Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Half-Year Financial Report

for the half-year ended 31 December 2004

Page number

Half-Year Financial Statements

Notes to the Half-Year Financial Statements

Statement of Financial Performance

for the half-year ended 31 December 2004

	Note	Telstra Group Half-year ended 31 December 2004 $m	2003 $m
Ordinary activities			
Revenue			
Sales revenue		**11,275**	10,456
Other revenue (excluding interest revenue)	2	**107**	370
		11,382	10,826
Expenses			
Labour		**1,812**	1,635
Goods and services purchased		**2,124**	1,737
Other expenses	2	**1,909**	2,101
		5,845	5,473
Share of net loss from joint venture entities and associated entities		**-**	29
		5,845	5,502
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**5,537**	5,324
Depreciation and amortisation		**1,850**	1,802
Earnings before interest and income tax expense (EBIT)		**3,687**	3,522
Interest revenue		**35**	27
Borrowing costs		**406**	382
Net borrowing costs		**371**	355
Profit before income tax expense		**3,316**	3,167
Income tax expense	3	**979**	874
Net profit available to Telstra Entity shareholders		**2,337**	2,293
Other valuation adjustments to equity			
Net exchange differences on translation of financial statements of non-Australian controlled entities		**(48)**	(43)
Reserves recognised on equity accounting our interest in joint venture entities and associated entities		**2**	(9)
Valuation adjustments attributable to Telstra Entity shareholders and recognised directly in equity		**(46)**	(52)
Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners		**2,291**	2,241

	Note	¢	¢
Interim dividends (cents per share)			
- ordinary dividend	8	**14.0**	13.0
- special dividend	8	**6.0**	-
Total interim dividends per share		**20.0**	13.0
Basic and diluted earnings (cents per share)		**18.6**	17.9

The notes following the half-year financial statements form part of the half-year financial report.

Statement of Financial Position

as at 31 December 2004

	Note	Telstra Group as at 31 Dec 2004 $m	30 June 2004 $m	31 Dec 2003 $m
Current assets				
Cash assets		**1,102**	687	559
Receivables		**3,942**	3,608	3,656
Inventories		**214**	229	239
Other assets		**812**	803	674
Total current assets		**6,070**	5,327	5,128
Non current assets				
Receivables		**614**	740	596
Inventories		**9**	10	14
Investments - accounted for using the equity method		**48**	40	113
Investments - other		**78**	80	80
Property, plant and equipment	2	**23,324**	22,863	22,666
Intangibles - goodwill		**2,354**	2,104	1,958
Intangibles - other		**1,630**	1,501	1,050
Other assets		**2,361**	2,328	2,428
Total non current assets		**30,418**	29,666	28,905
Total assets		**36,488**	34,993	34,033
Current liabilities				
Payables	2	**2,665**	2,338	1,944
Interest-bearing liabilities		**3,360**	3,246	1,488
Income tax payable		**500**	539	356
Provisions		**385**	358	371
Revenue received in advance		**958**	1,095	864
Total current liabilities		**7,868**	7,576	5,023
Non current liabilities				
Payables	2	**142**	49	42
Interest-bearing liabilities		**10,116**	9,014	10,796
Provision for deferred income tax		**1,885**	1,807	1,895
Provisions		**830**	778	762
Revenue received in advance		**393**	408	405
Total non current liabilities		**13,366**	12,056	13,900
Total liabilities		**21,234**	19,632	18,923
Net assets		**15,254**	15,361	15,110
Shareholders' equity				
Telstra Entity				
Contributed equity	2	**5,793**	6,073	6,073
Reserves		**(160)**	(105)	(205)
Retained profits	2	**9,619**	9,391	9,240
Shareholders' equity available to Telstra Entity shareholders		**15,252**	15,359	15,108
Outside equity interests				
Contributed equity		**2**	2	1
Retained profits		**-**	-	1
Total outside equity interests		**2**	2	2
Total shareholders' equity		**15,254**	15,361	15,110

Contingent liabilities and contingent assets 7

The notes following the half-year financial statements form part of the half-year financial report.

Statement of Cash Flows

for the half-year ended 31 December 2004

	Telstra Group Half-year ended 31 December	
	2004	2003
	$m	$m
Cash flows from operating activities		
Receipts from trade and other receivables (inclusive of goods and services tax (GST) (i))	**12,274**	11,509
Payments of accounts payable and to employees (inclusive of GST (i))	**(6,430)**	(6,605)
Interest received	**34**	27
Borrowing costs paid	**(436)**	(423)
Dividends received	**2**	1
Income taxes paid	**(909)**	(1,086)
GST remitted to the Australian Taxation Office (ATO)	**(542)**	(498)
Net cash provided by operating activities	**3,993**	2,925
Cash flows from investing activities		
Payments for:		
- property, plant and equipment (iii)	**(1,544)**	(1,200)
- internal use software assets (iii)	**(284)**	(174)
- patents, trademarks and licences	**-**	(2)
- deferred expenditure	**(3)**	-
Capital expenditure (before investments)	**(1,831)**	(1,376)
- shares in controlled entities (iv)	**(567)**	-
- investment in joint venture entities	**(6)**	-
- share buy-back from investment in associated entity	**-**	1
- shares in listed securities and other investments	**(1)**	-
Investment expenditure	**(574)**	1
Total capital expenditure	**(2,405)**	(1,375)
Proceeds from:		
- sale of property, plant and equipment	**14**	98
- sale of joint venture entities and associated entities	**-**	155
- sale of listed securities and other investments	**7**	24
Net cash used in investing activities	**(2,384)**	(1,098)
Cash flows from financing activities		
Proceeds from:		
- borrowings	**2,331**	2,128
- Telstra bonds	**497**	-
Repayment of:		
- borrowings	**(1,284)**	(1,942)
- Telstra bonds	**(262)**	(204)
- finance leases principal amount	**(11)**	(3)
Employee share loans	**8**	14
Loan to associated entity	**(6)**	(2)
Purchase of bills of exchange	**(64)**	-
Dividends paid	**(1,642)**	(1,544)
Share buy-back (ii)	**(756)**	(1,009)
Net cash used in financing activities	**(1,189)**	(2,562)
Net increase/(decrease) in cash	**420**	(735)
Foreign currency conversion	**(5)**	(6)
Cash at the beginning of the period	**687**	1,300
Cash at the end of the period	**1,102**	559

The notes following the half-year financial statements form part of the half-year financial report.

Statement of Cash Flows (continued)

Notes to the Statement of Cash Flows

(i) Goods and Services Tax (GST) and other like taxes

Our receipts from trade and other receivables includes estimated GST of $1,061 million (2003: $988 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. Estimated GST paid associated with operating activities amounted to $399 million (2003: $376 million) and estimated GST paid in relation to investing activities amounted to $120 million (2003: $114 million).

