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 1.4 (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 1.4 (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.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 Adoption of International Financial Reporting Standards (continued)

(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.

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.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 Adoption of International Financial Reporting Standards (continued)

(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.

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 1.4 (e), and a decrease of $138 million for the tax effect of the transitional adjustment relating to borrowing costs as detailed in note 1.4 (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 1.4 (e), and a decrease of $129 million for the tax effect of the transitional adjustment relating to borrowing costs as detailed in note 1.4 (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 to a balance of nil, as a result of these entries.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 Adoption of International Financial Reporting Standards (continued)

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

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, 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.

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 1.4 (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.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 Adoption of International Financial Reporting Standards (continued)

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

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.

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"

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.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 Adoption of International Financial Reporting Standards (continued)

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

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.

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 1.4 (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 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.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 Adoption of International Financial Reporting Standards (continued)

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

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.

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.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 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) (continued)

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.

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.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 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 1.4 (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 1.4 (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 1.4 (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	1.4 (a)	687	-	3	690
Trade and other receivables	1.4 (a)	3,608	(24)	-	3,584
Inventories		229	-	-	229
Other assets	1.4 (j)	803	(491)	-	312
Total current assets		5,327	(515)	3	4,815
Non current assets					
Trade and other receivables	1.4 (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	1.4 (f),(g)	22,863	-	(393)	22,470
Intangibles - goodwill	1.4 (f)	2,104	-	(314)	1,790
Intangibles - other	1.4 (f),(j)	1,501	2,817	(49)	4,269
Defined benefit pension asset	1.4 (e)	-	-	537	537
Other assets	1.4 (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

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 Adoption of International Financial Reporting Standards (continued)

(l) Summary of transitional adjustments (continued)

		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 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	1.4 (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

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4 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 1.4 (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 1.4 (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 1.4 (j).

		Telstra Group							
		Share capital/ Contributed equity	Reserves				Retained profits	Outside equity interests	Total
			Asset revaluation	Foreign currency translation	General	Consoli-dation fair value			
	Note	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2004 under AGAAP		6,073	32	(186)	5	44	9,391	2	15,361
Share loans to employees	1.4 (a)	(174)	-	-	-	-	-	-	(174)
Shares held by employee share plan trusts	1.4 (a)	(117)	-	-	-	-	-	-	(117)
Services received under employee share plans	1.4 (a)	4	-	-	-	-	(4)	-	-
Share-based payments	1.4 (a)	-	-	-	-	-	55	-	55
Carrying value differences from the tax base	1.4 (c)	-	(32)	-	-	-	(202)	-	(234)
Net defined benefit pension asset	1.4 (e)	-	-	-	-	-	400	-	400
Retranslation of overseas goodwill balances	1.4 (f)	-	-	(297)	-	-	-	-	(297)
Resetting the foreign currency translation reserve to zero	1.4 (f)	-	-	343	-	-	(343)	-	-
Expensing of borrowing costs previously capitalised	1.4 (g)	-	-	-	-	-	(321)	-	(321)
Equity accounting for Reach Ltd	1.4 (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

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.5 Principles of consolidation

Our consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the financial year and the consolidated results and cash flows for the financial year. The effect of all intergroup transactions and balances are eliminated in full from our consolidated financial report.

Where we do not control an entity for the whole year, results and cash flows for those entities are only included from the date on which control commences, or up until the date on which there is a loss of control.

Our consolidated retained profits include controlled entities' retained profits/accumulated losses from the time they became a controlled entity until control ceases. Outside equity interests in the results and equity of controlled entities are shown separately in our consolidated statement of financial performance and consolidated statement of financial position.

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies. Adjustments are made to align dissimilar accounting policies or accounting periods.

An entity is considered to be a controlled entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity to enable it to operate with us in achieving our objectives. Our controlled entities are listed in note 23.

Investments in other types of entities, including associated entities and joint ventures, are accounted for as set out in note 1.11.

1.6 Foreign currency translation

(a) Transactions

Foreign currency transactions are converted into Australian currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into Australian currency at market exchange rates at balance date. Any currency translation gains and losses that arise are included in our net profit or loss for the year. Where we enter into a hedge for a specific expenditure commitment or for the construction of a qualifying asset, currency translation gains and losses and hedging costs on forward foreign currency contracts are deferred and included with the expenditure commitment or cost of the asset.

Where we enter into a hedge for general expenditure commitments or for the construction of a non-qualifying asset, currency translation gains and losses are recorded in the statement of financial performance in the same period as the currency translation differences on the underlying transaction being hedged. Costs of such contracts are amortised over the life of the hedge contract.

Premiums and discounts on forward foreign currency contracts arising at the time of entering into the hedge are deferred and amortised over the life of the contract and included in borrowing costs.

(b) Translation of financial reports of foreign operations

Non-Australian entities that operate on their own ("self-sustaining" entities)

Where our non-Australian operations operate independently of us both financially and operationally, we translate their financial reports to Australian dollars using the current rate method of accounting.

Under this method:

- assets and liabilities are translated into Australian dollars using market exchange rates at balance date;
- shareholders' equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/ accumulated losses) are translated at the exchange rates current at the dates of those movements;
- statements of financial performance are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in the foreign currency translation reserve.

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self sustaining foreign entity, together with hedges of such monetary items and related tax effects, are eliminated against the foreign currency translation reserve on consolidation of the foreign entity's financial report.

Upon disposal or partial disposal of a self sustaining entity, the balance of the foreign currency translation reserve relating to the entity, or the part disposed of, is transferred to retained profits.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.6 Foreign currency translation (continued)

Non-Australian entities that operate with us ("integrated" entities)

Where our non-Australian operations, either directly or indirectly, rely on us financially and operationally, we translate their financial reports to Australian dollars using a method known as the temporal method of accounting.

Under this method:

- monetary statement of financial position items, such as cash and receivables, are translated into Australian dollars using market exchange rates at balance date;
- non monetary statement of financial position items (including equity at the date of investment) are translated at market exchange rates applicable at the date of the transactions (or at the date of revaluation);
- statements of financial performance are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in the statement of financial performance.

1.7 Cash and cash equivalents (note 8)

Cash includes cash at bank and on hand, bank deposits, bills of exchange and commercial paper with an original maturity date not greater than three months.

Bank deposits are recorded at amounts to be received and interest revenue is recognised on an effective yield to maturity basis.

Bills of exchange and commercial paper are valued at amortised cost with interest revenue recognised on an effective yield to maturity basis.

The statement of cash flows discloses cash net of outstanding bank overdrafts.

1.8 Receivables (note 9)

Trade debtors are recorded at amounts to be received. A provision for doubtful debts is raised based on a review of outstanding amounts at balance date. Bad debts specifically provided for in previous years are recorded against the provision for doubtful debts (the provision is reduced). In all other cases, bad debts are written off as an expense directly in the statement of financial performance.

Bills of exchange and commercial paper with a maturity date that is greater than three months are valued at amortised cost with interest revenue recognised on an effective yield to maturity basis.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Employee share loans are carried at the amount advanced to each employee, less after tax dividend repayments and loan repayments that have occurred. The outstanding principal on these loans is mainly interest free. The current portion of the loan receivable is calculated using estimated loan repayments expected to be received from tax adjusted dividend payments and estimated loan repayments as a result of staff exiting the employee share plans, described in note 19.

1.9 Inventories (note 10)

Our finished goods include goods available for sale and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

We allocate cost to the majority of inventory items on hand at balance date using the weighted average cost basis. For the remaining quantities on hand, actual cost is used.

Current inventories are inventory items held for resale or items to be consumed into the telecommunications network within one year.

Non current inventories are items which will be consumed into the telecommunications network after one year.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.10 Construction contracts (note 10)

(a) Valuation

We record construction contracts in progress at cost (net of any provision for foreseeable losses) less progress billings where profits are yet to be recognised.

Cost includes:

- both variable and fixed costs directly related to specific contracts;
- amounts which can be allocated to contract activity in general and which can be allocated to specific contracts on a reasonable basis; and
- costs expected to be incurred under penalty clauses, warranty provisions and other variances directly related to the contract.

Where a significant loss is estimated to be made on completion, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.

(b) Recognition of profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion (refer to note 1.21(d)).

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings (refer to note 10). Where progress billings exceed the balance of construction work in progress the net amount is shown as a current liability within other creditors.

1.11 Investments (note 11)

(a) Controlled entities

Our investments in controlled entities are valued at cost less any amount provided for reduction in the investment value.

(b) Joint venture entities and associated entities

Joint venture entities

A joint venture entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in joint venture entities that are:

- partnerships are accounted for using the equity method of accounting in the Telstra Group and Telstra Entity financial statements; and

- not partnerships are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

Our policy for accounting for joint venture entities is otherwise consistent with that detailed for our associated entities below.

Associated entities

Where we hold an interest in the equity of an entity and we are able to apply significant influence to the decisions of the entity, that entity is an associated entity. Associated entities are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

Under the equity method of accounting we adjust the initial recorded amount of the investment for our share of:

- net profits or losses after tax since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses;
- notional goodwill amortisation;
- dividends or distributions received; and
- deferred profit brought to account.

Our share of all of these items, apart from dividends or distributions received and reserves, is recorded in the statement of financial performance.

Notional goodwill on acquisition of an interest in a joint venture entity or associated entity is amortised over the expected period of benefit, limited to a maximum of 20 years from the date of acquisition.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.11 Investments (note 11) (continued)

This amortisation is recorded in the share of net profits or losses of joint venture entities and associated entities line in the statement of financial performance.

Where we contribute or sell businesses or assets to a joint venture entity or associate in which we retain an ownership interest, a portion of the profit arising on contribution or sale is deferred. The amount deferred is determined with reference to our ownership percentage in the joint venture entity or associated entity. The deferred amount is released to the statement of financial performance through the equity accounted results over a period consistent with the utilisation of the underlying assets.

We also assess the recoverable amount of our equity accounted investments at each reporting date to ensure the equity accounted carrying amount does not exceed the recoverable amount. Where the equity accounted amount of an investment has been reduced to recoverable amount, we only reverse reductions to the extent the new recoverable amount at balance date exceeds the carrying amount at that date.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior year share of losses and reserve reductions.

(c) Joint venture operations

A joint venture operation means a contractual arrangement (that is not a joint venture entity) whereby two or more parties undertake an economic activity that is governed by joint control. This usually involves the shared use of assets. Joint control involves the contractually agreed sharing of control where two or more parties must consent to all major decisions. Where the investment is significant, we record assets and liabilities relating to our share of each asset and liability used in the joint venture operation. We record expenses based on our percentage ownership interest in the joint venture. We record revenue from the sale or use of our share of the output as described in our revenue policy (refer to note 1.21).

With regard to our 3GIS partnership, we jointly design and construct third generation radio access network (RAN) assets with our joint venture partner. The structure of the agreements is that of an asset sharing arrangement, whereby we jointly retain the majority of the risks and rewards of ownership of these constructed assets. As a result, we recognise our share of the RAN assets within property, plant and equipment in our consolidated statement of financial position. Expenses incurred by the partnership are on-charged to the partners in equal proportion.

(d) Listed securities and investments in other corporations

Listed securities (other than equity accounted investments) and investments in other corporations are valued at cost less any amount provided for permanent reduction in their value.

We determine whether there is a need for a provision for reduction in value of our investments on the following bases:

- for listed securities traded in an organised financial market we use the current quoted market bid price at balance date; and
- for investments in unlisted securities not traded in an organised financial market, fair value is determined by reference to the net assets of the unlisted security.

1.12 Recoverable amount of non current assets

Non current assets measured using the cost basis are written down to recoverable amount where their carrying value exceeds this recoverable amount.

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. We recognise any decrement in the carrying value as an expense in the statement of financial performance in the reporting period in which the recoverable amount write down occurs.

The expected net cash flows included in determining recoverable amounts of non current assets are discounted to their present values using a market determined, risk adjusted, discount rate.

1.13 Property, plant and equipment (note 12)

(a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 1.13(c). The cost of our constructed property, plant and equipment includes:

- the cost of material and direct labour;
- an appropriate proportion of direct and indirect overheads; and
- borrowing costs up to the date the asset is installed ready for use.

Our weighted average capitalisation interest rate for borrowing costs for fiscal 2005 was 7.3% (2004: 7.7%; 2003: 7.5%). Interest revenue is not deducted in the calculation of borrowing costs included in the cost of constructed assets when those borrowings are not for a specific asset.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.13 Property, plant and equipment (note 12) (continued)

(b) Revaluation

We obtain valuations of all our land and buildings at least once every three years, or more frequently if necessary, in accordance with the note disclosure requirements in AASB 1040: "Statement of Financial Position". It is our policy to apply the cost basis of recording property plant and equipment. Any notional increase in book value as a result of the triennial valuation will therefore be disclosed in a note to the financial statements but not booked (refer to note 12).

It is our policy to hold all of our property, plant and equipment at cost. We have elected to deem all our revalued property, plant and equipment carrying amounts as at 30 June 2000 to be their cost going forward as allowed by the relevant accounting standards. This means that the asset revaluation reserve for the Telstra Group of $32 million was fixed as at 1 July 2000 and writedowns of previously revalued assets will no longer be made through the asset revaluation reserve.

We reduce the value of our property, plant and equipment to its recoverable amount where our carrying amount is greater than recoverable amount. Any writedown of this type is immediately charged to the statement of financial performance.

The profit or loss on disposal of assets written down to recoverable amount is calculated as the difference between the carrying amount of the asset at the time of disposal, and the revenue received on disposal. This is included in the statement of financial performance in the year of disposal.

The effect of capital gains tax has not been taken into account in calculating the valuation amounts of property, plant and equipment.

(c) Depreciation

Items of property, plant and equipment, including buildings and leasehold property, but excluding freehold land, are depreciated on a straight line basis over their estimated service lives. We start depreciating assets when they are installed and ready for use.

The service lives of our significant items of property, plant and equipment are listed as follows:

	Telstra Group	
	As at 30 June	
	2005	2004
Property, plant and equipment	Service life (years)	Service life (years)
Buildings - building shell	**55**	55
- general purpose	**8 - 40**	8 - 40
- fitout	**10 - 20**	10 - 20
Communication assets		
Buildings - building shell	**55**	55
- network	**8 - 40**	8 - 40
- fitout	**10 - 20**	10 - 20
Customer premises equipment	**3 - 8**	3 - 8
Transmission equipment	**3 - 25**	3 - 25
Switching equipment	**1 - 10**	1 - 10
Cables	**8 - 25**	8 - 25
Ducts and pipes - main cables	**40**	40
- distribution	**30**	30
Other communications plant	**3 - 16**	3 - 16
Other assets		
Leasehold plant and equipment	**3 - 15**	7 - 15
Other plant, equipment and motor vehicles	**3 - 15**	3 - 15

The service lives and residual values (where applicable) of all assets are reviewed each year. As part of that review asset lives are reassessed. Certain asset lives are extended and other asset lives are reduced. The net effect of the reassessment for fiscal 2005 was a decrease in our depreciation expense of $60 million (2004: $30 million decrease; 2003: $94 million decrease). Any reassessment in a particular year will affect the depreciation expense (either increasing or decreasing) through to the end of the reassessed useful life for both that current year and future years.

We account for our assets individually where it is practical and feasible and in line with commercial practice. Where it is not practical and feasible, we account for assets in groups. This is the case for certain communication assets. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network (CAN). We charge the cost of repairs and maintenance, including the cost of replacing minor items, which are not substantial improvements, to operating expenses.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.14 Leased plant and equipment (note 12)

We account for leases in accordance with AASB 1008: "Leases". We distinguish finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases, under which the lessor effectively retains all such risks and benefits.

Where we acquire non current assets by using a finance lease, the present value of future minimum lease payments is disclosed as equipment under finance lease at the beginning of the lease term. Capitalised lease payments are amortised on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred. Operating lease rental expense is disclosed in note 3.

Where we lease properties, costs of improvements to these properties are capitalised, and disclosed as leasehold improvements and amortised over the shorter of the useful life of the improvements or the term of the lease.

1.15 Intangible assets (note 13)

Intangible assets are assets that have value but do not have physical substance.

(a) Goodwill

On acquisition of investments, when we pay an amount greater than the fair value of the net identifiable assets of an entity, this excess is recorded as goodwill in the Telstra Group statement of financial position. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. Goodwill is amortised on a straight line basis over the period of expected benefit. This period is subject to a maximum of 20 years from the date of gaining control. The carrying amount of goodwill is reviewed every six months and adjusted to the extent that future benefits are not considered probable. The weighted average goodwill amortisation period for fiscal 2005 was 20 years (2004: 20 years).

We continually assess whether changes have occurred that would require revision of the remaining estimated useful life of goodwill, or whether changes will render the goodwill not recoverable. If such circumstances arise, the recoverable amount of goodwill is determined based on estimates of the discounted value of expected future cash flows of the business. Market interest rates and discount rates are considered when calculating discounted cash flows.

We also calculate goodwill when we acquire joint venture entities and associated entities. However, for these entities the goodwill amount is included as part of the cost of the investment and not shown separately as an intangible asset. The amortisation of this notional goodwill is included in the share of net profit/(loss) of joint venture entities and associated entities line in the statement of financial performance. Refer to note 1.11 for information regarding goodwill for joint venture entities and associated entities.

(b) Identifiable intangible assets

Patents, trademarks, licences, brandnames and customer bases

Our identifiable intangible assets include patents, trademarks and licences (including network and business software and spectrum licences), brandnames and customer bases. Where the costs of such assets have a benefit or relationship to more than one accounting period, these costs are deferred and amortised on a straight line basis over the period of expected benefit.

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

	Telstra Group	
	As at 30 June	
	2005	**2004**
Identifiable intangible assets	**Expected benefit (years)**	**Expected benefit (years)**
Patents, trademarks and licences	**14**	12
Brandnames	**20**	20
Customer bases	**13**	13

The recoverable amounts of identifiable intangible assets are reviewed every six months and the carrying amount is adjusted down where it exceeds recoverable amount. Recoverable amount of identifiable intangible assets is determined based on estimates of the discounted value of expected future cash flows to be derived from the use of those assets.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.15 Intangible assets (note 13) (continued)

(b) Identifiable intangible assets (continued)

Mastheads

Mastheads, being the titles of newspapers and magazines, are also considered to be an identifiable intangible asset. Where we acquire an entity that is considered to hold value in their mastheads, we recognise an asset in our statement of financial position at the fair value determined at the date of acquisition.

We do not currently amortise the cost of our mastheads as they have been assessed to have an indefinite useful life. We do not expect a useful life to be determined in the foreseeable future. The status of the useful life and the need to amortise the carrying amount of the mastheads is, however, reassessed every six months.

In addition, an assessment of the recoverable amount of the mastheads is made every six months to ensure this is not less than their carrying amount. The recoverable amount is determined based on the amount expected to be recovered through the cash inflows and outflows arising from the mastheads, discounted to their present value using a market determined, risk adjusted discount rate.

1.16 Other assets (note 14)

(a) Research and development costs

Research costs are recorded as an expense as incurred. Development costs are recorded as an expense as incurred, unless future economic benefits are attainable from the expenditure, in which case they are capitalised. The majority of our research and development costs are incurred in relation to software developed for internal use. Refer to note 1.16 (d) for our policy on software assets developed for internal use.

(b) Deferred mobile handset subsidies

Mobile handsets that are sold as part of service contracts are accounted for as separate transactions. The revenue allocated to a subsidised mobile handset is contingent upon delivery of the contracted services and is therefore recognised over the life of the contract. Similarly, the cost of any associated subsidy is deferred and written off over the contract term.

As a result, the expense is recognised over the life of the contract, consistent with the timing of revenue earned.

(c) Deferred expenditure

Deferred expenditure mainly includes upfront payments for basic access installation and connection fees for in place and new services, loan flotation costs and indefeasible rights of use (IRU).

Significant items of expenditure:

- are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity; and
- cannot be deferred if they only relate to revenue which has already been recorded.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised. This period is a weighted average of 4 years for fiscal 2005 (2004: 4 years). Our IRU is amortised over the contract periods to which it relates, the periods range from 5-22 years. Each year we also review expenditure deferred in previous periods to determine the amount (if any) that is no longer recoverable. The amount of deferred expenditure that is no longer recoverable is immediately written off as an expense in the statement of financial performance.

(d) Software assets developed for internal use

We record direct costs associated with the development of network and business software for internal use as software assets. These amounts are capitalised where project success is regarded as probable.

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed;
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project; and
- borrowing costs incurred while developing the software.

Software assets developed for internal use are amortised on a straight line basis over their useful lives to us. This period is a weighted average of 6 years for fiscal 2005 (2004: 6 years). Amortisation starts as soon as the software is ready for use.

The carrying values of these assets are reviewed regularly at each reporting date, to ensure they are recoverable. Where such costs are no longer considered recoverable, they are immediately written off in the statement of financial performance.

1.17 Payables (note 15)

Accounts payable, including accruals and creditors, are recorded when we are required to make future payments as a result of a purchase of assets or services prior to the end of the financial year.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.18 Interest-bearing liabilities (note 16)

Bills of exchange and commercial paper are recorded as borrowings when issued, at the amount of the net proceeds received. They are carried at amortised cost until the liabilities are fully settled. Interest is recorded as an expense on a yield to maturity basis.

Bank loans are carried at cost.

Telstra bonds are carried at adjusted cost. Adjusted cost is the face value of debt adjusted for any unamortised premium or discount. Interest is calculated on a yield to maturity basis. Bonds repurchased are cancelled against the original liability and any gains or losses are recorded in the statement of financial performance as borrowing costs.

Other loans are also carried at adjusted cost. Discounts and premiums are amortised on a straight line basis over the period to maturity. Interest is calculated on a yield to maturity basis. Our other loans include both Australian dollar loans and foreign currency loans. Amounts denominated in foreign currency are revalued daily. Any exchange gains or losses are taken to the statement of financial performance.

1.19 Provisions (note 17)

Provisions are recognised when the group has:

- a present legal, equitable or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events;
- it is probable that a future sacrifice of economic benefits will arise;
- a reliable estimate can be made of the amount of the obligation; and
- the amount or timing of the future sacrifice of economic benefits to satisfy the present obligation is uncertain.

(a) Employee benefits

We accrue liabilities for employee benefits to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated on the remuneration rates expected to be current at the date of settlement and include related on-costs.

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

Telstra Entity employees who have been employed by the Telstra Entity for at least ten years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in our employee benefits.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of balance date at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years.

We calculate present values using rates based on government guaranteed securities with similar due dates to our liabilities.

Liabilities for redundancies are recognised when a detailed formal plan for the redundancies has been developed and a valid expectation has been created within those employees affected, that the redundancies will be carried out. The liabilities for redundancies are recognised in payables unless the amount or timing of the payments is uncertain, in which case they are recognised as provisions.

(b) Workers' compensation

We self insure workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on government guaranteed securities with similar due dates. Our controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

(c) Restoration costs

We provide for our future obligations in relation to the fitout of our general purpose leased buildings when we have a legal, equitable or constructive responsibility. These costs include our obligations relating to the dismantling, removal, remediation, restoration and other expenditure associated with these fitouts. Restoration provision is initially recorded based on a reliable estimate of the costs to be incurred. Our estimates are based upon a review of lease contracts, legal requirements, historical information and expected future costs. Any changes to these estimates are adjusted on a progressive basis as required.

Restoration costs associated with mobile tower communication assets that are situated on land held under operating leases are expensed in the statement of financial performance when they become payable as they are insignificant to our financial report.

(d) Dividends

We provide for dividends in the period in which they are declared.

When the declaration date is after balance date, but before completion of the financial report, we disclose the dividend as an event occurring after balance date.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.20 Contributed Equity (note 18)

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Where we undertake a share buy-back, contributed equity is reduced in accordance with the structure of the buy-back arrangement. Costs associated with the buy-back are also deducted from contributed equity.

1.21 Revenue recognition (note 2)

It is our policy to prepare our financial statements to satisfy both AGAAP and USGAAP, and in cases where there is no conflict between the two, we incorporate the more detailed requirements in both AGAAP and USGAAP financial statements.

The underlying accounting principles of revenue recognition are the same for both AGAAP and USGAAP. As such we have applied the more detailed guidance under USGAAP to the timing of revenue recognition for both AGAAP and USGAAP financial statements.

Sales revenue

Our categories of sales revenue listed in note 2 are recorded after deducting sales returns, trade allowances, duties and taxes.

(a) Delivery of services

Revenue from the provision of our telecommunications services includes:

- basic access installation and connections;
- local and international telephone calls;
- mobile phone services, connections and calls; and
- BigPond and other internet solutions.

We record revenue earned from:

- calls on completion of the call; and
- other services generally at completion, or over the period of service provided.

Installation and connection fee revenues are deferred and recognised over the average estimated customer contract life. For basic access installation and connections this is an average of five years. For mobile phone connections, this is an average of two years. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life. Any costs in excess of the revenue deferred are recognised immediately. The average estimated customer contract life is reviewed each year.

(b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of telephony equipment, mobile phone handsets and similar goods. This revenue is recorded on delivery of the goods sold.

(c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period.

(d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract (refer to note 1.10 for further information).

Our construction contracts are classified according to their type. There are three types of construction contracts, these being material intensive, labour intensive and short duration. Revenue is recognised on a percentage of completion basis using the appropriate measures as follows:

- (actual costs / planned costs) x planned revenue - for material intensive projects;
- (actual labour hours / planned labour hours) x planned revenue - for labour intensive projects; and
- short duration projects are those that are expected to be completed within a month and revenues and costs are recognised on completion.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.21 Revenue recognition (note 2) (continued)

(e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis for which revenues are recognised at the time the advertisement is published.

All of our Yellow Pages and White Pages directory revenues are recognised on delivery of the published directories using the delivery method. We consider our print directories delivered when they have been published and delivered to our customers' premises. Revenue from online directories is recognised over the life of the service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

(f) Royalties

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Other revenue

(g) Dividend revenue

We record dividend revenue in the statement of financial performance from the following entities when declared by them:

- controlled entities;
- joint venture entities and associated entities (when received by the Telstra Entity); and
- listed investments and other investments.

We record distributions from trusts when the distribution is receivable.

For our consolidated financial statements, dividends and distributions received from joint venture entities and associated entities are recorded as a reduction of the balance in the investment account as per equity accounting requirements and not as dividend revenue of the Telstra Group.

(h) Revenue from the sale of non current assets

Revenue from the sale of our non current assets is recorded when all conditions required to complete the sale have been settled and finalised.

(i) Interest revenue

We record interest revenue on an accrual basis. For financial assets, interest revenue is determined by the effective yield on the instrument (total return).

Revenue received in advance

Revenue received in advance consists mainly of revenue from providing access to the fixed and mobile network and directories advertising revenue. This revenue is initially recorded as a liability and then transferred to earned revenue in line with the revenue policies described above.

Accrued revenue

Accrued revenue represents revenue earned that has not been billed to the customer. This revenue is recorded in accordance with the revenue policies described above.

Revenue arrangements with multiple deliverables

Where two or more revenue generating deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. We allocate the consideration from the revenue arrangement to its separate units based on the relative fair values of each unit. If the fair value of the delivered item is not available, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item.

We currently have a number of arrangements that are considered to be distinguishable into separate units of accounting. These are:

- mobile handsets that are offered as part of a mobile network contract, or sold as part of a prepaid package;
- broadband internet installation kits, where a modem is provided; and
- advertising in the Yellow Pages printed and online directories.

1.22 Advertising expenses

Costs for advertising products and services or promoting our corporate image are expensed as incurred. These costs are included in the promotion and advertising expenses line in note 3 to the financial statements.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.23 Share of net profits/(losses) of joint venture entities and associated entities (note 24)

We record our share of the net profits/(losses) of joint venture entities and associated entities by taking the profit/(loss) after income tax expense, multiplied by our ownership interest after adjusting for:

- amortisation of notional goodwill;
- deferral and subsequent amortisation of unrealised profits after income tax expense arising from transactions and the sale of assets from us to our associates; and
- deferral and subsequent amortisation of unrealised profits after income tax expense arising from trading and the sale of assets from our associates to us.

Refer to note 1.11(b) for information regarding deferral of unrealised profits and amortisation of notional goodwill in relation to joint venture entities and associated entities.

1.24 Taxation (note 4)

Income tax

We apply tax-effect accounting using the liability method to calculate income tax. Income tax expense is calculated on accounting profit after allowing for permanent differences and is recorded as an expense.

Permanent differences are:

- items of revenue or expense that are included in taxable income, but will never be included in accounting profit; or
- items of revenue or expense that are included in accounting profit, but will never be included in taxable income.

To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. These items are netted within the tax consolidated group of other controlled entities when the timing differences are expected to reverse in the same financial years. We do not net deferred tax balances between controlled entities apart from those within the tax consolidated group.

The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being realised.

During fiscal 2003, the Telstra Entity elected for its resident wholly owned controlled entities to join it in a tax consolidation group. The Telstra Entity recognises all current and deferred tax amounts in relation to its resident wholly owned controlled entities in its own financial statements in addition to the current and deferred tax balances arising from its own transactions and events (refer to note 4 for further information).

Goods and Services Tax (GST) (including other value added taxes)

We record our revenue, expenses and assets net of any applicable goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due, but not paid, to the ATO is included under payables.

We do not include any estimate for GST in either accrued revenue or accrued expense balances. Our accruals refer to a combination of items some of which will be supported by the issue or receipt of a tax invoice at a later time depending on the nature of the item. In general, no tax invoice has been received or issued at the time the accrual is recorded.

To accord with Urgent Issues Group Abstract 31 " Accounting for Goods and Services Tax (GST)", which requires cash flows to be determined on a gross basis, we have completed our cash flow statement in the following manner:

- we have derived from our accounting records the amounts which we have shown in our statement of financial performance and statement of financial position, which are on a net GST basis, where the GST is recoverable from the ATO; and
- we have estimated the amount of GST that is required to be added to various line items in the cash flow statement by reference to our business activity statements prepared for the ATO.

Our commitments are recorded net of GST, except where there is non-recoverable GST (refer to note 20).

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.25 Earnings per share (note 6)

Basic earnings per share

Basic earnings per share (EPS) is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share

Where an entity has on issue potential ordinary shares which are dilutive, diluted EPS must be calculated. As we do not have any ordinary shares which are considered dilutive, diluted EPS is the same as basic EPS.

1.26 Superannuation (note 22)

Defined benefit funds

For funding purposes actuarial valuations are required to be performed at least every three years. In prior years, if there has been a shortfall in the net market value of scheme assets when compared with members' vested entitlements, we have provided for the amount to the extent that a present obligation exists to rectify the financial position of the schemes.

Accumulation schemes

Our commitment to accumulation type benefits is limited to making the contributions specified in the trust deed in accordance with our minimum statutory requirements. We recognise a liability when we are required to make future payments as a result of employee services provided.

All superannuation schemes

Contributions to employee superannuation schemes are recorded as an expense in the statement of financial performance as the contributions become payable.

1.27 Employee share plans (note 19)

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We 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. As a result, we do not consolidate the operations of the trust into the Telstra Group.

Telstra incurs expenses on behalf of both the TESOP97 and the TESOP99. These expenses are in relation to administration costs of the trusts and are recorded in our statement of financial performance as incurred.

The Telstra Growthshare Trust was established to hold equity based instruments for the purpose of our equity based payment schemes. Current equity based instruments include options, restricted shares, performance rights, deferred shares, incentive shares, directshares and ownshares. Options, performance rights, and restricted shares are subject to performance hurdles. Deferred shares and incentive shares are subject to specified periods of service.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for the Telstra Growthshare Trust (Growthshare). 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.

An option, restricted share, performance right, deferred share or incentive share represents a right to acquire a share in Telstra.

For options, Telstra provides loans to the Growthshare trustee to enable it to purchase shares on market to underpin the options issued. When exercised, the eligible employee pays for the shares at the exercise price and the loan is repaid to us. On the basis that the loan is fully repaid by the employee, there is no expense associated with the allocation of options. Telstra receives interest on the loans to the trust. From 1 July 2002, the Company suspended its option plan.

Restricted shares, performance rights, deferred shares and incentive shares are recorded as an expense to Telstra when we provide funding to the trust to purchase the shares. The expense recorded in the statement of financial performance represents the market price of the shares at the time of purchase on market.

Directshare enables non-executive directors to receive up to 20% of their fees in Telstra shares. Ownshare enables eligible employees to be provided part of their remuneration in Telstra shares. Telstra purchases shares to meet the requirements of directshare and ownshare and expenses these costs as part of the participant's remuneration.

We have also provided funding to the Trustee to enable it to meet its other obligations under the trust deed.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.28 Derivative financial instruments (note 29)

As we only use derivative financial instruments for our hedging activities, the gains and losses on our derivatives are accounted for on the same basis as the underlying physical transactions. Therefore, hedge gains and losses are recorded in the statement of financial performance when the gains or losses arising from the related physical exposures are recorded in the statement of financial performance.

Foreign exchange gains and losses on the principal value of our cross currency swaps are recorded in the statement of financial performance and determined through reference to the change in spot rates over the relevant reporting period. Where appropriate, these foreign exchange gains and losses offset the gains and losses recorded on the underlying hedged transaction.

We account for our interest rate swaps and cross currency swaps that hedge an underlying physical exposure using the accrual method of accounting.

Interest receivable and payable under the terms of the interest rate swaps and cross currency swaps are accrued over the period to which the payments or receipts relate. The interest receivable and payable under the swaps is also recorded as part of our borrowing costs. Changes to the underlying market value of the remaining interest rate swap and cross currency swap payments and receipts are not recorded in the financial statements.

We do not include the principal amounts of our cross currency swaps and interest rate swaps in our statement of financial position. Where we have a legally recognised right to set off the financial asset and financial liability and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our statement of financial position.

The net position in relation to our cross currency swaps refers to the revalued component of our foreign currency receivable or payable under the swap contract. We record this component as a hedge receivable or hedge payable in our statement of financial position. We do not offset the hedge receivable or hedge payable with the underlying financial asset or financial liability being hedged as the transactions are with different counterparties and are generally not settled on a net basis.

Forward foreign currency contracts are accounted for as outlined in note 1.6 (a). Gains and losses on forward foreign currency contracts intended to hedge anticipated future transactions are deferred and recognised when the anticipated future transaction occurs.

1.29 Insurance

We specifically carry the following types of insurance:

- property;
- travel/personal accident;
- third party liability;
- directors' and officers' liability;
- company reimbursement; and
- other insurance from time to time.

For risks not covered by insurance, any losses are charged to the statement of financial performance in the year in which the loss is reported.

The Telstra Entity self insures for workers' compensation. Further details are provided in note 1.19 (b).

1.30 Further clarification of terminology used in our statement of financial performance

Under the requirements of AASB 1018: "Statement of Financial Performance" we must classify all of our expenses (apart from any borrowing costs and our share of net losses of associates and joint venture entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Our expense categories represent an aggregation of expenses classified by nature (type). These categories do not include any indirect or fixed costs and therefore are not identical to their functional expense category. Specifically this includes:

- our goods and services purchased - this category includes items such as inventory purchases and network expenses that underpin the services we provide directly to our customers; and
- our promotion and advertising or general and administration expenses which are included in other expenses (refer to note 3) and are not treated as a functional expense category.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our net profit prior to including the effect of interest revenue, borrowing costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure the Company's operating profit.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.30 Further clarification of terminology used in our statement of financial performance (continued)

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the Company's operating performance before financing costs, income tax and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for payment of income taxes, debt service and capital expenditure.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

EBITDA is not a USGAAP measure of income or cash flow from operations and should not be considered as an alternative to net income as an indication of our financial performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

When a specific revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining our financial performance for the reporting period, its nature and amount has been disclosed separately in note 3(c).

1.31 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars ($m or A$m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998 and issued under section 341(1) of the Corporations Act 2001.

1.32 Comparative figures

Where necessary, we adjust comparative figures to align with changes in presentation in the current year.

In addition, we have quantified the effect on comparatives of any changes in accounting policies where such changes have arisen (refer to note 1.2).

Notes to the Financial Statements (continued)

2. Revenue

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2005	2004	2003	**2005**	2004
	Note	**$m**	$m	$m	**$m**	$m
Revenue from ordinary operating activities (including items disclosed in note 3(c)) is made up of revenue from the following activities:						
Sales revenue						
Delivery of services		**12,522**	12,119	12,393	**10,783**	10,956
Sale of goods		**691**	531	572	**430**	393
Rent of network facilities		**7,233**	6,656	6,123	**7,233**	6,656
Construction contracts		**130**	90	201	**136**	77
Advertising and directory services		**1,585**	1,341	1,206	**377**	315
Royalties (a)		**-**	-	-	**628**	599
		22,161	20,737	20,495	**19,587**	18,996
Other revenue (excluding interest revenue)						
Dividend revenue						
- wholly owned controlled entities		**-**	-	-	**-**	142
- joint venture entities		**-**	-	-	**1**	-
- other entities		**-**	1	1	**-**	-
		-	1	1	**1**	142
Revenue from the sale of non current assets						
- property, plant and equipment	3(c)	**50**	102	811	**58**	131
- investments in controlled entities		**-**	-	17	**-**	-
- investments in joint venture entities		**30**	-	3	**30**	-
- investments in associated entities	3(c)	**-**	204	17	**-**	-
- investments in listed securities and other investments		**146**	24	7	**135**	24
- businesses		**-**	-	4	**-**	-
		226	330	859	**223**	155
Other sources of revenue						
Rent from property and motor vehicles		**20**	23	33	**20**	22
Sale of PCCW converting note		**76**	-	-	**76**	-
Other revenue		**174**	189	228	**37**	72
		270	212	261	**133**	94
		496	543	1,121	**357**	391
Revenue from ordinary activities (excluding interest revenue)		**22,657**	21,280	21,616	**19,944**	19,387
Interest revenue						
- controlled entities		**-**	-	-	**5**	43
- joint ventures entities and associated entities		**-**	2	2	**-**	2
- other entities		**103**	53	82	**98**	50
		103	55	84	**103**	95
Total revenue from ordinary activities		**22,760**	21,335	21,700	**20,047**	19,482

(a) During fiscal 2005 we reviewed the nature of the core services agreement with our 100% controlled entity Sensis Pty Ltd. As a result of our review we have reclassified our intercompany revenue to include royalties as a separate category.

Notes to the Financial Statements (continued)

3. Profit from ordinary activities

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2005	2004	2003	**2005**	2004
	Note	**$m**	$m	$m	**$m**	$m
(a) Profit before income tax expense (including items disclosed in note 3(c)) has been calculated after charging/(crediting) the following items:						
Labour						
Included in our labour expenses are the following:						
Ownership based remuneration schemes		**20**	23	23	**20**	23
Employee redundancy		**91**	170	281	**85**	161
Goods and services purchased						
Included in our goods and services purchased and relating to sale of goods is:						
Cost of goods sold		**726**	544	556	**501**	425
Rental expense on managed services		**67**	-	-	**62**	-
Other expenses						
Net book value of assets we have sold:						
- property, plant and equipment	3(c)	**42**	64	638	**49**	90
- investments in controlled entities		**-**	-	12	**-**	-
- investments in joint venture entities		**14**	-	-	**3**	-
- investments in associated entities	3(c)	**-**	34	8	**-**	-
- investments in listed securities and other investments		**79**	16	9	**72**	16
- businesses		**-**	-	(6)	**-**	-
- sale of PCCW converting note		**80**	-	-	**80**	-
		215	114	661	**204**	106
Rental expense on operating leases		**597**	530	584	**429**	399
Bad debts written off - trade debtors		**152**	168	172	**135**	149
Movement in provisions - increase/(decrease):						
- doubtful debts - trade debtors		**(1)**	15	21	**(4)**	8
- reduction in value of inventories (finished goods)		**11**	5	5	**11**	5
- reduction in value of investments	3(c)	**6**	-	26	**(310)**	(709)
- reduction in value of amounts owed by controlled entities	3(c)	**-**	-	-	**460**	709
- reduction in value of amounts owed by joint ventures	3(c)	**5**	226	-	**-**	226
- reduction in value of capitalised software		**-**	-	2	**-**	-
Net foreign currency translation losses/(gains)		**(9)**	17	(17)	**(5)**	41
Auditors' fees	3(b)	**7**	6	6	**6**	5
Service contracts and other agreements		**1,556**	1,604	1,677	**1,521**	1,589
Promotion and advertising		**330**	335	316	**253**	275
General and administration		**806**	804	702	**626**	651
Other operating expenses		**380**	431	349	**340**	390
		4,055	4,255	4,504	**3,666**	3,844

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2005	2004	2003	**2005**	2004
	Note	**$m**	$m	$m	**$m**	$m
(a) Profit before income tax expense (including items disclosed in note 3(c)) has been calculated after charging/(crediting) the following items:						
Depreciation of property plant and equipment						
- general purpose buildings and leasehold improvements	12	**56**	55	75	**48**	55
- communication assets including leasehold improvements	12	**2,682**	2,602	2,436	**2,571**	2,504
- communication assets under finance lease	12	**75**	82	82	**75**	82
- equipment under finance lease	12	**9**	13	7	**7**	11
- other plant, equipment and motor vehicles	12	**124**	121	154	**50**	64
		2,946	2,873	2,754	**2,751**	2,716
Amortisation of intangible assets and other assets						
- goodwill	13	**145**	123	116	**4**	4
- patents, trademarks and licences		**34**	35	38	**22**	19
- brandnames		**10**	10	12	**-**	-
- customer bases		**86**	72	82	**15**	15
- deferred expenditure		**11**	1	1	**8**	1
- software assets		**534**	501	444	**498**	473
		820	742	693	**547**	512
		3,766	3,615	3,447	**3,298**	3,228
Borrowing costs						
- controlled entities		**-**	-	-	**19**	81
- other entities		**924**	841	983	**921**	836
- finance charges relating to finance leases		**5**	-	1	**1**	-
		929	841	984	**941**	917
- borrowing costs included in the cost of constructed assets		**(90)**	(74)	(105)	**(90)**	(74)
		839	767	879	**851**	843
Other disclosures						
Research and development expenses (before crediting any grants)		**29**	26	41	**29**	26
Net profit/(loss) on the sale of:						
- property, plant and equipment	3(c)	**8**	40	173	**10**	40
- investments in controlled entities		**-**	-	5	**-**	-
- investments in joint venture entities		**16**	-	3	**27**	-
- investments in associated entities	3(c)	**-**	170	9	**-**	-
- investments in listed securities and other investments		**67**	8	(2)	**63**	8
- businesses		**-**	-	10	**-**	-
- sale of PCCW converting note		**(4)**	-	-	**(4)**	-
		87	218	198	**96**	48

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2005	2004	2003	**2005**	2004
	Note	**$m**	$m	$m	**$m**	$m
(b) Auditors' fees						
Audit fees						
The Australian statutory auditor of the Telstra Entity has charged the following amounts for:						
Auditing and reviewing the financial reports (i)		**5.038**	4.412	4.445	**4.404**	4.183
Auditors other than the Australian statutory auditor have charged the following amounts for:						
Auditing and reviewing the financial reports (ii)		**2.290**	1.904	1.440	**1.391**	1.001
Total audit fees	3(a)	**7.328**	6.316	5.885	**5.795**	5.184
Other services						
In addition to auditing and reviewing the financial reports, other services have been provided by Ernst & Young in their own right as follows:						
Audit related (iii)		**0.571**	0.987	0.936		
Tax (iv)		**0.423**	0.938	0.820		
Other services (v)		**0.703**	1.565	3.578		
Total other services		**1.697**	3.490	5.334		

Audit fees

(i) Our Australian statutory auditor is the Australian National Audit Office (ANAO). The audit provided by the ANAO has been subcontracted to Ernst & Young (EY) since fiscal 2000.