(ii) Share buy-back

On 15 November 2004, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our ongoing capital management program. The cost of the share buy-back comprised purchase consideration of $750 million and associated transaction costs of $6 million. Refer to note 2 for further information.

(iii) Financing and investing activities that involved components of non cash

Capitalised Interest

Our property, plant and equipment includes borrowing costs of $39 million for the half-year ended 31 December 2004 (2003: $30 million), which have been included in the cost of constructed assets. Our software assets include borrowing costs of $11 million for the half-year ended 31 December 2004 (2003: $8 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.

Acquisition of 3G assets

During the period we acquired a 50% interest in Hutchison 3G Australia Pty Ltd's existing third generation (3G) radio access network. This acquisition is not yet fully reflected in our statement of cash flows. As at 31 December 2004, we have paid $22 million to our joint venture partner for the acquisition of these assets. An amount of $406 million has been recognised as a deferred liability and will be paid in instalments. Refer to note 2 for further information.

(iv) Acquisitions and disposals

During the half-year ending 31 December 2004, 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 cash consideration of $342 million, including transaction costs.

On 25 August 2004, we acquired 100% of the issued share capital of PSINet UK Limited and its controlled entities for initial cash consideration of $113 million, including transaction costs, and additional deferred consideration amounting to $13 million.

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 cash consideration of $66 million, including transaction costs.

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

In addition to the above, we made other insignificant acquisitions for consideration of $12 million.

Details of the acquisitions are as follows:

Acquisition of controlled entities	Half-year ended 31 December 2004 $m
Consideration for acquisitions	
Cash and costs of acquisition	579
Deferred consideration	13
	592
Fair value of assets and liabilities acquired by major class	
Cash	12
Receivables	116
Inventory	17
Property, plant and equipment	77
Identifiable intangible assets	226
Other assets	29
Deferred tax assets	22
Payables	(98)
Provisions	(49)
Finance lease liability	(41)
Other liabilities	(38)
Tax liabilities	(1)
Fair value of net assets on gaining control	272
Goodwill on acquisition	320
	592
Outflow of cash on acquisitions	
Consideration and costs of acquisition	579
Cash balances acquired	(12)
	567

During the half-year ended 31 December 2003, we did not make any significant acquisitions.

Statement of Changes in Shareholders' Equity

for the half-year ended 31 December 2004

	Telstra Group							
		Reserves						
	Contributed equity $m	Asset revaluation $m	Foreign currency translation $m	General $m	Consolida-tion fair value $m	Retained profits $m	Outside equity interests $m	Total $m
Balance at 30 June 2003	6,433	32	(240)	8	50	9,137	2	15,422
- net profit	-	-	-	-	-	2,293		2,293
- reserves recognised on equity accounting our interest in joint venture entities and associated entities	-	-	(9)	-	-	-	-	(9)
- 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	-	-	-	-	(3)	3	-	-
- share buy-back	(360)	-	-	-	-	(649)	-	(1,009)
- prior year final dividend paid (i)	-	-	-	-	-	(1,544)	-	(1,544)
Balance at 31 December 2003	6,073	32	(292)	8	47	9,240	2	15,110
- change in outside equity interests' capital, reserves and accumulated losses (apart from interests in net loss)	-	-	-	-	-	-	1	1
- net profit/(loss)	-	-	-	-	-	1,825	(1)	1,824
- reserves recognised on equity accounting our interest in joint venture entities and associated entities	-	-	4	-	-	-	-	4
- adjustment on translation of financial statements of non-Australian controlled entities	-	-	64	-	-	-	-	64
- fair value adjustment on acquisition of controlling interest in joint venture entity	-	-	-	-	(3)	3	-	-
- transfer of foreign currency translation reserve and general reserve on sale of controlled entities and associates	-	-	38	(3)	-	(35)	-	-
- interim dividend paid (i)	-	-	-	-	-	(1,642)	-	(1,642)
Balance at 30 June 2004	6,073	32	(186)	5	44	9,391	2	15,361

Statement of Changes in Shareholders' Equity (continued)

for the half-year ended 31 December 2004

	Telstra Group							
		Reserves						
	Contributed equity $m	Asset revaluation $m	Foreign currency translation $m	General $m	Consolida-tion fair value $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	**-**	**-**	**-**	**-**	**-**	**2,337**	**-**	**2,337**
- reserves recognised on equity accounting our interest in joint venture entities and associated entities	**-**	**-**	**(3)**	**5**	**-**	**-**	**-**	**2**
- adjustment on translation of financial statements of non-Australian controlled entities	**-**	**-**	**(48)**	**-**	**-**	**-**	**-**	**(48)**
- fair value adjustment on acquisition of controlling interest in joint venture entity	**-**	**-**	**-**	**-**	**(3)**	**3**	**-**	**-**
- transfer of general reserve on sale of controlled entities and associates	**-**	**-**	**-**	**(6)**	**-**	**6**	**-**	**-**
- share buy-back (ii)	**(280)**	**-**	**-**	**-**	**-**	**(476)**	**-**	**(756)**
- prior year final dividend paid (i)	**-**	**-**	**-**	**-**	**-**	**(1,642)**	**-**	**(1,642)**
Balance at 31 December 2004	**5,793**	**32**	**(237)**	**4**	**41**	**9,619**	**2**	**15,254**

(i) Franked at 30% tax rate

(ii) On 15 November 2004, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our ongoing capital management program. The ordinary shares were bought back at $4.05 per share, comprising a fully franked dividend component of $2.55 per share and a capital component of $1.50 per share.

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

The cost has been split between contributed equity and retained profits within shareholders' equity to reflect the substance of the buy-back. Refer to note 2 for further information.

The notes following the half-year financial statements form part of the half-year financial report.

Notes to the Half-Year 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 is the legal entity, Telstra Corporation Limited.

Our half-year financial report is a general purpose financial report and is to be read in conjunction with our Annual Financial Report as at 30 June 2004. This should also be read together with any public announcements made by us in accordance with the continuous disclosure obligations arising under Australian Stock Exchange listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

1.1. Basis of preparation of this financial report

This half-year financial report has been prepared in accordance with the requirements of the Australian Corporations Act 2001, Accounting Standards applicable in Australia, including AASB 1029: "Interim Financial Reporting", other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group Consensus Views.

Our half-year financial report does not include all notes of the type normally included in the Annual Financial Report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Telstra Group as a full financial report.

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

In preparing this half-year financial report, we have been required to make estimates and assumptions that effect:
- the reported amounts of assets and liabilities;
- the disclosure of contingent assets, contingent liabilities and commitments; and
- revenues and expenses for the year.