(ii) Audit fees charged by EY relate to audit services provided in completing our statutory and regulatory filings other than those subcontracted directly from the ANAO. These services include the audit and review of our offshore controlled entities, the regulatory audit and our USGAAP audit. In addition, this category includes the audit of our other statutory filings such as the filing we are required to make under Japanese law, and the annual report on Form 20-F to meet our United States listing requirements.

Other services

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non audit services. Fees earned by EY for non audit work was capped at a maximum of 1.0 times the total audit and audit related fees during the past three fiscal years. In addition, the Audit Committee is required to pre-approve all proposals involving the provision of services by EY. As part of the approval process, an assessment of the impact on independence is made by the Audit Committee regarding the services to be provided. Monthly meetings are held between EY and the Director, Business and Finance Services to monitor the process.

EY also has specific internal processes in place to ensure auditor independence.

(iii) Audit related fees charged by EY relate to services that are reasonably related to the performance of the audit or review of our financial statements, and other assurance engagements. These services include our privacy audit and various accounting advice provided.

(iv) Tax fees charged by EY relate to tax compliance, tax advice and other taxation services provided. These services include advice in connection with our entry into tax consolidation, reviews in connection with our implementation of a new tax software management system and tax law technical support.

(v) Other services relate to all additional services performed by EY, other than those disclosed as auditing and reviewing the financial report, audit related and tax. These services include assisting in the investigation of investment acquisitions and other Company projects, performance of system and security reviews, and various other reviews and non assurance services across the Company.

Related practice

We do not engage any related parties of EY for the provision of services to the Telstra Entity or any member of the Telstra Group.

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2005	2004	2003	**2005**	2004
	Note	**$m**	$m	$m	**$m**	$m
(c) Items requiring specific disclosure						
The following items form part of the ordinary operations of our business and their disclosure is relevant in explaining the financial performance of the group.						
Our net profit has been calculated after (charging)/crediting specific revenue and expense items from our ordinary activities as follows:						
Items included in revenue:						
Other revenue (excluding interest revenue)						
- proceeds on sale of our investment in IBM Global Services Australia Limited (iii)		**-**	154	-	**-**	-
- proceeds on sale of properties (vi)		**-**	-	570	**-**	-
Total revenue items		**-**	154	570	**-**	-
Items included in expenses:						
Other expenses						
- net book value of investment and modification of the information technology services contract with IBM Global Services Australia Limited (iii)		**-**	(135)	-	**-**	-
- provision for the non recoverability of the loan to Reach Ltd (iv)	27	**-**	(226)	-	**-**	(226)
- book value on sale of properties (vi)		**-**	-	(439)	**-**	-
- movement in provision for reduction in value of our controlled entities (i) (v)		**-**	-	-	**334**	709
- movement in provision for amounts owed by controlled entities (ii) (v)	27	**-**	-	-	**(475)**	(709)
Total expense items		**-**	(361)	(439)	**(141)**	(226)
In our share of net losses of joint venture entities and associated entities						
- write down of the carrying value of our investment in Reach Ltd (vii)		**-**	-	(965)	**-**	-
Net items		**-**	(207)	(834)	**(141)**	(226)
Income tax benefit/(expense) attributable to those items requiring specific disclosure		**-**	39	(41)	**-**	-
Effect of reset tax values on entering tax consolidation (viii)		**-**	58	201	**-**	58
Net items after income tax benefit/(expense)		**-**	(110)	(674)	**(141)**	(168)

During fiscal 2004, we identified the following transactions as requiring specific disclosure:

(i) Movement in provision for reduction in value of our controlled entities - Telstra Entity

The profit before income tax expense of the Telstra Entity included a $334 million net gain in relation to the reversal of a provision for reduction in value of four controlled entities. This balance was eliminated on consolidation for Telstra Group reporting purposes.

(ii) Movement in provision for amounts owed by controlled entities - Telstra Entity

The profit before income tax expense of the Telstra Entity included a movement of $475 million relating to a provision for amounts owed by a controlled entity. This balance was eliminated on consolidation for Telstra Group purposes (refer to note 27 for further information).

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

(c) Items requiring specific disclosure (continued)

During fiscal 2004, we identified the following transactions as requiring specific disclosure:

(iii) Sale of shareholding in IBM Global Services Australia Limited (IBMGSA)

On 28 August 2003, we sold our 22.6% shareholding in our associated entity 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 as 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).

(iv) Provision for the non recoverability of the loan to Reach Ltd

During fiscal 2004, together with our co-shareholder PCCW Limited (PCCW), we purchased the loan facility previously owed to a banking syndicate by Reach Finance Ltd, a subsidiary of our 50% owned joint venture, Reach Ltd. (Reach). Our share of the acquisition cost of the loan was US$155.5 million, which was recognised as a receivable at the date of the transaction. At 30 June 2004, we provided for the non recoverability of the debt, amounting to $226 million, as we consider that Reach will not be in a position to repay the amount in the medium term. Refer to note 9 for further details.

(v) Movement in provision for reduction in value of controlled entities and amounts owed by controlled entities - Telstra Entity

Included in our profit before income tax expense for fiscal 2004 for the Telstra Entity was a gain of $709 million relating to a movement in our provision for diminution of investments in controlled entities. This gain was offset by an expense of an equivalent amount relating to a provision for amounts owed by a controlled entity. This gain/loss is effectively a reallocation of provisions within the Telstra Entity. The balances are eliminated on consolidation for the Telstra Group.

During fiscal 2003, we identified the following transactions as requiring specific disclosure:

(vi) Sale of office properties

On 1 August 2002, we sold a portfolio of seven office properties for $570 million. 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.

We entered into operating leases totalling $518 million in relation to these properties on normal commercial terms of between five and twelve years, most of which commenced on 19 August 2002.

(vii) Write down of investment in Reach Ltd

During fiscal 2003 we wrote down the carrying amount of the investment in Reach Ltd. The write down occurred due to the 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. This resulted in a reduction of our investments accounted for using the equity method in our statement of financial position and an increase to our share of net losses of joint venture entities and associated entities in the statement of financial performance, amounting to $965 million.

(viii) Effect of reset tax values on entering tax consolidation

During fiscal 2003, legislation was enacted which enabled the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity (or head entity) elected to form a tax consolidated group from 1 July 2002. On formation of the tax consolidated group, the head entity had the option to bring the assets of each subsidiary member into the tax consolidated group by choosing between two alternative methods, the Allocable Cost Amount (ACA) method or Transitional Method. We chose the ACA method for a number of our subsidiaries. Under this method, the tax values of a subsidiary's assets were reset according to certain allocation rules, which consequently impacts future tax deductions and our deferred tax balances. The once-off benefit of $201 million reflected the increase in future tax deductions arising from these reset tax values. Subsequent analysis of this adjustment has resulted in a further tax benefit of $58 million being recognised in fiscal 2004 (refer to note 4 for further details).

Notes to the Financial Statements (continued)

4. Income tax expense

	Telstra Group			Telstra Entity	
	Year ended 30 June			Year ended 30 June	
	2005	2004	2003	**2005**	2004
	$m	$m	$m	**$m**	$m
Notional income tax expense on profit differs from actual income tax expense recorded as follows:					
Profit before income tax expense	**6,269**	5,848	4,928	**6,422**	6,076
(Loss) before income tax expense of subsidiary companies that form part of the Telstra Corporation Limited tax consolidation group (i)				**(125)**	(197)
Profit before income tax expense for the tax consolidated group				**6,297**	5,879
Notional income tax expense on profit calculated at 30%	**1,881**	1,754	1,478	**1,889**	1,764
Which is adjusted by the tax effect of (ii):					
Effect of different rates of tax on overseas income	**(9)**	(15)	(30)	**-**	-
Research and development concessions	**(6)**	(7)	(6)	**(6)**	(8)
Share of net (profit)/loss from joint venture entities and associated entities	**(28)**	11	296	**(25)**	-
Profit on sale of non current assets	**(28)**	(65)	(34)	**(30)**	(59)
Non deductible depreciation and amortisation	**59**	64	58	**7**	11
Reduction in the value of investments and intercompany receivables	**3**	68	-	**9**	87
Assessable foreign source income not included in accounting profit	**4**	18	43	**4**	18
Under/(over) provision of tax in prior years	**2**	24	(28)	**3**	21
Effect of reset tax values on entering tax consolidation (iii)	**-**	(58)	(201)	**-**	(58)
Other adjustments	**(56)**	(63)	(42)	**(74)**	(79)
Income tax expense on profit	**1,822**	1,731	1,534	**1,777**	1,697

(i) Net of consolidation entries and other applicable adjustments.

(ii) For the Telstra Entity, adjustments include those for the tax consolidation group.

(iii) As part of the election to enter tax consolidation (refer following for further details), the head entity in the group was able to elect to reset the tax values of a subsidiary member under certain allocation rules. In fiscal 2003, the reset of tax values resulted in a tax benefit of $201 million. In fiscal 2004, subsequent analysis resulted in a further reset of tax values and an additional tax benefit of $58 million. These benefits reflect the increase in future tax deductions available from these reset values.

Tax consolidation

During fiscal 2003, legislation was enacted that enabled the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity elected to form a tax consolidated group from 1 July 2002. As a result, the Telstra Entity, as the head entity in the tax consolidated group, recognises tax entries for all entities in the group in addition to its own.

The entities within the tax consolidated group have entered into a tax sharing agreement. The terms of this agreement specify the methods of allocating any tax liability in the event of default by the Telstra Entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains with the Telstra Entity.

Agreements which formalise the transition of subsidiaries into the tax consolidated group were also entered into by group members. These agreements covered the transfer of deferred tax balances to the Telstra Entity as at 1 July 2002 and the treatment of any PAYG instalments made. Since entering tax consolidation, we have also acquired other Australian resident wholly owned controlled entities. This has resulted in these entities transferring their deferred tax balances to the Telstra Entity upon entry into the tax consolidated group.

The election to tax consolidate on 1 July 2002 did not have a significant impact on the assets and liabilities of the Telstra Group, apart from the resetting of certain tax values (refer to item (iii) above and note 3 for further information regarding this impact).

Notes to the Financial Statements (continued)

4. Income tax expense (continued)

	Telstra Group			Telstra Entity	
	As at 30 June			As at 30 June	
	2005	2004	2003	**2005**	2004
	$m	$m	$m	**$m**	$m
Future income tax benefits as at 30 June not recorded in the statement of financial position for:					
Income tax losses	**225**	205	209	**-**	-
Capital tax losses	**198**	206	132	**161**	165
Timing differences	**88**	42	42	**-**	-
	511	453	383	**161**	165

Our benefit for tax losses may be used in future years if the following criteria are met:

- our controlled entities have sufficient future assessable income to enable the income tax losses to be offset against that assessable income;
- the Telstra Entity and our controlled entities have sufficient future capital gains to enable the capital tax losses to be offset against those capital gains;
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

Our statement of financial position includes the following:

	Telstra Group	
	As at 30 June	
	2005	2004
	$m	$m
Future income tax benefit balance	**2**	2
Amount of future income tax benefit related to tax losses carried forward	**2**	2

Our future income tax benefit is included within our other non current assets (refer to note 14).

Notes to the Financial Statements (continued)

5. Segment information

We report our segment information on the basis of business segments as our risks and returns are affected predominantly by differences in the products and services we provide through those segments.

Our internal management reporting structure drives how our Company is organised and managed. This internal structure provides the initial basis for determining our business segments.

Our business segments are predominantly distinguishable by the type and location of customers for our key products and services delivered. Our customer facing business segments service different customer types with our full range of products and services. Other reportable business segments are also aligned with our specific customer or business needs. These segments provide operational support services or product support services to our customer facing business segments, or service other telecommunication carriers. Our "Other" segment consists of various business units that do not qualify as business segments in their own right and which service a variety of customer or business needs.

The main adjustment from our internal management reporting structure to our reported business segments is that the TelstraClear group (TelstraClear) in New Zealand is reported as part of a segment we have called Telstra International for segment reporting purposes. For internal management reporting purposes, TelstraClear is included with Telstra Business and Government. For the purposes of the applicable accounting standard, we consider that the risks and returns of TelstraClear differ from those of our local operations and as a result we have grouped these operations into the Telstra International business segment.

Business segments

During the current year, we restructured our pre-existing business unit known as the Bigpond, Media and Sensis group. This restructure resulted in the establishment of Telstra Bigpond, Telstra Media and Sensis as separate business units.

In fiscal 2004, we formed a new group being Telstra Technology, Innovation and Products. This business segment brought together product development areas, network technologies, information technology systems and the Telstra Research Laboratories.

Those business segments not impacted by the above restructures are substantially consistent with the structure in prior years. We have restated all our comparative information to reflect our current reporting position as if all our new business segments and segment accounting policies existed in those prior years.

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

Telstra Consumer and Marketing (TC&M) is responsible for:
- the provision of the full range of telecommunication products and services to metropolitan consumer customers;
- management of Telstra brands, advertising and sponsorship; and
- implementing our bundling initiatives.

Telstra Country Wide (TCW) is responsible for:
- the provision of the full range of telecommunication products and services to consumer, small business, enterprise and some government customers outside the mainland state capital cities, in outer metropolitan areas, and in Tasmania and the Northern Territory.

Telstra Business and Government (TB&G) is responsible for:
- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology (ICT) services to corporate, small to medium enterprises and government customers; and
- the provision of global communication solutions to multi-national corporations through our interests in the United Kingdom, Asia and North America.

Telstra International (TInt.) is the combination of our Telstra Asia business unit and TelstraClear. These business units have been combined for segment reporting purposes as we consider that the risks and returns of these international operations differ from those of our local operations.
- Telstra Asia is responsible for our Asia-Pacific investments. In particular this includes our operations in Hong Kong that mainly generate revenues from the mobiles market; and
- TelstraClear is our New Zealand subsidiary that provides integrated telecommunications services to the New Zealand market.

Infrastructure Services (IS) is responsible for:
- the provisioning, restoration, operation and maintenance of our fixed, mobile, Internet protocol (IP) and data networks to supply products and services as our primary service delivery manager; and
- the design and construction of infrastructure for voice, data and transmission networks, as well as product and application platforms and the online environment.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Wholesale (TW) is responsible for:
- the provision of the full range of telecommunication products and services, including design, construction, and operations and maintenance, delivered over our networks and associated support systems to:
  - non-Telstra branded carriers, carriage service providers, Internet service providers, system integrators, application service providers and commercially driven infrastructure sharing agreements; and
  - infrastructure owners and managers who acquire infrastructure services.

Telstra Technology Innovation and Products (TTIP) is responsible for:
- leading product, technology and information technology strategy for our company;
- the overall planning, design specification of standards and commissioning construction of our communication networks;
- the delivery of information technology solutions to support our products, services and customer support function;
- product development and management;
- the office of the Chief Information Officer; and
- the Telstra Research Laboratories.

Telstra Bigpond is responsible for:
- the management and control of our retail Internet products, services and content, contact centres, customer relations and associated functions, for broadband and narrowband delivery.

Telstra Media is responsible for:
- the management of our interest in the FOXTEL partnership, along with the development and management of the hybrid fibre coaxial (HFC) broadband cable network.

Sensis is responsible for:
- the management and growth of the information, advertising and directories business, including printed publications, voice and online products and services.

Corporate areas include:
- Legal Services - provides legal services across the Company;
- Regulatory, Corporate and Human Relations - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It manages personnel, health and safety, environment, remuneration and training. It also has responsibility for regulatory positioning and negotiation; and
- Finance and Administration - encompasses the functions of business and finance services, treasury, productivity, risk management and assurance, credit management, billing directorate, corporate services, corporate development and the office of the company secretary. It also includes the financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group.

The Corporate areas and the Telstra Bigpond, Telstra Media and Sensis business segments are not reportable segments in their own right and have been aggregated in the “Other” category.

Segment financial results

Our internal management reporting structure provides the initial basis for identifying those items that can be directly attributable, or reasonably allocated to each respective business segment. Items are initially allocated to each business unit for internal management reporting on a basis that is considered suitable for senior management to manage the business. For financial reporting purposes, we have reallocated certain items between the respective business segments pursuant to the definitions of segment revenues, segment expenses, segment assets and segment liabilities in accordance with the requirements of the applicable accounting standard, where a reasonable allocation basis exists.

Where no reasonable allocation basis exists, we have not reallocated individual items to alternative segments. For financial reporting purposes, these items are reported within the same business segment as for internal management reporting. As a result, our segment revenues, segment expenses, segment assets and segment liabilities do not reflect actual operating results achieved for our business segments in certain circumstances.

The following narrative further explains our segment results for those individual items where it is considered that no reasonable allocation basis exists:

- Sales revenue associated with mobile handsets for TC&M, TB&G and TCW are allocated totally to the TC&M segment, with the exception of products sold in relation to small to medium enterprises which are allocated to TB&G. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&M, TB&G and TCW depending on the type and location of customer serviced. In addition, the majority of goods and services purchased, associated with our mobile revenues, are allocated to the TC&M segment. As a result, the TC&M segment also holds segment assets and segment liabilities related to those revenues and expenses recorded in TC&M;
- trade debtors in relation to the mobile repayment option on mobile handsets sold by our dealers are allocated totally to TC&M; and
- revenue received in advance in relation to installation and connection fees is allocated totally to TC&M.

These allocations reflect management's accountability framework and internal reporting system and accordingly no reasonable basis for reallocation to the respective business segments exist.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Segment financial results (continued)

In addition, revenue derived from our Bigpond Internet products and its related segment assets are recorded in the customer facing business units of TC&M, TB&G and TCW. Certain distribution costs in relation to these products are recognised in these three business segments. IS and TTIP recognise certain expenses in relation to the installation and running of the broadband cable network. The related segment assets are managed by the Asset Accounting Group. In accordance with our application of the definition of business segment in relation to customer type, we have not reallocated these items to the Telstra Bigpond business segment.

Change in segment accounting policies

The following segment accounting policy change occurred during fiscal 2005:

Small to medium enterprise revenue

In previous financial years, our segment accounting policy was to recognise sales revenue relating to our small to medium enterprises below a certain limit in the TC&M segment. In fiscal 2005, the revenue earned from our small to medium enterprises was allocated to the TB&G segment in accordance with a revised threshold for small to medium enterprises. In addition, the related expenses of these customers has also been allocated to the TB&G segment. Sales revenue in TC&M was reduced and sales revenue in TB&G decreased by $442 million in fiscal 2004 and $471 million in fiscal 2003 to reflect this change in policy.

Inter-segment transfers

We account for all transactions of entities within the Telstra Group, including international transactions between Australian and non-Australian businesses, at market value. For segment reporting purposes, transfer pricing is not used within the Company. As such the inter-segment revenue line purely relates to intercompany revenue.

The Asset Accounting Group does not allocate depreciation expense related to the use of assets owned at the corporate level to other business segments.

Segment assets and liabilities

Segment assets and segment liabilities form part of the operating activities of a segment and can be allocated directly to that segment.

The Asset Accounting Group performs a company wide function in relation to the financial management of certain assets. These assets are accounted for at the corporate level (aggregated in the “Other” segment) and not allocated across segments.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group

	TC&M	TCW	TB&G	TInt.	IS	TW	TTIP	Other (a)	Elimina-tions	Total of all segments
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Year ended 30 June 2005										
Sales revenue from external customers	5,030	5,751	5,214	1,359	67	2,940	1	1,799	-	22,161
Other revenue from external customers	96	132	5	82	11	3	35	161	(29)	496
Total revenue from external customers (excluding interest revenue)	5,126	5,883	5,219	1,441	78	2,943	36	1,960	(29)	22,657
Less sale of investment/dividend revenue	95	-	-	81	-	-	-	-	-	176
Segment revenue from external customers	5,031	5,883	5,219	1,360	78	2,943	36	1,960	(29)	22,481
Add inter-segment revenue	-	-	53	37	54	284	23	13	(464)	-
Total segment revenue	5,031	5,883	5,272	1,397	132	3,227	59	1,973	(493)	22,481
Segment result under AGAAP	2,420	4,944	3,255	(34)	(1,702)	2,973	(1,374)	(3,572)	3	6,913
Share of equity accounted net (losses)/profits	3	-	8	3	-	-	-	(5)	-	9
Net book value of investments sold	(25)	-	-	(68)	-	-	-	-	-	(93)
Sale of investment/dividend revenue	95	-	-	81	-	-	-	-	-	176
Earnings before interest and income tax expense (EBIT) - segment result under USGAAP	2,493	4,944	3,263	(18)	(1,702)	2,973	(1,374)	(3,577)	3	7,005
Earnings has been calculated after charging/(crediting) the following:										
Depreciation and amortisation	-	-	69	377	-	-	-	3,320	-	3,766
Non cash expenses excluding depreciation and amortisation	499	52	15	75	41	1	8	173	(29)	835
Non current segment assets acquired (excluding acquisition of investments)	16	10	42	246	1,881	503	1,113	235	-	4,046
As at 30 June 2005										
Segment assets (b)	1,266	692	1,661	3,911	1,101	1,216	717	27,918	(2,172)	36,310
Segment assets include:										
Investment in joint venture entities	-	-	3	30	-	-	-	-	-	33
Investment in associated entities	-	-	12	-	-	-	-	4	-	16
Segment liabilities	877	284	953	734	900	590	578	19,410	(2,897)	21,429

(a) Sales revenue for the other segment relates primarily to our advertising and directories revenue earned by Sensis. The Asset Accounting Group is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges.

(b) Segment assets for the other segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group

	TC&M	TCW	TB&G (c)	TInt.	IS	TW	TTIP	Other (a) (d)	Elimina-tions	Total of all segments
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Year ended 30 June 2004										
Sales revenue from external customers	4,956	5,508	4,786	1,301	60	2,631	1	1,494	-	20,737
Other revenue from external customers	1	136	199	51	12	-	4	147	(7)	543
Total revenue from external customers (excluding interest revenue)	4,957	5,644	4,985	1,352	72	2,631	5	1,641	(7)	21,280
Less sale of investment/dividend revenue	-	-	178	51	-	-	-	-	-	229
Segment revenue from external customers	4,957	5,644	4,807	1,301	72	2,631	5	1,641	(7)	21,051
Add inter-segment revenue	-	-	38	36	54	271	51	12	(462)	-
Total segment revenue	4,957	5,644	4,845	1,337	126	2,902	56	1,653	(469)	21,051
Segment result under AGAAP	2,549	4,784	3,455	(18)	(1,625)	2,709	(1,557)	(3,856)	18	6,459
Share of equity accounted net (losses)/profits	2	-	2	(38)	-	-	-	(44)	-	(78)
Net book value of investments sold	-	-	(21)	(29)	-	-	-	-	-	(50)
Sale of investment/dividend revenue	-	-	178	51	-	-	-	-	-	229
Earnings before interest and income tax expense (EBIT) - segment result under USGAAP	2,551	4,784	3,614	(34)	(1,625)	2,709	(1,557)	(3,900)	18	6,560
Earnings has been calculated after charging/(crediting) the following:										
Depreciation and amortisation	-	-	20	363	3	-	-	3,229	-	3,615
Non cash expenses excluding depreciation and amortisation	339	63	44	44	49	(2)	1	293	(7)	824
Non current segment assets acquired (excluding acquisition of investments)	21	-	11	188	1,729	35	871	270	-	3,125
As at 30 June 2004										
Segment assets (b)	1,361	684	882	3,999	1,190	659	591	27,008	(1,381)	34,993
Segment assets include:										
Investment in joint venture entities	11	-	-	29	-	-	-	-	-	40
Segment liabilities	944	317	495	765	879	128	559	18,150	(2,605)	19,632

(a) Sales revenue for the other segment relates primarily to our advertising and directories revenue earned by Sensis. The Asset Accounting Group is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges.

(b) Segment assets for the other segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

(c) Included in revenue from sale of investments and dividends is the sale of our 22.6% shareholding in our associated entity IBM Global Services Australia Limited (IBMGSA), amounting to $154 million. Refer to note 3 for further information.

(d) Included in the segment result for the other segment is the provision for the non recoverability of our loan to Reach Ltd, amounting to $226 million. Refer to note 3 for further information.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group	TC&M $m	TCW $m	TB&G $m	TInt. (c) $m	IS $m	TW $m	TTIP $m	Other (a) (d) $m	Elimina-tions $m	Total of all segments $m
Year ended 30 June 2003										
Sales revenue from external customers	4,908	5,281	4,764	1,471	138	2,519	1	1,413	-	20,495
Other revenue from external customers	6	136	33	54	11	-	22	859	-	1,121
Total revenue from external customers (excluding interest revenue)	4,914	5,417	4,797	1,525	149	2,519	23	2,272	-	21,616
Less sale of investment/dividend revenue	1	-	17	27	-	-	-	-	-	45
Segment revenue from external customers	4,913	5,417	4,780	1,498	149	2,519	23	2,272	-	21,571
Add inter-segment revenue	-	-	55	33	754	258	40	46	(1,186)	-
Total segment revenue	4,913	5,417	4,835	1,531	903	2,777	63	2,318	(1,186)	21,571
Segment result under AGAAP	2,548	4,601	3,524	15	(1,457)	2,573	(1,444)	(3,446)	(182)	6,732
Share of equity accounted net (losses)/profits	2	-	(6)	(974)	-	-	-	(47)	-	(1,025)
Net book value of investments sold	-	-	(7)	(22)	-	-	-	-	-	(29)
Sale of investment/dividend revenue	1	-	17	27	-	-	-	-	-	45
Earnings before interest and income tax expense (EBIT) - segment result under USGAAP	2,551	4,601	3,528	(954)	(1,457)	2,573	(1,444)	(3,493)	(182)	5,723
Earnings has been calculated after charging/(crediting) the following:										
Depreciation and amortisation	-	-	19	388	-	-	-	3,043	(3)	3,447
Non cash expenses excluding depreciation and amortisation	313	62	17	65	14	11	13	626	-	1,121
Non current segment assets acquired (excluding acquisition of investments)	8	(2)	3	187	2,171	46	847	236	(164)	3,332
As at 30 June 2003										
Segment assets (b)	1,111	676	923	4,256	1,357	682	642	27,319	(1,367)	35,599
Segment assets include:										
Investment in joint venture entities	11	-	-	74	-	-	-	44	-	129
Investment in associated entities	-	-	5	25	-	-	-	-	-	30
Segment liabilities	1,018	312	446	817	997	96	580	18,346	(2,435)	20,177

(a) Sales revenue for the other segment relates primarily to our advertising and directories revenue earned by Sensis. The Asset Accounting Group is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges.

(b) Segment assets for the other segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

(c) Included in the share of equity accounted net (losses)/profits is the write down of our investment in Reach, amounting to $965 million. Refer to note 3 for further information.

(d) Included in other revenue from external customers is the sale of seven office properties for $570 million. Refer to note 3 for further information.

Notes to the Financial Statements (continued)

5. Segment information (continued)

		Telstra Group		
		Year ended 30 June		
		2005	2004	2003
	Note	$m	$m	$m
Total segment revenue		**22,481**	21,051	21,571
Sale of investment/dividend revenue		**176**	229	45
Total revenue from external customers (excluding interest revenue)	2	**22,657**	21,280	21,616
Interest revenue		**103**	55	84
Total revenue from ordinary activities	2	**22,760**	21,335	21,700
Earnings before interest and income tax expense (EBIT)		**7,005**	6,560	5,723
Interest revenue		**103**	55	84
Borrowing costs		**(839)**	(767)	(879)
Profit before income tax expense		**6,269**	5,848	4,928
Income tax expense		**(1,822)**	(1,731)	(1,534)
Net profit		**4,447**	4,117	3,394
Information about sales revenue from our products and services:				
PSTN products				
Basic access		**3,362**	3,237	3,083
Local calls		**1,284**	1,504	1,567
PSTN value added services		**250**	259	280
National long distance calls		**1,013**	1,121	1,162
Fixed to mobile		**1,566**	1,597	1,517
International direct		**234**	266	307
		7,709	7,984	7,916
Mobiles				
Mobile services		**3,760**	3,470	3,239
Mobile handsets		**381**	352	386
		4,141	3,822	3,625
Data and internet services				
Internet and IP solutions		**1,377**	1,013	817
ISDN products		**890**	927	942
Specialised data		**966**	1,035	1,059
		3,233	2,975	2,818
Other products and services				
Advertising and directories		**1,585**	1,341	1,205
Customer premises equipment		**229**	184	197
Payphones		**121**	141	148
Intercarrier services		**1,146**	1,103	1,136
Inbound calling products		**449**	476	494
Solutions management		**931**	508	501
Offshore controlled entities (a)		**1,611**	1,431	1,544
Pay TV bundling		**263**	154	23
Other sales and service		**743**	618	888
		7,078	5,956	6,136
	2	**22,161**	20,737	20,495

Notes to the Financial Statements (continued)

5. Segment information (continued)

		Telstra Group		
		Year ended 30 June		
		2005	2004	2003
	Note	**$m**	$m	$m
Information about sales revenue from our products and services (continued):				
(a) Sales revenue from our offshore controlled entities is split between the following products and services:				
International - PSTN products		**501**	388	348
International - Mobiles		**751**	744	921
International - Data and internet services		**264**	204	166
International - Intercarrier services		**24**	27	43
International - Other		**71**	68	66
		1,611	1,431	1,544
Information about our geographic operations (i)				
Segment revenue from external customers				
Australian customers		**20,855**	19,589	19,946
International customers		**1,626**	1,462	1,625
	2	**22,481**	21,051	21,571
Carrying amount of segment assets				
Australian customers		**32,080**	30,872	31,264
International customers		**4,230**	4,121	4,335
		36,310	34,993	35,599
Non current segment assets acquired (excluding acquisition of investments)				
Located in Australia		**3,800**	2,937	3,145
Located in international countries		**246**	188	187
		4,046	3,125	3,332

(i) Our geographical operations are split between our Australian and international operations. Our international operations include the business of our international business segment (primarily businesses in Hong Kong and New Zealand) and our international business that serves multi-national customers in the TB&G segment. No individual geographical area forms a significant part of our operations apart from our Australian operations.

Notes to the Financial Statements (continued)

6. Earnings per share

	Telstra Group		
	Year ended 30 June		
	2005	2004	2003
	¢	¢	¢
Basic and diluted earnings per share	**35.5**	32.4	26.6
	$m	$m	$m
The following reflects the earnings and share information used in determining our basic and diluted earnings per share:			
Net profit	**4,447**	4,117	3,394
Adjustments:			
Outside equity interests in net loss	**-**	1	35
Earnings used in the calculation of basic and diluted earnings per share	**4,447**	4,118	3,429
	Number of shares (millions)		
Weighted average number of issued ordinary shares used in the calculation of basic and diluted earnings per share (a) (b)	**12,513**	12,723	12,867

(a) As at 30 June 2005, we had issued fully paid ordinary shares of 12,443,074,357 (2004: 12,628,359,026; 2003: 12,866,600,200).

On 15 November 2004, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our capital management program. The ordinary shares were brought 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 (refer to note 18 for further information).

On 24 November 2003, we completed an off-market share buy-back of 238,241,174 ordinary shares as part of our capital management program. The ordinary shares were brought back at $4.20 per share, which comprised 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.

(b) There are no potential ordinary shares or dilutive ordinary shares. We are precluded from issuing instruments that gives rise to the issue of new shares by the Telstra Corporation Act 1991 (Cwth). The Telstra Growthshare Trust was established to allocate incentive shares, performance rights, deferred shares, restricted shares, options, directshares and ownshares to executives and employees. The Telstra Growthshare trustee purchases shares on market to underpin the various instruments issued (refer to note 19 for further information).

Notes to the Financial Statements (continued)

7. Dividends

	Telstra Group			Telstra Entity	
	Year ended 30 June			Year ended 30 June	
	2005	2004	2003	**2005**	2004
	$m	$m	$m	**$m**	$m
Ordinary shares					
Previous year final dividend paid	**1,642**	1,544	1,415	**1,642**	1,544
Interim dividend paid	**1,742**	1,642	1,544	**1,742**	1,642
Special dividend paid with the interim dividend	**747**	-	386	**747**	-
Total dividends paid	**4,131**	3,186	3,345	**4,131**	3,186
Dividends per ordinary share paid	**¢**	¢	¢		
Previous year final dividend paid	**13.0**	12.0	11.0		
Interim dividend paid	**14.0**	13.0	12.0		
Special dividend paid with the interim dividend	**6.0**	-	3.0		
Total dividends paid	**33.0**	25.0	26.0		

As our final dividend (including the special dividend paid with the final dividend) for fiscal 2005 was not declared, determined or publicly recommended as at 30 June 2005, no provision has been raised in the statement of financial position. Our final dividend (including the special dividend paid with the final dividend) has been reported as an event subsequent to balance date and the provision for dividend has been raised at the declaration date, refer to note 28 for further details.

Our dividends paid have been franked in aggregate and per share to the extent detailed in the table below:

	Telstra Group		
	Year ended 30 June		
	2005	2004	2003
	%	%	%
Franking credit percentages			
Previous year final dividend paid	**100**	100	100
Interim dividend paid	**100**	100	100
Special dividend paid with the interim dividend	**100**	-	100

Our dividends were franked at a tax rate of 30% for the last three years.

Our dividends paid or declared per share for each fiscal year are shown below:

	Telstra Group		
	Year ended 30 June		
	2005	2004	2003
	¢	¢	¢
Dividends paid/declared per ordinary share			
Interim dividend	**14**	13	12
Special dividend paid with the interim dividend	**6**	-	3
Final dividend	**14**	13	12
Special dividend to be paid with the final dividend	**6**	-	-
Total	**40**	26	27

Notes to the Financial Statements (continued)

7. Dividends (continued)

	Telstra Group			Telstra Entity	
	Year ended 30 June			Year ended 30 June	
	2005	2004	2003	**2005**	2004
	$m	$m	$m	**$m**	$m
The combined amount of exempting and franking credits available to us for the next fiscal year are:					
Combined exempting and franking account balance as at 30 June (i)	**285**	625	585	**285**	625
Franking credits that will arise from the payment of income tax payable as at 30 June (ii)	**519**	512	614	**519**	512
Franking credits and exempting credits that we may be prevented from distributing in the next fiscal year	**(24)**	(25)	(1)	**(24)**	(25)
	780	1,112	1,198	**780**	1,112
Franking debits that will arise on paying dividends declared after 30 June but before completion of the financial report (iii)					
Final dividend	**747**	704	662	**747**	704
Special dividend to be paid with the final dividend	**320**	-	-	**320**	-
	1,067	704	662	**1,067**	704

(i) During fiscal 2003, legislation was enacted which enabled the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity elected to form a tax consolidated group from 1 July 2002. On entry into tax consolidation, the franking credits held in the franking accounts and exempting accounts of the subsidiary members were transferred to the Telstra Entity. Therefore, one franking account and one exempting account is maintained by the Telstra Entity for the tax consolidated group.

As at 30 June 2005, the Telstra Entity had a combined exempting and franking account balance of $285 million (2004: $625 million; 2003: $585 million). This total combines the surplus in its franking account of $261 million (2004: $600 million; 2003: $584 million) and a surplus of $24 million (2004: $25 million; 2003: $1 million) in its exempting account. The franking account balance of $261 million represents the amount of tax paid by the entity that is available for distribution to shareholders and equates to a fully franked distributable dividend of $609 million (2004: $1,400 million; 2003: $1,363 million). There are statutory restrictions placed on the distribution of exempting credits from the exempting account.

Additional franking credits will arise when the Telstra Entity pays tax instalments during fiscal 2006, relating to the fiscal 2005 and 2006 income tax years. Franking credits will be used when the Telstra Entity pays its 2005 final ordinary dividend (including special dividend to be paid with the final dividend) in fiscal 2006.

(ii) Franking credits that arise from the payment of income tax are expressed at the 30% tax rate on a tax paid basis.

(iii) The franking debits that will arise when we pay our final ordinary dividend (including the special dividend to be paid with the final dividend) have been expressed as the amount of franking credits that will be attached to a fully franked distribution.

We believe our current balance of franking credits combined with the franking credits that will arise on tax instalments expected to be paid during fiscal 2006, will be sufficient to cover the franking debits arising from our final dividend (including our the special dividend). Refer to note 28 for further details in relation to our dividends declared subsequent to year end.

Notes to the Financial Statements (continued)

8. Cash assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Current				
Cash at bank and on hand	**217**	149	**75**	32
Bank deposits, bills of exchange and commercial paper (a)	**1,323**	538	**1,285**	511
	1,540	687	**1,360**	543

(a) Bank deposits are held in the short term money market. The carrying amount of bank deposits, bills of exchange and commercial paper approximates net fair value due to their short term to maturity.

Notes to the Financial Statements (continued)

9. Receivables

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2005	2004	2005	2004
	Note	$m	$m	$m	$m
Current					
Trade debtors (a)		**2,630**	2,459	**1,970**	1,894
Provision for doubtful debts		**(159)**	(196)	**(125)**	(161)
		2,471	2,263	**1,845**	1,733
Amounts owed by controlled entities (other than trade debtors)	27	**-**	-	**2,194**	1,265
Provision for amounts owed by controlled entities (other than trade debtors)	27	**-**	-	**(1,469)**	(994)
		-	-	**725**	271
Amounts owed by joint venture entities and associated entities (b)	27	**32**	-	**-**	-
Accrued revenue		**976**	1,043	**930**	1,001
Share loans to employees (c)	19,27	**24**	24	**24**	24
Cross currency swap hedge receivable	29	**4**	169	**4**	169
Other receivables		**102**	109	**38**	60
		1,138	1,345	**996**	1,254
		3,609	3,608	**3,566**	3,258
Non current					
Amounts owed by controlled entities (other than trade debtors)	27	**-**	-	**56**	362
Provision for amounts owed by controlled entities (other than trade debtors)		**-**	-	**-**	(45)
		-	-	**56**	317
Amounts owed by joint venture entities and associated entities (d)	27	**232**	226	**226**	226
Provision for amounts owed by joint venture entities and associated entities	27	**(232)**	(226)	**(226)**	(226)
		-	-	**-**	-
Share loans to employees (c)	19,27	**131**	150	**131**	150
Reach capacity prepayment (e)	27	**-**	208	**-**	208
Cross currency swap hedge receivable	29	**-**	237	**-**	237
Other receivables (f)		**109**	145	**103**	135
		240	740	**234**	730
		240	740	**290**	1,047

(a) Our policy requires trade debtors to pay us in accordance with agreed payment terms. Depending on the customer segment, our settlement terms are generally 14 to 30 days from date of invoice. All credit and recovery risk associated with trade debtors has been provided for in the statement of financial position.

(b) During fiscal 2005, we formed a joint venture with Hutchison 3G Australia Pty Ltd (H3GA), to jointly own and operate H3GA's existing 3G radio access network and fund future network development. During the year we provided funding to the joint venture for operational expenditure purposes. The balance owing will be settled within twelve months and is provided interest free.

(c) Share loans to employees represent amounts receivable from employees under the Telstra Employee Share Ownership Plan (TESOP97) and the Telstra Employee Share Ownership Plan II (TESOP99). At the commencement of the scheme, loans were advanced to participating employees to enable the purchase of Telstra shares. Loans under TESOP97 and TESOP99 are provided interest free. For further details on repayment terms refer to note 19 regarding the share plans.

Notes to the Financial Statements (continued)

9. Receivables (continued)

(d) During fiscal 2004, together with our co-shareholder PCCW Limited (PCCW), we bought out a loan facility previously owed to a banking syndicate by Reach Finance Ltd, a controlled entity of our 50% owned joint venture Reach Ltd (Reach). Our share of the acquisition cost of the loan was US$155.5 million, which was recognised as a receivable at the date of the transaction.

In the period 17 June 2004 to 16 December 2004, interest arising on the loan under the loan facility was suspended and did not accrue. In the period 17 December 2004 to 16 April 2005, the loan accrued interest equivalent to the 3 month US LIBOR rate plus an additional 2.5%, amounting to $2 million, but payment of such interest was deferred. On 16 April 2005, we waived our right to receive further interest under this loan facility as part of the discharge of the Reach capacity prepayment and subsequent acquisition of an indefeasible right of use (refer to footnote (e) below for further details).

As part of the April 2005 agreement, the terms of maturity were altered such that the facility is now an interest free loan and is repayable on or after 31 December 2010 upon the giving of 6 months notice by both PCCW and us. We have provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term.

(e) Until 16 April 2005, we were party to a capacity prepayment agreement (CPA) with our 50% owned joint venture entity, Reach and certain subsidiaries of Reach. The CPA had a face value of US$143 million and earned compounding interest equivalent to the 3 month US LIBOR rate plus an additional 2.5%. The CPA provided the right to receive future carriage and related services capacity equivalent to the amount of the prepayment and accrued interest.

On 16 April 2005, we terminated the CPA and entered into an indefeasible right of use (IRU) arrangement with Reach. Under this arrangement, Reach allocated its international cable capacity between us and our co-shareholder, PCCW, for payment of $205 million (US$157 million) each. Our share of the payment was made via discharge of Reach's liabilities under the CPA in the amount of $187 million (US$143 million), accrued interest on the prepayment agreed at $16 million (US$12 million), and accrued interest on the loan facility referred to in footnote (d) above, agreed at $2 million (US$2 million).

The IRU has been classified as deferred expenditure and further details are available at note 14.

(f) Included in our other non current receivables is an amount of $45 million (2004: $65 million) from Telstra Growthshare. This non current receivable represents amounts provided to the Telstra Growthshare Trust to enable it to purchase shares on market to facilitate the senior executive equity participation scheme. The interest rate applicable to the loan balance at fiscal 2005 is 4.0% (2004: 4.0%). There are no specified repayment terms. Refer to note 19 for further information on Telstra Growthshare.

Also included in our other non current receivables is an amount of $59 million (2004: $69 million) which relates to customer deferred debt. This amount relates to eligible post paid customers where we allow repayment of the cost of their mobile handset and approved accessories monthly over 12, 18 or 24 months. This receivable is non interest bearing.

Notes to the Financial Statements (continued)

10. Inventories

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Current				
Finished goods recorded at net realisable value	**4**	30	**-**	30
Finished goods recorded at cost	**222**	204	**183**	167
Provision for stock obsolescence	**(25)**	(29)	**(16)**	(15)
Total finished goods	**201**	205	**167**	182
Raw materials and stores recorded at cost	**16**	16	**12**	16
Construction contracts (a)	**15**	8	**15**	8
	232	229	**194**	206
Non current				
Finished goods recorded at net realisable value	**-**	9	**-**	9
Finished goods recorded at cost	**20**	6	**20**	6
Provision for stock obsolescence	**(5)**	(5)	**(5)**	(5)
	15	10	**15**	10

(a) Construction contract disclosures are shown in the table below:

Gross amount of construction work in progress	**65**	33	**65**	33
Profits recognised to date	**4**	3	**4**	3
	69	36	**69**	36
Progress billings	**(54)**	(28)	**(54)**	(28)
	15	8	**15**	8

As at 30 June 2005, we had received advances in relation to our construction work in progress amounting to $7 million (2004: $nil).

Notes to the Financial Statements (continued)

11. Investments

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2005	2004	**2005**	2004
	Note	**$m**	$m	**$m**	$m
Investments - accounted for using the equity method					
Investment in joint venture entities		**37**	40	**82**	81
Provision for reduction in value		**(4)**	-	**(50)**	(49)
Carrying amount of investments in joint venture entities	24	**33**	40	**32**	32
Investment in associated entities		**40**	24	**34**	25
Provision for reduction in value		**(24)**	(24)	**(22)**	(25)
Carrying amount of investments in associated entities	24	**16**	-	**12**	-
		49	40	**44**	32
Investments - other					
Listed securities					
Investment in listed corporations (at cost) (i)		**-**	15	**-**	11
Unlisted securities and other investments					
Investment in controlled entities (at cost)	23	**-**	-	**12,868**	12,537
Provision for reduction in value		**-**	-	**(6,839)**	(7,173)
Total investment in controlled entities		**-**	-	**6,029**	5,364
Investment in other corporations (at cost)		**3**	68	**3**	62
Provision for reduction in value		**(3)**	(3)	**(3)**	(2)
Total investment in other corporations (ii)		**-**	65	**-**	60
		-	80	**6,029**	5,435

Notes to the Financial Statements (continued)

11. Investments (continued)

Listed securities and investments in other corporations are as follows:

Name of investment	Principal activities	Ownership interest		Telstra Group's recorded amount of investment (*)		Telstra Entity's recorded amount of investment (*)	
		As at 30 June		As at 30 June		As at 30 June	
		2005	2004	**2005**	2004	**2005**	2004
		%	%	**$m**	$m	**$m**	$m
(i) Listed securities							
Infonet Services Corporation (a).	International communications and computing services	**-**	5.3	**-**	11	**-**	11
Other listed investments (b).				**-**	4	**-**	-
				-	15	**-**	11
(ii) Investments in other corporations							
Intelsat Limited (c)	Provision of satellite capacity	**-**	1.7	**-**	60	**-**	60
Other investments (d)				**-**	5	**-**	-
				-	65	**-**	60

(*) Amounts shown net of provision for reduction in value.

(a) On 25 February 2005, we sold our investment in Infonet Services Corporation for $65 million.

(b) During fiscal 2005, we sold other minor listed investments for nominal consideration.

(c) On 28 January 2005, we sold our investment in Intelsat Limited for $69 million (US$53.3 million).

(d) During fiscal 2005, we sold other minor investments for nominal consideration. In addition, we were issued additional capital in m.Net Corporation Limited as consideration for in-kind services provided. As a result of the increase in shares held we classified the investment as a joint venture. Refer note 24 for further information.

Notes to the Financial Statements (continued)

12. Property, plant and equipment

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Land and site improvements				
At cost	**40**	43	**37**	42
Buildings (including leasehold improvements)				
At cost	**840**	752	**743**	706
Accumulated depreciation	**(396)**	(345)	**(363)**	(318)
	444	407	**380**	388
Communication assets (including leasehold improvements)				
At cost	**43,942**	41,225	**41,730**	39,664
Accumulated depreciation	**(21,843)**	(19,726)	**(21,214)**	(19,214)
	22,099	21,499	**20,516**	20,450
Communication assets under finance lease				
At cost	**858**	858	**858**	858
Accumulated depreciation	**(434)**	(359)	**(434)**	(359)
	424	499	**424**	499
Other plant, equipment and motor vehicles				
At cost	**1,058**	1,384	**753**	1,004
Accumulated depreciation	**(734)**	(980)	**(553)**	(792)
	324	404	**200**	212
Equipment under finance lease				
At cost	**52**	48	**26**	19
Accumulated depreciation	**(32)**	(37)	**(10)**	(10)
	20	11	**16**	9
Total property, plant and equipment				
At cost	**46,790**	44,310	**44,147**	42,293
Accumulated depreciation	**(23,439)**	(21,447)	**(22,574)**	(20,693)
	23,351	22,863	**21,573**	21,600

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2005	2004	**2005**	2004
	Note	**$m**	$m	**$m**	$m
Land and site improvements					
Opening cost		**43**	49	**42**	48
- additions		**4**	-	**3**	-
- disposals		**(8)**	(6)	**(8)**	(6)
- acquistion of businesses		**1**	-	**-**	-
Closing cost		**40**	43	**37**	42
Buildings (including leasehold improvements)					
Opening net book value		**407**	419	**388**	386
Opening cost		**752**	698	**706**	653
- additions		**47**	65	**43**	63
- disposals		**(16)**	(18)	**(15)**	(11)
- acquisitions of businesses		**57**	2	**-**	-
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations		**(6)**	2	**-**	-
- other		**6**	3	**9**	1
Closing cost		**840**	752	**743**	706
Opening accumulated depreciation		**(345)**	(279)	**(318)**	(267)
- disposals		**4**	9	**3**	1
- depreciation and amortisation expense	3	**(56)**	(55)	**(48)**	(55)
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations		**3**	(1)	**-**	-
- other		**(2)**	(19)	**-**	3
Closing accumulated depreciation		**(396)**	(345)	**(363)**	(318)
Closing net book value		**444**	407	**380**	388

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2005	2004	**2005**	2004
	Note	**$m**	$m	**$m**	$m
Communication assets (including leasehold improvements)					
Opening net book value		**21,499**	21,521	**20,450**	20,528
Opening cost		**41,225**	39,492	**39,664**	38,086
- additions		**3,378**	2,654	**2,732**	2,519
- disposals		**(740)**	(1,010)	**(740)**	(1,001)
- acquisitions of businesses		**-**	1	**-**	-
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations		**(37)**	33	**-**	4
- other		**116**	55	**74**	56
Closing cost		**43,942**	41,225	**41,730**	39,664
Opening accumulated depreciation		**(19,726)**	(17,971)	**(19,214)**	(17,558)
- disposals		**584**	866	**588**	859
- acquisitions of businesses		**-**	(1)	**-**	-
- depreciation and amortisation expense	3	**(2,682)**	(2,602)	**(2,571)**	(2,504)
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations		**8**	(11)	**-**	-
- other		**(27)**	(7)	**(17)**	(11)
Closing accumulated depreciation		**(21,843)**	(19,726)	**(21,214)**	(19,214)
Closing net book value		**22,099**	21,499	**20,516**	20,450
Communication assets under finance lease					
Opening net book value		**499**	581	**499**	581
Opening and closing cost (a)		**858**	858	**858**	858
Opening accumulated depreciation		**(359)**	(277)	**(359)**	(277)
- depreciation and amortisation expense	3	**(75)**	(82)	**(75)**	(82)
Closing accumulated depreciation		**(434)**	(359)	**(434)**	(359)
Closing net book value		**424**	499	**424**	499

(a) In fiscal 2005 and fiscal 2004 there were no additions or disposals to this class of asset. As a result, our opening and closing cost has remained unchanged.

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2005	2004	**2005**	2004
	Note	**$m**	$m	**$m**	$m
Other plant, equipment and motor vehicles					
Opening net book value		**404**	430	**212**	244
Opening cost		**1,384**	1,449	**1,004**	1,064
- additions		**114**	166	**52**	63
- disposals		**(301)**	(239)	**(295)**	(123)
- acquisitions of businesses		**15**	5	**-**	-
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations		**(14)**	4	**-**	-
- other		**(140)**	(1)	**(8)**	-
Closing cost		**1,058**	1,384	**753**	1,004
Opening accumulated depreciation		**(980)**	(1,019)	**(792)**	(820)
- disposals		**287**	169	**281**	91
- acquisitions of businesses		**-**	(1)	**-**	-
- depreciation and amortisation expense	3	**(124)**	(121)	**(50)**	(64)
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations		**9**	(4)	**-**	-
- other		**74**	(4)	**8**	1
Closing accumulated depreciation		**(734)**	(980)	**(553)**	(792)
Closing net book value		**324**	404	**200**	212
Equipment under finance lease					
Opening net book value		**11**	12	**9**	7
Opening cost		**48**	52	**19**	9
- additions		**13**	48	**12**	-
- disposals		**(9)**	(36)	**(5)**	(4)
- acquisitions of businesses		**4**	-	**-**	14
- other		**(4)**	(16)	**-**	-
Closing cost		**52**	48	**26**	19
Opening accumulated depreciation		**(37)**	(40)	**(10)**	(2)
- disposals		**3**	15	**-**	-
- depreciation and amortisation expense	3	**(9)**	(13)	**(7)**	(11)
- other		**11**	1	**7**	3
Closing accumulated depreciation		**(32)**	(37)	**(10)**	(10)
Closing net book value		**20**	11	**16**	9

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

Communication assets

Communication assets include certain network land and buildings which are essential to the operation of our communication assets.

Current value of all land and buildings

We obtain valuations of all of our land and buildings at least once every three years and the current value as at 30 June 2005 was $2,882 million for both the Telstra Group and Telstra Entity (2004: $2,869 million).

These current values were not an independent valuation. The following bases are used in determining the current value of property, plant and equipment:

Property, plant and equipment category	Valuation basis	Last valuation Date
General purpose land and buildings	Market value	31 March 2005
Network land	Market value	31 March 2004
Network buildings	Depreciated replacement cost	31 March 2004

Details of our capital expenditure and finance lease commitments are shown in note 20 to these financial statements.

Work in progress

In fiscal 2005, the Telstra Group has property, plant and equipment under construction amounting to $1,040 million (2004: $987 million). In fiscal 2005, the Telstra Entity has property, plant and equipment under construction amounting to $945 million (2004: $947 million). As these assets are not installed and ready for use, there is no depreciation being charged on the amounts.

Notes to the Financial Statements (continued)

13. Intangible assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	2005	2004
	$m	$m	$m	$m
Intangibles - goodwill				
Goodwill (a) (b)	**2,826**	2,498	**22**	22
Accumulated amortisation	**(539)**	(394)	**(10)**	(6)
	2,287	2,104	**12**	16
Intangibles - other				
Mastheads	**447**	448	**-**	-
Patents, trademarks and licences	**708**	687	**287**	287
Accumulated amortisation	**(183)**	(154)	**(124)**	(102)
	525	533	**163**	185
Brandnames	**212**	211	**-**	-
Accumulated amortisation	**(42)**	(34)	**-**	-
	170	177	**-**	-
Customer bases	**742**	581	**70**	70
Accumulated amortisation	**(303)**	(238)	**(51)**	(35)
	439	343	**19**	35
	1,581	1,501	**182**	220

(a) The movement in the carrying value of our net goodwill balance is summarised as follows:

	Telstra Group	
	As at 30 June	
	2005	2004
	$m	$m
Carrying amount at beginning of year	**2,104**	2,018
Additional goodwill recognised (i) (ii)	**328**	209
Amortisation expense	**(145)**	(123)
Carrying amount at end of year	**2,287**	2,104

(i) During fiscal 2005, we acquired 100% of the issued share capital of the following entities:

- KAZ Group Limited and its controlled entities, which resulted in additional goodwill of $205 million;
- PSINet UK Limited and its controlled entities, which resulted in additional goodwill of $82 million;
- ESA Holding Pty Ltd and its controlled entity, Damovo (Australia) Pty Ltd, and Damovo HK Limited (Damovo Group); which resulted in additional goodwill of $16 million; and
- Universal Publishers Pty Ltd, which resulted in additional goodwill of $15 million.

Various other entities were also acquired during the current year, which resulted in the recognition of additional goodwill amounting to $10 million. Refer to note 23 for further details on our acquisitions.

(ii) During fiscal 2004, we acquired 100% of the issued share capital of the following entities:

- Trading Post (Australia) Holdings Pty Ltd and its controlled entities, which resulted in additional goodwill of $179 million; and
- Cable Telecom (GB) Limited, which resulted in additional goodwill of $23 million.

In fiscal 2004, we also acquired a 75% controlling interest in Invizage Pty Ltd, which resulted in additional goodwill of $7million.

Notes to the Financial Statements (continued)

13. Intangible assets (continued)

(b) As at 30 June 2005, the net goodwill was attributable to investments made in the following controlled entities:

	Telstra Group	
	As at 30 June	
	2005	2004
	$m	$m
Telstra CSL Limited	**1,586**	1,685
KAZ Group Limited	**195**	-
Trading Post (Australia) Holdings Pty Ltd	**169**	177
TelstraClear Limited	**132**	137
Telstra PSINet Limited (formerly PSINet UK Limited)	**79**	-
Sensis Pty Ltd	**33**	36
Cable Telecom (GB) Limited	**21**	23
Telstra Enterprise Services Pty Ltd	**18**	25
ESA Holding Pty Ltd	**16**	-
Universal Publishers Pty Ltd	**15**	-
Telstra eBusiness Services Pty Ltd	**9**	10
Other	**14**	11
Net goodwill	**2,287**	2,104

Notes to the Financial Statements (continued)

14. Other assets

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2005	2004	2005	2004
	Note	$m	$m	$m	$m
Current					
Net deferred mobile phone handset subsidies		**241**	205	**241**	205
Deferred expenditure		**305**	286	**264**	249
Prepayments		**250**	227	**174**	148
Converting note issued by PCCW (a)		**-**	85	**-**	85
		796	803	**679**	687
Non current					
Deferred expenditure		**298**	350	**294**	345
Accumulated amortisation		**(7)**	(6)	**(7)**	(6)
		291	344	**287**	339
Software assets developed for internal use (b)		**3,702**	3,335	**3,300**	3,135
Accumulated amortisation		**(1,699)**	(1,412)	**(1,569)**	(1,373)
		2,003	1,923	**1,731**	1,762
Reach indefeasible right of use (c)		**219**	-	**219**	-
Accumulated amortisation		**(3)**	-	**(3)**	-
		216	-	**216**	-
Future income tax benefit	4	**2**	2	**-**	-
Net deferred mobile phone handset subsidies		**98**	59	**98**	59
		2,610	2,328	**2,332**	2,160

(a) On 30 June 2005, we redeemed the converting note issued by PCCW Limited (PCCW) for cash consideration of $76 million. The note had a carrying value of $80 million, which resulted in us realising a loss on conversion of $4 million. This loss represented a 5% discount which was negotiated for the redemption of the note in cash. The converting note originally had a three year term with interest compounded at 5% per annum. The converting note expired and became payable on 30 June 2005.

(b) In fiscal 2005, the Telstra Group had software assets under construction amounting to $362 million (2004: $337 million). In fiscal 2005, the Telstra Entity has software assets under construction amounting to $301 million (2004: $278 million). As these assets were not installed and ready for use, no amortisation being charged on the amounts.

(c) On 16 April 2005, we entered into an arrangement with our joint venture entity, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU) agreement.

We paid Reach $205 million (US$157 million) for the IRU, which was made up of the discharge of Reach's liabilities under the capacity prepayment agreement we held with Reach, the accrued interest thereon, and other accrued interest owed under the Reach loan facility. Refer to note 9 for further details.

The IRU is amortised over the contract periods for the capacity on the various international cable systems, which range from 5 to 22 years. Over the period of the IRU, we will pay Reach an outsourcing fee for managing our cable usage on a cost-plus mark up basis, which is recorded as an expense as incurred.

As part of the arrangement, we have committed to fund half of Reach's committed capital expenditure for the period until 2022, up to a value of US$106 million. Any amounts we provide to Reach to fund this capital expenditure will be added to the value of the IRU and amortised over its remaining life. Refer to note 21 for further details. In the period since we acquired the IRU, Reach has drawn down $14 million under this commitment.

Notes to the Financial Statements (continued)

15. Payables

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2005	2004	**2005**	2004
	Note	**$m**	$m	**$m**	$m
Current					
Trade creditors (a)		**649**	624	**480**	493
Accrued expenses		**1,057**	1,050	**816**	824
Accrued capital expenditure		**289**	266	**210**	216
Accrued interest		**227**	179	**227**	179
Deferred cash settlement for acquisitions (b)		**321**	-	**-**	-
Other creditors (a)		**266**	219	**219**	174
Amounts owed to controlled entities (other than trade creditors)	27	**-**	-	**5**	5
		2,809	2,338	**1,957**	1,891
Non current					
Deferred cash settlement for acquisitions (b)		**107**	-	**-**	-
Other creditors		**15**	49	**13**	46
		122	49	**13**	46

(a) Trade creditors and other creditors are non interest bearing liabilities. We generally process trade creditor payments once they have reached 30 days from the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

(b) Included in our deferred cash settlement for acquisitions are our remaining obligations for the purchase of the third generation radio access network assets from Hutchison 3G Australia Pty Ltd. The purchase price of these assets at transaction date amounted to $450 million, payable over two years. We recognised this payable at present value in our statement of financial position and are releasing the associated interest over the period of the payable. For fiscal 2005, this release of interest amounted to $13 million.

As at balance date we have $309 million included in our current deferred consideration and $107 million included in our non current deferred consideration relating to this transaction. Our liability will be settled by our final payment due on 1 July 2006. Refer to the notes accompanying our statement of cash flows for further information.

Notes to the Financial Statements (continued)

16. Interest-bearing liabilities

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2005	2004	2005	2004
	Note	$m	$m	$m	$m
Current					
Short term debt					
Bank overdraft (a)		**14**	-	**-**	-
Loan from joint venture entities and associated entities (b)	27	**-**	1	**-**	1
Bills of exchange and commercial paper (c)		**449**	869	**449**	869
		463	870	**449**	870
Long term debt - current portion					
Loans from wholly owned controlled entities	27	**-**	-	**2,400**	2,282
Telstra bonds (d)		**516**	273	**516**	273
Other loans (e)		**523**	2,096	**523**	2,096
Finance leases	20	**5**	7	**4**	6
Cross currency swap hedge payable (e)		**11**	-	**11**	-
		1,055	2,376	**3,454**	4,657
		1,518	3,246	**3,903**	5,527
Non current					
Long term debt					
Telstra bonds (d)		**2,608**	2,136	**2,608**	2,136
Other loans (e)		**8,297**	6,458	**8,297**	6,458
Finance leases	20	**47**	10	**13**	10
Cross currency swap hedge payable (e)		**864**	410	**864**	410
		11,816	9,014	**11,782**	9,014
Total debt payable					
Short term debt					
Bank overdraft (a)		**14**	-	**-**	-
Loan from joint venture entities and associated entities (b)	27	**-**	1	**-**	1
Bills of exchange and commercial paper (c)		**449**	869	**449**	869
		463	870	**449**	870
Long term debt (including current portion)					
Loans from wholly owned controlled entities	27	**-**	-	**2,400**	2,282
Telstra bonds (d)		**3,124**	2,409	**3,124**	2,409
Other loans (e)		**8,820**	8,554	**8,820**	8,554
Finance leases	20	**52**	17	**17**	16
Cross currency swap hedge payable	29	**875**	410	**875**	410
		12,871	11,390	**15,236**	13,671
		13,334	12,260	**15,685**	14,541

Notes to the Financial Statements (continued)

16. Interest-bearing liabilities (continued)

Our long term debt (excluding cross currency swap hedge payable) is repayable over years ending 30 June as follows:

	Telstra Group						
	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	after 2010 $m	Total $m
Telstra bonds (d)	517	500	-	500	-	1,649	3,166
Unamortised discount							(42)
							3,124
Other loans (e)	496	390	1,297	83	792	5,804	8,862
Unamortised discount							(42)
							8,820
Finance leases	12	10	10	8	5	54	99
Future finance charges							(47)
							52
Total long term debt payable (excluding cross currency swap hedge payable)	1,025	900	1,307	591	797	7,507	12,127
Unamortised discount							(131)
							11,996

Assets pledged as security

On 9 January 2004, our 50% owned pay television joint venture FOXTEL entered into a $550 million bank facility arrangement to fund its full digital conversion and launch of new digital services. The use of this facility is subject to certain conditions being met and full repayment is due on 30 September 2008.

As part of this arrangement, our controlled entity Telstra Media Pty Ltd as a FOXTEL partner, and FOXTEL itself, have pledged their respective assets as collateral in favour of the banks. The carrying value of the assets pledged in Telstra Media Pty Ltd as at 30 June 2005 was $nil. Refer to note 21, for details of an equity contribution deed entered as part of this agreement.

Our interest-bearing liabilities are unsecured, except for finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us.

(a) Bank overdraft

As at 30 June 2005, we had a bank overdraft of $14 million (2004: nil), which related to a controlled entity. This bank overdraft is unsecured, with interest being charged daily, net of the controlled entity's offsetting position of cash in bank and any outstanding loans. The weighted average effective interest rate relating to this overdraft is 6.27% (2004: nil).

(b) Loan from joint venture entities and associated entities

As at 30 June 2005, we have no loans outstanding from joint venture entities or associated entities. As at 30 June 2004, we owed a joint venture entity $1 million for an amount deposited with the Telstra Entity. The amount was repayable on demand and had an interest rate of 4.70%. The amount was repaid during fiscal 2005.

(c) Bills of exchange and commercial paper

We have issued bills of exchange and commercial paper of $449 million (2004: $869 million) to financial institutions with an original maturity of less than 180 days. At 30 June 2005, all $449 million (2004: $651 million) of the commercial paper matures in less than three months.

The weighted average effective interest rate applicable to the commercial paper at 30 June 2005 was 5.24% (2004: 5.21%).

Notes to the Financial Statements (continued)

16. Interest-bearing liabilities (continued)

(d) Telstra bonds

Telstra bonds have been issued to both retail and wholesale investors. They have effective interest rates ranging from 6.48% to 12.67% (2004: 7.23% to 12.67%) and mature up until the year 2020 (2004: 2020). During fiscal 2005, $273 million (2004: $210 million) of Telstra bonds matured. Our Telstra bonds are repayable in the years ending 30 June as follows:

	Telstra Group						
Due in the year ending 30 June	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m	after 2010 $m	Total $m
Coupon interest rate							
up to 6.0%	**-**	**-**	**-**	**-**	**-**	**35**	**35**
up to 8.0%	**-**	**500**	**-**	**500**	**-**	**1,510**	**2,510**
up to 10.0%	**13**	**-**	**-**	**-**	**-**	**28**	**41**
up to 12.0%	**504**	**-**	**-**	**-**	**-**	**44**	**548**
up to 16.0%	**-**	**-**	**-**	**-**	**-**	**32**	**32**
	517	**500**	**-**	**500**	**-**	**1,649**	**3,166**
Unamortised discount							**(42)**
							3,124

(e) Other loans

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

Telstra Group - Other loans details	A$ amount As at 30 June		Interest rates Year ended 30 June		Maturity dates As at 30 June	
	2005 A$m	2004 A$m	**2005 %**	2004 %	**2005**	2004
Australian dollar loans	**250**	250	**5.93%**	5.93%	**November 2007**	November 2007
US dollar loans	**1,309**	1,453	**3.49% to 6.50%**	1.48% to 6.50%	**between Nov 2005 and April 2012**	between Nov 2005 and April 2012
Euro eurobond loan	**4,723**	4,368	**3.00% to 6.38%**	2.56% to 6.38%	**between June 2010 and July 2015**	between June 2005 and June 2011
Deutschemark eurobond loan	**808**	894	**5.13%**	5.13%	**April 2008**	April 2008
French franc loan	**362**	400	**6.00%**	6.00%	**December 2006**	December 2006
Swiss franc eurobond loan	**304**	344	**2.50%**	3.38%	**April 2013**	June 2005
Japanese yen loans	**333**	241	**0.31% to 1.89%**	0.30% to 1.65%	**between July 2007 and Nov 2014**	between July 2007 and Sept 2010
Singapore dollar loans	**78**	85	**3.80%**	3.80%	**March 2008**	March 2008
New Zealand dollar loans	**183**	-	**6.99% to 7.15%**	-	**between Nov 2011 and Nov 2014**	-
British pound sterling loans	**470**	519	**6.13%**	6.13%	**August 2014**	August 2014
Total other loans including current portion	**8,820**	8,554				

Notes to the Financial Statements (continued)

16. Interest-bearing liabilities (continued)

(e) Other loans (continued)

To appropriately assess our foreign currency borrowings included in other loans, the hedge receivables and hedge payables arising from our cross currency swaps entered to hedge this position should also be considered. The following table shows our other loan position, net of our outstanding cross currency swap contracts:

	Telstra Group	
	As at 30 June	
	2005	2004
	$m	$m
Other loans	**8,820**	8,554
- less hedge receivable - current	**(4)**	(169)
- less hedge receivable - non current	**-**	(237)
- add hedge payable - current	**11**	-
- add hedge payable - non current	**864**	410
Other loans net of cross currency swaps	**9,691**	8,558

(f) Financing arrangements

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Our financing arrangements				
We have access to the following lines of credit:				
Credit standby arrangements				
Unsecured committed cash standby facilities which are subject to annual review	**892**	849	**887**	815
Amount of credit unused	**891**	820	**887**	815

We have commercial paper facilities in place with financial institutions under which we may issue up to $13,842 million (2004: $15,000 million). As at 30 June 2005, we had drawn down $449 million (2004: $869 million) of these commercial paper facilities. These facilities are not committed or underwritten and we have no guaranteed access to the funds.

Generally, our facilities are available unless we default on any terms applicable under the relevant agreements or become insolvent.

Notes to the Financial Statements (continued)

17. Provisions

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Current				
Employee benefits (a)	**336**	312	**288**	288
Workers' compensation (b) (c)	**32**	32	**31**	31
Other provisions (b) (c)	**21**	14	**5**	12
	389	358	**324**	331
Non current				
Employee benefits (a)	**610**	559	**588**	549
Workers' compensation (b) (c)	**182**	184	**175**	176
Other provisions (b) (c)	**44**	35	**16**	15
	836	778	**779**	740
(a) Aggregate employee benefits and related on-costs liability				
Current provision for employee benefits	**336**	312	**288**	288
Non current provision for employee benefits	**610**	559	**588**	549
Accrued labour and on-costs (i)	**237**	179	**225**	175
	1,183	1,050	**1,101**	1,012

(i) Accrued labour and related on-costs are included within our current payables (refer to note 15).

Provision for employee benefits consist of amounts for annual leave, long service leave accrued by employees and provision for redundancy payments.

Non current employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount:

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
Weighted average projected increase in salaries, wages and associated on-costs	**4.0%**	4.0%	**4.0%**	4.0%
Weighted average discount rates	**5.4%**	5.7%	**5.4%**	5.7%
Leave taking rates	**13.3%**	13.2%	**13.3%**	13.3%

(b) Information about our provisions, other than employee benefits

Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability.

Present values are calculated using appropriate rates based on government guaranteed securities with similar due dates. Actual compensation paid may vary where accidents and claims incurred vary from those estimated.

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

Notes to the Financial Statements (continued)

17. Provisions (continued)

(b) Information about our provisions, other than employee benefits (continued)

Other

Other provisions include provision for restructuring, provision for warranties, provision for restoration costs and other general provisions. The provision for restructuring relates to restructuring costs expected on acquisition of controlled entities and our internal restructures. The provision for warranties relates to our best estimate of warranty costs expected to meet our products' future repairs and replacement based on current sales levels and past historical information. Provision for restoration costs relates to our future expected restoration obligations in relation to the fitout of our general purpose leased buildings. Other general provisions are to cover future costs that we are obligated to meet as a result of past transactions entered into. Actual costs incurred may vary from those provided for when there is variation from our original estimates.

(c) Movement in provisions, other than employee benefits

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Workers' compensation				
Opening balance	**216**	236	**207**	220
- additional provisions	**-**	4	**-**	3
- amount used	**-**	(1)	**-**	-
- reductions due to remeasurements	**(5)**	(21)	**(4)**	(18)
- other	**3**	(2)	**3**	2
Closing balance	**214**	216	**206**	207
Other				
Opening balance	**49**	80	**27**	35
- additional provisions	**35**	7	**3**	6
- amount used	**(10)**	(30)	**(3)**	(18)
- reductions due to remeasurements	**(13)**	(11)	**(6)**	(2)
- other	**4**	3	**-**	6
Closing balance	**65**	49	**21**	27

Notes to the Financial Statements (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m

18. Contributed equity

Fully paid ordinary shares (a) (b)	**5,793**	6,073	**5,793**	6,073

(a) Each of our fully paid ordinary shares carries the right to one vote at a meeting of the Company. Holders of our shares also have the right to receive dividends as declared, and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the Company winding up. In fiscal 2005 and fiscal 2004 we had no outstanding equity that could have been called up in the event of the Company winding up.

(b) On 15 November 2004, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our 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 3.0% of our non Commonwealth owned ordinary shares, were bought back.

The movement in the number of issued, fully paid ordinary shares is as follows:

	Number of shares
Balance at 30 June 2004	**12,628,359,026**
Shares bought back	**(185,284,669)**
Balance at 30 June 2005	**12,443,074,357**

The cost of the share buy-back comprised a purchase consideration of $750 million and associated transaction costs of $6 million.

In accordance with the substance of the buy-back, shareholders' equity decreased as follows:

	Year ended 30 June
	2005
	$m
Contributed equity	**280**
Retained profits	**476**
	756

Notes to the Financial Statements (continued)

19.Employee share plans

The Company has a number of employee share plans that are available for directors, senior executives and employees, these include:

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

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

(a) TESOP99 and TESOP97

(i) Nature of TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in fiscal 2000 and fiscal 1998 we offered our eligible employees as defined by the employee share plans the opportunity to buy Telstra shares. The shares were ordinary shares of the Telstra Entity at the time of the offer.

These share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

All eligible employees of the Telstra Entity and of companies that Telstra owned greater than 50% equity were able to participate in the plans. Certain employees who were part time, casual, fixed term, on leave without pay or living outside Australia and contractors were not eligible to participate.

Generally, employees were offered interest free loans by the Telstra Entity to acquire certain shares and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees. Telstra ESOP Trustee Pty Ltd is the trustee for TESOP99 and TESOP97 and holds the shares on behalf of participants. This company is 100% owned by Telstra.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. The loan may, however, be repaid in full at any time by the employee using his or her own funds.

The loan shares, extra shares and in the case of TESOP99, the loyalty shares, were subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceases. This restriction period has now been fulfilled under each plan.

Given conclusion of the restriction period, the employee can now sell the shares provided the loan is repaid in full for the loan shares and TESOP97 extra shares. Participating employees are entitled to receive dividends and voting rights in the shares. Approximately 70% of the dividends on the loan shares and TESOP97 extra shares held for the employees under the plans are used to repay their loans.

If a participating employee leaves the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, to acquire the relevant shares the employee must repay their loan within two months of leaving. This is the case except where the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required, the trustee can sell the shares if the sale proceeds cover the amount outstanding on the loan plus relevant costs. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

For TESOP99, the Government guaranteed an allocation of up to 5,000 shares for employees using their own funds to purchase shares in the public offer. These shares are directly held by the employees.

Further details on each of the plans are highlighted in the table following in section (a) (ii).

Telstra incurs expenses in relation to the administration of the trusts for TESOP99 and TESOP97. These are recognised in the statement of financial performance of Telstra as incurred. The allocation of shares under these plans did not give rise to any other expense to be recognised by us in the current or prior period.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(a) TESOP99 and TESOP97 (continued)

(ii) TESOP99 and TESOP97 - Share plan information

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

	TESOP99	TESOP97
Date used to determine number of eligible employees	27 August 1999	20 September 1997
Date the plan started	16 October 1999	15 November 1997
Number of employees eligible to participate	53,900	64,309
Price paid by employee - first instalment	(16 October 1999) $4.50	(15 November 1997) $1.95
Price paid by employee - second instalment	(2 November 2000) $2.90	(17 November 1998) $1.35
Total price paid by employee and market price on date of issue	$7.40	$3.30
Number of shares each eligible employee was able to buy with interest free loan (loan shares)	400	2,000
Number of extra shares received by each eligible employee	one extra share for every four guaranteed allocation shares purchased up to a limit of 200	one extra share for every four loan shares or non-loan shares purchased up to a limit of 500
The date participating employees have full ownership of the loan shares and extra shares (a)	16 October 2002	15 November 2000
Number of employees who purchased loan shares	42,439	55,748
Total number of loan shares initially purchased	16,939,000	109,979,100
Total number of extra shares initially acquired relating to loan shares	(b)	27,494,775
Number of employees who used their own funds to buy shares in the TESOP's and received extra shares	21,424	2,282
Number of shares initially purchased under the TESOP's with own funds	(c)	3,776,732
Number of extra shares initially acquired by employees from using their own funds	(b) 3,903,314	944,183
Total market value of shares at issue date (including extra shares)	$93,790,413 (first instalment) $58,832,889 (second instalment)	$277,279,841 (first instalment) $181,936,265 (second instalment)
Total initial loan made to employees	$76,225,500 (first instalment) $48,556,440 (second instalment)	$221,823,872 (first instalment) $144,401,940 (second instalment)
Loan discount paid on behalf of employees ($1 per loan)	$42,439	$55,748
Number of Commonwealth loyalty shares available to each eligible employee at no additional cost (shares need to be held for 12 months to qualify)	one for every 10 shares purchased up to a limit of 80	one for every 10 non loan shares purchased in the public offer up to a limit of 200
Number of employees who received Commonwealth loyalty shares	(d) 17,138	21,761
Number of loyalty shares issued	(d) 1,243,305	3,162,222
Market value of Commonwealth loyalty shares issued	(d) $7,696,058 ($6.19 per share)	$20,363,290 ($6.46 per share)

(a) In the case of all loan shares, and extra shares acquired under TESOP97, the loan must be repaid in full before shares may be transferred to the employee.

(b) For TESOP99, the extra shares were acquired under the Commonwealth component as a result of employees acquiring guaranteed allocation shares in the public offer using their own funds.

(c) Guaranteed allocation shares not included as these were acquired by employees from the Commonwealth under the Commonwealth component.

(d) TESOP99 loyalty shares were issued to eligible employees still holding their Commonwealth component shares on 2 November 2000 and did not prepay the final instalment.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(a) TESOP99 and TESOP97 (continued)

(ii) TESOP99 and TESOP97 - Share plan information (continued)

The following information details the number of outstanding equity instruments and loan balances relevant to the TESOP99 and TESOP97 plans:

	Employee share plans As at 30 June	
	2005	2004
Market price of Telstra shares	**$5.06 per share**	$5.03 per share
Employee share loan balance (total including current and non current, excluding Growthshare option loans - note 9)	**$155 million**	$174 million
TESOP99		
Remaining employees with loan shares (a)	**36,412**	36,628
Remaining number of loan shares	**14,535,900**	14,622,000
TESOP97		
Remaining employees with loan shares	**18,524**	19,525
Remaining number of loan shares	**36,674,100**	38,661,600
Remaining number of extra shares	**9,168,525**	9,665,400

(a) The number of employees with loan shares includes 14,050 (2004: 13,238) employees that have ceased employment and elected not to repay their loan. The Telstra ESOP Trustee continues to hold the shares relating to those loans until the share price is sufficient to recover the loan amount and associated costs. The Trustee will then sell the shares. As at 30 June 2005, there were 5,603,100 shares held for this purpose (2004: 5,295,200).

(iii) TESOP99 and TESOP97 - other information

Shares held by the TESOP99 and TESOP97 trusts for the purposes of facilitating the operations of the relevant share plans amount to 60,378,525 shares (2004: 62,949,000 shares). The fair value of these shares as at 30 June 2005 based on the market value of Telstra shares at balance date amounts to $306 million (2004: $317 million). As the final restriction period for these shares was completed on 16 October 2002, they are now considered fully transferable to the employees once the loan has been repaid in full.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different short and long term incentive equity plans whereby the following equity based instruments may be allocated:

- incentive shares;
- performance rights;
- deferred shares;
- restricted shares; and
- options.

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

- directshares; and
- ownshares.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra.

Short term incentive equity plan

Incentive shares

In fiscal 2005, the Board revised the chief executive officer's and senior executives' remuneration structure to provide half of their short term incentive payments in rights to acquire Telstra shares. Previously the full amount was provided in cash. Known as 'incentive shares', these new rights will vest equally over a period of three years on the anniversary of their allocation date, subject to the executive's continued employment with any entity that forms part of the Telstra Group.

Incentive shares will become vested incentive shares after the executive has satisfied the relevant continued period of employment (1, 2 or 3 years). At this time, the executive will be invited to exercise their vested incentive shares at a cost of $1 in total for all of the incentive shares exercised on a particular day. Vested incentive shares must be exercised before their expiry date, otherwise they will lapse.

Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the incentive shares (or vested incentive shares) to vote or receive dividends. Any dividends paid by the Company prior to exercise will increase the number of Telstra shares allocated to the executive when the vested incentive shares are exercised. The allocation of incentive shares is determined by the Board in August each year. There has not yet been any allocation as at 30 June 2005 hence there are no amounts recognised for incentive shares in any of the tables that follow.

The issue of incentive shares is recorded as an expense when we provide funding to the trust to purchase Telstra shares on market to underpin the incentive shares. As no allocation has occurred during fiscal 2005, we have not recognised any expense for these instruments.

Long term incentive equity plans

(i) Nature of the share plans

The purpose of the performance rights, deferred shares, restricted shares and option plans is to align key executives' rewards with shareholders' interests, and reward performance improvement supporting business plans and corporate strategies. These plans are administered through the Telstra Growthshare Trust. The Board determines who is invited to participate in the share plans.

Allocations have been made over a number of years in the form of performance rights, restricted shares and options under our long term incentive plan, and deferred shares under our deferred remuneration plan. Instruments issued represent a right to acquire a share in Telstra. Generally, the performance rights, restricted shares and options may only be exercised to acquire Telstra shares if a performance hurdle is satisfied in the performance period and in the case of options, the exercise price is paid by the executive. Deferred shares may only be exercised when a prescribed period of service has been completed.

Performance rights

We have two types of performance rights on issue. These are the total shareholder return (TSR) performance rights and the earnings per share (EPS) performance rights. The major difference between these two types of instruments is in the performance hurdle to be achieved to enable vesting. Details of the performance hurdles required for performance rights are detailed below.

For both types of performance rights, an executive is not entitled to Telstra shares before the performance rights allocated under Telstra Growthshare become vested performance rights and are therefore exercisable. If the performance hurdle is satisfied during the performance period, a specified number of performance rights as determined in accordance with the trust deed and terms of issue, will become vested performance rights. The vested performance rights can then be exercised at any time before the expiry date, otherwise they will lapse. Once the vested performance rights are exercised, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the performance rights (or vested performance rights) to vote or receive dividends.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(i) Nature of the share plans (continued)

Performance rights (continued)

Telstra shares will be transferred to the executive on exercise of vested performance rights. The executive may exercise the performance rights at a cost of $1 in total for all of the performance rights exercised on a particular day. The issue of performance rights is recorded as an expense when we provide funding to the trust to purchase Telstra shares on market to underpin the performance rights. In fiscal 2005, we recorded an expense of $16.6 million for total performance rights (2004: $8.6 million).

Deferred shares

The chief executive officer and senior executives were previously provided part of their annual fixed remuneration in the form of rights to Telstra shares that vest upon completing certain employment requirements. These deferred shares were considered to be a method of deferring a component of the executives remuneration. Generally, if an executive continues to be employed by an entity that forms part of the Telstra Group three years after the commencement date of the instrument, the deferred share will become a vested deferred share.

Vested deferred shares must be exercised before the expiry date, otherwise they will lapse. Once exercised, Telstra shares will be transferred to the executive. Until this time, the executive can not use the deferred shares or vested deferred shares to vote or receive dividends. The executive may exercise the deferred shares at a cost of $1 in total for all of the deferred shares exercised on a particular day.

The issue of deferred shares is recorded as an expense when we provide funding to the trust to purchase Telstra shares on market to underpin the deferred shares. In fiscal 2005, there were no deferred shares allocated and therefore no expense (2004: $10.7 million).

Restricted shares

The executive is not entitled to Telstra shares before the restricted shares allocated under the trust are exercised. If the performance hurdle is satisfied in the performance period, the restricted shares will vest and may be exercised at any time before the expiry date, otherwise they will lapse. Once the restricted shares have vested, they become restricted trust shares, which will generally be held by the trustee for the executive for a certain period. Once converted into restricted trust shares, the executive has an interest in Telstra shares and is entitled to dividends, other distributions, and voting rights.

Restricted trust shares are held by the Trustee until the earlier of:

- the period determined in accordance with the trust deed;
- the executive finishes employment with Telstra; or
- a date nominated by the Board.

The executive may exercise restricted shares at a cost of $1 in total for all of the restricted shares exercised on a particular day. These shares were recorded as an expense to us when we provided funding to the trust to purchase them on market. In fiscal 2005 and fiscal 2004, there were no restricted shares allocated and therefore no associated expense.

Options

An executive is not entitled to Telstra shares before the options allocated under Telstra Growthshare initially vest, and then are exercised. This means that the executive cannot use options to vote or receive dividends. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the expiry date otherwise they will lapse. Details of the performance hurdle for options is detailed below.

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

We provide loans to the trustee to enable it to purchase Telstra shares on market to underpin the options. When exercised, the executive pays for the shares at the exercise price and the loan is repaid to us. We receive interest on the loans to the trust. On the basis that the executives must pay the exercise price of the options, which repays the loans made by Telstra, there is no cash expense incurred by us and included in our statement of financial performance. We have not issued options during fiscal 2005 or fiscal 2004. Previously issued options remain outstanding and valid until they lapse.

Performance hurdle for TSR performance rights, restricted shares and options

The exercise of TSR performance rights, restricted shares and options are subject to certain performance hurdles. For allocations of TSR performance rights made after 30 June 2001 and options issued during fiscal 2002, the applicable performance hurdle is based on comparing Telstra's total shareholder return (TSR) with the TSRs of the companies in the S&P/ASX 200 (Industrial) Index (peer group) within the performance period.

The companies in the peer group are anchored at the effective date of allocation, and this same peer group of companies are then tracked during the performance period. At the end of each quarter during the performance period, the 30 day average TSR is calculated for Telstra and the companies in the peer group for each trading day during that quarter.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(i) Nature of the share plans (continued)

Performance hurdle for TSR performance rights, restricted shares and options (continued)

The number of TSR performance rights and options exercisable is dependant on whether, during the performance period, the Telstra 30 day average TSR achieves or exceeds the 50th percentile ranking when compared with the 30 day average TSR of the peer group, and the timing of when or if this occurs.

Both the number of TSR performance rights and the number of options potentially exercisable are based on the following:

If in the first quarter of the performance period, Telstra's percentile ranking is the 50th percentile or above then:

(i) the number of TSR performance rights and options that become exercisable for that quarter is scaled proportionately from the 50th percentile (at which 50% of the allocation becomes exercisable) to the 75th percentile (at which 100% of the allocation becomes exercisable); and

(ii) in subsequent quarters, the number that become exercisable is based on the same proportionate scale, but is reduced by the number of performance rights or options that have previously become exercisable. The percentile ranking achieved needs to be above that achieved in previous quarters for additional performance rights and options to become exercisable.

If in the first quarter of the performance period, the percentile ranking is less than the 50th percentile then:

(i) half of the allocation will lapse; and

(ii) in subsequent quarters, the remaining 50% of the options or performance rights will become exercisable if the ranking is the 50th percentile or above for that quarter.

If Telstra does not achieve or exceed the 50th percentile ranking in any quarter of the performance period, all TSR performance rights and options will lapse.

For all allocations prior to 30 June 2001, which include restricted shares and options, the applicable performance hurdle was that the average Telstra Accumulation Index must exceed the average S&P/ ASX 200 (Industrial) Index (replacing the superseded All Industrials Accumulation Index) for thirty consecutive days within the performance period. If the performance hurdle is satisfied for these allocations, all of the relevant options or restricted shares would become exercisable (i.e. they do not become exercisable on a proportionate basis).