Actual results could differ from those estimates.

For the purpose of preparing this half-year financial report, each half-year has been treated as a discrete reporting period.

Note 9 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).

1.2. Changes in accounting policy

The accounting policies adopted in preparing our half-year financial report are consistent with those applied in the annual financial report for the financial year ended 30 June 2004.

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. Adoption of International Financial Reporting Standards

Australian entities reporting under the Corporations Act 2001 must prepare their financial statements under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the Australian Accounting Standards Board (AASB) from 1 January 2005. This will involve preparing our first set of financial statements applying Australian equivalents of International Financial Reporting Standards (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 performance information in our year end financial statements to comply with applicable US Securities and Exchange Commission (SEC) requirements. The SEC has proposed relief from this requirement for foreign registered companies, however a final ruling has yet to be released. Under the SEC proposal, foreign registered companies will have the option to provide only one year of comparatives when applying A-IFRS on initial adoption. This means we may have the option to apply A-IFRS from 1 July 2004. However, if the proposal of the SEC is not approved, or we elect not to exercise the option for one year of comparative information, the transitional impacts of applying A-IFRS will be as at 1 July 2003. This note outlines the known transitional adjustments at both 1 July 2004 and 1 July 2003 to enable users of this financial report to understand the potential transitional adjustments at both dates. The transitional impacts are different at each of the potential transition dates.

For reporting in the 2006 financial year, comparatives will be remeasured and restated for the half-year ending 31 December 2004 and the financial year ending 30 June 2005 if the proposed SEC relief is granted. Most of the adjustments on transition are required to be made to opening retained profits at the beginning of the first comparative period.

We have established 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 to the Audit Committee of the Telstra Board of Directors on the progress towards adoption. 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 design and implementation 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 financial year.

Under AASB 1047: "Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards", entities are strongly encouraged to disclose any known or reliably estimable information about the impacts on the financial report of adopting A-IFRS as that information becomes available. Based on A-IFRS as currently issued, our known estimable transitional differences from application of A-IFRS are summarised below. These disclosures reflect the transitional adjustments based on the work-in-progress of our IFRS project team for the Telstra consolidated group. Equivalent disclosures for the parent entity, Telstra Corporation Limited, will be provided in our full financial report at 30 June 2005 when the full Telstra Entity financial report is provided.

The transitional adjustments reported in this note are based on the A-IFRS standards released as at 31 December 2004. These are subject to ongoing review and any amendments by the AASB, or by interpretative guidance from the IASB, could change the adjustments reported. The transitional adjustments identified are based on the work-in-progress of our IFRS project team and are our best judgements as at reporting date. We are still in the process of finalising the tax impact of these adjustments, and consequently they may change when the impact of the tax effect is finalised.

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. 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 a valuation technique consistent with the Black Scholes methodology, 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, adjusted to reflect actual and expected levels of vesting.

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 opening retained profits by $55 million (2003: $34 million) represents the reversal of the expense previously recorded under AGAAP. We will also recognise a transitional expense in retained profits under AASB 2 of $4 million (2003: $nil) relating to the amortisation over the vesting period of issues subsequent to 7 November 2002.

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.

As a result of adopting AASB 2 and in light of recent changes made to UIG 112: “Consolidation - Special Purpose Entities” (UIG 112), we will be required to consolidate the results, financial position and cash flows of the Telstra Growthshare Trust from transition date. The following adjustments will be recorded on initial consolidation:
- elimination of the loan receivable from the Telstra Growthshare Trust (2004: $65 million, 2003: $88 million);
- reduction in share capital to reflect the shares held in Telstra Corporation Limited by the Telstra Growthshare Trust (2004: $117 million, 2003: $121 million); and
- the recognition of cash assets held by the Telstra Growthshare Trust (2004: $3 million, 2003: $1 million).

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

Our interpretation of AASB 2 is that shares issued under the Telstra Employee Share Ownership Plans (TESOP 97 and TESOP 99), in conjunction with its non-recourse loans, are to be accounted for as options. As a result, the outstanding balance of the loans to employees under TESOP 97 and TESOP 99 of $174 million, comprising $24 million current receivables and $150 million non-current receivables (2003: $198 million, comprising $24 million current receivables and $174 million non-current receivables), will be deducted from share capital.

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. As a result, we do not consolidate the operations of these trusts into the Telstra Group.

The adoption of AASB 2 will require us to also consolidate TESOP 97 and TESOP 99. The other assets and liabilities held by these trusts are insignificant to the Telstra Group.

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. 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, 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 is as follows:

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

The prohibition of amortisation of goodwill will have the effect of reducing expenses and therefore improving reported profits of the Telstra Group, 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 amortisation charge for the Telstra Group for the half-year ended 31 December 2004 was $72 million and $123 million for the financial year ended 30 June 2004 (2003: $116 million).

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 notional amortisation charge for the Telstra Group for the half-year ended 31 December 2004 was $1 million and $2 million for the financial year ended 30 June 2004 (2003: $61 million).

(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 deferred tax liabilities, that arise on transition to other A-IFRS standards, comprise an increase of $137 million (2003: $64 million) associated with the pension asset as detailed in note 1.3 (e), an increase of $10 million (2003: $10 million) for the tax effect of the transferred asset revaluation reserve as detailed in note 1.3 (d), and a decrease of $137 million (2003: $142 million) for the tax effect of the transitional adjustment relating to borrowing costs as detailed in note 1.3 (g).

In addition, a net transitional adjustment to deferred tax liabilities of $174 million (2003: $183 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. This comprises $95 million (2003: $95 million) for the tax effect of fair value adjustments on entities acquired by Telstra and tax base differences on buildings of $107 million (2003: $118 million), partially offset by tax losses of $28 million (2003: $30 million).

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 these 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 Telstra. Finalisation of these matters could give rise to further transitional adjustments from the adoption of AASB 112.

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

Under existing AGAAP requirements, we elected to apply the cost basis of recording property, plant and equipment and ceased our previous policy of revaluing certain of these assets where we were permitted to do so. This effectively fixed our asset revaluation reserve at $32 million for the Telstra Group from the date of the election to adopt the cost basis of recording. Under A-IFRS, we will deem the carrying value of our property, plant and equipment to be cost from the date of transition.

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. Adoption of International Financial Reporting Standards (continued)

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

On transition to A-IFRS, an entity is required to derecognise items where A-IFRS do not permit such recognition. As we have elected to adopt the cost model as our accounting policy, the asset revaluation reserve will be derecognised as it is not a valid reserve under the cost model. The balance will be transferred to the general reserve on transition to A-IFRS, pending further examination of the tax consequences of the transfer. The treatment of the tax effect as detailed in note 1.3 (c) may change based on the resolution of the tax consequences.

(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 adjustment will result in a $537 million (2003: $250 million) defined benefit pension asset, an increase to opening retained profits of $400 million (2003: $186 million), and a $137 million (2003: $64 million) increase to the deferred tax liability, as detailed in note 1.3 (c).

AASB 119 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.

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

Under the transitional rules of AASB 1 we will be taking advantage of an exemption that permits the resetting of the foreign currency translation reserve (FCTR) to nil as at the date of transition to A-IFRS. This decision will give rise to a credit adjustment against the FCTR of $348 million (2003: $443 million) and a decrease to opening retained profits of this amount.

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.

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).

The transitional adjustments to reset the goodwill and fair value adjustments of HKCSL and TelstraClear will result in a change to the FCTR of $302 million (2003: $285 million), corresponding with an increase to property, plant and equipment of $3 million (2003: $2 million), an increase of $11 million (2003: $8 million) to intangible assets, and a decrease in goodwill of $316 million (2003: $295 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.

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

In accordance with AGAAP, we capitalise borrowing costs incurred in respect of internally constructed property, plant and equipment and sofware 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.

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. Adoption of International Financial Reporting Standards (continued)

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

On transition to A-IFRS we will transfer the capitalised amount of borrowing costs included in property, plant and equipment and software assets to retained profits. This will give rise to a reduction in property, plant and equipment of $396 million (2003: $401 million), a reduction in software assets of $63 million (2003: $72 million), a decrease to opening retained profits of $322 million (2003: $331 million) and a $137 million (2003: $142 million) decrease to deferred tax liabilities. This election will have the impact of reducing depreciation and increasing our interest expense in subsequent reporting periods.

(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 of our associates and joint venture entities where they are incurring losses and have balances as described above.

On transition to AASB 128/131, there is a decrease to non current receivables of $208 million (2003: $1 million increase), representing a capacity prepayment with our joint venture entity Reach Ltd (Reach). This non current asset is deemed to be an extension of our investment in Reach under A-IFRS. This results 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 is, however, absorbed by the carried forward losses in Reach not previously recognised. The impact of this change will be to decrease opening retained profits by $348 million (2003: $81 million) for our share of the accumulated losses, offset by an increase of $140 million (2003: $82 million) to the FCTR for the translation differences in our investment in Reach. The Reach FCTR will be reset to nil as detailed in the adjustment outlined in note 1.3 (f).

(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 operations 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 assets, encompassing the customer access network and the core network. This ubiquitous network carries all our telecommunications traffic throughout Australia.

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

Each of our controlled entities, joint venture entities and associated entities have also been assessed, and generally each significant entity will have at least one separate cash generating unit in their own right. Under current AGAAP, we generally assess recoverable amount on a similar basis, and there is not expected to be an initial adjustment to the value of our assets.

In accordance with AASB 1, the carrying amount of goodwill at transition date has been tested for impairment and no initial impairment losses are to be recognised on transition to A-IFRS.

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

As part of the IFRS project, intangibles recognised under AGAAP and software assets developed for internal use were reviewed to confirm that the criteria in AASB 138 have been met. Software assets developed for internal use will be reclassified from other non current assets to intangible assets on transition to AASB 138. This reclassification adjustment amounts to $1,923 million (2003: $2,001 million) as at transition date.

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. Adoption of International Financial Reporting Standards (continued)

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

Under AASB 132/139, our accounting policy will change to recognise our financial instruments in the statement of financial position and to record all derivatives and some financial assets and financial liabilities at fair market value. Those financial assets and financial liabilities which are not at fair value will be carried at cost or amortised cost. AASB 139 recognises fair value hedge accounting, cash flow hedge accounting and hedges of investments in foreign operations. Fair value hedges are used to hedge against changes in fair values, whereas cash flow hedges are used to hedge against variability in cash flows. Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness outside the prescribed range precludes the use of hedge accounting, which may result in significant volatility in the statement of financial performance.

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

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

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

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

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. 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, AASB 139 requires that we recognise all embedded derivatives that exist within contracts to which we are a party. We have conducted a review of our contracts and determined that there are no material embedded derivatives that require separate measurement and reporting.

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 yet to determine whether we will be applying the exemption. The application of AASB 139 on the recognition and measurement of our financial assets and financial liabilities, including derivatives, will give rise to a transition adjustment and increase volatility in reported profits. The increase in volatility of reported profits includes some ineffectiveness arising from the application of hedge accounting.

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. 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 as at 1 July 2003 and 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 comparatives only required from 1 July 2005. Refer to note 1.3 (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. Further adjustments may arise as we approach the 1 July 2005 application date and the IFRS project team concludes the implementation phase of the project.

		Telstra Group	
		Increase/(decrease) from the transition to A-IFRS as at	
	Note	1 July 2004 $m	1 July 2003 $m
Cash assets - cash balance of the Telstra Growthshare Trust	1.3 (a)	3	1
Receivables - reverse current employee share loans - TESOP 97 and TESOP 99	1.3 (a)	(24)	(24)
Receivables - reverse non current employee share loans - Telstra Growthshare Trust	1.3 (a)	(65)	(88)
Receivables - reverse non current employee share loans - TESOP 97 and TESOP 99	1.3 (a)	(150)	(174)
Receivables - equity accounting of capacity prepayment for Reach Ltd	1.3 (h)	(208)	1
		(423)	(261)
Property, plant and equipment - retranslation of fair value adjustments	1.3 (f)	3	2
Property, plant and equipment - expensing of borrowing costs previously capitalised	1.3 (g)	(396)	(401)
		(393)	(399)
Intangibles - goodwill - retranslation of goodwill	1.3 (f)	(316)	(295)
Intangibles - other - reclassification of software assets from other assets	1.3 (j)	1,923	2,001
Intangibles - other - retranslation of fair value adjustments	1.3 (f)	11	8
		1,934	2,009
Defined benefit pension asset - recognition of net defined benefit surplus	1.3 (e)	537	250
Other assets - reclassification of software assets to intangibles - other	1.3 (j)	(1,923)	(2,001)
Other assets - expensing of borrowing costs previously capitalised as part of software assets	1.3 (g)	(63)	(72)
		(1,986)	(2,073)
Provision for deferred income tax - tax effect of the transferred asset revaluation reserve	1.3 (c)	10	10
Provision for deferred income tax - deferred tax liability associated with the pension asset	1.3 (e)	137	64
Provision for deferred income tax - tax effect of expensing borrowing costs	1.3 (g)	(137)	(142)
Provision for deferred income tax - recognition of differences between the carrying value and tax base.	1.3 (c)	174	183
		184	115

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. 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 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 comparatives only required from 1 July 2005. Refer to note 1.3 (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. Further adjustments may arise as we approach the 1 July 2005 application date and the IFRS project team concludes the implementation phase of the project.