Performance hurdle for EPS performance rights

The vesting of EPS performance rights is dependent on the growth of earnings per share in the year of allocation and two subsequent years. The percentage growth or reduction in EPS is added together in each of the three years to determine the total growth. The number of EPS performance rights that become vested EPS performance rights, and therefore become exercisable, is based on the following:

(i) if the cumulative growth in EPS is equal to 15.7% then 50% of the allocation becomes exercisable;

(ii) if the cumulative growth in EPS is greater than 15.7% and less than 33.1% then the number of exercisable performance rights is scaled proportionately between 50% becoming exercisable and 100% becoming exercisable;

(iii) if the cumulative growth in EPS exceeds 33.1% then 100% of the EPS performance rights will become exercisable; or

(iv) if Telstra does not achieve cumulative growth in EPS of 15.7%, all EPS performance rights will lapse.

Telstra Growthshare amounts expensed for USGAAP purposes

For the purposes of the United States generally accepted accounting principles (USGAAP) disclosures, the estimated fair value of the performance rights, deferred shares, restricted shares and options is made at the date of grant. We have used an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk-free interest rate for the expected life of the instrument, and the expected volatility of Telstra's peer group companies. This approach has also been used for the purposes of determining a valuation for Australian reporting purposes. In fiscal 2005, an adjustment to reduce compensation expense by $2 million (2004: $nil) was recognised for USGAAP. Refer to note 30 for additional information.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(ii) Instruments outstanding at the beginning of fiscal 2005

The following performance rights, deferred shares, restricted shares and options had been granted at the start of fiscal 2005, but were yet to vest with executives.

	Number of instruments outstanding	Commencement date	Performance hurdle period from	Performance hurdle period to	Exercise price	Exercise date (once performance hurdle met) anytime before:
Growthshare 2000 - Sept 1999 allocation						
Options	1,395,000	13 Sept 1999	13 Sept 2002	13 Sept 2004	$8.02	13 Sept 2009
Restricted shares	236,500	13 Sept 1999	13 Sept 2002	13 Sept 2004	$1 per parcel exercised	13 Sept 2004
Growthshare 2001 - Sept 2000 allocation						
Options	2,833,347	8 Sept 2000	8 Sept 2003	8 Sept 2005	$6.28	8 Sept 2010
Restricted shares	587,208	8 Sept 2000	8 Sept 2003	8 Sept 2005	$1 per parcel exercised	8 Sept 2005
Growthshare 2001 - March 2001 allocation						
Options	150,000	16 March 2001	16 March 2004	16 March 2006	$6.55	16 March 2011
Restricted shares	40,000	16 March 2001	16 March 2004	16 March 2006	$1 per parcel exercised	16 March 2006
Growthshare 2002 - Sept 2001 allocation						
Options	31,803,277	6 Sept 2001	6 Sept 2004	6 Sept 2006	$4.90	6 Sept 2011
TSR Performance rights	3,039,610	6 Sept 2001	6 Sept 2004	6 Sept 2006	$1 per parcel exercised	8 Dec 2006
Growthshare 2002 - March 2002 allocation						
Options	1,682,000	14 March 2002	14 March 2005	14 March 2007	$5.63	14 March 2012
TSR Performance rights	142,800	14 March 2002	14 March 2005	14 March 2007	$1 per parcel exercised	14 June 2007
Growthshare 2003 - Sept 2002 allocation						
Deferred shares	1,929,713	5 Sept 2002	None (a)		$1 per parcel exercised	5 Sept 2007
TSR Performance rights	3,910,320	5 Sept 2002	5 Sept 2005	5 Sept 2007	$1 per parcel exercised	5 Dec 2007
Growthshare 2003 - March 2003 allocation						
Deferred shares	22,100	7 March 2003	None (a)		$1 per parcel exercised	7 March 2008
TSR Performance rights	44,200	7 March 2003	7 March 2006	7 March 2008	$1 per parcel exercised	7 June 2008
Growthshare 2004 - Sept 2003 allocation						
Deferred shares	2,169,089	5 Sept 2003	None (a)		$1 per parcel exercised	5 Sept 2008
TSR Performance rights	4,344,194	5 Sept 2003	5 Sept 2006	5 Sept 2008	$1 per parcel exercised	5 Dec 2008
Growthshare 2004 - February 2004 allocation						
Deferred shares	18,350	20 Feb 2004	None (a)		$1 per parcel exercised	20 Feb 2009
TSR Performance rights	36,700	20 Feb 2004	20 Feb 2007	20 Feb 2009	$1 per parcel exercised	20 May 2009

(a) As deferred shares are allocated as annual fixed remuneration, there is no performance hurdle. Generally, deferred shares will become vested deferred shares after a specified service period.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iii) Instruments granted during the financial year

The following instruments were granted in fiscal 2005:

	August allocation of TSR performance rights	**August allocation of EPS performance rights**
Number of executives who were allocated performance rights	**178**	**178**
Effective commencement date of instruments	**20 August 2004**	**20 August 2004**
Performance hurdle period - i.e. over what time period executives have to satisfy the performance hurdle for the instruments to vest	**20 August 2007 to 20 August 2009**	**1 July 2004 to 30 June 2007**
Number of performance rights issued	**2,473,000**	**2,473,000**
Exercise price (once the instruments become exercisable)	**$1 per parcel of instruments exercised**	**$1 per parcel of instruments exercised**
Market price of Telstra shares on commencement date	**$4.89 per share**	**$4.89 per share**
Exercise date (once the instruments become exercisable)	**anytime before 20 November 2009**	**anytime before 20 November 2009**

The following instruments were granted in fiscal 2004:

	February allocation of TSR performance rights	**February allocation of deferred shares**	**September allocation of TSR performance rights**	**September allocation of deferred shares**
Number of executives who were allocated performance rights and deferred shares	3	3	176	176
Effective commencement date of performance rights and deferred shares	20 February 2004	20 February 2004	5 September 2003	5 September 2003
Performance hurdle period - i.e. over what time period executives have to satisfy the performance hurdle for the instruments to vest	20 Feb 2007 to 20 Feb 2009	(a)	5 Sept 2006 to 5 Sept 2008	(a)
Number of performance rights and deferred shares issued	36,700	18,350	4,412,800	2,206,400
Exercise price (once the instruments become exercisable)	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised	$1 per parcel of instruments exercised
Market price of Telstra shares on commencement date	$4.71 per share	$4.71 per share	$5.06 per share	$5.06 per share
Exercise date (once the instruments become exercisable)	any time before 20 May 2009	any time before 20 February 2009	any time before 5 December 2008	any time before 5 September 2008

(a) As deferred shares are allocated as annual fixed remuneration, there is no performance hurdle. Generally, deferred shares will vest if the participating executive continues to be employed by an entity that forms part of the Telstra Group for three years after the effective commencement date.

No consideration is required to be provided by the participating executives on the granting of these performance rights and deferred shares.

(iv) Instruments exercised during the financial year

During fiscal 2005 and fiscal 2004, there were no performance rights, restricted shares or options exercised and no fully paid shares distributed relating to these plans as a result.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iv) Instruments exercised during the financial year (continued)

In fiscal 2005, there were 49,834 deferred shares (2004: 32,586) that were exercised from the September 2002 allocation and 27,486 deferred shares (2004: 3,008) that were exercised from the September 2003 allocation at the exercise price of $1. These instruments were exercised at various dates throughout the year. The total proceeds received on exercise of the deferred shares was $8 (2004: $6). The fair value at the date of the transfers of Telstra shares relating to the exercise of these instruments was $376,912 (2004: $170,199), based on the closing market price on those dates. The date these instruments were exercised was different from the expiry date. For details on the date these instruments expire refer to the 'instruments outstanding at the beginning of fiscal 2005'.

(v) Instruments which have lapsed during the financial year

The following instruments issued to participating employees have lapsed during the financial year due to cessation of employment or the relevant performance hurdle not being met:

Allocation	Instruments lapsed during year ended 30 June 2005	2004
Options		
September 1999	**1,395,000**	138,722
September 2000	**419,447**	537,313
September 2001	**18,478,124**	613,668
March 2002	**80,000**	172,000
Restricted shares		
September 1999	**236,500**	23,778
September 2000	**86,608**	110,752
Deferred shares		
September 2002	**105,856**	60,199
March 2003	**3,500**	-
September 2003	**116,595**	34,303
TSR Performance rights		
September 2001	**1,765,828**	58,545
March 2002	**6,800**	6,200
September 2002	**223,096**	123,906
March 2003	**7,000**	-
September 2003	**244,648**	68,606
August 2004	**48,286**	-
EPS Performance rights		
August 2004	**48,286**	-

(vi) Instruments outstanding at the end of fiscal 2005

After movements in our share plans during the financial year, the following instruments remain outstanding as at 30 June 2005:

	No. outstanding
Growthshare 2000 - Sept 1999 allocations	
Options	-
Restricted shares	-
Growthshare 2001 - Sept 2000 allocation	
Options	**2,413,900**
Restricted shares	**500,600**
Growthshare 2001 - March 2001 allocation	
Options	**150,000**
Restricted shares	**40,000**
Growthshare 2002 - Sept 2001 allocation	
Options	**13,325,153**
TSR Performance rights	**1,273,782**
Growthshare 2002 - March 2002 allocation	
Options	**1,602,000**
TSR Performance rights	**136,000**
Growthshare 2003 - Sept 2002 allocation	
Deferred shares	**1,774,023**
TSR Performance rights	**3,687,224**
Growthshare 2003 - March 2003 allocation	
Deferred shares	**18,600**
TSR Performance rights	**37,200**
Growthshare 2004 - Sept 2003 allocation	
Deferred shares	**2,025,008**
TSR Performance rights	**4,099,546**
Growthshare 2004 - February 2004 allocation	
Deferred shares	**18,350**
TSR Performance rights	**36,700**
Growthshare 2005 - August 2004 allocation	
TSR Performance Rights	**2,424,714**
EPS Performance Rights	**2,424,714**

None of the above instruments have become vested instruments at balance date, with the exception of the September 2001 allocation of options and TSR performance rights. These instruments have become vested but are yet to be exercised. The grant dates, performance hurdles, exercise prices and other terms relating to the above instruments have not changed from initial allocation date or from those terms disclosed at the beginning of fiscal 2005.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(vii) Summary of movements

	Number of options	Number of restricted shares	Number of deferred shares	Number of TSR performance rights	Number of EPS performance rights
Equity instruments outstanding as at 30 June 2002	44,884,913	1,221,388	-	3,653,441	-
Granted	-	-	2,145,100	4,290,200	-
Lapsed	(5,559,586)	(223,150)	(91,577)	(618,060)	-
Exercised	-	-	(8,925)	-	-
Equity instruments outstanding as at 30 June 2003	39,325,327	998,238	2,044,598	7,325,581	-
Granted	-	-	2,224,750	4,449,500	-
Lapsed	(1,461,703)	(134,530)	(94,502)	(257,257)	-
Exercised	-	-	(35,594)	-	-
Equity instruments outstanding as at 30 June 2004	37,863,624	863,708	4,139,252	11,517,824	-
Granted	**-**	**-**	**-**	**2,473,000**	**2,473,000**
Lapsed	**(20,372,571)**	**(323,108)**	**(225,951)**	**(2,295,658)**	**(48,286)**
Exercised	**-**	**-**	**(77,320)**	**-**	**-**
Equity instruments outstanding as at 30 June 2005	**17,491,053**	**540,600**	**3,835,981**	**11,695,166**	**2,424,714**

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(viii) Other information relevant to our employee share plans

Performance rights, restricted shares and options are subject to a performance hurdle. Deferred shares require a prescribed period of service to be completed. Generally, if these requirements are not achieved the instruments will have a nil value and will lapse. Under Australian Accounting Standards and USGAAP, the required methodology for valuing equity instruments differs in regard to incorporation of adjustments for the effect of non-retention of participants and the non-transferability of the instruments. Under both we have used an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk-free interest rate for the expected life of the instrument, and the expected average volatility of Telstra's peer group companies.

The value of the allocations per security as used in our USGAAP disclosures is as follows:

Offers	Options	Restricted shares	TSR Performance rights	EPS Performance rights	Deferred shares
Sept 1999 . .	$1.38	$5.64	(a)	(a)	(a)
Sept 2000 . .	$0.89	$2.05	(a)	(a)	(a)
March 2001 .	$0.80	$2.15	(a)	(a)	(a)
Sept 2001 .	$0.90	(a)	$2.33	(a)	(a)
March 2002 .	$0.97	(a)	$2.51	(a)	(a)
Sept 2002 . .	(a)	(a)	$2.54	(a)	$3.77
March 2003 .	(a)	(a)	$2.15	(a)	$3.08
Sept 2003 . .	(a)	(a)	$1.78	(a)	$2.49
Feb 2004 . . .	(a)	(a)	$1.62	(a)	$2.39
Aug 2004. . .	**(a)**	**(a)**	**$1.57**	**$2.49**	**(a)**

(a) There were no allocations of performance rights, restricted shares, deferred shares or options in the relevant offer periods.

For purposes of our Australian reporting requirements, we have used the following valuations, which are based on the same methodologies as those used in the USGAAP disclosures, but in all cases, exclude adjustments for the effect of non-retention of participants and non-transferability of the instruments.

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Offers	Options	Restricted shares	TSR Performance rights	EPS Performance rights	Deferred shares
Sept 1999 . .	$1.38	$5.64	(a)	(a)	(a)
Sept 2000 . .	$1.59	$3.62	(a)	(a)	(a)
March 2001 .	$1.53	$3.77	(a)	(a)	(a)
Sept 2001 . .	$1.13	(a)	$2.86	(a)	(a)
March 2002 .	$1.19	(a)	$3.08	(a)	(a)
Sept 2002 . .	(a)	(a)	$2.99	(a)	$4.41
March 2003 .	(a)	(a)	$2.60	(a)	$3.60
Sept 2003 . .	(a)	(a)	$3.07	(a)	$4.29
Feb 2004 . . .	(a)	(a)	$2.73	(a)	$4.02
Aug 2004 . .	**(a)**	**(a)**	**$2.63**	**$4.18**	**(a)**

(a) There were no allocations of performance rights, restricted shares, deferred shares or options in the relevant offer periods.

Shares held by the Telstra Growthshare Trust for the purposes of facilitating the operations of our share plans involving performance rights, deferred shares, restricted shares and options amount to 20,216,091 shares (2004: 20,956,641 shares). The fair value of these shares as at 30 June 2005, based on the market value of Telstra shares at balance date, amounts to $102 million (2004: $105 million).

The following weighted average assumptions were used in determining the above current year valuations:

	Growthshare TSR and EPS performance rights Aug 2004
Risk free rate	**5.39%**
Dividend yield	**5.5%**
Expected stock volatility	**13.1%**
Expected life - performance rights	**5.25 years**
Discount for non-transferability	**30%**
Average forfeiture rate per annum for TSR performance rights	**10%**
Average forfeiture rate per annum for EPS performance rights	**15%**
Expected rate of achievement of TSR performance hurdles	**62%**

As EPS performance rights are not based on market conditions, no adjustment for the expected achievement of the performance hurdles are made in the valuation.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

Telstra directshare and ownshare

(i) Nature of Telstra directshare and ownshare

Telstra directshare

Non-executive directors are required to sacrifice a minimum of 20% of their fees toward the acquisition of restricted Telstra shares, known as directshares. Shares are acquired by the trustee from time to time and allocated to the participating directors on a 6 monthly basis, on dates determined by the trustee at its discretion. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:

- for five years from the date of allocation of the shares;
- until the participating director is no longer a director of, or is no longer employed by, a company in the Telstra Group; or
- until the Board of Telstra determines that an ‘event’ has occurred.

As a result, these instruments will not lapse.

At the end of the restriction period, the directshares will be transferred to the participating director. The participating director is not able to deal in the shares until this transfer has taken place. The expense associated with shares allocated under this plan is included in the disclosure for directors’ remuneration.

Telstra ownshare

Certain eligible employees may be provided part of their remuneration in Telstra shares. Those employees indicate a preference to be provided Telstra shares as part of their remuneration. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:

- for three years or five years depending on the elections available to the participant at the time of allocation;
- until the participant ceases employment with the Telstra Group; or
- until the Board of Telstra determines that an ‘event’ has occurred.

As a result, these instruments will not lapse.

At the end of the restriction period, the ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place. The expense associated with shares allocated under this plan is included in the disclosure for employees remuneration.

(ii) Instruments outstanding at the beginning of fiscal 2005

The following directshares and ownshares had been issued at the start of fiscal 2005 but were held by the trustee for the benefit of the relevant directors or employees pending expiration of the restriction period.

Directshares	Number of instruments outstanding
15 September 2000 allocation	4,364
19 March 2001 allocation	7,439
14 September 2001 allocation	9,463
14 March 2002 allocation	13,854
5 September 2002 allocation	14,785
7 March 2003 allocation	33,572
5 September 2003 allocation	26,096
20 February 2004 allocation	29,554
Ownshares	
15 September 2000 allocation	59,247
14 September 2001 allocation	250,775
2 November 2001 allocation	79,691
5 September 2002 allocation	514,487
28 October 2002 allocation	146,945
5 September 2003 allocation	374,974
31 October 2003 allocation	213,671

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iii) Instruments granted during the financial year

The following directshares were granted in August and February of fiscal 2005 and September and February of fiscal 2004:

	Directshare Equity Plan			
	Aug 2004	**Feb 2005**	**Sept 2003**	**Feb 2004**
Number of eligible non-executive directors	**8**	**8**	11	11
Number of participants in the plan	**8**	**8**	10	10
Allocation date of shares	**20 August 2004**	**19 February 2005**	5 September 2003	20 February 2004
Number of shares allocated	**7,567**	**26,013**	31,630	35,499
Fair value of shares allocated	**$4.89 per share**	**$5.29 per share**	$5.06 per share	$4.71 per share
Total fair value of shares allocated	**$37,003**	**$137,609**	$160,048	$167,200

The following ownshares were granted in August and October of fiscal 2005 and September and October of fiscal 2004:

	Ownshare Equity Plan			
	Aug 2004	**Oct 2004**	**Sept 2003**	**Oct 2003**
Number of eligible participants	**8,975**	**16,062**	9,868	14,151
Number of participants in the plan	**311**	**173**	369	180
Allocation date of shares	**20 August 2004**	**29 October 2004**	5 September 2003	31 October 2003
Number of shares allocated	**348,240**	**250,386**	397,076	222,095
Fair value of shares allocated	**$4.89 per share**	**$4.67 per share**	$5.06 per share	$4.75 per share
Total fair value of shares allocated	**$1,702,894**	**$1,169,303**	$2,009,205	$1,054,951

On an allocation of directshares and ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. Participants may be provided a portion of their remuneration in the form of directshares or ownshares as applicable. The August allocation of ownshares relates to executive's short term incentive payments and the October allocation relates to shares acquired through salary sacrifice by executives.

The fair value of the instruments issued is determined by the remuneration foregone by the participant. The number of directshares or ownshares allocated is based on the weighted average price of a Telstra share in the week ending on the day before allocation date, in conjunction with the remuneration foregone.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

(iv) Instruments exercised during the financial year

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

The following fully paid shares have been distributed from the Telstra Growthshare Trust at various dates throughout fiscal 2005 to directors and executives under the directshare and ownshare plans respectively:

	No. of shares distributed	Fair value
Directshares	**13,644**	**$68,629**
Ownshares	**425,950**	**$2,033,620**

In fiscal 2004, William Owens resigned as a Director and his directshares then became transferrable. These directshares were transferred during fiscal 2005.

The following fully paid shares relating to the same plans were distributed during fiscal 2004:

	No. of shares distributed	Fair value
Directshares	39,683	$184,526
Ownshares	357,453	$1,711,160

The fair value of directshares and ownshares distributed is determined through reference to the closing market price of a Telstra share on the date of transfer.

(v) Instruments outstanding at the end of fiscal 2005

Directshares	No. of instruments outstanding as at 30 June 2005
15 September 2000 allocation	**4,364**
19 March 2001 allocation	**7,439**
14 September 2001 allocation	**9,463**
14 March 2002 allocation	**11,857**
5 September 2002 allocation	**12,937**
7 March 2003 allocation	**29,922**
5 September 2003 allocation	**23,132**
20 February 2004 allocation	**26,369**
20 August 2005 allocation	**7,567**
19 February 2005 allocation	**26,013**

Ownshares	No. of instruments outstanding as at 30 June 2005
15 September 2000 allocation	**49,928**
14 September 2001 allocation	**47,202**
2 November 2001 allocation	**-**
5 September 2002 allocation	**471,135**
28 October 2002 allocation	**138,232**
5 September 2003 allocation	**333,587**
31 October 2003 allocation	**207,140**
20 August 2004 allocation	**318,074**
29 October 2004 allocation	**247,168**

The grant dates, restriction period and other terms relating to the above instruments have not changed from initial allocation.

(vi) Other information relevant to our employee share plans

Shares held by the Telstra Growthshare Trust for the purposes of facilitating the operations of directshare and ownshare plans amount to 1,971,529 shares (2004: 1,778,917 shares). The fair value of these shares as at 30 June 2005 based on the market value of Telstra shares at balance date amounts to $10 million (2004: $9 million).

Holdings by individual directors and specified executives

Our directors and executives hold the following instruments for each share plan:

	Holding at the beginning and the end of fiscal 2005
	Deferred shares
Zygmunt E Switkowski	**500,700**
Bruce Akhurst	**135,300**
Douglas Campbell	**135,300**
David Moffatt	**152,400**
Ted Pretty	**155,100**
Michael Rocca	**100,600**
Bill Scales	**84,200**
Deena Shiff	**42,300**
John Stanhope	**73,200**
David Thodey	**121,600**

There have been no deferred shares that were issued, exercised or lapsed during the year.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

Holdings by individual directors and specified executives (continued)

The following table shows the balances and changes in instruments issued from the Telstra Growthshare Trust for all directors and specified executives throughout fiscal 2005.

Instrument type director/specified executive	Total held as at 30 June 2004 Number	Granted Number	Exercised during the year Number	Other changes (a) Number	Total held as at 30 June 2005 Number	Vested and exercisable (b) Number
Directshares						
Donald G McGauchie	15,628	**7,117**	**-**	**-**	**22,745**	**-**
John T Ralph	19,843	**3,698**	**-**	**-**	**23,541**	**-**
Sam H Chisholm (c)	-	**-**	**-**	**-**	**-**	**-**
Anthony J Clark	12,503	**2,523**	**-**	**-**	**15,026**	**-**
John E Fletcher	16,060	**4,874**	**-**	**-**	**20,934**	**-**
Belinda J Hutchinson	8,237	**2,159**	**-**	**-**	**10,396**	**-**
Catherine B Livingstone	11,041	**2,543**	**-**	**-**	**13,584**	**-**
Charles Macek	9,462	**2,543**	**-**	**-**	**12,005**	**-**
John W Stocker	32,709	**8,123**	**-**	**-**	**40,832**	**-**
Performance rights						
Zygmunt E Switkowski (d)	1,259,400	**513,200**	**-**	**(129,000)**	**1,643,600**	**129,000**
Bruce Akhurst	388,600	**144,000**	**-**	**(59,000)**	**473,600**	**59,000**
Douglas Campbell	388,600	**131,600**	**-**	**(59,000)**	**461,200**	**59,000**
David Moffatt	446,200	**146,400**	**-**	**(71,000)**	**521,600**	**71,000**
Ted Pretty	446,200	**146,400**	**-**	**-**	**592,600**	**-**
Michael Rocca	251,200	**115,000**	**-**	**(25,000)**	**341,200**	**25,000**
Bill Scales	210,400	**106,400**	**-**	**(21,000)**	**295,800**	**21,000**
Deena Shiff	118,600	**50,000**	**-**	**(17,000)**	**151,600**	**17,000**
John Stanhope	192,400	**120,600**	**-**	**(23,000)**	**290,000**	**23,000**
David Thodey	345,200	**133,000**	**-**	**(51,000)**	**427,200**	**51,000**
Restricted shares						
Zygmunt E Switkowski (d)	146,000	**-**	**-**	**(50,000)**	**96,000**	**-**
Bruce Akhurst	60,000	**-**	**-**	**(21,000)**	**39,000**	**-**
Douglas Campbell	68,000	**-**	**-**	**(26,000)**	**42,000**	**-**
David Moffatt	40,000	**-**	**-**	**-**	**40,000**	**-**
Ted Pretty	21,000	**-**	**-**	**(21,000)**	**-**	**-**
Michael Rocca	22,000	**-**	**-**	**(9,000)**	**13,000**	**-**
Bill Scales	5,000	**-**	**-**	**-**	**5,000**	**-**
Deena Shiff	5,000	**-**	**-**	**-**	**5,000**	**-**
John Stanhope	25,000	**-**	**-**	**(11,000)**	**14,000**	**-**
David Thodey	-	**-**	**-**	**-**	**-**	**-**

(a) Other changes have arisen in fiscal 2005 as a result of instruments lapsing due to the specified performance hurdles not being achieved.

(b) As the performance hurdle in relation to the September 2001 allocation of TSR performance rights was achieved, these instruments have vested. None of the vested instruments have been exercised at balance date.

(c) Sam Chisholm resigned as a Director on 28 October 2004.

(d) Zygmunt E Switkowski resigned as the chief executive officer and managing director on 1 July 2005.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

Holdings by individual directors and specified executives (continued)

Instrument type director/specified executive	Total held as at 30 June 2004	Granted	Exercised during the year	Other changes (a)	Total held as at 30 June 2005	Vested and exercisable (b)
	Number	Number	Number	Number	Number	Number
Options						
Zygmunt E Switkowski (c)	3,456,000	-	-	**(1,646,000)**	**1,810,000**	**1,346,000**
Bruce Akhurst	1,542,000	-	-	**(737,000)**	**805,000**	**617,000**
Douglas Campbell	1,597,000	-	-	**(777,000)**	**820,000**	**617,000**
David Moffatt	1,630,000	-	-	**(740,000)**	**890,000**	**740,000**
Ted Pretty	1,722,000	-	-	**(120,000)**	**1,602,000**	-
Michael Rocca	640,000	-	-	**(315,000)**	**325,000**	**262,000**
Bill Scales	465,000	-	-	**(220,000)**	**245,000**	**220,000**
Deena Shiff	380,200	-	-	**(178,000)**	**202,200**	**178,000**
John Stanhope	616,000	-	-	**(306,000)**	**310,000**	**241,000**
David Thodey	1,068,000	-	-	**(534,000)**	**534,000**	**534,000**

(a) Other changes have arisen in fiscal 2005 as a result of instruments lapsing due to the specified performance hurdles not being achieved.

(b) As the performance hurdle in relation to the September 2001 allocation of options was achieved these instruments have vested. None of these vested instruments have been exercised at balance date.

(c) Zygmunt E Switkowski resigned as the chief executive officer and managing director on 1 July 2005.

Notes to the Financial Statements (continued)

20.Expenditure commitments

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
(a) Capital expenditure commitments				
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:				
Within 1 year	**537**	513	**483**	466
Within 1-2 years	**27**	40	**15**	33
Within 2-3 years	**10**	10	**-**	4
Within 3-4 years	**11**	7	**-**	4
Within 4-5 years	**13**	6	**-**	3
After 5 years	**79**	32	**-**	3
	677	608	**498**	513
The capital expenditure commitments above include contracts for building and improving our networks, software enhancements and our share of FOXTEL commitments for digital set top box units.				
(b) Operating lease commitments				
Future lease payments for non-cancellable operating leases not recorded in the financial statements:				
Within 1 year	**380**	311	**232**	203
Within 1-2 years	**260**	245	**154**	156
Within 2-3 years	**209**	182	**117**	111
Within 3-4 years	**149**	153	**64**	86
Within 4-5 years	**128**	139	**49**	73
After 5 years	**397**	373	**154**	155
	1,523	1,403	**770**	784

In addition, in fiscal 2005 the Telstra Group has total future commitments under cancellable operating leases of $343 million (2004: $375 million). In fiscal 2005, the Telstra Entity has total future commitments under cancellable operating leases of $338 million (2004: $330 million).

Description of our operating leases

We have operating leases for the following major services:
- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers, and mechanical aids; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The average lease term is:
- seven years for land and buildings;
- two years for motor vehicles, five years for light commercial vehicles and seven to twelve years for trucks and mechanical aids; and
- three years for personal computers and related equipment.

Contingent rental payments only exist for motor vehicles and are not significant compared with total rental payments made. These are based on unfair wear and tear, excess kilometres travelled, additional fittings and no financial loss to be suffered by the leasing company from changes to the original agreements. Our motor vehicles and related equipment must also remain in Australia.

We do not have any significant purchase options or non-cancellable sub-leases in our operating leases. Our property operating leases contain escalation clauses, which are fixed increases between 3% and 5%.

Operating leases related to our personal computers and associated equipment had average interest rates of 5.6% for fiscal 2005 (5.8% for fiscal 2004).

Notes to the Financial Statements (continued)

20. Expenditure commitments (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2005	2004	2005	2004
	Note	$m	$m	$m	$m
(c) Finance lease commitments					
Within 1 year		**12**	7	**5**	6
Within 1-2 years		**10**	6	**5**	6
Within 2-3 years		**10**	2	**5**	2
Within 3-4 years		**8**	2	**5**	2
Within 4-5 years		**5**	1	**1**	1
After 5 years		**54**	-	**-**	-
Total minimum lease payments		**99**	18	**21**	17
Future finance charges on finance leases		**(47)**	(1)	**(4)**	(1)
Present value of net future minimum lease payments		**52**	17	**17**	16
Recorded as current interest-bearing liabilities	16	**5**	7	**4**	6
Recorded as non current interest-bearing liabilities	16	**47**	10	**13**	10
Total finance lease liabilities	16	**52**	17	**17**	16

In addition to the above finance lease commitments, we previously entered into US finance leases for communications exchange equipment with various entities. We have prepaid all lease rentals due under the terms of these leases.

These entities lease the communications exchange equipment from the ultimate lessor and then sublease the equipment to us. We have guaranteed that the lease payments will be paid by these entities to the ultimate lessor as scheduled over the lease terms (refer to note 21 for further information).

The leases will expire in fiscal 2012. As part of the lease arrangements, we received guarantee fees, which have been recorded in revenue received in advance. The total revenue received in advance is insignificant and is being released to the statement of financial performance over the life of the leases.

Description of our finance leases

We have finance leases for the following major services:

- communications exchange equipment denominated in US dollars;
- property leases in our controlled entity, Telstra (PSINet) Limited;
- computer mainframes, computer processing equipment and other related equipment.

The average lease term is:

- eleven years for communications exchange equipment denominated in US dollars;
- eighteen years for property leases; and
- three years for computer mainframe and associated equipment.

Interest rates for our finance leases are:

- US dollar communication assets between 4.3% and 5.1%;
- property leases interest rate of 10.3%; and
- computer mainframe, computer processing equipment and associated equipment weighted average interest rate of 16.6%.

Refer to note 12 for further details on communication assets and equipment that are held under finance lease.

We do not have any significant contingent rentals or non-cancellable sub-leases in our finance leases.

Notes to the Financial Statements (continued)

20. Expenditure commitments (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	2005	2004
	$m	$m	$m	$m
(d) Other commitments				
Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are:				
Within 1 year	**638**	570	**410**	307
Within 1-2 years	**325**	229	**127**	36
Within 2-3 years	**214**	210	**64**	27
Within 3-4 years	**162**	149	**40**	20
Within 4-5 years	**113**	114	**18**	12
After 5 years	**1,250**	1,323	**6**	16
	2,702	2,595	**665**	418
The other expenditure commitments above include contracts for purchase of capacity, printing, engineering and operational support services, software maintenance licence fees, information technology services, naming rights and building maintenance. The above commitments also include commitments relating to our investment in FOXTEL (refer note 24) as follows:				
FOXTEL commitments (i):				
Within 1 year	**144**	184	**-**	-
Within 1-2 years	**144**	148	**-**	-
Within 2-3 years	**118**	146	**-**	-
Within 3-4 years	**93**	116	**-**	-
Within 4-5 years	**80**	89	**-**	-
After 5 years	**1,110**	1,151	**-**	-
	1,689	1,834	**-**	-

(i) Our joint venture entity, FOXTEL, has other commitments amounting to approximately $3,377 million (US$2,582 million) (2004: $3,667 million, US$2,445 million). The majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 25 years (2004: 1 and 25 years) and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation/reduction formulas contained in the agreements.

The commitments for MSG has been adjusted downward from the amount disclosed in our 30 June 2004 financial report as FOXTEL has reviewed the original MSG contracts, and reassessed the applicable commitment period for certain contracts.

Refer also to note 21 'FOXTEL minimum subscriber guarantees', for further information.

Commitments with Reach Ltd (Reach)

Until 1 March 2005, we were committed to an International Services Agreement Australia (AISA) agreement with our joint venture entity, Reach, which required us to purchase a certain percentage of our annual capacity requirements of switched voice, international transmission and global internet access services from Reach. Our commitment was terminated during the year as part of the restructure of our arrangements with Reach (refer to note 9 for further details).

Notes to the Financial Statements (continued)

21. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2005. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

Telstra Entity

Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2005, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reasonably estimated.

Included in our common law claims is a litigation case made by the Seven Network Limited and C7 Pty Ltd (Seven). In November 2002, Seven commenced litigation against us and various other parties in relation to contracts and arrangements between us and those other parties. These contracts and arrangements relate to the right to broadcast the Australian Football League and the National Rugby League, the contract with FOXTEL for the provision of broadband hybrid-fibre coaxial services (the Broadband Co-operation Agreement), and other matters.

Seven seeks unspecified damages and other relief, including that these contracts and arrangements are void. Seven also seeks orders which would, in effect, require a significant restructure of the subscription television/sports rights market in Australia. The matter is proceeding before the courts, but it is not practical at this stage to estimate the expected effect on our financial position, results of operations or cash flows.

Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity as follows:

- Indemnities to financial institutions to support bank guarantees to the value of $329 million (2004: $350 million) in respect of the performance of contracts.
- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was $282 million (2004: $207 million).
- Financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $69 million (2004: $36 million) and a requirement that the entity remains our controlled entity.
- Guarantees of the performance of joint venture entities under contractual agreements to a maximum amount of $126 million (2004: $213 million).
- Guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by the third parties over the remaining terms of finance leases. The lease payments over the remaining period of the leases (average 11 years) amount to $850 million (US$650 million) (2004: $981 million (US$675 million)).

Refer to note 20 for further details on the above finance leases.

- During fiscal 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to $210 million as a shareholder of IBMGSA. We issued a guarantee of $68 million on behalf of IBMGSA during fiscal 2000. On 28 August 2003, we sold our shareholding in this entity (refer to note 3 for further information). The $68 million guarantee is provided to support service contracts entered into by IBMGSA and third parties, and was made with IBMGSA bankers, or directly to IBMGSA customers. As at 30 June 2005, this guarantee has still been provided and $142 million (2004: $142 million) of the $210 million guarantee facility remains unused.

  Upon sale of our shareholding in IBMGSA and under the deed of indemnity between shareholders, our liability under these performance guarantees has been indemnified for all guarantees that were in place at the time of sale. Therefore, the overall net exposure to any loss associated with a claim has effectively been offset.

- Indemnities to Telstra Growthshare Pty Ltd for all liabilities, costs and expenses incurred by the trustee in the execution of the powers vested in it. These indemnities are currently insignificant to the Telstra Entity's financial position, results of operations and cash flows.

Controlled entities

Indemnities provided by our controlled entities

In fiscal 2005 and fiscal 2004, our controlled entities had no significant outstanding indemnities in respect of obligations to financial institutions and corporations.

Notes to the Financial Statements (continued)

21. Contingent liabilities and contingent assets (continued)

Other

FOXTEL minimum subscriber guarantees and other obligations

The Telstra Entity and its partners, News Corporation Limited and Publishing and Broadcasting Limited, and Telstra Media Pty Ltd and its partner, Sky Cable Pty Ltd, have entered into agreements relating to pay television programming with various parties and other miscellaneous contracts. Our commitments under these agreements relate mainly to minimum subscriber guarantees (MSG) (refer to note 20 for details of MSG commitments).

As we are subject to joint and several liability in relation to agreements entered into by the FOXTEL partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from FOXTEL's capital an d other agreements are $1,814 million (2004: $1,876 million). The value of the contingent liability for minimum subscriber guarantees has been adjusted downward from the amount disclosed in our 30 June 2004 financial statements ($2,075 million) as FOXTEL has reviewed the original minimum subscriber guarantee contracts, and reassessed the applicable commitment period for certain contracts.

FOXTEL Equity Contribution Deed (ECD)

On 9 January 2004, FOXTEL entered into a $550 million bank facility arrangement to fund its full digital conversion and launch of new digital services. As part of this arrangement, we and FOXTEL's other ultimate shareholders, News Corporation Limited and Publishing and Broadcasting Limited, entered into an ECD. Under the ECD, FOXTEL is required to call on a maximum of $200 million in equity contributions in certain specified circumstances as necessary to avoid default of a financial covenant. These equity contributions are based on ownership interests and, as a result, our maximum contingent liability is $100 million.

We have no joint or several liability relating to our partners' contributions under the ECD. The ECD expires on 30 April 2009.

3GIS Partnership

Telstra OnAir Holdings Pty Ltd and its partner, Hutchison 3G Australia Pty Ltd entered into agreements relating to the occupation of premises to provide 3GSM radio access network services.

As we are subject to joint and several liability in relation to agreements entered into by the 3GIS partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from the above agreements are $132 million (2004: $nil).

Reach working capital facility

On 17 June 2004, together with our co-shareholder PCCW Limited (PCCW), we bought a loan facility previously owed to a banking syndicate by Reach Finance Ltd, a subsidiary of our 50% owned joint venture Reach Ltd (Reach). For further details in relation to the loan facility, refer to note 9. As part of this arrangement, the shareholders also agreed to provide a US$50m working capital facility to Reach. Under the facility, Reach is entitled to request from Telstra, a maximum of US$25 million to assist in meeting ongoing operational requirements. Drawdowns under this facility must be repaid at the end of each interest period as agreed between the parties and the loan must be fully repaid by 31 December 2007. The applicable interest rate is LIBOR plus 2.5%. As at 30 June 2005, Reach had not made any drawdown under this facility.

We have no joint or several liability relating to PCCW's US$25 million share of the working capital facility.

Reach committed capital expenditure

On 16 April 2005, we entered into an arrangement with our joint venture entity, Reach and our co-shareholder PCCW Limited, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU). For further details refer to note 14. As part of the arrangement, both shareholders have agreed to fund half of Reach's committed capital expenditure for the period until 2022, up to a value of US$106 million each, if required. The amount of the payment is not known by us until such time that a notice of payment is received from Reach. Since 16 April 2005, $14 million has been drawn down from us to fund these capital expenditure commitments.

We have no joint or several liability to fund PCCW's share of the capital expenditure.

ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 23. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 23 for further information.

Notes to the Financial Statements (continued)

22. Superannuation commitments

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for accumulation schemes, or at rates determined by the actuaries for defined benefit schemes.

Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff who were previously members of the Commonwealth Superannuation Scheme (CSS) transferred into Telstra Super (see below for further details in relation to the CSS). Telstra Super has both defined benefit and accumulation divisions. The defined benefit divisions of Telstra Super are closed to new members.

On 31 August 2000, we entered into a funding deed with the trustee of Telstra Super to make such future employer payments to Telstra Super as may be required to maintain the vested benefits index (VBI) of the defined benefit divisions in the range of 100 - 110%. The VBI is the ratio of fund assets to members' vested benefits. It is considered a suitable measure of determining our employer contributions because it demonstrates whether members' benefits can be adequately met by the assets in the scheme.

The funding deed was revised in fiscal 2004 and our contributions to Telstra Super will recommence when the VBI of the defined benefit divisions falls to 103%. Our actuary is satisfied that contributions to maintain the VBI at this rate in accordance with the revised funding deed will maintain the financial position of Telstra Super at a satisfactory level. The VBI of the defined benefit divisions was 111% as at 30 June 2005 (111% at 30 June 2004).

The benefits received by members of each defined benefit scheme take into account factors such as the employee's length of service, final average salary, employer and employee contributions.

As at 30 June 2003, K O'Sullivan FIAA completed an actuarial investigation of Telstra Super. The next actuarial investigation of Telstra Super is due to be completed by 30 June 2007 based on the scheme's financial position as at 30 June 2006.

The actuarial investigation of Telstra Super reported that a surplus continued to exist. In accordance with the recommendations within the actuarial investigation, we were not expected to, and did not make employer contributions to Telstra Super for the financial year ending 30 June 2005. The current contribution holiday includes the contributions otherwise payable to the accumulation divisions of Telstra Super. The continuance of the holiday, is however, dependent on the performance of the fund and we are monitoring the situation on a monthly basis in light of current market performance.

HK CSL Retirement scheme

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme. The scheme has both defined benefit and accumulation divisions.

The HK CSL Retirement Scheme is established under trust and is administered by an independent trustee. The benefits received by members for the defined benefits scheme are based on the employees' remuneration and length of service.

Annual actuarial investigations are currently undertaken for this scheme by Watson Wyatt Hong Kong Limited.

Commonwealth Superannuation Scheme (CSS)

Before 1 July 1990, eligible employees of the Telstra Entity were members of the CSS. The CSS is a defined benefit scheme for Commonwealth Public Sector employees. Under the CSS rules, we were responsible for funding all employer financed benefits that arose from 1 July 1975 for our employees who were CSS members. Previously, employer contributions by us and other employers that participated in the CSS, were paid to the Commonwealth Consolidated Revenue Fund. Employee contributions to the CSS were separately managed.

A majority of our CSS members transferred to Telstra Super when it was first established. As CSS members transferred, the liability for benefits for their past service was transferred to Telstra Super and a transfer of assets was payable from the Commonwealth to Telstra Super (otherwise known as the deferred transfer value or DTV).

In June 1999, the Minister for Finance and Administration signed a document which allowed the CSS surplus (otherwise known as the residual notional fund surplus or RNFS) based on the scheme's financial position at 30 June 1997 to be transferred to Telstra Super over a 40 year period. This amounted to $1,428 million at this date. RNFS amounts transferred to Telstra Super were taxed at the rate of 15%.

During fiscal 2004, we settled our obligations for the CSS members as the Commonwealth assumed responsibility for this fund. On 17 June 2004, the Commonwealth paid Telstra Super $3,125 million in exchange for the removal of DTV and RNFS payments and obligations after 1 January 2004. This amount is equal to the value of the DTV asset of $1,890 million and RNFS asset of $1,235 million, as reported in the Telstra Super audited financial report as at 30 June 2003. The payment to Telstra Super is taxed at the rate of 15%.

Notes to the Financial Statements (continued)

22. Superannuation commitments (continued)

Commonwealth Superannuation Scheme (CSS) (continued)

As part of the settlement arrangement, the Commonwealth has assumed responsibility for past, present and future liabilities in respect of former and current Telstra employees who remain in the CSS. As a result, we have no current ongoing obligations for these CSS members.

Financial position

The financial position of the defined benefit divisions of Telstra Super and the HK CSL Retirement Scheme is shown as follows:

	Net scheme assets		Accrued benefits		Net surplus (a)		Vested benefits	
	As at 30 June		As at 30 June		As at 30 June		As at 30 June	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Telstra Super (b)	**4,360**	4,113	**3,202**	2,992	**1,158**	1,121	**3,916**	3,710
HK CSL Retirement Scheme (c)	**79**	76	**74**	68	**5**	8	**63**	67
Total	**4,439**	4,189	**3,276**	3,060	**1,163**	1,129	**3,979**	3,777

(a) Net surplus is the excess of net scheme assets over accrued benefits.

(b) Amounts for the defined benefit divisions of Telstra Super have been taken from the audited financial report of the scheme as at 30 June 2005 and 30 June 2004. The scheme assets are stated at net market values.

(c) Amounts for the defined benefit divisions of the HK CSL Retirement Scheme have been taken from the actuarial valuation of the scheme as at 30 June 2005 and 30 June 2004. The scheme assets are stated at net market values.

The estimated period over which the benefits of our members will be returned is 12 years (2004: 13 years) for Telstra Super.

Employer contributions

Employer contributions made to:

- the defined benefits divisions of Telstra Super were $nil for the past three fiscal years; and
- the defined benefit divisions of the HK CSL scheme for fiscal 2005 were $3 million (2004: $4 million; 2003: $8 million).

In addition, our employer contributions to the accumulation divisions of Telstra Super were insignificant for the past three fiscal years.

These employer contributions are reflected in our statement of financial performance. In addition, no asset has been recorded in our statement of financial position for any surplus of the superannuation schemes.

Notes to the Financial Statements (continued)

23. Investments in controlled entities

The ultimate parent entity of the Telstra Group is the Commonwealth Government of Australia.

Below is a list of our investments in controlled entities.

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2005	2004	2005	2004
		$m	$m	%	%
Parent entity					
Telstra Corporation Limited (a)	Australia				
Controlled entities					
Telecommunications Equipment Finance Pty Ltd * (g)	Australia	-	-	-	-
Telstra Finance Limited (a) (f)	Australia	-	-	100.0	100.0
Telstra Corporate Services Pty Ltd (a)	Australia	6	6	100.0	100.0
Transport Communications Australia Pty Ltd *	Australia	4	4	100.0	100.0
Telstra ESOP Trustee Pty Ltd * (f)	Australia	-	-	100.0	100.0
Telstra Growthshare Pty Ltd * (f)	Australia	-	-	100.0	100.0
On Australia Pty Ltd * (d)	Australia	-	-	-	100.0
Telstra Media Pty Ltd *	Australia	381	381	100.0	100.0
Telstra Multimedia Pty Ltd (a)	Australia	2,678	2,678	100.0	100.0
Telstra International Limited (a)	Australia	84	84	100.0	100.0
Telstra New Wave Pty Ltd * (a) (b)	Australia	1	1	100.0	100.0
Hypertokens Pty Ltd * (f)	Australia	-	-	100.0	100.0
Hypermax Holdings Pty Ltd (formerly Customer Contact Technologies Pty Ltd) * (a) (c) (f)	Australia	8	-	100.0	100.0
Chief Entertainment Pty Ltd * (f) (k)	Australia	-	-	100.0	-
Data & Text Mining Technologies Pty Ltd * (f)	Australia	-	-	100.0	100.0
Lyrebird Technologies Pty Ltd * (f)	Australia	-	-	100.0	100.0
Telstra OnAir Infrastructure Holdings Pty Ltd * (j) (r)	Australia	-	-	100.0	-
Telstra 3G Spectrum Holdings Pty Ltd * (r)	Australia	302	-	100.0	-
1300 Australia Pty Ltd * (q)	Australia	5	-	60.0	50.0
Telstra OnAir Holdings Pty Ltd (r)	Australia	302	302	100.0	100.0
• Telstra OnAir Infrastructure Holdings Pty Ltd * (j) (r)	Australia	-	-	-	100.0
• Telstra 3G Spectrum Holdings Pty Ltd * (r)	Australia	-	-	-	100.0
Telstra Communications Limited (a)	Australia	29	29	100.0	100.0
• Telecom Australia (Saudi) Company Limited (d) (e) (h) (i)	Saudi Arabia	-	-	50.0	50.0
ESA Holding Pty Ltd (n)	Australia	16	-	100.0	-
• Telstra Business Systems Pty Ltd (formerly Damovo (Australia) Pty Ltd (c) (n)	Australia	-	-	100.0	-
Telstra Rewards Pty Ltd *	Australia	14	14	100.0	100.0
• Telstra Visa Card Trust (d)	Australia	-	-	100.0	100.0
• Qantas Telstra Card Trust (d)	Australia	-	-	100.0	100.0
• Telstra Visa Business Card Trust (d)	Australia	-	-	100.0	100.0
Telstra Media Holdings Pty Ltd (a)	Australia	29	29	100.0	100.0
• Telstra Enterprise Services Pty Ltd (a)	Australia	-	-	100.0	100.0
• Telstra Pay TV Pty Ltd (a)	Australia	-	-	100.0	100.0

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Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2005	2004	**2005**	2004
		$m	$m	**%**	%
Controlled entities (continued)					
Telstra Holdings Pty Ltd (a)	Australia	**7,177**	7,177	**100.0**	100.0
• Beijing Australia Telecommunications Technical Consulting Services Company Limited (e) (i)	China	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No. 2 Limited (i)	Bermuda	**-**	-	**100.0**	100.0
• Telstra CSL Limited (i)	Bermuda	**-**	-	**100.0**	100.0
• Bestclass Holdings Ltd (i)	British Virgin Islands	**-**	-	**100.0**	100.0
• Hong Kong CSL Limited (i)	Hong Kong	**-**	-	**100.0**	100.0
• Integrated Business Systems Limited (i)	Hong Kong	**-**	-	**100.0**	100.0
• One2Free Personalcom Limited (i)	Hong Kong	**-**	-	**100.0**	100.0
• CSL Limited (i)	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No 1 Limited (i)	Bermuda	**-**	-	**100.0**	100.0
• Telstra International HK Limited (i)	Hong Kong	**-**	-	**100.0**	100.0
• Damovo HK Ltd (i) (n)	Hong Kong	**-**	-	**100.0**	-
• Telstra IDC Holdings Limited (d) (i)	Bermuda	**-**	-	**-**	100.0
• Telstra Japan Retail K.K. (i)	Japan	**-**	-	**100.0**	100.0
• Telstra Singapore Pte Ltd (i)	Singapore	**-**	-	**100.0**	100.0
• Telstra Global Limited (i)	United Kingdom	**-**	-	**100.0**	100.0
• PT Telstra Nusantara (i)	Indonesia	**-**	-	**100.0**	100.0
• Telstra Europe Limited (i)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (Cable Telecom) Limited (formerly Cable Telecom (GB) Limited) (c) (i) (r)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (PSINet) Limited (formerly PSINet UK Limited) (c) (i) (m)	United Kingdom	**-**	-	**100.0**	-
• Telstra (CTE) Limited (formerly Cable Telecom Europe Limited) (c) (i) (r)	United Kingdom	**-**	-	**-**	100.0
• Cable Telecommunication Limited (i) (r)	United Kingdom	**-**	-	**-**	100.0
• Telstra (CTE) Limited (formerly Cable Telecom Europe Limited) (c) (i) (r)	United Kingdom	**-**	-	**100.0**	-
• Cable Telecommunication Limited (i) (r)	United Kingdom	**-**	-	**100.0**	-
• PSINet Datacentre UK Limited (i) (m)	United Kingdom	**-**	-	**100.0**	-
• Inteligen Communications Limited (formerly EUNet GB Limited) (c) (i) (m)	United Kingdom	**-**	-	**100.0**	-
• Telstra Jersey Limited (formerly PSINet Jersey Limited) (c) (i) (m)	Jersey	**-**	-	**100.0**	-
• PSINet Hosting Centre Limited (i) (m)	Jersey	**-**	-	**100.0**	-
• Cordoba Holdings Limited (i) (m)	Jersey	**-**	-	**100.0**	-
• Telstra (LHC) Limited (formerly London Hosting Centre Limited) (c) (i) (m)	Jersey	**-**	-	**100.0**	-
• Telstra Inc. (i)	United States	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (i)	India	**-**	-	**100.0**	100.0
• Telstra Limited (i)	New Zealand	**-**	-	**100.0**	100.0
• Telstra New Zealand Holdings Limited (i)	New Zealand	**-**	-	**100.0**	100.0
• TelstraClear Limited (i)	New Zealand	**-**	-	**100.0**	100.0
• TelstraSaturn Holdings Limited (i)	New Zealand	**-**	-	**100.0**	100.0

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Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#) As at 30 June 2005 $m	2004 $m	% of equity held by immediate parent As at 30 June 2005 %	2004 %
Controlled entities (continued)					
• Sytec Resources Ltd (i) (o)	New Zealand	**-**	-	**100.0**	-
• Sytec Resources (Australia) Pty Ltd * (i) (o)	Australia	**-**	-	**100.0**	-
• DMZ Global Limited (i) (o)	New Zealand	**-**	-	**100.0**	-
• DMZ Global (Australia) Pty Ltd * (i) (o)	Australia	**-**	-	**100.0**	-
• CLEAR Communications Limited (i)	New Zealand	**-**	-	**100.0**	100.0
Network Design and Construction Limited (a)	Australia	**177**	177	**100.0**	100.0
• NDC Global Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (i)	India	**-**	-	**98.0**	98.0
• PT NDC Indonesia (d) (i)	Indonesia	**-**	-	**95.0**	95.0
• NDC Global Philippines, Inc (d) (e) (i)	Philippines	**-**	-	**100.0**	100.0
• NDC Global Services (Thailand) Limited (d) (i)	Thailand	**-**	-	**49.0**	49.0
• NDC Global Holdings (Thailand) Limited (d) (h) (i)	Thailand	**-**	-	**49.0**	49.0
• NDC Global Services (Thailand) Limited (d) (i)	Thailand	**-**	-	**51.0**	51.0
• NDC Global Services Malaysia Sdn. Bhd (d) (i)	Malaysia	**-**	-	**-**	100.0
• NDC Global Services Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (i)	India	**-**	-	**2.0**	2.0
Telstra Services Solutions Holdings Limited (a)	Australia	**898**	898	**100.0**	100.0
• Telstra CB.net Limited (a) (b)	Australia	**-**	-	**100.0**	100.0
• Telstra CB.Com Limited (a) (b)	Australia	**-**	-	**100.0**	100.0
• Telstra CB.fs Limited (a) (b)	Australia	**-**	-	**100.0**	100.0
• Telstra eBusiness Services Pty Ltd (a) (r)	Australia	**-**	-	**-**	100.0
• Telstra eBusiness Services Pty Ltd (a) (r)	Australia	**-**	-	**100.0**	-
• Australasian Insurance Systems Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• TRC Computer Systems Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• DBA Limited (a)	Australia	**-**	-	**100.0**	100.0
• Brokerlink Pty Ltd (a)	Australia	**-**	-	**81.3**	81.3
• DBA Computer Systems Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Brokerlink Pty Ltd (a)	Australia	**-**	-	**18.7**	18.7
• Unilink Group Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• KAZ Group Limited (a) (l)	Australia	**-**	-	**100.0**	-
• KAZ Computer Services (SEA) Pte Ltd (i) (l)	Singapore	**-**	-	**100.0**	-
• KAZ Computer Services (Hong Kong) Ltd (i) (l)	Hong Kong	**-**	-	**75.0**	-
• Australian Administration Services Pty Ltd (l)	Australia	**-**	-	**100.0**	-
• AAS Superannuation Services Pty Ltd * (l)	Australia	**-**	-	**100.0**	-
• KAZ Business Services Australia Pty Ltd (formerly Nexis Pty Ltd) * (c) (l)	Australia	**-**	-	**100.0**	-
• KAZ Business Services Pty Ltd (a) (l)	Australia	**-**	-	**100.0**	-
• KAZ Software Solutions Pty Ltd * (a) (l)	Australia	**-**	-	**100.0**	-
• Atune Financial Solutions Pty Ltd * (a) (l)	Australia	**-**	-	**100.0**	-
• KAZ Technology Services Pty Ltd (l)	Australia	**-**	-	**100.0**	-
• IOCORE Asia Pacific Pty Ltd * (l)	Australia	**-**	-	**100.0**	-
• Techsouth Pty Ltd * (l)	Australia	**-**	-	**100.0**	-
• KAZ Technology Services Australia Pty Ltd (formerly 551 Glenferrie Road Pty Ltd) * (c) (l)	Australia	**-**	-	**100.0**	-
• Fundi Software Pty Ltd * (l)	Australia	**-**	-	**100.0**	-

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Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2005	2004	**2005**	2004
		$m	$m	**%**	%
Controlled entities (continued)					
Sensis Pty Ltd (a)	Australia	**757**	757	**100.0**	100.0
• CitySearch Australia Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• CitySearch Canberra Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Group Pty Ltd (a)	Australia	**-**	-	**33.0**	33.0
• Trading Post (Australia) Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Trading Post Group Pty Ltd (a)	Australia	**-**	-	**67.0**	67.0
• The Melbourne Trading Post Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• The National Trading Post Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• Australian Retirement Publications Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• Collectormania Australia Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• The Personal Trading Post Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Auto Trader Australia Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• WA Auto Trader Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Sydney Buy & Sell Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Sydney Auto Trader Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Ad Mag SA & NSW Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Ad Mag AGI Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post (AW) Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Warranty Direct (Australia) Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Just Listed Pty Ltd * (a)	Australia	**-**	-	**100.0**	100.0
• Trading Post (TCA) Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Research Resources Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Queensland Trading Post Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Marketing (Qld) Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post on the Net Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Australia Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Appraised Staff Agency Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Tradernet Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post Classifieds Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Trading Post On Line Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Sensis Holdings Pty Ltd *	Australia	**-**	-	**100.0**	100.0
• Invizage Pty Ltd *	Australia	**-**	-	**75.0**	75.0
• Universal Publishers Pty Ltd (a) (p)	Australia	**-**	-	**100.0**	-
Total investment in consolidated entities		**12,868**	12,537		

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

(*) These entities are Australian small proprietary limited companies, which are not required to prepare and lodge individual audited financial reports with the Australian Securities and Investment Commission.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

ASIC deed of cross guarantee

(a) The following companies have entered into a deed of cross guarantee dated 4 June 1996 (or have been subsequently added to this deed by an assumption deed):

- Telstra Corporation Limited;
- Telstra Corporate Services Pty Ltd;
- Telstra Multimedia Pty Ltd;
- Telstra International Limited;
- Telstra New Wave Pty Ltd (b);
- Hypermax Holdings Pty Ltd (formerly Customer Contact Technologies Pty Ltd) (+);
- Telstra Communications Limited;
- Telstra Media Holdings Pty Ltd;
- Telstra Enterprise Services Pty Ltd;
- Telstra Pay TV Pty Ltd;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- NDC Global Holdings Pty Ltd;
- NDC Global Services Pty Ltd;
- Telstra Services Solutions Holdings Ltd;
- Telstra CB.net Limited (b);
- Telstra CB.Com Limited (b);
- Telstra CB.fs Limited (b);
- Telstra eBusiness Services Pty Ltd;
- Australasian Insurance Systems Pty Ltd;
- TRC Computer Systems Pty Ltd;
- DBA Limited;
- Brokerlink Pty Ltd;
- DBA Computer Systems Pty Ltd;
- KAZ Group Limited (+);
- KAZ Business Services Pty Ltd (+);
- KAZ Software Solutions Pty Ltd (+);
- Atune Financial Services Pty Ltd (+);
- Sensis Pty Ltd;
- Trading Post (Australia) Holdings Pty Ltd;
- Trading Post Group Pty Ltd;
- The Melbourne Trading Post Pty Ltd;
- The National Trading Post Pty Ltd;
- Collectormania Australia Pty Ltd;
- Australian Retirement Publications Pty Ltd;
- The Personal Trading Post Pty Ltd;
- Auto Trader Australia Pty Ltd;
- WA Auto Trader Pty Ltd;
- Just Listed Pty Ltd;
- Trading Post (TCA) Pty Ltd;
- Trading Post Australia Pty Ltd; and
- Universal Publishers Pty Ltd (+).

Telstra Finance Limited is trustee to the deed of cross guarantee.

(+) These entities were added to the deed of cross guarantee during fiscal 2005 by an assumption deed dated 24 June 2005.

The deed of cross guarantee was formed under Australian Securities and Investment Commission (ASIC) Class Order 98/1418, including subsequent amendments made thereto. This class order was dated 13 August 1998 and has been subsequently amended by class orders 98/2017, 00/321, 01/1087, 02/248, 02/1017, 04/663, 04/682, 04/1624 and 05/542. Under this class order and the deed of cross guarantee, the companies listed above, except for Telstra Finance Limited:

- form a closed group and extended closed group as defined in the class order;
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001. This does not apply to Telstra Corporation Limited; and
- guarantee the payment in full of the debts of the other named companies in the event of their winding up.

The consolidated assets and liabilities of the closed group and extended closed group at 30 June 2005 and 30 June 2004 are presented according to ASIC class order 98/1418 (as amended) as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

ASIC deed of cross guarantee (continued)

(a) continued

Closed group statement of financial position	Closed Group As at 30 June 2005 $m	Closed Group As at 30 June 2004 $m
Current assets		
Cash assets	**1,368**	604
Receivables	**3,596**	3,556
Inventories	**197**	200
Other assets	**765**	697
Total current assets	**5,926**	5,057
Non current assets		
Receivables	**1,066**	1,760
Inventories	**15**	10
Investments - accounted for using the equity method	**48**	41
Investments - other	**3,134**	2,596
Property, plant and equipment	**21,546**	21,567
Intangibles - goodwill	**311**	248
Intangibles - other	**622**	617
Other assets	**2,565**	2,324
Total non current assets	**29,307**	29,163
Total assets	**35,233**	34,220
Current liabilities		
Payables	**2,052**	1,999
Interest-bearing liabilities	**2,183**	3,753
Income tax payable	**516**	509
Provisions	**353**	350
Revenue received in advance	**1,091**	1,075
Total current liabilities	**6,195**	7,686
Non current liabilities		
Payables	**14**	47
Interest-bearing liabilities	**11,800**	9,014
Provision for deferred income tax	**1,826**	1,748
Provisions	**810**	758
Revenue received in advance	**387**	408
Total non current liabilities	**14,837**	11,975
Total liabilities	**21,032**	19,661
Net assets	**14,201**	14,559
Shareholders' equity		
Contributed equity	**5,793**	6,073
Reserves	**37**	41
Retained profits	**8,371**	8,445
Shareholders' equity available to the closed group	**14,201**	14,559

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

ASIC deed of cross guarantee (continued)

(a) (continued)

The consolidated net profit of the closed group and extended closed group for the fiscal years ended 30 June 2005 and 30 June 2004 is presented according to ASIC class order 98/1418 (as amended) as follows.

This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Closed group statement of financial performance and retained profits reconciliation	Note	Closed Group Year ended 30 June 2005 $m	2004 $m
Ordinary activities			
Profit before income tax expense		**6,316**	5,867
Income tax expense		**1,789**	1,700
Net profit available to the closed group		**4,527**	4,167
Retained profits at the beginning of the financial year available to the closed group		**8,445**	8,112
Share buy-back	18	**(476)**	(649)
Transfer out of closed group		**-**	1
Transfers to retained profits		**6**	-
Total available for distribution		**12,502**	11,631
Dividends paid		**4,131**	3,186
Retained profits at the end of the financial year available to the closed group		**8,371**	8,445

(b) The following companies will cease to be party to the deed of cross guarantee as at 11 September 2005 due to a revocation deed dated 11 March 2005:

- Telstra New Wave Pty Ltd;
- Telstra CB.net Limited;
- Telstra CB.Com Limited; and
- Telstra CB.fs Limited.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

Change of company names

(c) The following entities changed their names during fiscal 2005:

- Customer Contact Technologies Pty Ltd changed its name to Hypermax Holdings Pty Ltd on 30 July 2004;
- 551 Glenferrie Road Pty Ltd changed its name to KAZ Technology Services Australia Pty Ltd on 3 December 2004;
- Nexis Pty Ltd changed its name to KAZ Business Services Australia Pty Ltd on 3 December 2004;
- Damovo (Australia) Pty Ltd changed its name to Telstra Business Systems Pty Ltd on 1 February 2005;
- Cable Telecom (GB) Limited changed its name to Telstra (Cable Telecom) Limited on 28 February 2005;
- Cable Telecom Europe Limited changed its name to Telstra (CTE) Limited on 28 February 2005;
- PSINet UK Limited changed its name to Telstra (PSINet) Limited on 28 February 2005;
- London Hosting Centre Limited changed its name to Telstra (LHC) Limited on 28 February 2005;
- PSINet Jersey Limited changed its name to Telstra Jersey Limited on 28 February 2005; and
- EUNet GB Limited changed its name to Inteligen Communications Limited on 26 April 2005.

Liquidations

(d) As at 30 June 2005, the following companies were in voluntary liquidation:

- Telecom Australia (Saudi) Company Limited;
- NDC Global Philippines, Inc;
- NDC Global Services (Thailand) Limited;
- NDC Global Holdings (Thailand) Limited; and
- PT NDC Indonesia.

The following companies were liquidated during fiscal 2005:

- Telstra IDC Holdings Limited;
- NDC Global Services Malaysia Sdn. Bhd; and
- On Australia Pty Ltd.

During fiscal 2002, we entered into arrangements to transfer responsibility for the operation and funding of the Telstra Visa Card, Qantas Telstra Visa Card and the Telstra Visa Business Card loyalty programs and related trusts from Telstra. Dissolution of Telstra's involvement with these trusts commenced in fiscal 2004 and will be completed during fiscal 2006.

Controlled entities with different balance dates

(e) The following companies have balance dates that differ from our balance date of 30 June for fiscal 2005:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December; and
- NDC Global Philippines, Inc - 31 December.

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

Rounded investments

(f) The cost of the Telstra Entity's investments in the following controlled entities, are not shown when rounded to the nearest million dollars:

	As at 30 June	
	2005	2004
	$	$
Telstra Finance Limited	**5**	5
Telstra ESOP Trustee Pty Ltd	**2**	2
Telstra Growthshare Pty Ltd	**1**	1
Hypertokens Pty Ltd	**40,002**	40,002
Hypermax Holdings Pty Ltd (formerly Customer Contact Technologies Pty Ltd) (c)	**#**	2
Chief Entertainment Pty Ltd (k)	**168,399**	-
Data & Text Mining Technologies Pty Ltd	**2**	2
Lyrebird Technologies Pty Ltd	**2**	2

Investment greater than $1 million as at 30 June 2005 due to capital injections. Hypermax Holdings Pty Ltd used the capital injections to purchase a business and fund ongoing operations during the period.

Controlled entities in which we have no equity ownership

(g) We do not have an equity investment in Telecommunications Equipment Finance Pty Ltd. We have effective control over this entity through economic dependency and have consolidated it into our group financial report. This company does not have significant assets or liabilities.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

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

(h) We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the Board of Directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report.

We own 49% of the issued capital of NDC Global Holdings (Thailand) Limited. We can exercise control over this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report.

Controlled entities not individually audited by the Australian National Audit Office

(i) Companies not audited by the Australian National Audit Office, our Australian statutory auditor.

Dividends and distributions received by the Telstra Entity

(j) The Telstra Entity received a return of capital of $302 million from Telstra OnAir Infrastructure Holdings Pty Ltd during fiscal 2005.

New incorporations and investments

(k) On 1 July 2004, we acquired 100% of the issued share capital of Chief Entertainment Pty Ltd. The initial consideration was not significant.

Chief Entertainment Pty Ltd is a provider of broadband audio and visual entertainment.

(l) 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.

Our acquisition of KAZ Group Limited included its controlled entities as listed below:

- KAZ Computer Services (SEA) Pte Ltd;
- KAZ Computer Services (Hong Kong) Limited;
- Australian Administration Services Pty Ltd;
- AAS Superannuation Services Pty Ltd;
- Nexis Pty Ltd (c);
- KAZ Business Services Pty Ltd;
- KAZ Software Solutions Pty Ltd;
- Atune Financial Solutions Pty Ltd;
- KAZ Technology Services Pty Ltd;
- IOCORE Asia Pacific Pty Ltd;
- Techsouth Pty Ltd;
- 551 Glenferrie Road Pty Ltd (c); and
- Fundi Software Pty Ltd.

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

(m) 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, the PSINet Group was restructured within the Telstra Europe Limited Group and PSINet UK Limited changed its name to Telstra (PSINet) Limited.

Our acquisition of the PSINet Group included the controlled entities as listed below:

- PSINet Datacentre UK Limited;
- EUNet GB Limited (c);
- PSINet Jersey Limited (c);
- PSINet Hosting Centre Limited;
- Cordoba Holdings Limited; and
- London Hosting Centre Limited (c).

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

(n) 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. The acquisition was achieved through the use of two controlled entities within the Telstra Group.

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

(o) On 5 November 2004, we acquired 100% of the issued share capital of Sytec Resources Limited and its controlled entities (Sytec Group). The amount initially invested was not significant.

Our acquisition of Sytec Resources Limited included its controlled entities as listed below:

- Sytec Resources (Australia) Pty Ltd;
- DMZ Global Limited; and
- DMZ Global (Australia) Pty Ltd.

The Sytec Group is a provider of information technology related services.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

New incorporations and investments (continued)

(p) 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.

Other acquisitions

(q) On 10 February 2005, we acquired a further 10% of the issued share capital of 1300 Australia Pty Ltd for nominal consideration giving us a 60% controlling interest. Prior to this date, 1300 Australia Pty Ltd was classified as a joint venture entity.

Sales and disposals

(r) The following entities were sold between entities within the Telstra Group:

- On 5 November 2004, Telstra CB.fs Limited sold its investment in Telstra eBusiness Services Pty Ltd to Telstra Services Solutions Holdings Ltd;
- On 6 November 2004, Telstra OnAir Holdings Pty Ltd sold its investment in Telstra OnAir Infrastructure Holdings Pty Ltd to Telstra Corporation Limited;
- On 6 November 2004, Telstra OnAir Infrastructure Holdings Pty Ltd sold its investment in Telstra 3G Spectrum Holdings Pty Ltd to Telstra Corporation Limited;
- On 1 June 2005, Telstra (Cable Telecom) Limited sold its investment in Telstra (CTE) Limited to Telstra Europe Limited; and
- On 1 June 2005, Telstra (Cable Telecom) Limited sold its investment in Cable Telecommunication Limited to Telstra Europe Limited.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities

Our investments in joint venture entities are listed below:

	Principal activities	Ownership interest		Telstra Group's carrying amount of investment (*)		Telstra Entity's carrying amount of investment (*)	
		As at 30 June		As at 30 June		As at 30 June	
		2005	2004	**2005**	2004	**2005**	2004
		%	%	**$m**	$m	**$m**	$m
Joint venture entities							
FOXTEL Partnerships (#) (1)	Pay television	**50.0**	50.0	**-**	-	**-**	-
Customer Services Pty Ltd (1)	Customer service	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Management Pty Ltd (a)	Management services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Cable Television Pty Ltd (1) (c)	Pay television	**80.0**	80.0	**-**	-	**-**	-
Reach Ltd (incorporated in Bermuda) (1) (o) (t)	International connectivity services	**50.0**	50.0	**-**	-	**-**	-
Stellar Call Centres Pty Ltd (b) (p)	Call centre services and solutions	**-**	50.0	**-**	11	**-**	3
Xantic B.V. (incorporated in The Netherlands) (t)	Global satellite communications	**35.0**	35.0	**29**	29	**29**	29
TNAS Limited (incorporated in New Zealand) (1) (t)	Toll free number portability in New Zealand	**33.3**	33.3	**-**	-	**-**	-
1300 Australia Pty Ltd (a) (q)	Acquisition and marketing of 1300 "phone words"	**-**	50.0	**-**	-	**-**	-
Money Solutions Pty Ltd (1) (h)	Financial advice and education services	**50.0**	-	**-**	-	**-**	-
HelpYouPay Systems Pty Ltd (formerly Red2Black Systems Pty Ltd) (1) (h) (s)	Debt management services	**50.0**	-	**-**	-	**-**	-
HelpYouPay Pty Ltd (formerly Red2Black Payment Services Pty Ltd) (1) (h) (s)	Debt management services	**50.0**	-	**-**	-	**-**	-
Enhanced Processing Technologies Pty Ltd (a) (h) (f)	Business process outsourcing	**60.0**	-	**-**	-	**-**	-
Enhanced Processing Technologies Inc (incorporated in United States) (a) (h) (f)	Software sales	**60.0**	-	**-**	-	**-**	-
Adstream (Aust) Pty Ltd (g)	Digital advertising and asset management	**33.3**	-	**3**	-	**3**	-
3GIS Pty Ltd (a) (j) (t)	Management services	**50.0**	-	**-**	-	**-**	-
3GIS Partnership (a) (j) (t)	3G network services	**50.0**	-	**-**	-	**-**	-
Bridge Mobile Pte Ltd (incorporated in Singapore) (k)	Regional roaming provider	**12.5**	-	**1**	-	**-**	-
m.Net Corporation Limited (l)	Mobile phone content provider	**39.5**	8.3	**-**	-	**-**	-
			note 11	**33**	40	**32**	32

Unless noted in footnote (t), all investments have a balance date of 30 June and are incorporated in Australia. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in joint venture entities with different balance dates is the same at that balance date as above unless otherwise noted.

(#) This includes both the FOXTEL Partnership and the FOXTEL Television Partnership.

(1) Equity accounting of these investments has been suspended and the investment is recorded at zero due to losses made by the entities and/or reductions in the equity accounted carrying amount.

(*) The Telstra Group carrying amounts are calculated using the equity method of accounting. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Our investments in associated entities are listed below:

	Principal activities	Ownership interest		Telstra Group's carrying amount of investment (*)		Telstra Entity's carrying amount of investment (*)	
		As at 30 June		As at 30 June		As at 30 June	
		2005	2004	**2005**	2004	**2005**	2004
		%	%	**$m**	$m	**$m**	$m
(ii) Associated entities							
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (1) (t)	Network cable provider	**39.9**	39.9	**-**	-	**-**	-
ECard Pty Ltd (a) (b) (r)	Smart card transaction processing	**-**	50.0	**-**	-	**-**	-
Telstra Super Pty Ltd (1) (a) (d)	Superannuation trustee	**100.0**	100.0	**-**	-	**-**	-
Keycorp Limited (b) (i) (n)	Electronic transactions solutions	**47.8**	47.9	**12**	-	**12**	-
Telstra Foundation Limited (e)	Charitable trustee organisation	**100.0**	100.0	**-**	-	**-**	-
LinkMe Pty Ltd (m)	Internet recruitment provider	**40.0**	-	**4**	-	**-**	-
				16	-	**12**	-

Unless noted in footnote (t), all investments have a balance date of 30 June and are incorporated in Australia. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in associated entities with different balance dates is the same at that balance date as above unless otherwise noted.

(1) Equity accounting of these investments has been suspended and the investment is recorded at zero due to losses made by the entities and/or reductions in the equity accounted carrying amount.

(*) The Telstra Group carrying amounts are calculated using the equity method of accounting. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

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

	Year ended 30 June		
	2005	2004	2003
	$m	$m	$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	47
- Stellar Call Centres Pty Ltd (b)	**(3)**	(2)	(2)
- Xantic B.V.	**(3)**	43	24
- Reach Ltd (o)	**-**	-	946
	(1)	85	1,015
Associated entities			
- IBM Global Services Australia Limited (+)	**-**	(3)	(6)
- Australia-Japan Cable Holdings Limited	**-**	-	6
- Solution 6 Holdings Limited (+)	**-**	-	2
- ECard Pty Ltd (a) (b) (r)	**-**	2	10
- Keycorp Limited (i) (b) (n)	**(8)**	-	-
- PT Mitra Global Telekomunikasi Indonesia (+)	**-**	(6)	(2)
	(8)	(7)	10
	(9)	78	1,025

(#) This includes both the FOXTEL Partnership and the FOXTEL Television Partnership.

(+) In prior reporting periods we have sold our interests in these associated entities.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Rounded investments

(a) The carrying amounts of our investments in joint venture entities and associated entities which are not shown when rounded to the nearest million dollars are shown below:

	Carrying amount of investment			
	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$	$	**$**	$
(i) Joint venture entities				
FOXTEL Management Pty Ltd	**1**	1	**-**	-
1300 Australia Pty Ltd (q)	**-**	398,853	**-**	500,000
Enhanced Processing Technologies Pty Ltd (h)	**505,104**	-	**-**	-
Enhanced Processing Technologies Inc (h)	**100,425**	-	**-**	-
3GIS Pty Ltd (j) (t)	**1**	-	**-**	-
3GIS Partnership (j)	**1**	-	**-**	-
(ii) Associated entities				
ECard Pty Ltd (b) (r)	**-**	100,001	**-**	100,001
Telstra Super Pty Ltd (d)	*	*	**2**	2

* Equity accounted amount of investment is suspended and the investment is recorded at zero due to losses made by the entities or as a result of reducing the equity accounted amount to zero.

Dividends received from joint venture entities and associated entities

(b) We received dividends and distributions from the following entities during fiscal 2005:

- Stellar Call Centres Pty Ltd $0.6 million (2004: $1.2 million);
- ECard Pty Ltd $0.3 million (2004: $1.4 million); and
- Keycorp Limited $1.2 million (2004: $nil).

Associated entities and joint venture entities in which we own more than 50% equity

(c) We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a joint venture entity as the outside equity shareholders have participating rights that prevent us from dominating the decision making of the Board of Directors. Effective voting power is restricted to 50% and we have joint control.

(d) We own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd, as we do not control the Board of Directors. We have equal representation with employee representatives on the Board. Our voting power is limited to 44%, which is equivalent to our representation on the Board. The entity is therefore classified as an associated entity as we have significant influence over it.

(e) We own 100% of the equity of Telstra Foundation Limited (TFL). TFL is limited by guarantee (guaranteed to $100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstras Kids' Fund. We do not consolidate TFL as we do not control the Board. However, due to our Board representation we significantly influence this entity. Our voting power is limited to 43%, which is equivalent to our representation on the Board.

(f) We own 60% of the equity of Enhanced Processing Technologies Pty Ltd and Enhanced Processing Technologies Inc. These entities are subject to joint control based on their respective shareholders' agreements, under which mutual consent of the shareholders is required in determining the financial and operating policies of the entities. As a result, they have been classified as joint venture entities.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

New joint venture entities and associated entities

(g) On 19 July 2004, we acquired 33.3% of the issued share capital of Adstream (Aust) Pty Ltd. The amount invested was not significant.

(h) On 19 July 2004, we acquired KAZ Group Ltd and its controlled entities (KAZ Group). As part of the acquisition of the KAZ Group we also acquired a number of joint venture entities. Refer to note 23 for further details of the acquisition.

(i) On 20 September 2004, the ownership interest in Keycorp Limited was transferred to Telstra Corporation Limited from Telstra CB.fs Limited.

(j) 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.

(k) On 14 April 2005, we acquired 12.5% of the issued share capital of Bridge Mobile Pte Ltd. Our voting interest in this entity is equivalent to our seven joint venture partners. The amount invested was not significant.

(l) On 20 May 2005, we were issued a further 31.2% shareholding in m.Net Corporation Limited as consideration for in-kind services provided. As a result of the increase, we have now classified the investment as a joint venture entity and commenced equity accounting. Prior to this date we classified our interest as an other investment.

(m) On 2 June 2005, we acquired 40% of the issued share capital of LinkMe Pty Ltd. The amount invested was not significant.

Other changes in joint venture entities and associated entities

(n) On 7 March 2005, our investment in Keycorp Limited was decreased from 47.9% to 47.8% due to a dilution in our shareholding.

(o) During fiscal 2003 we wrote down the carrying amount of the investment in our 50% owned joint venture, Reach Ltd. Equity accounting of the investment is suspended and the investment is recorded at zero.

The write down occurred due to the 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. Refer to note 3 for further information.

Sale of investments

(p) On 21 June 2005, we completed the sale of our 50% shareholding in Stellar Call Centres Pty Ltd. The revenue on sale of the investment was not considered to be significant.

Investments no longer equity accounted

(q) On 10 February 2005, we acquired an additional 10% shareholding in 1300 Australia Pty Ltd giving us a controlling interest. Prior to this date 1300 Australia Pty Ltd was a joint venture entity and was equity accounted.

(r) On 14 April 2005, we ceased equity accounting our investment in ECard Pty Ltd as the entity was deregistered.

Change of company name

(s) The following entities changed names during fiscal 2005:

- Red2Black Systems Pty Ltd changed its name to HelpYouPay Systems Pty Ltd on 11 October 2004; and
- Red2Black Payment Services Pty Ltd changed its name to HelpYouPay Pty Ltd on 11 October 2004.

Joint venture entities and associated entities with different balance dates

(t) The following joint ventures entities and associated entities have different balance dates to our balance date of 30 June for fiscal 2005:

- Reach Ltd - 31 December;
- Xantic B.V. - 31 December;
- TNAS Limited - 31 March.
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 31 December; and
- Australia-Japan Cable Holdings Limited - 31 December.

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

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

The movements in the consolidated equity accounted amount of our joint venture entities and associated entities are summarised as follows:

		Joint venture entities		Associated entities	
		Telstra Group		Telstra Group	
		Year ended/As at 30 June		Year ended/As at 30 June	
		2005	2004	**2005**	2004
	Note	**$m**	$m	**$m**	$m
Carrying amount of investments at beginning of year		**40**	129	**-**	30
Additional investments made during the year		**13**	-	**4**	-
		53	129	**4**	30
Share of profits/(losses) before income tax expense		**2**	(81)	**7**	10
Share of income tax expense		**(1)**	(4)	**1**	(3)
Share of net profits/(losses) after income tax expense		**1**	(85)	**8**	7
Amortisation of unrealised inter-entity profits after income tax		**2**	2	**-**	-
Write down of notional goodwill and release of deferred profit of Reach Ltd		**-**	-	**-**	-
Amortisation of notional goodwill		**(2)**	(2)	**-**	-
Share of net profits/(losses)		**1**	(85)	**8**	7
Dividends and distributions received		**(1)**	(1)	**(1)**	(1)
Share of reserves		**-**	-	**5**	-
Share of foreign currency translation reserve and movements due to exchange rate translations		**(2)**	(3)	**-**	(2)
Sale, transfers and reductions of investments during the year		**(16)**	-	**-**	(34)
Carrying amount of investments before reduction to recoverable amount		**35**	40	**16**	-
Reduction in value of investments to recoverable amount		**(2)**	-	**-**	-
Carrying amount of investments at end of year	11	**33**	40	**16**	-
Our share of contingent liabilities of joint venture entities and associated entities - we are not directly liable for these		**-**	2	**-**	-
Our share of capital commitments contracted for, by our joint venture entities and associated entities - we are not directly liable for these (a)		**9**	84	**-**	-
Our share of other expenditure commitments contracted for (other than the supply of inventories), by our joint venture entities and associated entities - we are not directly liable for these (a)		**52**	67	**4**	4

(a) Our share of commitments and guarantees of our joint venture entities for which we are directly liable are included within note 20 and note 21 respectively.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Other disclosures for joint venture entities

Summarised presentation of our share of all of our joint venture entities' and associated entities' assets, liabilities, revenue and expense items (including joint venture entities and associated entities where equity accounting has been suspended):

	Joint venture entities Telstra Group Year ended/As at 30 June		Associated entities Telstra Group Year ended/As at 30 June	
	2005 $m	2004 $m	**2005 $m**	2004 $m
Current assets	**393**	297	**31**	27
Non current assets	**391**	526	**151**	198
Total assets	**784**	823	**182**	225
Current liabilities	**729**	595	**36**	38
Non current liabilities	**296**	1,316	**202**	221
Total liabilities	**1,025**	1,911	**238**	259
Net assets	**(241)**	(1,088)	**(56)**	(34)
Total revenues	**1,377**	1,383	**81**	76
Total expenses	**1,240**	2,240	**81**	116
Profit/(loss) before income tax expense	**137**	(857)	**-**	(40)
Income tax expense/(benefit)	**5**	(36)	**3**	-
Net profit/(loss)	**132**	(821)	**(3)**	(40)

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Included in the consolidated financial report of the Telstra Group are:

	Joint venture entities Telstra Group As at 30 June		Associated entities Telstra Group As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Amount of our recorded retained losses balance relating to equity accounting our joint venture entities and associated entities (a).	**(2,633)**	(2,630)	**(163)**	(172)
Amount of our recorded foreign currency translation reserve credit/(debit) balance relating to equity accounting our joint venture entities and associated entities	**(18)**	(16)	**(6)**	(6)
Amount of our recorded general reserve credit/(debit) balance relating to equity accounting our joint venture entities and associated entities	**-**	-	**5**	5

(a) The following items are included in this amount:

- share of net (losses)/profits;
- adjustment for initial unrealised inter-entity profit after income tax expense;
- notional goodwill amortisation and writedowns;
- deferred profits amortised; and
- reduction in value of investments to recoverable amount.

Notes to the Financial Statements (continued)

25. Directors' remuneration - salaries and other benefits

The directors of the Telstra Entity for the year ended 30 June 2005 were:

Name	Position
Donald G McGauchie	Chairman, Non Executive Director, appointed 1998, appointed Chairman 20 July 2004
John T Ralph	Deputy Chairman, Non Executive Director, appointed 1996, retirement announced effective 11 August 2005
Zygmunt E Switkowski	Chief Executive Officer and Managing Director, appointed 1999, resigned as of 1 July 2005
Samuel H Chisholm	Non Executive Director, appointed 2000, resigned 28 October 2004
Anthony J Clark	Non Executive Director, appointed 1996, retirement announced effective 11 August 2005
John E Fletcher	Non Executive Director, appointed 2000
Belinda J Hutchinson	Non Executive Director, appointed 2001
Catherine B Livingstone	Non Executive Director, appointed 2000
Charles Macek	Non Executive Director, appointed 2001
John W Stocker	Non Executive Director, appointed 1996

Our directors' remuneration for the year ended 30 June 2005 was as follows:

	Primary benefits			Post employment		Equity compensation			Other	Total
Year ended 30 June 2005	Salary & fees $	Short term incentive $	Non-monetary $	Superannuation $	Retirement benefits (a) $	Direct-share $	Deferred shares $	Other equity $	Other fees (b) $	$
D McGauchie	**225,503**	**-**	**2,317**	**11,484**	**195,396**	**60,054**	**-**	**-**	**2,837**	**497,591**
J Ralph	**131,559**	**-**	**2,253**	**-**	**79,940**	**30,703**	**-**	**-**	**-**	**244,455**
Z Switkowski	**1,830,900**	**1,961,000**	**24,357**	**101,850**	**-**	**-**	**725,912**	**2,045,313**	**-**	**6,689,332**
S Chisholm (c)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A Clark	**69,357**	**-**	**2,753**	**8,493**	**48,811**	**19,463**	**-**	**-**	**-**	**148,877**
J Fletcher	**43,795**	**-**	**3,015**	**6,705**	**35,603**	**40,000**	**-**	**-**	**-**	**129,118**
B Hutchinson	**70,065**	**-**	**2,253**	**6,692**	**32,004**	**19,189**	**-**	**-**	**-**	**130,203**
C Livingstone	**77,764**	**-**	**2,253**	**8,537**	**46,216**	**21,575**	**-**	**-**	**-**	**156,345**
C Macek	**79,584**	**-**	**2,057**	**8,717**	**40,160**	**22,075**	**-**	**-**	**-**	**152,593**
J Stocker	**71,975**	**-**	**2,253**	**6,478**	**73,130**	**52,173**	**-**	**-**	**-**	**206,009**
	2,600,502	**1,961,000**	**43,511**	**158,956**	**551,260**	**265,232**	**725,912**	**2,045,313**	**2,837**	**8,354,523**

During fiscal 2005, Dr Switkowski ceased employment with the Company effective 1 July 2005. Dr Switkowski's termination payment was paid to him during July 2005, the details of which are as follows:

Nature of payment	$
Termination payment (*)	**2,092,000**
Accrued annual leave entitlements	**649,843**
Accrued long service leave entitlements	**409,683**
Total	**3,151,526**

(*) In accordance with the terms of Dr Switkowski's employment contract, he was entitled to an amount equal to 12 months fixed remuneration as a termination payment. Fixed remuneration comprises salary, superannuation and the value of salary sacrificed items. The amount is based on our October to October salary review period and hence, will differ from the amounts disclosed for Dr Switkowski's fiscal 2005 remuneration above.