		Telstra Group - 1 July 2004 application date							
			Reserves						
	Note	Share capital/ Contributed equity $m	Asset revaluation $m	Foreign currency translation $m	General $m	Consolida-tion fair value $m	Retained profits $m	Outside equity interests $m	Total $m
Balance at 1 July 2004 under AGAAP. . .		6,073	32	(186)	5	44	9,391	2	15,361
Share loans to employees	1.3 (a)	(174)	-	-	-	-	-	-	(174)
Shares held by employee share plan trusts	1.3 (a)	(117)	-	-	-	-	-	-	(117)
Services received under employee share plans.	1.3 (a)	4	-	-	-	-	(4)	-	-
Share-based payments	1.3 (a)	-	-	-	-	-	55	-	55
Carrying value differences from the tax base	1.3 (c)	-	-	-	-	-	(174)	-	(174)
Tax effect of the transferred asset revaluation reserve.	1.3 (c)	-	-	-	(10)	-	-	-	(10)
Transfer of asset revaluation reserve	1.3 (d)	-	(32)	-	32	-	-	-	-
Defined benefit pension asset . . .	1.3 (e)	-	-	-	-	-	400	-	400
Retranslation of overseas goodwill balances	1.3 (f)	-	-	(302)	-	-	-	-	(302)
Resetting the foreign currency translation reserve to zero	1.3 (f)	-	-	348	-	-	(348)	-	-
Expensing of borrowing costs previously capitalised	1.3 (g)	-	-	-	-	-	(322)	-	(322)
Equity accounting of capacity prepayment for Reach Ltd	1.3 (h)	-	-	140	-	-	(348)	-	(208)
Balance at 1 July 2004 under A-IFRS for known estimable transitional adjustments		5,786	-	-	27	44	8,650	2	14,509

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3. 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 as at 1 July 2003, based on the A-IFRS's as currently issued and interpreted. The transitional effects disclosed below do not include any adjustments from applying AASB 132/139 on the basis that these standards are to be applied prospectively, with comparatives only required from 1 July 2005. Refer to note 1.3 (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. Further adjustments may arise as we approach the 1 July 2005 application date and the IFRS project team concludes the implementation phase of the project.

		Telstra Group - 1 July 2003 application date							
			Reserves						
	Note	**Share capital/ Contributed equity $m**	**Asset revaluation $m**	**Foreign currency translation $m**	**General $m**	**Consolidation fair value $m**	**Retained profits $m**	**Outside equity interests $m**	**Total $m**
Balance at 1 July 2003 under AGAAP		6,433	32	(240)	8	50	9,137	2	15,422
Share loans to employees	1.3 (a)	(198)	-	-	-	-	-	-	(198)
Shares held by employee share plan trusts	1.3 (a)	(121)	-	-	-	-	-	-	(121)
Share-based payments	1.3 (a)	-	-	-	-	-	34	-	34
Carrying value differences from the tax base	1.3 (c)	-	-	-	-	-	(183)	-	(183)
Tax effect of the transferred asset revaluation reserve	1.3 (c)	-	-	-	(10)	-	-	-	(10)
Transfer of asset revaluation reserve	1.3 (d)	-	(32)	-	32	-	-		-
Defined benefit pension asset	1.3 (e)	-	-	-	-	-	186	-	186
Retranslation of overseas goodwill balances	1.3 (f)	-	-	(285)	-	-	-	-	(285)
Resetting the foreign currency translation reserve to zero	1.3 (f)	-	-	443	-	-	(443)	-	-
Expensing of borrowing costs previously capitalised	1.3 (g)	-	-	-	-	-	(331)	-	(331)
Equity accounting of capacity prepayment for Reach Ltd	1.3 (h)	-	-	82	-	-	(81)	-	1
Balance at 1 July 2003 under A-IFRS for known estimable transitional adjustments		6,114	-	-	30	50	8,319	2	14,515

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.4. 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 from joint venture entities and associated entities) according to either the nature (type) of the expense or the function (activity to which the expense relates) of the expense. 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; and
- our marketing expenses and general and administration expenses included within other expenses.

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. The company 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. 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 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.

1.5. Rounding

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

1.6. Comparative figures

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

Notes to the Half-Year Financial Statements (continued)

	Half-year ended 31 December	
	2004	2003
	$m	$m
2. 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 crediting/(charging) 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 (i)	-	154
Total revenue items	-	154
Items included in expenses:		
Other expenses		
- net book value of investment and modification of information technology services contract with IBM Global Services Australia Limited (i)	-	(135)
Total expense items	-	(135)
Net items	-	19
Income tax benefit attributable to those items requiring disclosure	-	39
Net items after income tax benefit	-	58

Significant items affecting the statement of financial performance

During the half-year ended 31 December 2004, there were no transactions affecting the statement of financial performance that require specific disclosure.

During the half-year ended 31 December 2003, we identified the following transaction as requiring specific disclosure:

(i) On 28 August 2003, we sold our 22.6% shareholding in our associated entity IBM Global Services Australia Limited (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 information technology services.

This modification to our service contract with IBMGSA 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 an income tax benefit).

Notes to the Half-Year Financial Statements (continued)

2. Items requiring specific disclosure (continued)

Significant items affecting the statement of financial position

The following items had a significant impact on our statement of financial position during the half-year ended 31 December 2004:

(i) 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 final agreements with H3GA effectively create an asset sharing arrangement, whereby we have acquired a 50% interest in H3GA's existing 3G Radio Access Network (RAN) assets. These assets have been acquired by Telstra OnAir Holdings Pty Ltd, a wholly owned subsidiary of Telstra Corporation Limited.

The purchase price for the 50% interest in the 3G RAN assets was $450 million, which is payable over 2 years. Based on the deferred payment terms, our property, plant and equipment balance increased by $428 million, representing the present value of the purchase price, net of claimable GST. As at 31 December 2004, we have paid $22 million to our joint venture partner for the acquisition of the assets. An amount of $406 million was recognised in deferred liabilities, which will be paid in three instalments, the last being due by 1 July 2006. In addition, we have capitalised $12 million in costs associated with the transaction.

These assets will be depreciated once usage commences. As we have not yet commenced using the assets, no depreciation has been charged to our statement of financial performance in the half-year ended 31 December 2004.