Dr Switkowski will receive his short term incentive payment, included in total remuneration above, subsequent to the Board approving the value at the August 2005 Board meeting.

Dr Switkowski participated in the deferred remuneration and long term incentive plans. Upon ceasing employment, Dr Switkowski retained the right to deferred shares allocated under the deferred remuneration plan. These can be exercised at any time and those not exercised before the expiration of the exercise period will lapse. He also retained the right to instruments previously allocated under the long term incentive plans, subject to the required performance hurdles being met. Further details of the plans and the instruments allocated to Dr Switkowski are available at note 19.

Notes to the Financial Statements (continued)

25. Directors' remuneration - salaries and other benefits (continued)

Performance rights and options allocated under the September 2001 plan vested on 28 June 2005, and as a result, may be exercised any time after this date, subject to the Company's share trading policy. All other allocations are yet to meet the required performance hurdles and have not vested.

Dr Switkowski has not received any entitlement to additional superannuation benefits upon termination. His cumulative superannuation entitlements are as disclosed in his remuneration over the period of his employment. These amounts reside in Dr Switkowski's superannuation fund to be dealt with at his discretion.

Our directors' remuneration for the year ended 30 June 2004 was as follows:

	Primary benefits			Post employment		Equity compensation			Other	Total
Year ended 30 June 2004	Salary & fees $	Short term incentive $	Non-monetary $	Superannuation $	Retirement benefits (a) $	Direct-share $	Deferred shares $	Other equity $	Other fees (b) $	$
D McGauchie . . .	45,871	-	6,279	8,629	30,908	30,000	-	-	50,000	171,687
J Ralph	141,852	-	5,136	-	78,896	28,000	-	-	-	253,884
R Mansfield (d) . .	144,200	-	139	19,800	82,180	56,000	-	-	-	302,319
Z Switkowski . . .	1,339,314	627,300	25,913	98,437	-	-	660,854	1,663,245	-	4,415,063
S Chisholm (c) . .	-	-	-	-	-	-	-	-	-	-
A Clark	67,450	-	6,482	8,550	47,932	19,000	-	-	-	149,414
J Fletcher	37,800	-	3,026	7,200	24,098	35,000	-	-	-	107,124
B Hutchinson . . .	59,661	-	4,476	6,480	71,790	13,859	-	-	-	156,266
C Livingstone . . .	67,450	-	4,602	8,550	30,004	19,000	-	-	-	129,606
C Macek	67,450	-	4,192	8,550	77,789	19,000	-	-	-	176,981
W Owens (d) . . .	46,154	-	-	-	74,083	30,000	-	-	31,529	181,766
J Stocker	34,499	-	5,465	3,105	60,590	77,396	-	-	-	181,055
	2,051,701	627,300	65,710	169,301	578,270	327,255	660,854	1,663,245	81,529	6,225,165

(a) We have not paid any post employment benefits that are prescribed benefits during fiscal 2005 or fiscal 2004.

(b) These items relate to fees for services in addition to the director's Board duties.

(c) Mr Chisholm resigned from the Board on 28 October 2004. During his tenure, Mr Chisholm declined to receive fees for his Board duties to Telstra.

(d) Mr Mansfield and Mr Owens resigned from the Board during fiscal 2004.

Details of the components of our directors' remuneration

The information below relates to the remuneration for our non-executive directors. The remuneration of our CEO and managing director is determined in a manner that is consistent with that of our specified executives, which is described in note 26.

Salary and fees

Telstra directors are remunerated in accordance with our constitution which provides for the aggregate limit for directors' fees to be set and varied only by approval of a resolution at the annual general meeting of shareholders. Our constitution provides that the allocation of fees to directors within the pool limit shall be determined by the Board.

In setting the pool limit, the Board takes into account the Company's existing remuneration policies, independent professional advice, the value of fee pools of other comparable companies, the fees paid to individual directors of other companies, and the level of remuneration necessary to attract and retain directors of a suitable calibre. The fees paid to directors are set at levels which reflect both the responsibilities of, and the time commitments required, from each director to discharge their duties.

Notes to the Financial Statements (continued)

25. Directors' remuneration - salaries and other benefits (continued)

Salary and fees (continued)

In order to maintain their independence and impartiality, the quantum of the remuneration of the non-executive directors is not linked to the short term performance of the Company. However, the directors are required to take at least 20% of their fees in restricted Telstra shares (or directshares) which are purchased on market and included in equity compensation - directshare in the remuneration table. This is consistent with the Board's focus on the long term strategic direction of the Company.

Non monetary benefits

We provide directors with telecommunications and other services and equipment to assist them in performing their duties. From time to time we also make products and services available to directors without charge to allow directors to familiarise themselves with them and recent technological developments. To the extent it is considered that this provides a personal benefit to a director, it is included in primary benefits in the remuneration table.

Superannuation

Directors receive mandatory superannuation contributions as part of their annual remuneration. Directors may state a preference to increase the proportion of their fees taken as superannuation. Where this occurs, we may provide a greater percentage of the director's fees as superannuation contributions, subject to normal legislative requirements.

Retirement benefits

We do not provide other post employment benefits to directors appointed to the Board after 30 June 2002. The directors appointed prior to this date are eligible to receive post employment benefits in the form of retirement benefits upon leaving office as a director. Directors who have served 9 years or more are entitled to receive a maximum amount equal to their total remuneration in the preceding 3 years. Directors who have served less than 9 years, but more than 2 years, are entitled to receive a pro-rated amount based on the number of months served as a director. We disclose the increment earned for the current year of service in post employment - other.

Directshare

Non-executive directors are required to sacrifice a minimum of 20% of their fees toward the acquisition of restricted Telstra shares by way of a scheme known as directshare. Further details regarding the allocation of shares under directshare are included in note 19.

Other equity compensation

The items included in other equity compensation in the remuneration table relate to Dr Switkowski, the managing director and chief executive officer (CEO) of the Company until 1 July 2005, who is remunerated in a manner consistent with our specified executives. Please refer to note 26 for explanations regarding the components of the former CEO's and other specified executives' remuneration.

Individual contracts for services

There are no individual contracts for service with our non-executive directors other than as described above in relation to post employment benefits.

The new CEO's remuneration

Mr Solomon D Trujillo has been appointed CEO and executive director with a commencement date of 1 July 2005. Mr Trujillo will receive fixed remuneration in the amount of $3,000,000 comprising salary, superannuation and other primary benefits. In addition, a short term incentive will be available of up to the value of his fixed remuneration ($3,000,000), and a long term incentive of up to one and a third times his fixed remuneration ($4,000,000). His short term and long term incentives will be subject to the same conditions as our specified executives, refer to note 26 for details.

Mr Trujillo will receive a once-off sign-on bonus of $1,000,000 and a sign-on incentive in the amount of 50% of his maximum potential benefit under the short term incentive plan ($1,500,000). The amount of the sign-on incentive will be deducted from his potential short term incentive for the first year of employment.

If the board terminates Mr Trujillo's employment for reasons other than misconduct, Mr Trujillo will be entitled to:

- twenty four months fixed remuneration if the termination occurs within the first twelve months of employment; or
- twelve months fixed remuneration if the termination occurs after the first twelve months of employment;
- a pro rated value of participation in the short term and long term incentive plans, regardless of when the termination occurs; and
- reimbursement of any taxation penalties that may occur in the event of an early return to the United States.

Notes to the Financial Statements (continued)

26. Executives' remuneration - salaries and other benefits

The specified executives for the Telstra Group for the year ended 30 June 2005 were:

Name	Position
Bruce Akhurst	Chief Executive Officer of Sensis appointed 1 January 2005; previously Group General Counsel and Group Managing Director, Telstra Wholesale, Telstra Broadband and Media until 31 December 2004
Douglas Campbell	Group Managing Director, Telstra Country Wide
David Moffatt	Group Managing Director, Telstra Consumer and Marketing
Ted Pretty	Group Managing Director, Telstra Technology, Innovation and Products
Michael Rocca	Group Managing Director, Infrastructure Services
Bill Scales	Group Managing Director, Regulatory, Corporate and Human Relations, retirement announced effective 12 August 2005
Deena Shiff	Group Managing Director, Telstra Wholesale, appointed 1 January 2005
John Stanhope	Chief Financial Officer and Group Managing Director, Finance and Administration
David Thodey	Group Managing Director, Telstra Business and Government

Specified executives' remuneration for the years ended 30 June 2005 and 30 June 2004 was as follows:

	Primary benefits				Post employment	Equity compensation		Total
	Salary & fees	Short term incentive	Non-monetary	Other	Superannuation	Deferred shares	Long term incentive	
Year ended 30 June 2005	$	$	$	$	$	$	$	$
B Akhurst	**927,664**	**523,600**	**11,893**	**-**	**177,086**	**196,141**	**732,594**	**2,568,978**
D Campbell	**941,394**	**310,600**	**10,149**	**-**	**88,356**	**196,141**	**732,354**	**2,278,994**
D Moffatt	**1,133,165**	**248,300**	**18,781**	**400,000**	**11,585**	**220,968**	**801,183**	**2,833,982**
T Pretty	**1,120,581**	**540,500**	**22,370**	**260,000**	**24,169**	**224,936**	**789,217**	**2,981,773**
M Rocca	**735,791**	**416,600**	**9,817**	**-**	**140,459**	**145,754**	**401,479**	**1,849,900**
B Scales	**681,167**	**428,700**	**9,635**	**-**	**117,583**	**121,946**	**326,788**	**1,685,819**
D Shiff (a)	**277,321**	**295,150**	**1,326**	**-**	**47,680**	**30,641**	**102,562**	**754,680**
J Stanhope	**800,685**	**240,150**	**11,398**	**-**	**99,065**	**105,628**	**365,338**	**1,622,264**
D Thodey	**966,890**	**206,200**	**8,375**	**-**	**52,360**	**176,235**	**560,447**	**1,970,507**
	7,584,658	**3,209,800**	**103,744**	**660,000**	**758,343**	**1,418,390**	**4,811,962**	**18,546,897**
Year ended 30 June 2004								
B Akhurst	757,632	299,700	12,380	-	129,368	178,454	640,027	2,017,561
D Campbell	801,559	263,800	9,257	-	85,441	178,454	663,649	2,002,160
D Moffatt	980,248	267,600	18,311	400,000	11,002	201,290	659,572	2,538,023
T Pretty	963,700	247,600	22,453	240,000	36,300	205,258	692,897	2,408,208
M Rocca	603,770	270,800	4,847	-	71,230	131,998	311,457	1,394,102
B Scales	479,907	234,200	1,969	-	91,968	110,129	226,002	1,144,175
J Stanhope (b)	546,820	250,000	2,733	-	56,120	92,854	275,829	1,224,356
D Thodey	738,731	327,600	3,249	-	67,020	160,049	433,249	1,729,898
	5,872,367	2,161,300	75,199	640,000	548,449	1,258,486	3,902,682	14,458,483

Notes to the Financial Statements (continued)

26. Executives' remuneration - salaries and other benefits (continued)

(a) Appointed to the position of Group Managing Director, Telstra Wholesale on 1 January 2005, Ms Shiff was not considered to be a specified executive prior to that date. As a result, the disclosed remuneration includes only remuneration from the date of appointment and no comparative information is disclosed in relation to fiscal 2004.

(b) Appointed Chief Financial Officer and Group Managing Director, Finance and Administration on 1 October 2003, Mr Stanhope was not considered to be a specified executive prior to that date. As a result, the disclosed remuneration includes only remuneration from that date in our fiscal 2004 disclosures.

Details of the components of our executives' remuneration

Total remuneration

The Telstra Entity has a Remuneration Committee, which is a committee of Board members responsible for reviewing and recommending to the Board the remuneration arrangements for the chief executive officer (CEO) and certain senior executives, which includes the specified executives above. The committee compares both the structure of the remuneration package and the overall quantum on a periodic basis by comparison to other major corporations in Australia. It also has regard to a range of macro economic indicators used to determine the likely movements in broad salary rates. Where appropriate, the committee seeks advice from an independent specialised remuneration consultant to ensure that payments are in line with general market practice and are competitively placed to attract and retain the necessary talent for the critical work required by these roles.

The committee has adopted a set of principles used to guide decisions related to the remuneration of the CEO and specified executives which are designed to link the level of remuneration with the financial and operational performance of the Company. The arrangements must:

- reflect the size and scope of the role and be market competitive in order to attract and retain talent;
- be linked to the financial and operational performance of the Company;
- be aligned with the achievement of the Company's long-term business objectives; and
- be differentiated based on individual performance.

Prior to fiscal 2005, Telstra provided part of the senior executives' and CEO's remuneration in the form of rights to shares that would vest upon the completion of certain employment conditions. These were known as deferred shares. The deferred share program was discontinued in fiscal 2005 and the portion of remuneration was reallocated between salary and short term incentive.

Salary and fees

The level of salary and fees is assessed, together with superannuation, in accordance with the above principles. This component of remuneration is guaranteed and is generally reviewed annually as part of the Company wide remuneration review.

Short term incentive

The short term incentive (STI) rewards the CEO and specified executives for meeting or exceeding specific key annual business and individual performance measures. Measures and targeted achievement levels are reviewed each year to reflect changes in the business priorities for the forthcoming year.

The measures include financial, customer service and retention, employee opinion and individual measures that support our key business objectives. The key company financial measures are linked to earnings and revenue growth and, in the case of the CEO, underlying EBITDA margin. There are also financial measures specific to business unit performance. Before any incentive is payable, a threshold level of performance against each of these measures must be reached. The plan also provides that payments are capped at a specified level.

In fiscal 2004, the STI was delivered in cash. In fiscal 2005, half of the STI will be delivered in cash and the other half delivered as rights to Telstra shares, called 'incentive shares'. The incentive shares will vest equally over a period of three years on the anniversary of their allocation date, subject to the executives' continued employment with any entity that forms part of the Telstra Group. The first third will vest in August 2006. Incentive shares will be administered through the Telstra Growthshare Trust. Refer to note 19 for further details. This applies to all specified executives except for Mr Scales and Dr Switkowski. They will receive their STI in cash as they will cease employment with the Company prior to the allocation of the equity component.

The cash portion of the fiscal 2005 STI is included in primary benefits and the incentive shares component will be included in equity compensation each year as the incentive shares vest.

Non monetary benefits

Executives are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time we also make products and services available without charge to allow executives to familiarise themselves with them and other recent technological developments. To the extent we consider that this provides a personal benefit to the executive, it is included in Primary benefits in the remuneration table above.

Notes to the Financial Statements (continued)

26. Executives' remuneration - salaries and other benefits (continued)

Other primary benefits

Relates to annual contract payments made to certain executives for continued service with Telstra or as part of their employment contract. These payments were determined at the executives' initial entry into their contract for employment with the Company.

Superannuation

Executives receive mandatory superannuation contributions as part of their annual remuneration. Executives may state a preference to increase the proportion of their salary taken as superannuation, subject to normal legislative requirements.

Equity compensation

On an annual basis, we invite selected senior executives who contribute significantly to sustained improvement in shareholder value to participate in an equity based long term incentive (LTI) plan, as administered through the Telstra Growthshare Trust. LTI equity instruments issued through the trust can only be exercised to obtain normal ordinary shares between certain time periods and if specific long term company performance hurdles have been achieved.

For further details of the LTI plan and equity based deferred remuneration plan, including detailed explanations of performance hurdles and allocations, refer to note 19.

To value our equity based compensation we use an option pricing model that takes into account various factors including the exercise price and expected life of the instrument, the current life of the underlying share and its expected volatility, expected dividends, the risk-free interest rate for the expected life of the instrument and the expected average volatility of Telstra's peer group companies to derive a value. Details of the valuations derived since the commencement of the Telstra Growthshare Trust and the assumptions used in deriving those values for fiscal 2005 are detailed in note 19.

Our deferred share program was discontinued in fiscal 2005 and the portion of remuneration was reallocated between salary and STI. As the deferred shares will continue to vest over the relevant performance periods, a portion of the value of the deferred shares will continue to be allocated to the executive's remuneration until all deferred shares have vested or lapsed. This treatment is consistent with our other equity plans which have been discontinued, such as our option plan and restricted share plan.

Individual contracts for services

Where Telstra terminates a senior executives' employment prior to the expiration of their employment contract for reasons other than for misconduct, they are entitled to 6 months notice or payment in lieu of notice and an amount equal to 12 months pay. Both elements are calculated on fixed remuneration at the time of termination. The specified executives are employed under contracts without a fixed duration. During fiscal 2005 it was announced that the CEO, Zygmunt E Switkowski would cease employment 1 July 2005. Refer to note 25 for details of his termination payment.

Notes to the Financial Statements (continued)

27. Related party, directors' and specified executives' disclosures

Ultimate controlling entity

The Commonwealth is the ultimate parent and controlling entity of the Telstra Group. Telstra Corporation Limited is the parent entity in the group comprising the Telstra Entity and its controlled entities.

We supply telecommunications services to, and acquire other services from, the Commonwealth, its Departments of State, trading and other agencies. These transactions are made within normal customer/ supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers. There are no exclusive rights to supply any of these services. Services provided to any one governmental department or agency or the combination of all of these services in total, do not represent a significant component of our operating revenues. For these reasons, the financial reports do not disclose transactions relating to the purchase and sale of goods and services from or to the Commonwealth, its Departments of State, trading and other agencies.

Directors of the Telstra Entity and specified executives of the Telstra Group

Refer to note 25 for details of the names of each person who held office as a director of the Telstra Entity during fiscal 2005 and refer to note 26 for details of the specified executives for the Telstra Group. Refer also to these notes for details of directors' and specified executives' remuneration, superannuation and retirement payments.

Loans to directors and specified executives of the Telstra Entity

No non-executive director of the Telstra Entity had a loan with the Telstra Entity or any of its controlled entities at any time during fiscal 2005 or fiscal 2004.

In previous years, Telstra provided loans to senior executives, including the chief executive officer, as it did for all employees, as part of their participation in the Telstra Employee Share Ownership Plans (TESOP97 and TESOP99). Further details of the share plans and the terms under which these loans were provided are contained in note 19. The loans were provided interest free and on the same terms as all other eligible employees who participated in TESOP97 and TESOP99. There were five specified executives who held loans during the year. Details of the balance of the loans provided to specified executives are as follows:

	Loan amount $
Balance as at 1 July 2004	**30,388**
Amounts repaid during the year	**(3,423)**
Balance as at 30 June 2005	**26,965**

The balance as at 1 July 2004 represents the highest amount of indebtedness of specified executives during the year.

If the loans had not been provided free of interest, the interest charged on an arm's length basis would have been $2,313 for the year ended 30 June 2005.

There were no new loans provided during the fiscal year and there were no loans with a balance greater than $100,000 during the year.

Other transactions with directors and specified executives of the Telstra Entity and their personally related entities

Each of the directors of the Telstra Entity and specified executives of the Telstra Group have telecommunications services transactions with the Telstra Group, which are not significant and are both trivial and domestic in nature. The directors' and specified executives' personally related entities also have telecommunications services with us on normal commercial terms and conditions.

Directors and specified executives are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we also make products and services available to directors and specified executives without charge to enable them to familiarise themselves with our products, services and recent technological developments. To the extent it is considered that this provides a benefit to a director or specified executive, it is included in their remuneration. Details are included in note 25 and note 26.

Notes to the Financial Statements (continued)

27. Related party, directors' and specified executives' disclosures (continued)

Director's interests in shares of the Telstra Entity

As at 30 June 2005 and 30 June 2004, the directors and their personally related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held as at 30 June 2004	Directshare allocation	Shares acquired or disposed of by other means	Total shares held as at 30 June 2005 or at date of leaving office	Shares that are held nominally
	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares
Donald G McGauchie	34,328	7,117	-	**41,445**	41,445
John T Ralph	101,943	3,698	-	**105,641**	104,641
Zygmunt E Switkowski	155,810	-	-	**155,810**	109,010
Sam H Chisholm (i)	-	-	-	**-**	-
Anthony J Clark	89,196	2,523	(8,693)	**83,026**	73,026
John E Fletcher	48,060	4,874	-	**52,934**	52,934
Belinda J Hutchinson	64,948	2,159	-	**67,107**	29,996
Catherine B Livingstone	37,191	2,543	-	**39,734**	29,334
Charles Macek	41,462	2,543	-	**44,005**	44,005
John W Stocker.	101,534	8,123	-	**109,657**	108,857
	674,472	33,580	(8,693)	**699,359**	593,248

(i) As fees were declined by the director, no directshares were allocated during fiscal 2005.

Specified executives' interests in shares of the Telstra Entity

As at 30 June 2005 and 30 June 2004, the specified executives and their personally related entities had interests in the share capital of the Telstra Entity as follows:

	Total shares held as at 30 June 2004	Ownshare allocation	Exercise of options	Shares acquired or disposed of by other means	Total shares held as at 30 June 2005	Shares that are held nominally
	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares	No. of shares
Bruce Akhurst	62,491	-	-	-	**62,491**	54,711
Douglas Campbell.	37,200	-	-	-	**37,200**	27,500
David Moffatt	3,700	-	-	-	**3,700**	3,100
Ted Pretty	2,400	-	-	-	**2,400**	2,400
Michael Rocca	12,000	-	-	-	**12,000**	-
Bill Scales	9,916	-	-	-	**9,916**	1,400
Deena Shiff	14,480	-	-	-	**14,480**	8,800
John Stanhope.	10,940	-	-	-	**10,940**	3,960
David Thodey.	18,262	-	-	-	**18,262**	5,800
	171,389	-	-	-	**171,389**	107,671

Total shareholdings include shares held by the directors, specified executives and their personally related entities. Unless related to TESOP99, TESOP97 or Telstra Growthshare, shares acquired or disposed by directors during the year were on an arm's length basis at market price.

Notes to the Financial Statements (continued)

27. Related party, directors' and specified executives' disclosures (continued)

Controlled entities disclosures

Amounts receivable from and payable to entities in the wholly owned group and other controlled entities are as follows:

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2005	2004	2005	2004
	Note	$m	$m	$m	$m
Total amounts receivable at 30 June from:					
Current					
Wholly owned controlled entities	9	-	-	2,194	1,265
Provision for amounts owed by wholly owned controlled entities (i)	9	-	-	(1,469)	(994)
		-	-	725	271
Non current					
Non wholly owned controlled entities		-	-	7	-
Wholly owned controlled entities		-	-	49	362
Provision for amounts owed by wholly owned controlled entities		-	-	-	(45)
		-	-	56	317
		-	-	781	588
Total amounts payable at 30 June to:					
Current					
Wholly owned controlled entities - payables	15	-	-	5	5
Wholly owned controlled entities - loans	16	-	-	2,400	2,282
		-	-	2,405	2,287

Transactions with our controlled entities

(i) Included in the profit before income tax expense of the Telstra Entity was a charge of $475 million (2004: $709 million) in relation to the provision for amounts owed by a controlled entity. This balance is eliminated on consolidation for Telstra Group reporting purposes (refer note 3 for further information).

(ii) In fiscal 2005, a number of significant purchase and sale transactions occurred between the Telstra Entity and its wholly owned controlled entities as follows:

- The Telstra Entity sold services, purchased goods and communications assets, paid fees and received and paid interest to entities in the wholly owned group during the year. These transactions are in the normal course of business and are on normal commercial terms and conditions.
- Prior to fiscal 2005, our controlled entity, Network Design and Construction Limited (NDC), constructed communication assets on our behalf. During fiscal 2004, we paid for the purchase and maintenance of communication assets from NDC amounting to $79 million (2003: $737 million). During that year, the operations of NDC were purchased by the Telstra Entity and incorporated back into the business of Telstra Corporation Limited. As a result, no trading occurred between the Telstra Entity and NDC during fiscal 2005. Refer to the accompanying notes to our statement of cashflows for details of the balances acquired by the Telstra Entity.
- Included in the revenue of the Telstra Entity is $628 million (2004: $599 million) in royalty fees received from a controlled entity for the use of our Yellow Pages ® and White Pages ® trademarks. Included in our revenue received in advance balance at 30 June 2005 is $240 million (2004: $247 million) for the use of our Yellow Pages ® trademark and $104 million (2004:$92 million) for the use of our White Pages ® trademark.

Notes to the Financial Statements (continued)

27. Related party, directors' and specified executives' disclosures (continued)

Other related entity disclosures

Amounts receivable and payable to other related entities:

	Note	Telstra Group As at 30 June 2005 $m	Telstra Group As at 30 June 2004 $m	Telstra Entity As at 30 June 2005 $m	Telstra Entity As at 30 June 2004 $m
Total amounts receivable at 30 June from:					
Current					
Joint venture entities and associated entities - trade debtors		**16**	25	**12**	16
Joint venture entities and associated entities - loans	9	**32**	-	**-**	-
		48	25	**12**	16
Non current					
Joint venture entities and associated entities - loans	9	**232**	226	**226**	226
Provision for amounts owed by joint venture entites and associated entities	9	**(232)**	(226)	**(226)**	(226)
		-	-	**-**	-
Total amounts payable at 30 June to:					
Current					
Joint venture entities and associated entities - accounts payable		**21**	46	**13**	38
Joint venture entities and associated entities - other	16	**-**	1	**-**	1
		21	47	**13**	39

During fiscal 2005, 2004 and 2003, we had the following transactions between members of the wholly owned group and other related entities:

	Telstra Group Year ended 30 June 2005 $m	Telstra Group Year ended 30 June 2004 $m	Telstra Group Year ended 30 June 2003 $m	Telstra Entity Year ended 30 June 2005 $m	Telstra Entity Year ended 30 June 2004 $m
Transactions between other related entities					
Profit before income tax expense for the year includes the following transactions:					
Sale of goods and services to:					
Joint venture entities and associated entities	**165**	130	232	**97**	111
Purchase of goods and services from:					
Joint venture entities and associated entities	**533**	528	1,113	**277**	334

Notes to the Financial Statements (continued)

27. Related party, directors' and specified executives' disclosures (continued)

Other related entity disclosures (continued)

The Telstra Entity sold services, purchased goods and communications assets, paid fees and received and paid interest to our other related entities during the year. These transactions are in the normal course of business and are on normal commercial terms and conditions unless otherwise noted.

During fiscal 2005, purchases of pay television services were made by the Telstra Group of $218 million (2004:$134 million; 2003:$25 million) from our joint venture entity FOXTEL. The purchases were to enable the resale of FOXTEL services to our existing customers. The purchases of pay television content are made to facilitate the Telstra Group's ongoing product bundling initiatives. These purchases were made on normal commercial terms and conditions.

During fiscal 2005, we established a joint venture partnership with Hutchison 3G Australia Pty Ltd (H3GA) to jointly own and operate H3GA's existing third generation radio access network and fund network development. In establishing the joint venture (known as the 3GIS Partnership), we have agreed to supply the use of our spectrum licences, operating and maintenance services, transmission capacity services and construction services. All the services we provide will be on normal commercial terms and conditions. In fiscal 2005 we have received an insignificant amount for the above transactions.

As at 30 June 2005, we had provided the use of our third generation property, plant and equipment to the partnership. We will receive a fee for the usage of these assets from the joint venture. As at balance date, the amount received was insignificant.

In fiscal 2003, we entered a capacity prepayment agreement with our joint venture entity Reach Ltd (Reach). On 16 April 2005, the capacity prepayment agreement was terminated and we entered into an indefeasible right of use (IRU) pursuant to which we and our co-shareholder, PCCW Limited, were allocated Reach's international cable capacity (refer to note 9 for details). The IRU amounted to $205 million as at 30 June 2005 and is included in deferred expenditure, refer to note 14 for details.

As part of the arrangement, we have committed to fund half of Reach's committed capital expenditure for the period until 2022, up to a value of US$106 million. Since 16 April 2005, Reach has drawn down $14 million from us to fund its capital expenditure commitments.

During fiscal 2005, purchases were made by the Telstra Group of $226 million (2004: $231 million; 2003: $506 million) and Telstra Entity of $192 million (2004: $177 million; 2003: $471 million) from Reach. These amounts were for both the purchase of, and entitlement to, capacity and connectivity services. These purchases were made in line with market prices. Sales were made for international inbound call termination services, construction and consultancy by the Telstra Group of $71 million (2004: $89 million; 2003: $109 million) and Telstra Entity of $62 million (2004: $79 million; 2003: $105 million) to Reach.

Prior to fiscal 2005, we purchased information technology services from our associated entity IBMGSA. During fiscal 2004, the purchases for Telstra Group amounted $73 million (2003: $413 million) and Telstra Entity $71 million (2003: $403 million). These amounts were for information technology services predominately resulting from a contract with IBMGSA. During that year, we sold our investment in IBMGSA and as a result, we have no related party transactions with IBMGSA in fiscal 2005. These purchases were made on normal commercial terms and conditions (refer note 3 for further information).

During fiscal 2005, we paid for operating expenses on behalf of the following entities:

- Telstra Foundation Limited;
- Telstra Community Development Trust;
- Telstra Growthshare Trust;
- Telstra Employee Share Ownership Plan I (TESOP97); and
- Telstra Employee Share Ownership Plan II (TESOP99).

We own 100% of the share capital of Telstra Foundation Limited (TFL). TFL is limited by guarantee (guaranteed to $100) with Telstra Corporation Limited being the sole member (refer note 24 for further details). In respect of the other entities we have no direct ownership interests. These entities are operated by corporate trustees (of which we own 100%) and are run for the benefit of the beneficiaries. The expenses paid on behalf of these entities was not significant.

Loan to the Telstra Growthshare Trust

During fiscal 2000, Telstra created the Telstra Growthshare Trust, (which facilitates the senior executive equity participation plan). The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by us. In prior financial years, we have advanced funds to the trust to enable it to purchase shares in the Telstra Entity.

The loan balance at 30 June 2005 of $45 million (2003: $65 million) was used to acquire Telstra Entity shares over which certain senior executives were granted options. The interest rate applicable to the loan balance at fiscal 2005 is 4.0% (2004: 4.0%). Telstra Growthshare also holds in trust certain shares allocated to senior executives and non-executive directors under the ownshare and directshare schemes (refer note 19 for further information).

Notes to the Financial Statements (continued)

27. Related party, directors' and specified executives' disclosures (continued)

Other related entity disclosures (continued)

Loans to employees

We have two employee shares schemes, being TESOP97 and TESOP99. At the commencement of the scheme, loans were advanced to participating employees to enable the purchase of Telstra shares. Loans under TESOP97 and TESOP99 are provided interest free. During fiscal 2005, $19 million (2004: $24 million) of the loans under TESOP97 and TESOP99 was repaid. At 30 June 2005, the outstanding loan balance for both schemes was $155 million (2004: $174 million). Refer to note 19 for further information.

Directors of controlled entities

Each of our controlled entity directors and their director related entities have telecommunications services transactions with us, which are on normal commercial terms and conditions and are trivial and domestic in nature.

Loans to directors of controlled entities

Certain employees of the Telstra Group who were eligible to participate in TESOP99 and TESOP97 (refer note 19) were also directors of controlled entities. The directors of the controlled entities were provided with an interest free loan to enable the purchase of shares from the Commonwealth on the same terms and conditions as all other employees eligible to participate in TESOP99 and TESOP97. During fiscal 2005, certain employees became directors of controlled entities in the Telstra Group. These directors brought with them existing loans of $35,722.

There were no new loans issued during fiscal 2005. Loan repayments of $21,425 (2004: $15,709) were made during the current fiscal year. For TESOP99 shares, directors that have resigned from the Company, continue to be the beneficial owner of the shares. The balance of the director loans outstanding at 30 June 2005 was $157,186 (2004: $185,277). All controlled entity directors as at year end listed below made loan repayments during fiscal 2005:

R Baxter	H Kelly	D Pitt
H Bradlow	D Kirton	J Price
J Burke	M Lawrey	M Robey
A Cherubin	A Lockwood	C Rowles
T Crossley	P McConnell	L Saly
C Davis	C Nanavati	L Sorbello
A Day	G Nicholson	W Treeby
A Dix	J Paitaridis	M Walker
W Donaldson	N Peckham	P Wallis
L Etienne	P Pickering	K Wijeyewardene
R Howard	B Pilbeam	L Wood
P Jamieson		

There was 1 director (2004:nil) who repaid their TESOP97 loan in full during the year, Andrew Day. There were no directors (2004: nil) who repaid their TESOP99 loans in full.

Telstra shares owned by the Telstra Superannuation Scheme (Telstra Super)

Telstra Super owns shares in Telstra Corporation Limited. We own 100% of the equity of Telstra Super Pty Ltd, the trustee for Telstra Super. As at 30 June 2005, Telstra Super owned 13,280,885 (2004: 15,176,724) shares at a cost of $67 million (2004: $71 million) and a market value of $67 million (2004: $76 million). In fiscal 2005, we paid dividends to Telstra Super of $5 million (2004: $2 million).

In addition, Telstra Super holds bonds issued by Telstra Corporation Limited. As at 30 June 2005, Telstra Super holds bonds with a cost of $13 million (2004: $13 million) and a market value of $12 million (2004: $12 million). All purchases and sales of Telstra shares and bonds by Telstra Super are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

Notes to the Financial Statements (continued)

28. Events after balance date

We are not aware of any matter or circumstance that has occurred since 30 June 2005 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

Dividend declaration

On 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, 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.

Neither the acquisition nor the return of capital have been recognised in our financial statements as at 30 June 2005.

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.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures

We undertake transactions in a range of financial instruments which can be classified as either primary (physical instruments) or secondary instruments (derivative instruments).

Our primary instruments include:

- cash assets;
- receivables;
- payables;
- bank deposits;
- bills of exchange and commercial paper;
- listed investments and investments in other corporations; and
- various forms of borrowings, both receivable and payable.

These primary financial instruments enable us to achieve company objectives through facilitating our ongoing operating activities and ensuring that all entities within the Telstra Group remain solvent at all times.

Secondary instruments, or derivative instruments, create an obligation or right that effectively transfers one or more of the risks associated with an underlying primary financial instrument. We use derivatives to manage our exposure within levels considered acceptable to the group as determined by guidelines and policies approved by our Board. Instruments that we use to achieve this include:

- forward foreign currency contracts;
- cross currency swaps; and
- interest rate swaps.

Primary instruments create underlying exposures for the group. The main risks associated with these instruments include:

- interest rate risk;
- foreign currency risk;
- credit risk; and
- liquidity risk.

Interest rate risk refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Our interest rate risk arises from the interest bearing financial assets and liabilities that we use, whether the primary instrument has a fixed or variable rate attached. We monitor this risk on our net debt portfolio which includes our financial liabilities less matching short term financial assets. We manage interest rate risk by:

- controlling the settings of the group financial position to target levels of fixed and variable interest proportions of the net debt portfolio; and
- ensuring access to diverse sources of funding, minimising risks of refinancing.

We use suitable derivative instruments as part of the management of this risk.

Foreign currency risk refers to the risk that the value of a financial commitment or investment will fluctuate due to changes in foreign currency exchange rates. Our foreign currency risk arises due to:

- firm or anticipated transactions for receipts and payments for international telecommunications traffic settled in foreign currencies;
- purchase commitments priced in foreign currencies;
- investments denominated in foreign currencies; and
- a portion of our borrowings denominated in foreign currencies.

We manage this risk by initially seeking contracts effectively denominated in Australian dollars where possible and economically favourable to do so. Where financial commitments are denominated in foreign currencies and do not form part of a natural hedging position, we manage exposure to rate movements through the use of derivative instruments.

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on all financial assets included in our statement of financial position. To help manage this risk:

- we have a policy for establishing credit limits for the entities we deal with;
- we may require collateral where appropriate; and
- we minimise exposure to individual entities we either transact with or enter into derivative contracts with (through a system of credit limits).

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place; and
- generally use instruments that are tradeable in highly liquid markets.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

After we have minimised the initial potential risk associated with entering into a primary financial instrument, any remaining risk is then hedged through the use of derivative instruments within guidelines approved by our Board. These instruments enable us to minimise our exposure to:

- interest rate risk;
- foreign currency risk; and/or
- other market risk.

After hedging risk through derivatives, the remaining potential for gain or loss is managed. This is due to the gains or losses on the underlying physical transactions being offset by the gains or losses on the related derivative instrument. Hedging activities also enable us to minimise the volatility of our cash flows due to changes in interest rates and foreign currency exchange rates.

We do not speculatively trade in derivative instruments. All our derivative transactions are entered into to hedge the risks relating to underlying physical transactions.

To hedge our interest rate risk, we mainly use interest rate swaps and cross currency swaps. Our interest rate risk is calculated on our net debt portfolio, which includes both physical borrowings such as bonds and commercial paper and associated derivative instruments. We manage our net debt in accordance with set targeted interest rate profiles and debt maturity profiles.

To hedge our foreign currency risk, we predominantly use cross currency swaps and forward foreign currency contracts.

Our currency risk arising from translation of foreign currency borrowings and investments is determined by reference to the underlying primary instrument. In relation to borrowings, we effectively remove the currency risk by fully converting them to Australian dollar borrowings at drawdown by applying cross currency swaps, unless a natural hedge position exists. In relation to investments, we hedge using borrowings in the same currency and with the same interest rate characteristics where appropriate. We also enter into forward foreign currency contracts on anticipated future transactions in order to reduce our risk to a level considered acceptable by the Company.

Foreign currency risk on transactions (i.e. excluding translation risks) is calculated on a net foreign exchange basis for individual currencies. This underlying foreign exchange risk is combined (offset) with the associated foreign exchange derivatives used to hedge these risks generating our net foreign exchange risk.

Foreign currency risk also arises on translation of the financial reports of our non-Australian controlled entities. Our significant non-Australian controlled entities operate independently from us both financially and operationally. As a result, the majority of the foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. Where hedging of this risk is undertaken, we prefer to use foreign currency borrowings to provide a natural hedge position. Where this is not an option, other derivative instruments are used (e.g. forward foreign currency contracts).

We enter into, and hedge transactions in the following significant foreign currencies:

- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Euro;
- Swiss francs;
- Hong Kong dollars; and
- Japanese yen.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Interest rate risk

Our exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 2005 are shown in Table A below. This information includes all financial instruments both recognised and unrecognised in the statement of financial position. The information as at 30 June 2004 is shown in Table B.

Table A — **Telstra Group**

	As at 30 June 2005							
	Weighted average effective interest rate	Interest rate: Floating	Fixed rate due dates: 1 yr. or less	Fixed rate due dates: 2 to 5 yrs.	Fixed rate due dates: over 5 yrs.	Non interest bearing	Total (b)	
	%	$m	$m	$m	$m	$m	$m	Note
Financial assets								
Cash assets (a)	5.20	1,323	-	-	-	217	1,540	8
Trade debtors and accrued revenue	-	-	-	-	-	3,447	3,447	9
Share loan to employees	-	-	-	-	-	155	155	9
Other receivables (a)	4.00	-	-	-	45	166	211	9
Loans to joint venture entities and associated entities (a)	-	-	-	-	-	32	32	9
Cross currency swaps (a)	-	(192)	196	-	-	-	4	9
Total financial assets as at 30 June 2005		1,131	196	-	45	4,017	5,389	
Financial liabilities								
Bank overdraft (a)	6.27	14	-	-	-	-	14	16
Trade creditors and accrued expenditure	-	-	-	-	-	2,222	2,222	15
Other creditors	-	-	-	-	-	281	281	15
Deferred cash settlement for acquisitions	5.65	-	321	107	-	-	428	15
Bills of exchange and commercial paper (a)	5.24	449	-	-	-	-	449	16
Telstra bonds (a)	7.77	-	516	995	1,613	-	3,124	16
Other loans (a)	5.19	188	481	2,453	5,698	-	8,820	16
Cross currency swaps (a)	-	2,514	(327)	(1,390)	78	-	875	16
Finance lease liabilities (a)	12.07	-	7	18	27	-	52	16
Interest rate swaps (a)	-	(2,027)	(290)	122	2,195	-	-	
Total financial liabilities as at 30 June 2005		1,138	708	2,305	9,611	2,503	16,265	
Net financial assets/(liabilities) as at 30 June 2005		(7)	(512)	(2,305)	(9,566)	1,514	(10,876)	

(a) The effective yield (effective interest rate) on our net debt at 30 June 2005 was 7.22%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) Carrying amount as per statement of financial position.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Interest rate risk (continued)

Table B

	Telstra Group As at 30 June 2004							
	Weighted average effective interest rate	Interest rate: Floating	Fixed rate due dates: 1 yr. or less	2 to 5 yrs.	over 5 yrs.	Non interest bearing	Total (c)	
	%	$m	$m	$m	$m	$m	$m	Note
Financial assets								
Cash assets . . . . (a)	4.81	538	-	-	-	149	687	8
Trade debtors and accrued revenue	-	-	-	-	-	3,306	3,306	9
Share loan to employees	-	-	-	-	-	174	174	9
Other receivables . . . . (a)	4.00	-	-	-	65	189	254	9
Loans to joint ventures entities and associated entities . . . . (a)	-	-	-	-	-	-	-	9
Cross currency swaps . . . . (a)	-	(1,789)	342	1,877	(24)	-	406	9
Investments . . . . (b)	-	-	-	-	-	80	80	11
PCCW converting note . . . . (a)	5.00	-	85	-	-	-	85	14
Total financial assets as at 30 June 2004		(1,251)	427	1,877	41	3,898	4,992	
Financial liabilities								
Trade creditors and accrued expenditure. .	-	-	-	-	-	2,119	2,119	15
Other creditors	-	-	-	-	-	268	268	15
Loan from joint venture entity . . . . . . (a)	4.70	-	1	-	-	-	1	16
Bills of exchange and commercial paper . . . . (a)	5.21	869	-	-	-	-	869	16
Telstra bonds . . . . (a)	8.44	-	273	1,011	1,125	-	2,409	16
Other loans . . . . (a)	5.90	-	2,096	2,482	3,976	-	8,554	16
Cross currency swaps . . . . (a)	-	589	-	(151)	(28)	-	410	16
Finance lease liabilities. . . . . (a)	6.47	-	7	9	1	-	17	16
Interest rate swaps . . . . (a)	-	(1,039)	574	(1,045)	1,510	-	-	
Total financial liabilities as at 30 June 2004		419	2,951	2,306	6,584	2,387	14,647	
Net financial assets/(liabilities) as at 30 June 2004		(1,670)	(2,524)	(429)	(6,543)	1,511	(9,655)	

(a) The effective yield (effective interest rate) on our net debt at 30 June 2004 was 7.74%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) This excludes investments in joint venture entities and associated entities.

(c) Carrying amount as per statement of financial position.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Credit risk

Credit risk associated with the statement of financial position

The recorded amounts of financial assets included in the consolidated statement of financial position, net of any applicable provisions for loss, represent our maximum exposure due to credit risk for these assets. Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis. Accordingly, our maximum credit risk exposure amounts to $5,389 million (2004: $4,992 million).

We do not have any other significant operating exposure to any individual contracting entity.

Overall credit risk

The major concentrations of credit risk for the group arise from our transactions in money market instruments, forward foreign currency contracts, cross currency and interest rate swaps. One of the methods that we use to manage the risk relating to these instruments is to monitor our exposure by country of jurisdiction. When reviewing concentrations of risk, we adjust for the period to maturity of relevant instruments in our portfolio to accurately consider our exposure at a point in time. On this basis, our credit risk exposure (which includes a time based volatility allowance (VAR)) by country of jurisdiction is included in Table C below.

Table C	Telstra Group			
	Credit risk concentrations (VAR based) As at 30 June			
	2005		2004	
	%	$m	%	$m
Australia	**35**	**2,258**	27	1,811
United States	**32**	**2,078**	53	3,663
Japan	**1**	**64**	-	17
Europe	**16**	**1,065**	11	770
United Kingdom	**4**	**278**	4	257
Canada	**3**	**178**	2	152
Switzerland	**7**	**441**	2	134
Other	**2**	**126**	1	63
	100	**6,488**	100	6,867

In addition to the credit risk on our primary financial instruments, we also have exposure on our derivative instruments. The values shown in Table D include all transactions where the net fair value is favourable. For credit purposes, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout. The amounts disclosed in Table D are different from those shown in the net fair value amounts in Tables G and H as these show the net fair value after netting favourable against unfavourable transactions. Table D only shows the favourable transactions.

Table D	Telstra Group	
	Net fair value As at 30 June	
	2005 $m	2004 $m
Interest rate swaps	**560**	348
Cross currency swaps	**50**	526
Forward foreign currency contracts	**4**	24
	614	898

Net fair value of our financial assets and financial liabilities

Apart from those items referred to below, our financial assets and financial liabilities recorded in the statement of financial position approximate net fair value.

Table E	Telstra Group			
	Carrying amount As at 30 June		Net fair value As at 30 June	
	2005 $m	2004 $m	2005 $m	2004 $m
Not readily traded				
Financial assets				
Employee share ownership plan loans (a)	**155**	174	**135**	150
Converting note issued by PCCW	**-**	85	**-**	85
Traded on organised markets				
Financial assets				
Listed investments	**-**	15	**-**	71
Financial liabilities				
Telstra bonds (b)	**3,176**	2,457	**3,361**	2,621
Other loans (b)	**8,949**	8,647	**9,636**	9,159
	12,125	11,104	**12,997**	11,780

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Net fair value of our financial assets and financial liabilities (continued)

(a) Share loans to employees represent amounts receivable from employees under the Telstra Employee Share Ownership Plan (TESOP97) and the Telstra Employee Share Ownership Plan II (TESOP99). Refer to note 19 for details regarding the share plans. The loan balance has not been written down to net fair value as the loan is considered fully recoverable over the period of the employee share schemes. The net fair value is determined separately for TESOP97 and TESOP99 as the lesser of the employee share loan balance and the market value of the shares held for the purpose of facilitating the operations of the relevant share plans by TESOP97 and TESOP99.

(b) The carrying amount represents the net principal which is recorded in interest bearing liabilities and accrued interest which is recorded in current payables.

Unless there is evidence to suggest otherwise, financial assets and financial liabilities with a short term to maturity are considered to approximate net fair value. This includes items such as bank deposits, trade debtors, payables, bills of exchange and commercial paper.

The net fair values of other financial assets and financial liabilities (apart from our listed investments) are determined through reference to discounted cash flows, current risk adjusted market interest rates and any rights specific to each instrument or group of instruments. The net fair values of our listed investments are determined by reference to prices quoted on the relevant stock exchanges where the securities are traded. Net fair values of interest rate swaps, cross currency swaps and forward foreign currency contracts are calculated at prices based on amounts quoted on Reuters to close out existing contracts (both favourable and unfavourable).

The net fair value of our derivative instruments is included in the following discussion on derivatives.

Additional information about our derivative instruments

As indicated, we enter into contracts for derivative instruments to hedge risks relating to underlying transactions. The following information provides further details on terms and conditions relating to those derivative instruments. To appropriately assess our exposure to risk, these secondary instruments should be viewed in the context of the underlying transactions and balances being hedged. As a result, net market values and other data should not be assessed on their own.

Our major exposure to interest rate risk and foreign currency risk arises from our loans and borrowings. It is our policy to hedge the interest rate exposure on our debt portfolio to adjust the ratio of fixed interest debt to variable interest debt, as required by our debt management policy.

We also hedge currency exposure on our foreign currency loans and borrowings remaining after considering any natural hedging positions. We mainly use cross currency swaps, interest rate swaps, and forward foreign currency contracts to achieve this position.

The terms and conditions in relation to interest rate and maturity of the cross currency swaps are similar to the terms and conditions of the underlying hedged borrowings in note 16.

The due dates of interest rate swaps match the due dates of the underlying debt within the requirements of our debt management policy. Net interest receipts and payments are recognised as an adjustment to borrowing costs.

At 30 June 2005 and 30 June 2004, the Australian dollar interest rates applicable to our derivatives varied as shown in Table F below.

Table F	Telstra Group	
	Interest rate variations	
	As at 30 June	
Cross currency swaps	**2005**	2004
Fixed	**from 6.25% to 7.05%**	7.05%
Variable	**from 5.61% to 7.12%**	from 5.45% to 6.94%
Interest rate swaps		
Fixed	**from 5.34% to 8.24%**	from 5.27% to 10.14%
Variable	**from 5.66% to 6.12%**	from 5.48% to 5.94%

The notional principal amounts of interest rate swaps represent the face values of swap contracts entered into by us that are outstanding at balance date. The notional principal amounts do not represent amounts exchanged or to be exchanged by the parties to the contract. They are not a true reflection of the credit risk and are therefore not recorded in the statement of financial position.

The maturity dates, net notional principal amounts, net fair value and carrying amounts of our outstanding interest rate swaps at balance date are shown in Table G following.

The gross notional principal amounts of our interest rate swaps are $10,843 million (2004: $12,884 million). The gross notional principal amounts of interest rate swaps is significantly larger than the net notional principal amounts shown. This is due to the net notional principal amount taking into account our offsetting positions. Gross positions have also been modified over time as volumes and positions have changed.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Additional information about our derivative instruments (continued)

Table G

	Telstra Group					
	Net notional principal amount (a)		Net fair value (b)		Carrying amount (c)	
	As at 30 June					
	2005 $m	2004 $m	**2005 $m**	2004 $m	**2005 $m**	2004 $m
Interest rate swaps with floating interest rates						
- Less than one year receivable/(payable)	**290**	(574)	**(2)**	39	**(1)**	-
- One to five years receivable/(payable)	**(122)**	1,045	**(30)**	(74)	**(3)**	(5)
- Greater than five years receivable/(payable)	**(2,195)**	(1,510)	**411**	227	**45**	30
	(2,027)	(1,039)	**379**	192	**41**	25

(a) At 30 June 2005 and 30 June 2004, we had a net interest rate swap position of pay variable. This means that on a net basis we pay interest on the interest rate swap at variable rates and receive interest on the interest rate swaps at fixed rates. As a result our exposure to movements in interest rates is managed.

(b) The net fair value represents the market value of both the fixed and floating components of our interest rate swaps and includes the costs that would be incurred to exchange at settlement.

(c) The carrying amount represents the accrued interest payable on interest rate swaps which is included in current payables.

The maturity profile, notional principal amounts, net fair values and carrying amounts of our outstanding cross currency swaps at balance date are shown in Table H below.

Table H

	Telstra Group					
	Notional principal amount (a)		Net fair value (b)		Carrying amount (c)	
	As at 30 June					
	2005 $m	2004 $m	**2005 $m**	2004 $m	**2005 $m**	2004 $m
Cross currency swaps						
- Less than one year	**530**	1,927	**16**	171	**10**	167
- One to five years	**2,463**	2,212	**(97)**	161	**(175)**	54
- Greater than five years	**6,266**	4,172	**(783)**	(253)	**(706)**	(212)
	9,259	8,311	**(864)**	79	**(871)**	9

(a) The notional principal amount represents the face value of the payable leg of our swaps we have entered into, denominated in Australian dollars.

(b) The net fair value represents the market value of our outstanding cross currency swaps and includes the costs that would be incurred to exchange at settlement.

(c) The carrying amount represents the revalued component of our net principal which is recorded in interest bearing liabilities, current receivables and non current receivables and accrued interest which is recorded in current receivables.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Additional information about our derivative instruments (continued)

We also have exposure to foreign currency risk through our ongoing business activities where we have purchase or settlement commitments in foreign currencies. This includes equipment and material purchases or other currency conversion exposures on ongoing receivables and payables, excluding loan and borrowing balances. In addition, we have exposure to foreign currency risk as a result of our investments in offshore activities, including our investments in TelstraClear Limited and Hong Kong CSL Limited. This risk is created by the translation of the net assets of these entities from their operating currency to Australian dollars. Our exposures before and after hedging are detailed in Table I below:

Table I

	Telstra Group			
	Exposure before hedging		Exposure after hedging	
	As at 30 June		As at 30 June	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
Net anticipated future transactions (amounts payable)	**(105)**	(176)	**(56)**	(82)
Net transaction exposure (on amounts payable recorded in the statement of financial position)	**(65)**	(40)	**(51)**	(23)
Translation exposure (offshore investments)	**2,154**	2,301	**1,074**	763
	1,984	2,085	**967**	658
The maturity dates of the anticipated future transactions are as follows:				
Less than one year	**(105)**	(176)		

Our hedging policy provides effective hedging for all our foreign currency exchange exposures within levels considered acceptable to the Company.

Details of forward foreign currency contracts we have entered into to hedge our trading activities are combined with forward foreign currency contracts entered into to hedge our loans and borrowings in Table J below. Details include net Australian dollar amounts receivable/(payable), settlement dates and average contractual forward exchange rates.

Table J

	Telstra Group	
	As at 30 June	
	2005	2004
	$m	$m
United States (US) dollars		
- less than three months, at rates averaging US$0.7607 (2004: US$0.6951)	**43**	(388)
- 3 to 12 months, at rates averaging US$0.7329 (2004: US$0.7369)	**32**	105
- 12 to 18 months, at rates averaging US$0.5938 (2004: US$0.6046)	**4**	8
- over 18 months, at rates averaging US$0.5936 (2004: US$0.6135)	**3**	19
	82	(256)

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Additional information about our derivative instruments (continued)

Table J (continued)	**Telstra Group**	
	As at 30 June	
	2005	2004
	$m	$m
British pounds sterling		
- less than three months, at rates averaging British pounds sterling 0.4150 (2004: British pounds sterling nil)	**1**	-
-3 to 12 months, at rates averaging British pounds sterling nil (2004: British pounds sterling 0.4181)	**-**	7
	1	7
New Zealand (NZ) dollars		
- less than three months, at rates averaging NZ$1.0678 (2004: NZ$1.1679)	**70**	(130)
Hong Kong (HK) dollars		
- less than three months, at rates averaging HK$6.0099 (2004: HK$4.8184)	**(10)**	(126)
Our offshore controlled entities have also entered into the following Australian dollar forward foreign currency contracts:		
- less than three months, at rates averaging Australian $nil (2004: Australian dollars $0.8905)	**-**	2
- 3 to 12 months, at rates averaging Australian $nil (2004: Australian dollars $0.8748)	**-**	4
	-	6

The net fair value of forward foreign currency contracts at 30 June 2005 is a $5 million loss (2004: $1 million gain).

For interest rate swaps, cross currency swaps and forward foreign currency contracts where the carrying amount is in excess of net fair value at balance date, no reduction to net fair value is made since these derivatives act as hedges of underlying physical transactions.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures

Reconciliations to financial reports prepared using USGAAP

Our consolidated financial report is prepared in accordance with accounting principles generally accepted in Australia (AGAAP). AGAAP has significant differences from the accounting principles generally accepted in the United States (USGAAP). The significant differences between AGAAP and USGAAP are presented throughout note 30. Additionally, where there is no conflict with AGAAP requirements we have incorporated some of the additional USGAAP requirements throughout the AGAAP financial statements.

		Telstra Group			
		Year ended 30 June			
		2005	**2005**	2004	2003
	Note	**$m**	**US$m**	$m	$m
Reconciliation of net income to USGAAP					
AGAAP net income reported in statement of financial performance		**4,447**	**3,388**	4,118	3,429
Adjustments required to agree with USGAAP					
Property, plant and equipment	30(a)	**(75)**	**(57)**	(86)	(323)
Retirement benefit (expense)/gain	30(f)	**(175)**	**(133)**	(3,965)	130
Income tax (expense)/benefit	30(i)	**(62)**	**(47)**	1,228	164
Employee compensation expense	30(j)	**2**	**2**	-	-
Derivative financial instruments and hedging activities	30(l)	**(96)**	**(73)**	264	(420)
PCCW converting note	30(l)	**(10)**	**(8)**	(2)	12
Equity accounting and write down adjustments for Reach Ltd (Reach)	30(n)	**(8)**	**(6)**	(264)	665
Fair value / general reserve adjustments	30(p)	**5**	**4**	(35)	9
Goodwill and other intangible asset adjustments	30(q)	**146**	**111**	122	(216)
Consolidation of variable interest entities	30(r)	**(2)**	**(2)**	1	-
Net income per USGAAP		**4,172**	**3,179**	1,381	3,450
Statement of financial performance measured and classified per USGAAP					
Operating revenue (i)		**22,167**	**16,887**	20,737	20,495
Operating expenses:					
Labour (viii)		**3,866**	**2,944**	7,183	3,074
Goods and services purchased (v)		**3,442**	**2,622**	2,924	3,236
Depreciation and amortisation		**3,712**	**2,828**	3,609	3,532
Other operating expenses		**4,560**	**3,474**	4,756	4,337
Total operating expenses		**15,580**	**11,868**	18,472	14,179
Operating income		**6,587**	**5,019**	2,265	6,316
Net interest expense (ii)		**(760)**	**(580)**	(715)	(823)
Dividend income	2	**-**	**-**	1	1
Share of net losses of joint venture entities and associated entities		**(7)**	**(5)**	(253)	(114)
Other income/(expense) (iii)		**232**	**177**	671	(297)
Net income before income tax expense and minority interests		**6,052**	**4,611**	1,969	5,083
Income tax expense	30(i)	**1,880**	**1,432**	593	1,359
Net income before minority interests and cumulative effect adjustments		**4,172**	**3,179**	1,376	3,724
Minority interests		**-**	**-**	1	35
Net income before cumulative effect adjustments		**4,172**	**3,179**	1,377	3,759
Cumulative effect of changes in accounting principles, net of tax	30(r),30(q)	**-**	**-**	4	(309)
Net income per USGAAP		**4,172**	**3,179**	1,381	3,450

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group			
		Year ended 30 June			
		2005	**2005**	2004	2003
	Note	**$m**	**US$m**	$m	$m
Reconciliation of certain statement of financial performance components					
In order to present the statement of financial performance according to USGAAP, the following components have been reconciled from AGAAP to USGAAP:					
Revenue from ordinary activities per AGAAP	2	**22,657**	**17,260**	21,280	21,616
Revenue for services provided to 3GIS Partnership		**6**	**5**	-	-
Dividend income	2	**-**	**-**	(1)	(1)
Revenue from the sale of non current assets	2	**(226)**	**(172)**	(330)	(859)
Other revenue per AGAAP (iv)		**(270)**	**(206)**	(212)	(261)
(i) Operating revenue per USGAAP		**22,167**	**16,887**	20,737	20,495
Net borrowing costs per AGAAP		**(736)**	**(561)**	(712)	(795)
Additional derivative financial instruments and hedging expenses		**-**	**-**	-	(15)
Interest income on Reach capacity prepayment		**(18)**	**(14)**	4	2
PCCW converting note interest revenue reversal		**(4)**	**(3)**	(4)	(15)
Elimination of interest income from employee share plan trusts		**(2)**	**(2)**	(3)	-
(ii) Net interest expense per USGAAP		**(760)**	**(580)**	(715)	(823)
(iv) Other revenue per AGAAP		**270**	**206**	212	261
AGAAP Net profit/(loss) on sale of:					
- property, plant and equipment	3(a)	**8**	**6**	40	173
- investments in controlled entities	3(a)	**-**	**-**	-	5
- investments in joint venture entities	3(a)	**16**	**12**	-	3
- investments in associated entities	3(a)	**-**	**-**	170	9
- investments in listed entities and other corporations	3(a)	**67**	**51**	8	(2)
- businesses	3(a)	**-**	**-**	-	10
- sale of PCCW converting note	3(a)	**(4)**	**(3)**	-	-
Reversal of revenue on sale of PCCW converting note		**(76)**	**(58)**	-	-
USGAAP net profit/(loss) on sale of non current assets		**4**	**3**	(26)	48
USGAAP write down of Reach investment	30(n)	**-**	**-**	-	(203)
USGAAP impairment of CSL goodwill	30(q)	**-**	**-**	-	(85)
USGAAP reversal of gain on sale/leaseback and subsequent amortisation	30(a)	**18**	**14**	18	(162)
Derivative financial instruments and hedging activities		**(95)**	**(72)**	265	(404)
PCCW converting note		**(6)**	**(5)**	2	27
Net foreign currency translation gains/(losses)		**30**	**23**	(18)	23
(iii) Other income/(expense) per USGAAP		**232**	**177**	671	(297)

(v) Cost of sales includes both direct and indirect costs involved in the sale of the Company's goods and services. For a service company this would commonly include depreciation and other indirect costs associated with the provision of services. However, we do not report our costs according to this description and classify all of our expenses according to the nature of the expense, referred to as "goods and services purchased" in relation to the sale of goods and services.

Goods and services purchased mainly comprises:
- Network service capacity from external communication service providers;
- Mobile handsets sold to customers;
- Cost of goods sold (other than mobile handsets); and
- Directory paper costs.

Goods and services purchased does not equate to cost of sales due to the non inclusion of depreciation and other indirect costs associated with the provision of our telecommunications services.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group			
		Year ended 30 June			
	Note	2005 $m	2005 US$m	2004 $m	2003 $m
USGAAP Earnings per share					
Net income per USGAAP		**4,172**	**3,179**	1,381	3,450
		¢	US¢	¢	¢
Basic earnings per share before cumulative effect of change in accounting principles		**33.6**	**25.6**	10.9	29.4
Cumulative effect of change in accounting principles (net of tax):					
Transition impairment of CSL goodwill	30(q)	**-**	**-**	-	(2.4)
Basic earnings per share per USGAAP (cents) (viii)		**33.6**	**25.6**	10.9	27.0
Dilutive earnings per share before cumulative effect of change in accounting principles		**33.5**	**25.5**	10.9	29.3
Cumulative effect of change in accounting principles (net of tax):					
Transition impairment of CSL goodwill	30(q)	**-**	**-**	-	(2.4)
Diluted earnings per share per USGAAP (cents) (viii)		**33.5**	**25.5**	10.9	26.9
		Number (in millions)			
Weighted average number of ordinary shares and common share equivalents used for basic earnings per share calculations (vi)		**12,431**	**12,431**	12,636	12,793
Effect of dilutive employee share options (vii)		**37**	**37**	38	36
Weighted average number of potential ordinary shares and common share equivalents used for diluted earnings per share calculations		**12,468**	**12,468**	12,674	12,829

(vi) Reconciliation of weighted average number of ordinary shares and common share equivalents used for basic earnings per share calculations		Number (in millions)			
Number of shares used for AGAAP earnings per share calculations	6	**12,513**	**12,513**	12,723	12,867
Adjusted for:					
- weighted average TESOP97 and TESOP99 options outstanding during the year	30(j)	**(62)**	**(62)**	(66)	(74)
- stock held by employee share plan trusts	30(r)	**(20)**	**(20)**	(21)	-
Number of shares used for USGAAP basic earnings per share calculations		**12,431**	**12,431**	12,636	12,793

(vii) In fiscal 2005 and 2004, only the TESOP97 options and the deferred share options are dilutive to dilutive earnings per share per USGAAP. In fiscal 2003, only the TESOP97 options were dilutive to dilutive earnings per share per USGAAP. Refer to note 30(j) for further information regarding the impact of the options, restricted share options, performance right options and TESOP99 options on the earnings per share calculation.

(viii) Labour expense in fiscal 2004 includes the additional expense recognised on the settlement of the CSS defined benefit fund ($3,870 million). This has impacted net income per USGAAP and the calculation of basic and diluted earnings per share per USGAAP. Refer to note 30(f) for further information.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

	Note	Telstra Group As at 30 June 2005 $m	2005 US$m	2004 $m	2003 $m
Reconciliation of shareholders' equity to USGAAP					
AGAAP shareholders' equity per statement of financial position		**14,881**	**11,336**	15,361	15,422
Cumulative adjustments required to agree with USGAAP					
Property, plant and equipment	30(a)	**(65)**	**(49)**	10	96
Listed investments (available-for-sale securities)	30(b)	**-**	**-**	56	57
Minority interests	30(d)	**(2)**	**(2)**	(2)	(2)
Retirement benefits	30(f)	**78**	**59**	253	4,217
Income tax	30(i)	**110**	**83**	144	(1,031)
Employee share loans	30(j)	**(155)**	**(118)**	(174)	(198)
Derivative financial instruments and hedging activities	30(l)	**(370)**	**(282)**	(274)	(538)
PCCW converting note (available-for-sale security)	30(l)	**-**	**-**	-	2
Sale of Global Wholesale Business to Reach Ltd (Reach) - fiscal 2001	30(m)	**(882)**	**(672)**	(882)	(882)
Equity accounting and write down adjustments for Reach Ltd (Reach)	30(n)	**576**	**439**	584	696
Consolidation adjustment for Telstra CSL Limited (CSL)	30(o)	**936**	**714**	936	936
Fair value / general reserve adjustments	30(p)	**(54)**	**(41)**	(54)	(54)
Goodwill and other intangible asset adjustments	30(q)	**(649)**	**(494)**	(605)	(696)
Consolidation of variable interest entities	30(r)	**(37)**	**(28)**	(62)	-
Shareholders' equity per USGAAP		**14,367**	**10,945**	15,291	18,025
Statement of financial position measured and classified per USGAAP					
Current assets					
Cash		**1,548**	**1,179**	690	1,300
Accounts receivable, net		**3,515**	**2,678**	3,336	3,561
Inventories	10	**232**	**177**	229	260
Deferred tax asset	30(i)	**294**	**224**	200	166
Other assets		**796**	**606**	718	578
Total current assets		**6,385**	**4,864**	5,173	5,865
Non current assets					
Receivables		**64**	**49**	80	259
Derivative financial instruments		**369**	**281**	664	694
Inventories	10	**15**	**11**	10	14
Investments - accounted for using the equity method		**55**	**42**	44	161
Investments - other non current		**-**	**-**	221	238
Property, plant and equipment		**48,428**	**36,892**	46,184	44,635
Accumulated depreciation of property, plant and equipment		**(25,037)**	**(19,073)**	(23,160)	(21,356)
Goodwill, net		**2,628**	**2,002**	2,273	2,112
Other intangible assets, net		**1,589**	**1,211**	1,512	1,146
Prepaid pension assets	30(f)	**78**	**59**	253	4,217
Other assets		**2,392**	**1,822**	2,326	2,437
Total non current assets		**30,581**	**23,296**	30,407	34,557
Total assets		**36,966**	**28,160**	35,580	40,422

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group			
		As at 30 June			
	Note	2005 $m	2005 US$m	2004 $m	2003 $m
Statement of financial position measured and classified per USGAAP (continued)					
Current liabilities					
Payables		**2,765**	**2,106**	2,338	2,525
Borrowings - short term debt		**463**	**353**	870	644
Borrowings - long term debt due within one year		**1,061**	**808**	2,376	679
Income tax payable		**534**	**407**	539	660
Provisions	17	**389**	**296**	358	353
Revenue received in advance		**1,150**	**876**	1,113	991
Total current liabilities		**6,362**	**4,846**	7,594	5,852
Non current liabilities					
Payables		**122**	**93**	35	13
Derivative financial instruments		**859**	**654**	390	549
Borrowings - long term debt		**11,641**	**8,868**	9,095	11,580
Deferred tax liability	30(i)	**2,281**	**1,737**	1,861	3,011
Provisions	17	**836**	**637**	778	814
Revenue received in advance		**496**	**378**	534	576
Total non current liabilities		**16,235**	**12,367**	12,693	16,543
Total liabilities		**22,597**	**17,213**	20,287	22,395
Minority interests		**2**	**2**	2	2
Net assets		**14,367**	**10,945**	15,291	18,025
Shareholders' equity					
Contributed equity - 12,443,074,357 shares issued at 30 June 2005 (2004: 12,628,359,026 shares, 2003: 12,866,600,200 shares) (ix)	18	**5,793**	**4,413**	6,073	6,433
Share loan to employees - 60,378,525 shares at 30 June 2005 (2004: 62,949,000 shares, 2003: 69,160,725 shares)	30(j)	**(155)**	**(118)**	(174)	(198)
Stock held by employee share plan trusts - 20,216,091 shares at 30 June 2005 (2004: 20,956,641 shares)	30(r)	**(113)**	**(86)**	(117)	-
Additional paid in capital from employee share plans	30(j)	**396**	**302**	382	333
Total share capital		**5,921**	**4,511**	6,164	6,568
Accumulated other comprehensive loss (x)		**(689)**	**(525)**	(435)	(554)
Retained earnings		**9,135**	**6,959**	9,562	12,011
Total shareholders' equity		**14,367**	**10,945**	15,291	18,025

(ix) Number of shares issued includes shares issued to employees under share loans and shares held by employee share plan trusts. Net balance of shares issued and outstanding at 30 June 2005 is 12,362,479,741 shares (2004: 12,544,453,385 shares; 2003: 12,797,439,475 shares).

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

(x) Accumulated other comprehensive loss

Accumulated other comprehensive loss, net of related tax, for USGAAP consists of the following components:

	Telstra Group		
	As at 30 June		
	2005	2004	2003
	$m	$m	$m
Foreign currency translation reserve	**(710)**	(475)	(644)
(tax effect)	**34**	21	72
	(676)	(454)	(572)
Derivative financial instruments	**(19)**	(19)	(22)
(tax effect)	**6**	6	7
	(13)	(13)	(15)
Unrealised gain on available-for-sale securities	**-**	46	47
(tax effect)	**-**	(14)	(14)
	-	32	33
Accumulated other comprehensive loss (net of tax)	**(689)**	(435)	(554)

Other comprehensive (loss)/income disclosure

Other comprehensive (loss)/income is calculated by totalling movements in shareholders' equity that are not related to contributions from owners or payments to owners.

	Telstra Group		
	Year ended 30 June		
	2005	2004	2003
	$m	$m	$m
Foreign currency translation reserve, after tax of $13 million increase (2004: $51 million decrease, 2003: $55 million increase)	**(222)**	118	(491)
Derivative financial instruments after tax of $nil (2004: $1 million decrease, 2003: $2 million decrease)	**-**	2	3
Unrealised (loss)/gain on available-for-sale securities, after tax of $4 million decrease (2004: $2 million decrease, 2003: $22 million increase)	**(7)**	4	(50)
Realised (gain)/loss on sale of available-for-sale securities transferred to net income, after tax of $10 million decrease (2004: $2 million increase, 2003: $5 million decrease)	**(25)**	(5)	11
USGAAP other comprehensive (loss)/income	**(254)**	119	(527)

The reclassification out of accumulated other comprehensive (loss)/income to net income was determined on the basis of specific identification.

In fiscal 2005, the proceeds from sales of available-for-sale equity securities were $141 million (2004: $24 million, 2003: $7 million).

The gain recorded as part of other comprehensive income/(loss) in relation to derivative and nonderivative instruments that have been designated as hedges of the foreign currency exposure of our net investments in foreign operations for fiscal 2005 is $31 million (2004: $24 million loss; 2003: $11 million gain).

Total comprehensive income disclosure

Total comprehensive income is calculated by adding net income and other comprehensive income.

	Telstra Group		
	Year ended 30 June		
	2005	2004	2003
	$m	$m	$m
Net income per USGAAP	**4,172**	1,381	3,450
USGAAP other comprehensive (loss)/income	**(254)**	119	(527)
USGAAP total comprehensive income	**3,918**	1,500	2,923

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP

30(a) Property, plant and equipment

Revaluations

Prior to 1 July 2000, AGAAP allowed property, plant and equipment to be revalued upwards. Increases in revalued amounts were recorded in an asset revaluation reserve, unless they reversed a previous revaluation decrease charged to the statement of financial performance. Impairments (decreases) to asset values were recorded in the statement of financial performance, unless they reversed a previous increase still remaining in the asset revaluation reserve.

Revaluations of property, plant and equipment are not allowed under USGAAP, except for permanent impairments. Including the broadband network described below, the net adjustment included in the reconciliation to shareholders' equity to reduce revalued property, plant and equipment to historical cost for revaluations and impairments not allowed under USGAAP is $432 million for fiscal 2005 (2004: $413 million; 2003: $401 million). For fiscal 2005, net adjustments for depreciation and disposals of $19 million expense (2004: $12 million expense; 2003: $6 million benefit) has been included in the reconciliation of net income to USGAAP.

USGAAP impairment loss reversal - broadband network

In fiscal 1997, under AGAAP we wrote down the value of our broadband network. We recognised an impairment loss of $342 million in net income and $245 million was adjusted against the asset revaluation reserve. Under USGAAP, the initial future undiscounted cash flows derived from our broadband network were greater than the recorded value and continue to be as at 30 June 2005. The reversal of the impairment loss has been adjusted for in the reconciliations of net income and shareholders' equity to USGAAP and additional depreciation of $25 million was recorded in the reconciliation of net income to USGAAP in fiscal 2005 (2004: $26 million; 2003: $62 million), included in the net adjustments above.

Depreciation expense

Depreciation expense for AGAAP and USGAAP has been calculated using the straight line method of depreciation. Under AGAAP, depreciation expense is based on the recorded amount of the asset and is therefore higher for assets that have been revalued upwards. Depreciation expense has been adjusted to reflect depreciation based on original cost in the reconciliations of net income and shareholders' equity to USGAAP.

Indirect overheads included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996 we recorded overhead costs directly associated with the construction of our communication assets as part of the cost of those assets. We expensed all indirect overhead costs as incurred. From 1 July 1996, indirect overhead costs (as well as direct overhead costs) associated with operations and management personnel directly involved in the construction of our communication assets have been recorded as part of the cost of those assets. This policy is now the same as USGAAP.

To reflect the current policy, as if it had always been in place for USGAAP purposes, before 1 July 1996, capitalised overheads with a net book value of $381 million (2004: $441 million, 2003: $515 million) have been included in the reconciliation of shareholders' equity to USGAAP as at 30 June 2005. For fiscal 2005, additional depreciation and disposals of $60 million (2004: $74 million; 2003: $123 million) have been included in the reconciliation of net income to USGAAP.

Borrowing costs included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996, we expensed all borrowing costs when incurred. From 1 July 1996, borrowing costs relating to the construction of property, plant and equipment for internal use are recorded as part of the asset cost, consistent with USGAAP.

To reflect the current policy, as if it had always been in place for USGAAP purposes, before 1 July 1996, capitalised interest with a net book value of $112 million (2004: $126 million, 2003: $144 million) have been included in the reconciliation of shareholders' equity to USGAAP as at 30 June 2005. For fiscal 2005, additional depreciation and disposals of $14 million (2004: $18 million; 2003: $44 million) have been included in the reconciliation of net income to USGAAP.

Sale of property sold as part of a sale and lease back transaction

Under AGAAP, in fiscal 2002 we classified some land and buildings held for sale as other current assets. Under USGAAP, usually assets held for sale are classified as current assets. However, as these assets were part of a sale and leaseback transaction, the land and buildings remained in property, plant and equipment until the sale was complete. In fiscal 2002, these assets were reclassified, with a net increase to property, plant and equipment of $435 million.

The property held for sale under AGAAP in fiscal 2002 was sold in fiscal 2003. Under AGAAP the net gain was recognised in net income.

Under USGAAP, any gains made on assets as part of a sale and leaseback transaction must be deferred and recognised over the period of the underlying leases. For fiscal 2003, the net gain reversed was $113 million. Of this balance, a net gain of $12 million has been recognised in fiscal 2005 in the reconciliations of net income and shareholders' equity to USGAAP (2004: $12 million).

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(a) Property, plant and equipment (continued)

Profits/(losses) on the sale of assets

Under AGAAP, proceeds on sale of non current assets are recorded as revenue from ordinary activities - other revenue, and the net book value of assets sold is recorded as other operating expenses, with the net impact representing the profit or loss on sale of non current assets.

For USGAAP, the sale of non current assets is not considered to be an operating activity and as a result the net profit or loss on the sale of non current assets is reclassified to other income below operating income.

AGAAP reported profits or losses on the sale of revalued assets are based on revenue received less revalued net book value. For USGAAP, profits or losses are based on revenue received less historical net book value. Adjustments are made to the reconciliation of net income to USGAAP to record this difference in the profit or loss on sale.

Asset retirement obligations

Asset retirement obligations exist on our general purpose leased buildings and certain mobile tower communication assets that are situated on land held under operating leases. USGAAP requires us to recognise the fair value of these legal obligations as a liability, with the cost capitalised as part of the asset carrying value. Our treatment under AGAAP of these obligations is detailed in note 1.19(c).

We have determined that the difference in our AGAAP and USGAAP accounting policies for these asset retirement obligations is not material to us. Therefore, no adjustment has been made to the USGAAP reconciliation.

30(b) Investments

Investments in joint venture entities and associated entities

For a description of the USGAAP treatment of our investment in Reach, refer to note 30(n).

3GIS Partnership

In fiscal 2005, we entered into an arrangement with Hutchison 3G Australia Pty Ltd (H3GA) to jointly own and operate H3GA's existing third generation radio access network (RAN) assets and fund future network development. The 3GIS Partnership was established to operate this network and commenced 31 December 2004. The partners each made an initial investment of $1 but will provide additional capital as required in the form of interest free loans.

Under AGAAP, we recognise our share of the RAN assets held by the partnership within property, plant and equipment. Expenses incurred by the partnership are on-charged to the partners in equal proportion. Refer to note 1.11(c) for further information.

Under USGAAP, we account for the 3GIS Partnership using the equity method. As such, the interest free loans are considered to form part of the investment in the partnership, and we record our share of the partnership's results against our investment. For fiscal 2005, this results in a USGAAP adjustment to reclassify $2 million of property, plant and equipment to investments. There is no material adjustment required to the reconciliation of net income or shareholders' equity to USGAAP.

Equity securities (joint venture entities and associated entities)

Under AGAAP, temporary changes in the fair values of debt and equity securities are not required to be adjusted and recorded in the financial statements. AGAAP however does require permanent impairments in the value of debt and equity securities to be recorded in the statement of financial performance.

Under USGAAP, Statement of Financial Accounting Standards No.115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities," we are required to account for debt and equity securities based on our intention to hold or sell the securities. Securities classified as held-to-maturity are stated at cost unless there is a decline in fair value that is considered to be other-than-temporary. This reduction is recorded in the statement of financial performance. Securities classified as available-for-sale are recorded at fair value with changes in fair value, other than a decline in fair value that is considered to be other-than-temporary, recorded in a separate component of shareholders' equity (accumulated other comprehensive income) until realised. Realised gains and losses are then recorded in the statement of financial performance.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(b) Investments (continued)

Available-for-sale securities

The following is a summary of our available-for-sale debt and equity securities:

		Telstra Group As at 30 June 2005				
	Note	Principal $m	Accrued interest $m	Amortised cost $m	Fair value $m	Net unrealised gain $m
Marketable securities included in cash:						
Bank bills and promissory notes	8	**1,323**	**1**	**1,324**	**1,324**	**-**

		Telstra Group As at 30 June 2004				
	Note	Principal $m	Accrued interest $m	Amortised cost $m	Fair value $m	Net unrealised gain $m
Marketable securities included in cash:						
Bank bills and promissory notes	8	538	1	539	539	-
Equity securities:						
Listed investments	11	15	-	-	71	56
Income tax expense						(17)
						39
Debt securities:						
PCCW converting note - US$47 million face value	30(l)	95	-	-	85	(10)
Income tax benefit						3
						(7)
Total unrealised gain (net of tax) on available-for-sale securities						32

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(c) Dividend payable recognition

Under USGAAP, provisions for dividends are only recognised as liabilities if the dividends are formally declared before balance date. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to USGAAP. In fiscal 2003, due to a change in AGAAP, AGAAP is now consistent with USGAAP and this adjustment is no longer required. Refer to note 7 for additional disclosures on dividends.

The dividends per share for USGAAP (including the TESOP97 and TESOP99 options outstanding (refer to note 30(j) below) as issued shares) in Australian dollars for the last three years are:

	Telstra Group		
	Year ended 30 June		
	2005	2004	2003
	¢	¢	¢
Dividends paid per share:			
Total dividends paid per share per USGAAP	**33.0**	25.0	26.0

30(d) Minority interests (defined as outside equity interests per AGAAP)

Under AGAAP, minority interests are included in shareholders' equity in 'Outside equity interests'. Under USGAAP, minority interests are disclosed as a separate component of net assets rather than included in shareholders' equity. The effect of this adjustment has been disclosed in the reconciliation of shareholders' equity to USGAAP.

30(e) Dealer commissions and bonuses classification

Under AGAAP, dealer commissions and bonuses are included in goods and services purchased as they are directly related to our sales revenue. Under USGAAP, they are classified as other operating expenses. In the statement of financial performance measured and classified under USGAAP, we have reclassified $711 million of dealer commissions and bonuses from goods and services purchased to other operating expenses (2004: $496 million; 2003: $379 million).

30(f) Retirement benefits

Pension costs/benefits (defined as superannuation expense under AGAAP) for our defined benefit plans are based on contributions payable to the plans for the year, at rates determined by the actuary of the defined benefit plans. Refer to note 22 for details of our superannuation plans.

Under AGAAP, where there has been a shortfall in prior years of the net market value of our defined benefit scheme's assets when compared to members' vested entitlements, we have provided for the present value of any shortfall, to the extent that the shortfall represents a present obligation. We do not record a pension asset where scheme assets are greater than members' vested entitlements.

Under USGAAP, pension costs/benefits for defined benefit plans are accounted for under Statement of Financial Accounting Standards No. 87 (SFAS 87) "Employers' Accounting for Pensions" and are calculated by an actuary using the projected unit credit method. This method includes current service cost, interest cost, return on plan assets and amortisation of transition assets. Aggregated unrecorded gains and losses of the plans exceeding 10% of the greater of the aggregated projected benefit obligation or the market value of the plan assets are amortised over the average expected service period of active employees expected to receive benefits under the plan.

We adopted SFAS 87 on 1 July 1992, as it was not feasible to adopt SFAS 87 from its effective date of 1 July 1989. The unrecognised transition asset on adoption of SFAS 87 for the Telstra Super Scheme was amortised from 1 July 1992 over 12 years, ending 30 June 2004. Where scheme assets are greater than the present obligations relating to members' vested entitlements, the difference is recognised as an asset in accordance with USGAAP.

We use the following measurement dates for our defined benefit plans:

	Measurement Date
Telstra Super	30 June
CSS	(i)
HK CSL Retirement Scheme	31 May

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(f) Retirement benefits (continued)

The effect of the adjustments required by SFAS 87 to retirement benefit expense/gain has been disclosed in the USGAAP reconciliations. If we had reported our net periodic pension cost/benefit and the funded status of the defined benefit superannuation plans in accordance with the accounting principles and actuarial assumptions under USGAAP, the disclosures required are as follows:

		Telstra Group			
		Year ended 30 June			
	Note	**2005 $m**	**2005 US$m**	2004 $m	2003 $m
Net periodic pension cost/(benefit) (all funds combined)					
The components of net periodic pension cost for our defined benefit superannuation plans are as follows:					
Service cost on benefits earned		**282**	**215**	351	337
Interest cost on projected benefit obligation		**436**	**332**	558	657
Expected return on assets		**(532)**	**(406)**	(834)	(1,003)
Expenses and taxation		**16**	**12**	59	74
Member contributions for defined benefits		**(21)**	**(16)**	(109)	(113)
Amortisation of transition asset		**-**	**-**	(84)	(84)
Amortisation of fund loss		**-**	**-**	164	30
Transfers to HK CSL Retirement Scheme (ii)		**-**	**-**	-	6
Settlement (gain)/loss (i)		**(3)**	**(2)**	3,865	(26)
Net periodic pension cost/(benefit) per USGAAP		**178**	**135**	3,970	(122)
Reverse amount expensed for AGAAP (labour expense)		**(3)**	**(2)**	(5)	(8)
Total USGAAP adjustment - retirement benefit expense/(gain)		**175**	**133**	3,965	(130)
We used the following major assumptions to determine net periodic pension cost/(benefit) for the years ended 30 June:					
Discount rate		**5.99%**	**5.99%**	5.00%	6.50%
Expected rate of increase in future salaries		**3.97%**	**3.97%**	3.49%	4.00%
Expected long-term rate of return on assets		**7.50%**	**7.50%**	7.50%	8.50%

In order to project the expected long term rate of return on assets, estimates are prepared for the return of each major asset class over the subsequent 10 year period, or longer. Those estimates are based on a combination of factors including the current market outlook for interest rates, inflation, earnings growth and currency strength.

To determine the aggregate return, the expected future return of each asset class is then weighted according to the strategic asset allocation of total plan assets.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(f) Retirement benefits (continued)

		Telstra Group			
		Year ended 30 June			
		2005	2005	2004	2003
	Note	$m	US$m	$m	$m
Benefit obligations (all funds combined)					
Reconciliation of change in benefit obligation					
Projected benefit obligation at beginning of year		**6,409**	**4,882**	10,249	9,537
Service cost		**282**	**215**	351	337
Interest cost		**436**	**332**	558	657
Transfers to HK CSL Retirement Scheme (ii)		**-**	**-**	-	80
Member contributions		**191**	**146**	81	122
Benefit payments		**(234)**	**(178)**	(971)	(945)
Curtailment (gain)/loss		**-**	**-**	(3)	9
Foreign currency exchange rate changes		**(7)**	**(5)**	(3)	(12)
Settlement of CSS (i)		**-**	**-**	(3,687)	-
Actuarial loss/(gain)		**410**	**312**	(166)	464
Projected benefit obligation at end of year		**7,487**	**5,704**	6,409	10,249
We used the following major assumptions to determine benefit obligations at 30 June:					
Discount rate		**5.48%**	**5.48%**	5.99%	5.00%
Expected rate of increase in future salaries		**3.99%**	**3.99%**	3.97%	3.49%
Accumulated benefit obligation at end of year (all funds combined)		**5,994**	**4,566**	5,032	8,041
Plan assets (all funds combined)					
Reconciliation of change in fair value of plan assets					
Fair value of plan assets at beginning of year		**7,147**	**5,444**	11,546	12,208
Actual return on plan assets		**938**	**715**	1,270	53
Transfers to HK CSL Retirement Scheme (ii)		**-**	**-**	-	74
Employer contributions		**3**	**2**	5	8
Member contributions for defined benefits		**21**	**16**	109	113
Transfers/member contributions for accumulation benefits		**191**	**146**	81	122
Benefit payments		**(234)**	**(178)**	(971)	(945)
Plan expenses		**(16)**	**(12)**	(15)	(13)
Foreign currency exchange rate changes		**(8)**	**(6)**	(2)	(13)
Settlement of CSS (i)		**-**	**-**	(4,832)	-
Contribution tax		**-**	**-**	(44)	(61)
Fair value of plan assets at end of year		**8,042**	**6,127**	7,147	11,546

Our weighted-average asset allocations by asset category at 30 June are as follows:	Target	2005	2004	2003
Equity securities (iii)	**67.4%**	**61.9%**	74.8%	55.0%
Debt securities (iii)	**10.3%**	**21.9%**	13.2%	25.4%
Property (iii)	**17.3%**	**13.3%**	10.0%	16.8%
Other (iii)	**5.0%**	**2.9%**	2.0%	2.8%
	100%	**100%**	100%	100%

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(f) Retirement benefits (continued)

	Telstra Group			
	Year ended 30 June			
	2005	**2005**	2004	2003
	$m	**US$m**	$m	$m
Reconciliation of funded status of plan (all funds combined)				
Projected benefit obligation	**(7,487)**	**(5,704)**	(6,409)	(10,249)
Plan assets at fair value	**8,042**	**6,127**	7,147	11,546
Funded status	**555**	**423**	738	1,297
Unrecognised net transition liability/(asset) (iv)	**4**	**3**	4	(79)
Unrecognised net actuarial (gain)/loss (iv)	**(481)**	**(367)**	(489)	2,999
Prepaid pension asset at 30 June	**78**	**59**	253	4,217

Our defined benefit plans investment strategy is to control the level of risk by investing in a broad range of quality investments, and using a range of Australian and international investment managers who specialise in cash, fixed interest, shares and property. We constantly review our investments and adjust our investment strategy in order to maximise returns within this controlled risk profile and take advantage of perceived market efficiencies.