Future construction of 3G RAN assets, subsequent to our acquisition of the initial 50%, is planned to be undertaken via an unincorporated partnership funded directly by the partners. The partnership will incur all design and construction costs and recharge the costs equally to each of the partners at zero profit. The nature of the partnership is such that each of the partners maintains all of the risks and benefits associated with their 50% interest in any newly constructed assets and therefore we will recognise our share of all 3G RAN assets constructed by the partnership as property, plant and equipment within our consolidated balance sheet. We will equity account the remaining operations of this partnership. In the initial stages of the partnership arrangement all costs will be recharged to the respective partners. As a result, the equity accounted results are not expected to be significant.

Given the nature of the partnership arrangement, we have joint and several liability with H3GA for the operations of the partnership. As the partnership has nil balances at present, we have no contingent liability arising from the arrangement.

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

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

	Half-year ended 31 Dec 2004 Number of shares
Balance at 30 June 2004	**12,628,359,026**
Shares bought back	**(185,284,669)**
Balance at 31 December 2004	**12,443,074,357**

Our weighted average number of ordinary shares for the half-year ended 31 December 2004 used in the calculation of basic and diluted earnings per share was 12,581,030,877 (2003: 12,817,398,218).

The cost of the share buy-back comprised 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:

	Half-year ended 31 Dec 2004 $m
Contributed equity	**(280)**
Retained profits	**(476)**
	(756)

Notes to the Half-Year Financial Statements (continued)

	Half-year ended 31 December	
	2004	2003
	$m	$m
3. Income tax expense		
Notional income tax expense on profit differs from actual income tax expense recorded as follows:		
Profit before income tax expense	**3,316**	3,167
Notional income tax expense on profit calculated at 30%	**995**	950
Which is adjusted by the tax effect of:		
Effect of different rates of tax on overseas income	**(7)**	(7)
Research and development concessions	**(5)**	(4)
Share of net (profit)/loss from joint venture entities and associated entities	**(15)**	1
Profit on sale of non current assets	**(3)**	(58)
Non deductible depreciation and amortisation	**39**	33
Assessable foreign source income not included in accounting profit	**9**	13
Under provision of tax in prior years	**3**	22
Additional effect of reset tax values on entering tax consolidation (i)	**-**	(58)
Other adjustments	**(37)**	(18)
Income tax expense on profit	**979**	874

(i) 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.

As part of the election to enter tax consolidation, the head entity in the group was able to elect to reset the tax values of a subsidiary member under certain allocation rules. At 30 June 2003, the reset of tax values resulted in a tax benefit of $201 million. Further analysis subsequent to this date resulted in a further reset of tax values and an additional tax benefit of $58 million in the half-year ended 31 December 2003. These benefits reflected the increase in future tax deductions available from the reset values.

Notes to the Half-Year Financial Statements (continued)

4. Dividends

Our dividends provided for and paid during the half-year are listed below:

	Half-year ended 31 December	
	2004	2003
	$m	$m
Ordinary shares		
Final ordinary dividend for the financial year ended 30 June provided for and paid during the interim period	**1,642**	1,544
Dividend per share (cents)	**¢**	¢
Final ordinary dividend for the financial year ended 30 June provided for and paid during the interim period	**13.0**	12.0

Dividends proposed and not recognised as a liability

As the interim dividend for the half-year ended 31 December 2004 was not declared, determined or publicly recommended as at 31 December 2004, no provision for dividend was raised prior to, or as at, that date in the statement of financial position. The declaration of the interim dividend and special dividend is reported as an event after balance date (refer to note 8 for further information).

Notes to the Half-Year 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 in New Zealand is reported as part of the Telstra International segment for segment reporting purposes. For internal management reporting purposes, TelstraClear is included in 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 a business segment we have called Telstra International.

Business segments

During the half-year ended 31 December 2004, we had no significant changes to our business structure.

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 telecommunications products and services to 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 telecommunications products and services, communications 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 and TelstraClear business units. 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. In addition, this business unit is responsible for generating profitable growth by enhancing the value of our existing investments and participating in new growth opportunities; and
- TelstraClear is our New Zealand subsidiary that provides full integrated services to the New Zealand market.

Infrastructure Services (IS) is responsible for:
- operational service, delivery and maintenance of Telstra's fixed, mobile, internet protocol (IP) and data networks. This includes voice and data, product and application platforms, and service management of the online space; and
- end-to-end project construction and integration of communication networks and systems for Telstra and other telecommunications companies.

Telstra Wholesale (TW) is responsible for:
- the provision of telecommunications services, infrastructure sharing solutions and related services that are based on the Telstra networks and delivery systems to other carriers, carriage service providers and internet service providers (ISPs).

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

Business segments (continued)

Telstra Technology Innovation and Products (TTIP) is responsible for:
- the overall planning, design and construction management of Telstra's 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.

Bigpond, Media and Sensis is responsible for:
- management and growth of Telstra's internet products, services and content, contact centres, customer relations and associated functions, for both broadband and narrowband delivery;
- management of Telstra's broadband cable network;
- management of Telstra's interest in the FOXTEL partnership; and
- management and growth of the information, advertising and directories business, including printed publications, voice and online products and services.

Corporate areas include:
- Legal and Office of Company Secretary - provides legal and company secretarial services across Telstra and is responsible for corporate security and liaison with law enforcement agencies;
- 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;
- Corporate Development - encompasses the functions of business development, commercial analysis, corporate strategy, mergers and acquisitions, strategic projects and investor relations; and
- Finance and Administration - encompasses the functions of business and finance services, treasury, productivity, risk management and assurance, credit management, billing directorate and corporate services. 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 Bigpond, Media and Sensis group are not reportable business segments and have been aggregated in the "Other" segment.

Since 31 December 2004, there have been adjustments to our business structure involving the restructure of the Bigpond, Media and Sensis group. This restructure primarily involved the establishment of both the Sensis group and Telstra Media group as separate business units. These changes will be reflected in our 30 June 2005 financial report.

Segment financial performance

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 have been 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 their respective business segments pursuant to the definitions of segment revenues and segment expenses, and 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 and segment expenses 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. Prepaid mobile revenues for TC&M and TCW are also allocated to the TC&M segment. Ongoing postpaid revenue 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 also allocated to the TC&M segment; and
- revenue derived from our Bigpond internet products are recorded in the customer facing business units of TC&M, TB&G and TCW. Distribution costs in relation to these products are also allocated to these three business segments. In addition, IS and TTIP recognise certain expenses in relation to the installation and running of the broadband cable network. These items have not been reallocated to the Bigpond, Media and Sensis business segment.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

Segment financial performance (continued)

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

Change in segment accounting policies

The following segment accounting policy change occurred during the half-year ended 31 December 2004:

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 the half-year ended 31 December 2004, 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. Prior year comparatives have been adjusted 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. All internal transactions to record telecommunications usage of our own products and transactions between Australian businesses are also accounted for at market value.