Investment goals are to earn the best possible returns within the appropriate strategic level of risk, and maintain the financial viability of the funds by ensuring plan assets exceed benefit obligations.

Derivatives are used to limit exposure to market fluctuations and are used within appropriate control environments for direct and externally managed investments. Derivatives are not used for speculative purposes.

Expected Cash Flows (all funds combined)

We expect to contribute $3 million to our HK CSL Retirement Scheme in fiscal 2006. Based on the latest actuarial investigation, we do not expect to make any contributions to Telstra Super during fiscal 2006. Refer to note 22 for further information.

The following benefit payments, which reflect expected future service, are expected to be paid.

	Telstra Group					
	Year ended 30 June					
	2006	2007	2008	2009	2010	2011 - 2015
	$m	$m	$m	$m	$m	$m
Expected benefit payments	**194**	**204**	**223**	**243**	**265**	**1,833**

(i) On 17 June 2004, the Commonwealth paid Telstra Super $3,125 million as settlement for the previous transfers of CSS members to Telstra Super. As part of the settlement arrangement, the Commonwealth has assumed responsibility for all liabilities in respect of former and current Telstra employees who remain in the CSS. Refer to note 22 for further information.

As we have no further current ongoing obligations for these CSS members, in fiscal 2004 we recorded a settlement loss for USGAAP in relation to the CSS of $1,145 million. In addition, we recognised the previously unrecognised net actuarial loss in relation to the CSS of $2,725 million.

(ii) On 1 December 2002, Hong Kong CSL Limited (HK CSL) established a new scheme known as the HK CSL Retirement Scheme. Previously, HK CSL participated in the Pacific Century CyberWorks (PCCW) Retirement Scheme, the scheme of its previous immediate parent. The assets attributable to HK CSL of the previous scheme were transferred to the HK CSL Retirement Scheme.

(iii) The CSS was a notional fund that did not hold physical managed assets. This notional fund accumulated the same returns as that earned by Telstra Super. As such, for the purposes of disclosing our weighted average asset allocations by asset category, the asset allocations of the CSS for fiscal 2003 were assumed to be the same as the asset allocations of Telstra Super.

(iv) Settlements recorded in net periodic pension cost/benefit have effected the unrecognised net transition liability/(asset) and the unrecognised net actuarial (gain)/loss as follows:
(a) unrecognised transition liability/(asset); 2005: $nil; 2004: $nil; 2003: $1 million gain.
(b) unrecognised net actuarial gain/loss; 2005: $3 million gain; 2004: $2,725 million loss; fiscal 2003: $26 million gain.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(g) Employee entitlements - Long Service Leave

Our employee entitlement provisions include a liability for long service leave. Refer to note 1.19(a) for a definition of long service leave. The assumptions used to calculate this liability for AGAAP are consistent with those used under SFAS 87 for USGAAP.

30(h) Enterprise bargaining agreements

During fiscal 2005 Telstra had six separate business unit enterprise agreements in operation which provided staff covered by these agreements with a 2% salary increase in January 2005. The nominal expiry date of these enterprise agreements was 22 June 2005. In June 2005, Telstra and the unions reached "in-principle" agreements to enter into a new enterprise agreement (EA) to replace the six expired agreements. For the new agreement to take effect, it would need to be approved by a majority of voting employees and certified by the Australian Industrial Relations Commission (AIRC).

Under the proposed agreement, EA employees will receive a pay increase of 2.5% each year over a three year period and retain continuity of long service leave and maternity leave arrangements. There are minimal changes to other existing terms and conditions of employment. It is proposed that the first increase will be paid from the first pay period on or after certification of the agreement.

The proposed new EA and the Retail Shop Agreement will cover approximately 53% of full time staff.

30(i) Income tax

Under AGAAP, timing differences are recorded in the statement of financial position as deferred tax assets and liabilities using the liability method of tax effect accounting. Future income tax benefits relating to tax losses and timing differences are not recorded as an asset unless the benefit is considered virtually certain of being realised.

Under USGAAP, deferred tax assets and liabilities are created for all temporary differences between the accounting and tax basis of assets and liabilities that will reverse during future taxable periods, including tax losses. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management, it is more likely than not that some portion, or all of the deferred tax asset, will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable profits during the period in which those temporary differences and tax loss carryforwards become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. We increase or decrease our deferred tax balances for income tax effect of accounting differences included in our reconciliations of net income and shareholders' equity to USGAAP.

For AGAAP, we classify all deferred tax balances as non current. For USGAAP, the classification between current and non current is based on the statement of financial position classification of the underlying net current and non current asset or liability. Where there is no underlying asset or liability the classification is based on when the temporary difference is expected to reverse. The effect of this has been disclosed in the statement of financial position measured and classified per USGAAP.

Under AGAAP and USGAAP we do not create deferred tax assets or liabilities for temporary differences relating to investments where there is no intention of disposing of the investment, or where we are incapable of realising any benefit or incurring any obligations due to tax law restrictions.

For AGAAP, fair value adjustments in a business combination, including the recognition of identifiable assets, are not tax effected. Under USGAAP, basis differences arising from such fair value adjustments are treated as temporary differences and tax effected as part of the acquisition accounting, if the basis difference results in taxable or deductible amounts in future years when the related asset or liability is recovered or settled.

During fiscal 2005, we recognised a number of identifiable intangible assets as a result of our acquisitions. For USGAAP, we have recorded a deferred tax liability of $71 million for the temporary difference between the carrying value of these intangible assets and their tax basis, with a corresponding increase to goodwill on acquisition. We have also recognised a deferred tax liability of $143 million based on the determination of the tax consequences associated with the recognition of identifiable intangible assets on other recent acquisitions, with a corresponding increase to goodwill on acquisition. The reversal of these temporary differences has resulted in a decrease to income tax expense of $6 million for fiscal 2005.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(i) Income tax (continued)

	Telstra Group			
	As at 30 June			
	2005	**2005**	2004	2003
	$m	**US$m**	$m	$m
Future income tax benefit (deferred tax assets)				
Property, plant and equipment	**-**	**-**	33	33
Foreign exchange translation, hedge and other finance costs	**164**	**125**	134	238
Employee entitlements	**279**	**213**	297	252
Revenue received in advance	**160**	**122**	60	49
Inventory valuation	**-**	**-**	9	9
Provisions	**111**	**85**	66	99
Marketable securities	**17**	**13**	89	-
Carried forward tax losses	**227**	**173**	207	210
Other	**138**	**105**	211	212
Total gross deferred tax assets under USGAAP	**1,096**	**836**	**1,106**	**1,102**
Valuation allowance	**(313)**	**(238)**	(247)	(251)
Total net deferred tax assets under USGAAP	**783**	**598**	**859**	**851**
Deferred income tax (deferred tax liabilities)				
Property, plant and equipment	**2,429**	**1,850**	2,351	2,366
Foreign exchange translation, hedge and other finance costs	**-**	**-**	11	-
Prepaid pension cost	**23**	**18**	76	1,265
Prepayments	**-**	**-**	-	3
Expenditure accruals	**90**	**69**	82	-
Marketable securities	**-**	**-**	-	1
Other	**228**	**174**	-	61
Total deferred tax liabilities under USGAAP	**2,770**	**2,111**	2,520	3,696
Net deferred tax liability under USGAAP	**(1,987)**	**(1,513)**	(1,661)	(2,845)
Represented by:				
AGAAP future income tax benefit - non current	**2**	**2**	2	-
AGAAP deferred income tax - non current	**(1,885)**	**(1,436)**	(1,807)	(1,814)
USGAAP/AGAAP income tax differences	**(104)**	**(79)**	144	(1,031)
Net deferred tax liability under USGAAP	**(1,987)**	**(1,513)**	(1,661)	(2,845)
Reported as follows for the USGAAP statement of financial position:				
Current deferred tax asset (future income tax benefit)	**294**	**224**	203	169
Current deferred tax liability (deferred income tax)	**-**	**-**	(3)	(3)
Net current deferred tax asset (future income tax benefit)	**294**	**224**	200	166
Non current deferred tax asset (future income tax benefit)	**489**	**374**	656	682
Non current deferred tax liability (deferred income tax)	**(2,770)**	**(2,111)**	(2,517)	(3,693)
Net non current deferred tax liability (deferred income tax)	**(2,281)**	**(1,737)**	(1,861)	(3,011)
	(1,987)	**(1,513)**	(1,661)	(2,845)

As at 30 June 2005, our foreign operations have operating loss carryforwards of$13 million that will expire in fiscal 2026, 2027, and 2028. We have established a valuation allowance of $11 million due to our uncertainty over our ability to utilise these operating loss carryforwards.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(i) Income tax (continued)

Our foreign operations have capital loss carry forwards of $2 million that will expire in 2007. We have established a valuation allowance of $2 million due to our uncertainty over our ability to utilise these capital loss carryforwards.

Additionally, our domestic and foreign operations have both operating ($214 million) and capital loss carryforwards ($196 million) that do not have an expiration date. We have established a valuation allowance to fully provide for these loss carryforwards due to the uncertainty over our ability to utilise these loss carryforwards.

The following table represents the domestic and foreign components of net income before income tax expense and minority interests and income tax expense (benefit), calculated in accordance with USGAAP:

	Telstra Group			
	As at 30 June			
	2005	2005	2004	2003
	$m	US$m	$m	$m
Net income before income tax expense and minority interests consists of:				
Domestic	**5,970**	**4,549**	1,896	3,089
Foreign	**82**	**62**	73	1,994
Net income before income tax expense and minority interest	**6,052**	**4,611**	1,969	5,083
Income tax expense/(benefit) consists of:				
Current:				
Domestic	**1,745**	**1,329**	1,635	1,537
Foreign	**45**	**34**	36	2
Total current income tax expense	**1,790**	**1,363**	1,671	1,539
Deferred:				
Domestic	**89**	**68**	(1,077)	(154)
Foreign	**1**	**1**	(1)	(26)
Total deferred income tax expense/(benefit)	**90**	**69**	(1,078)	(180)
Income tax expense, net	**1,880**	**1,432**	593	1,359

Actual income tax expense differs from the amounts computed by applying the statutory Australian income tax rate of 30% to net income before income tax expense and minority interests. The following table represents the reconciliation of the expected income tax expense to actual income tax expense:

	Telstra Group			
	As at 30 June			
	2005	2005	2004	2003
	$m	US$m	$m	$m
Expected income tax expense	**1,815**	**1,382**	591	1,525
(Decrease)/increase in income taxes resulting from:				
Effect of different rates of tax on overseas income	**(9)**	**(7)**	(15)	(30)
Research and development concessions	**(6)**	**(5)**	(7)	(6)
Share of net (profit)/loss from joint venture entities and associated entities	**(28)**	**(21)**	11	38
Loss on sale of non current assets	**(28)**	**(21)**	(65)	(34)
Non deductible depreciation and amortisation	**15**	**11**	27	30
Reduction in the value of investments and intercompany receivables	**100**	**76**	158	64
Assessable foreign source income not included in accounting porfit	**4**	**3**	18	43
Under/(over) provision of tax in prior years	**2**	**2**	24	(28)
Effect of reset tax values on entering tax cosolidation	**-**	**-**	(58)	(201)
Other adjustments	**15**	**12**	(91)	(42)
Actual income tax expense for USGAAP	**1,880**	**1,432**	593	1,359

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(j) Employee share plans and compensation expenses

Our employee and executive share plans are described in note 19. AGAAP does not require certain employee compensation and option expenses to be recorded in the statement of financial performance for our employee share plans.

Under USGAAP, we have adopted Statement of Financial Accounting Standards No. 123 (SFAS 123) "Accounting for Stock Based Compensation". Under this method, compensation expense is calculated based on the fair value of options on the grant date and recognised over the associated service period, which is usually the vesting period. USGAAP requires that shares issued under TESOP97 and TESOP99 in conjunction with non-recourse loans be accounted for as options. The outstanding balance of the loans for TESOP97 and TESOP99 provided to employees is deducted from shareholders' equity rather than classified as a receivable. The amount for fiscal 2005 is $155 million (2004: 174 million, 2003: $198 million). In addition to options, restricted shares, performance rights and deferred shares issued under the Telstra Growthshare executive compensation scheme are also accounted for as options.

In fiscal 2005, a net adjustment to reverse $2 million in compensation expense for USGAAP was recognised in the reconciliation of net income (2004: $nil; 2003:$nil). A life to date expense of $396 million is recorded as additional paid in capital in total shareholders equity for USGAAP (2004: $382 million; 2003: $333 million). The increase of $49 million in fiscal 2004 relates to the consolidation of the Telstra Growthshare Trust and the recognition of contributions to the trust as additional paid in capital. Refer to note 30(r).

There is no income tax effect on the additional compensation expense for USGAAP as it is a permanent difference (non taxable) for TESOP97, TESOP99 and Growthshare schemes.

TESOP General

Options allocated to employees under the TESOP schemes all vested immediately upon grant and will expire at the earlier of repayment of the loan balance or the termination of employment. Employee compensation expense has been recognised on inception of the TESOP97 scheme (fiscal 1998 and subsequent loyalty share issues) and TESOP99 scheme (fiscal 2000 and subsequent loyalty share issues). Dividends on both TESOP schemes are not recorded as further compensation expense as their forecasted value was included when calculating the initial option valuations.

For fiscal 2005, 2004 and 2003, only the TESOP97 options are dilutive for the USGAAP earnings per share calculation as the exercise price of the TESOP99 options was above the average Telstra share price.

	Telstra Group		
	As at 30 June		
	2005 Number	2004 Number	2003 Number
TESOP97			
Options outstanding at beginning of year	**48,327,000**	54,332,125	63,473,375
Options exercised	**(2,484,375)**	(6,005,125)	(9,141,250)
Options outstanding at end of year	**45,842,625**	48,327,000	54,332,125
TESOP99			
Options outstanding at beginning of year	**14,622,000**	14,828,600	14,965,500
Options exercised	**(86,100)**	(206,600)	(136,900)
Options outstanding at end of year	**14,535,900**	14,622,000	14,828,600

For TESOP97, the weighted average exercise price of the option at 30 June 2005, 30 June 2004 and 30 June 2003 was $2.66.

For TESOP99, the weighted average exercise price of the option at 30 June 2005, 30 June 2004 and 30 June 2003 was $5.99.

Telstra Growthshare General

The Telstra Growthshare options issued under all schemes become vested options when the performance hurdles have been reached and the executive pays the exercise price per share. The Growthshare restricted share options, performance right options and deferred share options allocated to employees under all schemes vest when the performance hurdles have been reached or period of service completed.

For USGAAP, compensation expense is measured in the year that the options are granted less any compensation expense paid under AGAAP based on calculated "option values" for Growthshare options, restricted share options, performance right options and deferred share options. An allowance is made for expected resignations and cancellations when calculating the various option values.

For fiscal 2005 and 2004, only the deferred share options are considered dilutive for the USGAAP earnings per share calculation. For fiscal 2003, the options, restricted share options, performance right options and deferred share options were not dilutive for earnings per share calculations. For the details of Telstra Growthshare options granted, lapsed and outstanding, as well as the valuation methodology and assumptions regarding Telstra Growthshare issues, refer to note 19.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(k) Redundancy and restructuring provisions

Redundancy and restructuring disclosures for fiscal 1997 program

The disclosures required by USGAAP for the redundancy and restructuring provision recorded by us are as follows:

In fiscal 1997, we approved a plan to reduce the number of employees by approximately 25,500 to approximately 51,000 employees by 30 June 2000. In June 1998, we also approved a three year plan, to 30 June 2001, which included an additional reduction of approximately 2,000 employees by redundancy. We effected the reduction in employees through a combination of natural attrition and outsourcing (approximately 6,700 employees) and voluntary redundancy offers and involuntary terminations (approximately 20,800 employees). Reductions have occurred primarily in sales and service areas, communication assets, broadband rollout construction areas and field operations and maintenance staff.

The total estimated cost of the fiscal 1997 redundancy program was $1,320 million including estimated severance and award payments of $1,043 million and estimated career and transition costs of $277 million. There has been no reversal of costs no longer required to the statement of financial performance.

Career transition costs include payments to employees who are in the outplacement process and amounts paid to third parties for the outplacement program.

In future periods, no additional redundancies or payments are expected. The provision balance is $nil as at 30 June 2005 (2004: $2 million, 2003:$3 million).

	Telstra Group		
	As at 30 June		
	2005	2004	2003
	Number	Number	Number
Expected redundancies.	**-**	22	80

We have made the following payments which have been charged against the provision for redundancy and restructuring:

	Telstra Group		
	As at 30 June		
	2005	2004	2003
	$m	$m	$m
Career transition and other employee costs	**-**	1	-

The impact of redundancies has been taken into consideration in the SFAS 87 calculation in note 30(f) Retirement benefits.

30(l) Derivative financial instruments and hedging activities

Our risk management policies and objectives of entering into derivative financial instruments have been disclosed in note 29, "Additional financial instruments disclosures."

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS 133 requires us to recognise all of our derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognised in other income/expense as part of net income during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into net income in the same period or periods during which the hedged transaction affects net income. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognised in other income/expense as part of net income during the period of change. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is that reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(l) Derivative financial instruments and hedging activities (continued)

For derivative instruments not designated as hedging instruments, the gain or loss is recognised in net income during the period of change.

We enter into forward foreign exchange contracts to hedge certain firm commitments denominated in foreign currencies relating to our capital expenditure programs. Under AGAAP, realised gains and losses on termination of these hedges are recognised as a net cost of the equipment acquired.

We are not able to identify specific forward foreign exchange contracts with specific capital expenditure contracts to meet the designation criteria in SFAS 133. As a result, changes in fair value of the forward foreign exchange contracts are required to be recognised in net income for USGAAP purposes. We have recorded a marked to market gain of $3 million in other income per USGAAP for the forward foreign exchange contracts outstanding at 30 June 2005 (2004: $1 million loss; 2003: $5 million gain). We also recorded an additional adjustment, net of tax, in other income per USGAAP to reverse net realised foreign exchange gains/losses capitalised in property, plant and equipment under AGAAP, however the amount was $nil in fiscal 2005 (2004: $3 million loss, 2003: $1 million gain).

We enter into interest rate swaps to manage our exposure to interest rate risk relating to our outstanding short-term commercial paper. SFAS 133 does not allow us to consider the interest rate swaps used to manage our interest rate exposure as hedges. As a result, changes in the fair values of these interest rate swaps are required to be included in the reconciliation of net income to USGAAP. We have recorded a marked to market loss of $85 million, before tax, as an expense in other income per USGAAP for changes in fair value of interest rate swap contracts outstanding at 30 June 2005 (2004: $158 million gain; 2003: $128 million loss).

We enter into cross currency interest rate swaps to hedge our exposure to the risk of overall changes in fair value relating to interest rate and foreign currency risk of our foreign currency borrowings. During fiscal 2005, 2004 and 2003, the ineffective portion of our hedging instruments (inclusive of the time value of money) was taken to other income/expense in the statement of financial performance.

During the year ended 30 June 2003, we reclassified $17 million of losses, net of tax, from accumulated other comprehensive income to other income. At 30 June 2003 there were no remaining losses recorded in accumulated other comprehensive income related to the repayment of borrowings that were hedged by interest rate and cross currency swaps in cash flow hedging relationships prior to the adoption of SFAS 133.

PCCW Converting Note

As a part of our strategic alliance with PCCW, we purchased a US$750 million convertible note issued by PCCW in February 2001. This convertible note was convertible at our option into PCCW common stock at a conversion price of HK$6.886 per share. This note was redeemed on 28 June 2002 in consideration for the remaining 40% interest in CSL and a new converting note with a face value of US$190 million.

During the year ended 30 June 2003 we redeemed US$143 million of this converting note in return for entering into a capacity prepayment agreement with Reach Limited as discussed in note 30(n).

Under AGAAP, the initial values of the converting notes are recorded at face value in other non-current receivables. The converting note was carried at the face value, adjusted for accrued interest and any provision for permanent diminution considered necessary. Any foreign exchange gains and losses on translation of the converting note to A$ were recorded in the statement of financial performance in operating expenses.

Under USGAAP, the instrument was classified as an available-for-sale security with changes in fair value being recorded in other comprehensive income.

On 30 June 2005, the note expired and was redeemed for $76 million with an adjustment to other comprehensive income for a net realised loss on sale of $7 million after tax.

The note was classified as an available-for-sale security and was disclosed in note 30(b).

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(m) Sale of Global Wholesale Business to Reach Ltd (Reach)

In fiscal 2001, as a part of the strategic alliance with PCCW, a joint venture entity, Reach, was formed through the combination of our international wholesale business and certain other wholesale assets together with certain PCCW assets. Under AGAAP, the investment in the joint venture entity was recognised at its cost of acquisition, being the fair value of the assets transferred net of cash received and including acquisition costs. The gain on sale of the Global Wholesale Business, measured as the difference between the cost of the investment and the net book values of the net assets transferred, was deferred to the extent of our ownership interest retained in the joint venture entity, in this case being 50%.

Under USGAAP, investments in joint venture entities should be recorded at the net book value of the assets and liabilities transferred, reduced by the amount of any cash received. Where the resultant carrying value is a negative amount, the excess credit is recognised as an adjustment to the amount of goodwill on other components of the interdependent transactions - in this case a $30 million reduction on the CSL goodwill (refer to note 30(o)). Also, there were differences in the fair valuation of the net assets. These related to pre-1996 capitalised interest, assembled work force and other fair value adjustments.

The total effect of these differences reduces shareholders' equity under USGAAP by $882 million as at 30 June 2005 (2004: $882 million; 2003: $882 million).

30(n) Equity accounting and write down adjustments for Reach Ltd (Reach)

USGAAP adjustments made on the sale of the Global Wholesale Business to Reach in 30(m) above, will result in ongoing differences in the reconciliations of net income and shareholders' equity to USGAAP.

Under AGAAP, 50% of the profit after tax was deferred and accounted for in the investment carrying value. The deferred gain was to be recognised in the statement of financial performance on a straight line basis over a period of 20 years. For fiscal 2003, this adjustment was $22 million up to the date of the write down of Reach (refer below) and was reversed for USGAAP. Under AGAAP there is no further recognition of this amount due to the write down.

For USGAAP equity accounting, there was a calculation of notional goodwill at inception that was required to be amortised over the life of the investment. This goodwill was determined by comparing the investment carrying value to 50% of the net assets/(liabilities) of Reach. This amount, similar to AGAAP, was not separately recognised in the statement of financial position, however, it was included in the investment carrying amount. This notional goodwill has been written off with the write down of the Reach investment (refer below).

Write down of Reach investment

As discussed in note 3, as at 31 December 2002, we wrote down the entire carrying amount of our investment in Reach. In accordance with Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock”, where there is evidence that would indicate a loss in value of an investment that is other than a temporary decline, the loss in value should be recognised. Such factors include, but are not limited to, a current fair value of an investment that is less than its carrying amount and the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment.

A discounted cash flow model was used to calculate the fair value of our investment in Reach and as a result the carrying amount was written down to zero. For AGAAP, this resulted in a write down of $965 million. However, due to GAAP differences discussed above and in note 30(o), under USGAAP the write down of the investment was $203 million. Therefore, an additional net adjustment of $762 million was recognised in the reconciliations of net income and shareholders equity to USGAAP. Refer to note 3 for further explanation of the write down made under AGAAP.

Under AGAAP, equity accounting is suspended where the cumulative share of losses and reserve movements have reduced the participating equity investment to zero. In fiscal 2003 we ceased equity accounting our Reach investment under AGAAP due to the investment being written down to zero.

Under USGAAP, equity accounted losses are required to be recognised in net income to the extent that we have other non-participating investments in the equity accounted entity (i.e. preference shares or loans).

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(n) Equity accounting and write down adjustments for Reach Ltd (Reach) (continued)

Other non-participating investments in Reach

In April 2003 we made a capacity prepayment of $230 million (US$143 million) to Reach. This advance accrued interest on a compounding basis at a market reference rate and was to be repaid through the provision of capacity in the future at market prices. This was recorded as a receivable under AGAAP. In April 2005 we swapped this capacity prepayment for an indefeasible right of use (IRU) over half of Reach's international cable capacity. Refer to notes 9 and 14 for further details.

Under USGAAP, the capacity prepayment was, and the IRU is, considered to be a non-participating investment in Reach. As such we have continued to equity account our share of the net deficit and losses of Reach under USGAAP as an adjustment to the adjusted basis of these assets.

During fiscal 2004, our share of equity accounted losses and net assets of Reach exceeded the balance of the capacity prepayment and as such we have ceased equity accounting for Reach under USGAAP. Equity accounting was suspended when our share of losses and net assets reduced the capacity prepayment to zero.

The USGAAP adjustment to recognise our share of equity accounted losses of Reach in fiscal 2004, up to the suspension of equity accounting, was $267 million (2003: $82 million). The adjustment to recognise our share of the accumulated other comprehensive income of Reach in fiscal 2005 is $130 million (2004: $130 million gain; 2003: $22 million loss).

The capacity prepayment balance was recorded as a receivable under AGAAP and was restated at the spot rate at year end. Foreign currency translation differences were recorded in the statement of financial performance. For USGAAP these translation differences have been reversed since the suspension of equity accounting. For fiscal 2005, $21 million of foreign currency losses recorded under AGAAP have been reversed for USGAAP (2004: $17 million gain).

The IRU balance is recorded as an other asset under AGAAP. We have recorded an additional $14 million to this IRU under our commitment to fund half of Reach's committed capital expenditure for the period until 2022. Refer to note 14 for further information.

Under USGAAP, we have continued to recognise our share of equity accounted losses against this additional IRU amount. The balance of our investment in Reach, including the IRU, for USGAAP at 30 June 2005 is $nil (2004: $nil).

During fiscal 2004, we, together with our joint venture partner PCCW, provided a US$311 million loan to Reach. Our share of the loan at 30 June 2005 is $232 million (2004: $226 million). This loan is considered to be impaired for both AGAAP and USGAAP purposes and has been fully provided for. As the adjusted basis of this loan under USGAAP is zero, we have not continued equity accounting for Reach against this loan.

The total net adjustment in the reconciliation of net income to USGAAP in fiscal 2005 for all of these differences is a decrease of $8 million (2004: $264 million decrease; 2003: $665 million increase). The total net adjustment included in the reconciliation of shareholders' equity to USGAAP is $576 million (2004: $584 million; 2003: $696 million).

30(o) Consolidation adjustment for Telstra CSL Limited (CSL)

There are several adjustments that need to be made for the consolidation of CSL for USGAAP purposes.

For AGAAP, gains/losses on a hedge for the purchase of CSL are included in the cost of the acquisition, thereby effecting the determination of goodwill. For USGAAP, gains/losses on hedges of a purchase business combination are recognised in net income. Accordingly, in fiscal 2001, hedging losses of $30 million that were included in the cost of acquisition of CSL for AGAAP, have been recognised in net income under USGAAP.

For AGAAP, purchase price allocations in an acquisition accounted for as a business combination are not tax effected. The tax effect of basis differences arising from purchase price allocations (fair value adjustments) will be recognised in net income as those basis differences reverse. For USGAAP, such basis differences are treated as temporary differences and tax-effected as part of the acquisition accounting. As part of the acquisition, a deferred tax asset of $33million was recorded for these basis differences, with a corresponding decrease to goodwill.

For AGAAP, acquisition costs of $999 million were written off on acquisition of CSL in January 2001. USGAAP did not allow such a write-off, unless it could be supported by an analysis of the undiscounted cash flows of the entity. As a result of an analysis of undiscounted cash flows relating to CSL, a goodwill write-off was not supportable under USGAAP. Accordingly, the goodwill write-off was reversed and is carried forward as a difference in the reconciliation of shareholders' equity to USGAAP. This amount was also amortised in fiscal 2002 for USGAAP. For fiscal 2003, $309 million of goodwill was recorded as an impairment loss under USGAAP, based on the transitional goodwill impairment test. Refer to note 30(q) for further information as to the accounting requirements and basis of the impairment.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(p) Fair Value and General Reserve adjustments

In AGAAP, when we acquire a controlled entity, we are required to restate the net identifiable assets of that controlled entity to fair value. To the extent we have an equity accounted ownership interest in the company prior to consolidation, we are required to recognise our share of the reserve created on consolidation. In USGAAP, this fair value adjustment is offset against goodwill on consolidation.

In AGAAP, the effect of dilutions of ownership due to equity transactions conducted by third parties are recorded in a reserve. In USGAAP, this is treated as a sale of ownership interest and taken to net income. In fiscal 2005, the adjustment to net income was $5 million loss (2004: $nil, 2003: $2 million loss).

In fiscal 2002, we had a share of a foreign associated entity's general reserve credit of $2 million. For USGAAP purposes this reserve was transferred to the foreign currency translation reserve. In fiscal 2004 we disposed of the foreign associated entity and, under AGAAP, transferred our share of the entity's general reserve and foreign currency translation reserve to retained earnings. Under USGAAP, the total amount transferred of $35 million has been adjusted against our profit recorded on the disposal of the entity.

30(q) Goodwill and other intangible asset adjustments

Under USGAAP, goodwill is no longer amortised but reviewed for impairment annually, or more frequently if certain indicators or triggers arise. Goodwill is tested for impairment at a "reporting unit" level and we have assigned goodwill to reporting units in accordance with the net goodwill balances by legal entity included in note 13.

We completed the initial step of the transitional impairment test within six months of adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), using a discounted cash flow technique to calculate the fair value of the reporting units to identify any impairment in the carrying value of goodwill. As a result we recorded an impairment loss of $309 million relating to the USGAAP carrying value of goodwill in CSL as a cumulative effect of a change in accounting principle in fiscal 2003.

At 30 June 2003, we identified a further impairment in the USGAAP carrying value of the goodwill in CSL. The fair value of CSL was determined using a discounted cash flow technique. As a result, we recognised an additional impairment loss of $85 million.

Under AGAAP, goodwill is still amortised over its useful life and we have reversed the goodwill amortised of $146 million for the year ended 30 June 2005 (2004: $125 million; 2003: $178 million) in the reconciliations of net income and shareholders' equity to USGAAP.

As a result of the tax timing differences related to intangible assets recently acquired, additional goodwill has been recognised under USGAAP. Refer to note 30 (i).

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(q) Goodwill and other intangible asset adjustments (continued)

The following table is a reconciliation of the carrying amount of our goodwill under USGAAP by reportable segment:

Telstra Group

	Telstra Business & Government $m	Telstra International $m	Other $m	Total $m
Carrying amount of goodwill (USGAAP) at 30 June 2003	50	2,012	50	2,112
Additional goodwill recognised	23	-	186	209
Foreign currency translation adjustment	2	(50)	-	(48)
Carrying amount of goodwill (USGAAP) at 30 June 2004	75	1,962	236	2,273
Additional goodwill recognised	**372**	**2**	**163**	**537**
Foreign currency translation adjustment	**(6)**	**(176)**	**-**	**(182)**
Carrying amount of goodwill (USGAAP) at 30 June 2005	**441**	**1,788**	**399**	**2,628**

Intangible assets subject to amortisation

Our intangible assets still subject to amortisation are brandnames, customer bases, and patents, trademarks and licences. The carrying amount of these intangibles are disclosed in note 13. The following table represents the estimated aggregate amortisation expense for these intangible assets which are still amortised under USGAAP:

	Telstra Group				
	Year ended 30 June				
	2006 $m	2007 $m	2008 $m	2009 $m	2010 $m
Estimated aggregate amortisation expense	100	90	72	54	54

Intangible assets not subject to amortisation

On 5 March 2004, we acquired 100% of the share capital of Trading Post (Australia) Holdings Pty Ltd. As part of this acquisition we recognised $448 million of mastheads. These mastheads are not amortised under AGAAP or USGAAP as we have determined that they have indefinite lives. Our mastheads are disclosed in note 13.

Translation of goodwill and other intangible assets

Goodwill and other intangible assets recognised as a result of the acquisition of a controlled foreign entity are translated at their historical foreign currency translation rate under AGAAP as they arise in $A. Under USGAAP, using the current rate method, translation is performed at the spot rate at year end. Amortisation of intangible assets subject to amortisation is translated using the weighted average rate. Adjustments have been made to restate amortisation at the weighted average exchange rate and to adjust the ending goodwill and other intangible asset balances for fluctuations in the functional currency of the controlled foreign entity.

The total net adjustments included in the reconciliation of shareholders' equity to USGAAP resulting from the decrease to the ending balance of goodwill and other intangibles is $704 million (2004: $514 million; 2003: $480 million). The net adjustments above resulted in an increase to amortisation for USGAAP in fiscal 2005 of $1 million (2004: $3 million; 2003: $nil). From fiscal 2003, goodwill under USGAAP is no longer amortised.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(r) Consolidation of variable interest entities

AGAAP requires consolidation of an entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity to enable it to operate with us in achieving our objectives. Ownership percentage as a single factor does not determine consolidation under AGAAP.

Under USGAAP, we have adopted FASB Interpretation No. 46 revised December 2003 (FIN 46), "Consolidation of Variable Interest Entities", in accordance with the effective dates outlined in FIN 46. In general, a variable interest entity is any legal structure used to conduct activities or hold assets that either:

- has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support;
- has a group of equity owners that are unable to make significant decisions about its activities; or
- has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46 requires a beneficiary to consolidate a variable interest entity if it is the primary beneficiary of that entity. The primary beneficiary is defined as having a variable interest in a variable interest entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns (if no party absorbs a majority of the entity's expected losses), or both.

We have identified the following variable interest entities for which we are considered to be the primary beneficiary and as such consolidate under USGAAP:

- Telstra Employee Share Ownership Plan Trust (TESOP97)
- Telstra Employee Share Ownership Plan Trust II (TESOP99)
- Telstra Growthshare Trust

Under AGAAP we do not consolidate or equity account these entities. For further information regarding TESOP97, TESOP99 and the Telstra Growthshare Trust, refer to note 19.

We have also identified the 3GIS Partnership to be a variable interest entity, of which we have a significant variable interest but we are not the primary beneficiary. As such, we have not consolidated the 3GIS Partnership. For further information, refer to notes 24 and 30(b).

Telstra Growthshare Trust

The Telstra Growthshare Trust has purchased $113 million worth of shares in Telstra Corporation Limited at 30 June 2005 (2004: $117 million). This represents a total of 20,216,091 shares (2004: 20,956,641 shares). The purchase of these shares has been fully funded by Telstra Corporation Limited. Under USGAAP these shares are recorded as a reduction in total share capital under the heading of "stock held by employee share plan trusts". These shares are not considered to be outstanding for the purposes of computing basic and diluted earnings per share.

Cumulative Trust contributions made by Telstra Corporation Limited to the Telstra Growthshare Trust from commencement up to 30 June 2005 totalled $65 million (2004: $49 million). These contributions were recorded as compensation expense under AGAAP and prior to the adoption of FIN 46 were reversed against additional paid in capital for USGAAP purposes. These contributions are used by the Trust to purchase Telstra shares on market to underpin the issue of restricted shares, performance right and deferred share options. On consolidation of the Trust, these contributions are recorded against additional paid in capital under USGAAP.

Telstra Corporation Limited provides a loan to the Telstra Growthshare Trust to purchase shares on market to underpin the issue of options. The loan balance at 30 June 2005 is $45 million (2004: $65 million). On consolidation of the Trust, this loan is eliminated, together with any associated interest.

30(s) Arrangements that contain leases

Under USGAAP, an arrangement contains a lease if fulfilment of that arrangement is dependent upon the use of specific property, plant and equipment and it conveys the right to control the use of the specific property, plant and equipment to the purchaser.

Based on the requirements of Emerging Issues Task Force Issue No. 01-8 (EITF 01-8), "Determining Whether an Arrangement Contains a Lease", these arrangements are split into their lease and non-lease components using the relative fair value method, with each component accounted for separately. EITF 01-8 is only applicable to arrangements that we entered into or modified after 1 July 2003.

In accordance with EIFT 01-8, some of our solutions management contracts entered into after 1 July 2003 are considered to contain capital leases. As such, at 30 June 2005 we have reclassified $24 million from property, plant and equipment to lease receivable. There is no material impact on our revenue or net income as a result of these leases.

All of our solutions management contracts for AGAAP purposes, and those entered into prior to 1 July 2003 for USGAAP purposes, are accounted for as service arrangements.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(s) Arrangements that contain leases (continued)

The future minimum lease payments to be received for each of the five succeeding fiscal years is as follows:

	Telstra Group				
	Year ended 30 June				
	2006	2007	2008	2009	2010
	$m	$m	$m	$m	$m
Total future minimum lease payments	7	7	7	6	1
Less: Unearned income	(1)	(1)	(1)	(1)	-
Future minimum lease payments receivable	6	6	6	5	1

30(t) Recently issued Australian accounting standards

A number of new accounting standards have been issued by the Australian Accounting Standards Board (AASB) that have not yet been adopted for AGAAP. A summary of the standards appears in note 1.3.

We will also be required to adopt the Australian equivalents of International Financial Reporting Standards (A-IFRS), as issued by the AASB, for the half-year ending 31 December 2005 and year ending 30 June 2006. A summary of the significant areas of impact of adopting A-IFRS appears in note 1.4.

Some of these standards, once adopted, will result in certain currently existing adjustments in the reconciliations of net income to USGAAP and shareholders' equity to USGAAP to be no longer required.

30(u) Recently issued United States accounting standards

Share-Based Payments

In December 2004, the Financial Accounting Standards Board in the US (FASB) issued Statement of Financial Accounting Standards No. 123 Revised (SFAS 123R), "Share-Based Payment". SFAS 123R requires entities to recognise an expense for the issue of employee stock options and similar awards based on their fair value. SFAS 123R is applicable to us from 1 July 2005.

Under USGAAP, we have adopted the original version of Statement of Financial Accounting Standards No.123 (SFAS 123), "Accounting for Stock Based Compensation." As such, it is not anticipated that the adoption of SFAS 123R will have a material impact on our financial position, results of operation or cash flows.

Directors' Declaration

This directors' declaration is required by the Corporations Act 2001 of Australia.

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) the financial statements and notes, set out on pages 228 to 392 of Telstra Corporation Limited and the Telstra Group:

(i) comply with the Accounting Standards, Corporations Regulations and Urgent Issues Group Consensus Views;

(ii) give a true and fair view of the financial position as at 30 June 2005 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2005; and

(iii) in the directors' opinion, have been made out in accordance with the Corporations Act 2001.

(b) they have received declarations as required by S295A of the Corporations Act 2001;

(c) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable in Australia; and

(d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 23(a) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 23(a).

For and on behalf of the board

Donald McGauchie
Chairman

Date: 11 August 2005
Melbourne, Australia

Independent Audit Report to the Members of Telstra Corporation Limited

This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2005 as filed with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, statement of changes in shareholders' equity, accompanying notes to the financial statements, and the directors' declaration for Telstra Corporation Limited (the Telstra Entity) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the Telstra Entity and the entities it controlled during that year (the Telstra Group).

The directors of the Telstra Entity are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Telstra Entity and the Telstra Group, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Telstra Entity. My audit was conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

Audit procedures have been performed to assess in all material respects, the financial report presents fairly in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view that is consistent with my understanding of the Telstra Entity's and the Telstra Group's financial position and their performance as represented by the results of their operations and cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and other disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

I have also audited the explanation and quantification of the major differences between Australian generally accepted accounting principles compared to United States of America generally accepted accounting principles, which is presented in note 30 to the financial statements. I have audited note 30 in order to form an opinion whether in all material respects, it presents fairly, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia and United States of America generally accepted accounting principles, the major differences between Australian and United States of America generally accepted accounting principles.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of the procedures, my audit was not designed to provide assurance on internal controls.

Audit procedures were performed to assess whether the substance of business transactions was accurately reflected in the financial report. These and the other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Telstra Entity.

Independence

I am independent of the Telstra Group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. I have given to the directors of the Telstra Entity a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to the audit of the financial report, additional services were undertake as disclosed in the notes to the financial statements. The provision of these services has not impaired my independence.

Independent Audit Report to the Members of Telstra Corporation Limited (continued)

Audit opinion

In my opinion, the financial report of the Telstra Group is in accordance with:

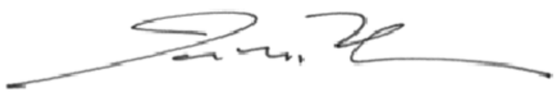
(a) the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of the Telstra Entity and the Telstra Group as at 30 June 2005 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Further, in my opinion, note 30 to the financial statements presents fairly the major differences between Australian and United States of America generally accepted accounting principles.



Ian McPhee

Auditor-General
Date: 11 August 2005
Canberra, Australia

Report of Independent Registered Public Accounting Firm to the Shareholders and Board of Directors of Telstra Corporation Limited

This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2004 on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated there under.

We have audited the accompanying consolidated balance sheets of Telstra Corporation Limited and its subsidiaries and the unconsolidated balance sheets of Telstra Corporation Limited as of 30 June 2005 and 2004, and the related consolidated and unconsolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended 30 June 2005, all expressed in Australian dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Australian Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal controls over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telstra Corporation Limited and its subsidiaries at 30 June 2005 and 2004 and the unconsolidated financial position of Telstra Corporation Limited and the related consolidated and unconsolidated results of their operations and cash flows for each of the three years in the period ended 30 June 2005, in conformity with Australian generally accepted accounting principles.

Australian generally accepted accounting principles vary in certain significant respects from United States of America generally accepted accounting principles. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for each of the three years ended 30 June 2005, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 2005, 30 June 2004 and 30 June 2003, to the extent summarised in note 30 to the consolidated financial statements

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Ernst & Young

Ernst & Young

Date: 11 August 2005
Melbourne, Australia