Transfer pricing is no longer used within the Company. As such the inter-segment revenue line now purely relates to intercompany revenue.

The Asset Accounting Group performs a company wide function in relation to the financial management of certain assets. This group does not allocate depreciation expense related to the use of assets owned at the Corporate level to other business segments.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

The following tables detail our business segments, based on the reporting structure as at 31 December 2004.

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
Half-year ended 31 December 2004										
Sales revenue from external customers	2,748	2,736	2,626	685	31	1,447	1	1,001	-	11,275
Other revenue from external customers	1	41	4	9	5	-	31	45	(29)	107
Total revenue from external customers (excluding interest revenue)	2,749	2,777	2,630	694	36	1,447	32	1,046	(29)	11,382
Less sale of investment/dividend revenue	-	-	-	8	-	-	-	-	-	8
Segment revenue from external customers	2,749	2,777	2,630	686	36	1,447	32	1,046	(29)	11,374
Add inter-segment revenue	-	-	19	18	29	142	11	5	(224)	-
Total segment revenue	2,749	2,777	2,649	704	65	1,589	43	1,051	(253)	11,374
Segment result under AGAAP	1,433	2,345	1,656	(7)	(848)	1,479	(674)	(1,708)	7	3,683
Share of equity accounted net profits/(losses)	2	-	(1)	(1)	-	-	-	-	-	-
Net book value of investments sold	-	-	-	(4)	-	-	-	-	-	(4)
Sale of investment/dividend revenue	-	-	-	8	-	-	-	-	-	8
Earnings before interest and income tax expense (EBIT) - segment result under USGAAP	1,435	2,345	1,655	(4)	(848)	1,479	(674)	(1,708)	7	3,687

(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.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

Telstra Group

	TC&M	TCW	TB&G (a)	TInt.	IS	TW	TTIP	Other (b)	Elimina-tions	Total of all segments
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2003										
Sales revenue from external customers	2,643	2,615	2,366	659	22	1,299	1	851	-	10,456
Other revenue from external customers	1	57	186	1	6	-	2	124	(7)	370
Total revenue from external customers (excluding interest revenue)	2,644	2,672	2,552	660	28	1,299	3	975	(7)	10,826
Less sale of investment/dividend revenue	-	-	185	1	-	-	-	-	(7)	179
Segment revenue from external customers	2,644	2,672	2,367	659	28	1,299	3	975	-	10,647
Add inter-segment revenue	-	-	18	14	27	135	23	5	(222)	-
Total segment revenue	2,644	2,672	2,385	673	55	1,434	26	980	(222)	10,647
Segment result under AGAAP	1,454	2,298	1,727	(11)	(813)	1,347	(838)	(1,774)	3	3,393
Share of equity accounted net profits/(losses)	1	-	2	(2)	-	-	-	(30)	-	(29)
Net book value of investments sold	-	-	(27)	-	-	-	-	(1)	7	(21)
Sale of investment/dividend revenue	-	-	185	1	-	-	-	-	(7)	179
Earnings before interest and income tax expense (EBIT) - segment result under USGAAP	1,455	2,298	1,887	(12)	(813)	1,347	(838)	(1,805)	3	3,522

(a) Included in the 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 2 for further information.

(b) 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.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

	Half-year ended 31 December	
	2004	2003
Information about our sales revenue from products and services	**$m**	$m
PSTN products		
Basic access	**1,700**	1,610
Local calls	**689**	778
PSTN value added services	**126**	134
National long distance calls	**527**	578
Fixed to mobile	**806**	808
International direct	**124**	139
	3,972	4,047
Mobiles		
Mobile services	**1,896**	1,740
Mobile handsets	**198**	186
	2,094	1,926
Data and internet services		
Internet and IP solutions	**624**	469
ISDN products	**453**	473
Specialised data	**495**	516
	1,572	1,458
Other products and services		
Advertising and directories	**890**	769
Customer premises equipment	**107**	92
Payphones	**63**	72
Intercarrier services	**580**	563
Inbound calling products	**231**	238
Solutions management	**463**	243
Offshore controlled entities (a)	**803**	707
Pay TV bundling	**121**	65
Other sales and services	**379**	276
	3,637	3,025
	11,275	10,456
(a) Sales revenue from our offshore controlled entities is split between the following products and services		
International - PSTN products	**238**	181
International - Mobiles	**386**	385
International - Data and internet services	**131**	99
International - Intercarrier services	**10**	15
International - Other	**38**	27
	803	707

Notes to the Half-Year Financial Statements (continued)

6. Investment changes

The changes in the composition of the Telstra Group from 30 June 2004 are as follows:

Name of entity	Country of incorporation	Date of change in investment	Immediate parent % Change	Immediate parent % of equity held after change in investment
Acquisitions				
Controlled entities				
Chief Entertainment Pty Ltd	Australia	1 July 2004	100.0	100.0
KAZ Group Limited (i)	Australia	19 July 2004	100.0	100.0
• Australian Administration Services Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• AAS Superannuation Services Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• Nexis Pty Ltd (i) (vii)	Australia	19 July 2004	100.0	100.0
• KAZ Business Services Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• KAZ Technology Services Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• IOCORE Asia Pacific Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• Techsouth Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• 551 Glenferrie Road Pty Ltd (i) (vii)	Australia	19 July 2004	100.0	100.0
• KAZ Software Solutions Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• Atune Financial Solutions Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• KAZ Computer Services (SEA) Pte Ltd (i)	Singapore	19 July 2004	100.0	100.0
• Fundi Software Pty Ltd (i)	Australia	19 July 2004	100.0	100.0
• KAZ Computer Services (Hong Kong) Limited (i)	Hong Kong	19 July 2004	75.0	75.0
PSINet UK Limited (ii)	United Kingdom	25 August 2004	100.0	100.0
• PSINet Datacentre UK Limited (ii)	United Kingdom	25 August 2004	100.0	100.0
• EUNet GB Limited (ii)	United Kingdom	25 August 2004	100.0	100.0
• PSINet Jersey Limited (ii)	Jersey	25 August 2004	100.0	100.0
• PSINet Hosting Centre Limited (ii)	Jersey	25 August 2004	100.0	100.0
• Cordoba Holdings Limited (ii)	Jersey	25 August 2004	100.0	100.0
• LHC Limited (ii)	Jersey	25 August 2004	100.0	100.0
ESA Holding Pty Ltd (iii)	Australia	17 September 2004	100.0	100.0
• Damovo (Australia) Pty Ltd (iii)	Australia	17 September 2004	100.0	100.0
Damovo HK Limited (iii)	Hong Kong	17 September 2004	100.0	100.0
Sytec Resources Limited	New Zealand	5 November 2004	100.0	100.0
• Sytec Resources (Australia) Pty Ltd	Australia	5 November 2004	100.0	100.0
• DMZ Global Limited	New Zealand	5 November 2004	100.0	100.0
• DMZ Global (Australia) Pty Ltd	Australia	5 November 2004	100.0	100.0
Universal Publishers Pty Ltd (iv)	Australia	20 December 2004	100.0	100.0
Joint venture entities				
Money Solutions Pty Ltd (i)	Australia	19 July 2004	50.0	50.0
Red2Black Systems Pty Ltd (i) (vii)	Australia	19 July 2004	50.0	50.0
Red2Black Payment Services Pty Ltd (i) (vii)	Australia	19 July 2004	50.0	50.0
Enhanced Processing Technologies Inc (US) (i) (viii)	United States	19 July 2004	60.0	60.0
Enhanced Processing Technologies Pty Ltd (i) (viii)	Australia	19 July 2004	60.0	60.0
Adstream (Aust) Pty Ltd	Australia	19 July 2004	33.3	33.3
3GIS Pty Ltd (v)	Australia	6 December 2004	50.0	50.0
Partnerships				
3GIS Partnership (v)	Australia	6 December 2004	50.0	50.0

Notes to the Half-Year Financial Statements (continued)

6. Investment changes (continued)

Name of entity	Country of incorporation	Date of change in investment	Immediate parent	
			% Change	% of equity held after change in investment
Liquidations				
Controlled entities				
On Australia Pty Ltd (vi)	Australia	24 November 2004	100.0	-
Other significant investment changes				
Customer Contact Technologies Pty Ltd (vii)	Australia	30 July 2004		

(i) On 19 July 2004, we acquired 100% of the issued share capital of KAZ Group Limited and its controlled entities (KAZ Group) for total consideration of $342 million, including acquisition costs.

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

(ii) On 25 August 2004, we acquired 100% of the issued share capital of PSINet UK Limited and its controlled entities (PSINet Group) for total consideration of $126 million, including acquisition costs.

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

(iii) 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 total consideration of $66 million, including acquisition costs.

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

(iv) On 20 December 2004, we acquired 100% of the issued share capital of Universal Publishers Pty Ltd for 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.

(v) 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, the costs of which will be recharged equally to each of the partners. 3GIS Pty Ltd was established to act as agent for the 3GIS Partnership.

(vi) On Australia Pty Ltd was a non-operating company that was deregistered during the period.

(vii) The following entities changed names during the period:
- Customer Contact Technologies Pty Ltd changed its name to Hypermax Holdings Pty Ltd on 30 July 2004;
- Red2Black Systems Pty Ltd changed its name to HelpYouPay Systems Pty Ltd on 11 October 2004;
- Red2Black Payment Services Pty Ltd changed its name to HelpYouPay Pty Ltd on 11 October 2004;
- 551 Glenferrie Road Pty Ltd changed its name to KAZ Technology Services Australia Pty Ltd on 3 December 2004; and
- Nexis Pty Ltd changed its name to KAZ Business Services Australia Pty Ltd on 3 December 2004.

(viii) We own 60% of the equity of Enhanced Processing Technologies Pty Ltd and Enhanced Processing Technologies Inc (US). 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 Half-Year Financial Statements (continued)

7. Contingent liabilities and contingent assets

There have been no significant changes from 30 June 2004 to guarantees, indemnities and support provided by us, or to legal actions we are involved in, apart from:

As at 30 June 2004, we provided 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. As at 31 December 2004, the lease payments over the remaining period of the leases (approximately 11 years) amount to $858 million (30 June 2004: $981 million). The reduction is predominantly due to movements in foreign exchange rates and semi-annual repayments.

The Telstra Entity and its partners in the FOXTEL partnership, News Corporation Limited and Publishing and Broadcasting Limited, and Telstra Media Pty Ltd and its partner, Sky Cable Pty Ltd, have previously entered into agreements relating to pay television programming with various parties. At 31 December 2004, we have commitments of $1,704 million (30 June 2004: $2,075 million) under these agreements relating mainly to minimum subscriber guarantees. The contingent liability for minimum subscriber guarantees has been adjusted downward from the amount disclosed in our June 2004 financial report as FOXTEL has reviewed the original minimum subscriber guarantee contracts, and reassessed the applicable commitment period for certain contracts.

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. Our contingent liabilities arising from the above agreements have also been adjusted downward by $371 million during the period.

Notes to the Half-Year Financial Statements (continued)

8. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 31 December 2004 that, in their 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:

On 10 February 2005, the directors of Telstra Corporation Limited declared a fully franked interim dividend of 14 cents per ordinary share ($1,742 million) and a fully franked special dividend of 6 cents per ordinary share ($747 million). Both dividends will be payable on 29 April 2005 to those shareholders on record at 1 April 2005. Shares will trade excluding entitlement to the dividend on 24 March 2005.

A provision for dividend payable has been raised as at the date of declaration, amounting to $2,489 million. The interim and special dividend will both be fully franked at a tax rate of 30%.

The financial effect of the dividend declaration was not brought to account as at 31 December 2004.

Notes to the Half-Year Financial Statements (continued)

9. 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). The principles of AGAAP differ in certain respects from accounting principles generally accepted in the United States (USGAAP).

For an explanation of the significant differences between AGAAP and USGAAP, refer to note 30 of the 30 June 2004 financial statements. The following tables are provided to supplement those disclosures for the half-year ended 31 December 2004.

	Note	Telstra Group Half-year ended 31 December	
		2004	2003
		$m	$m
Reconciliation of net income to USGAAP			
AGAAP net income reported in statement of financial performance		**2,337**	2,293
Adjustments required to agree with USGAAP			
Property, plant and equipment		**(35)**	(46)
Retirement benefit expense	9(a)	**(93)**	(51)
Income tax (expense)/benefit	9(b)	**(10)**	9
Employee compensation benefit		**5**	-
Derivative financial instruments and hedging activities		**(129)**	143
PCCW converting note		**8**	7
Equity accounting adjustments for Reach		**24**	(80)
Fair value/general reserve adjustments		**5**	-
Goodwill and other intangible asset adjustments		**73**	61
Consolidation of variable interest entities		**(1)**	3
Net income per USGAAP		**2,184**	2,339
Statement of financial performance measured and classified per USGAAP			
Operating revenue		**11,275**	10,456
Operating expenses:			
Labour		**1,905**	1,686
Goods and services purchased		**1,790**	1,456
Depreciation and amortisation		**1,831**	1,801
Other operating expenses		**2,229**	2,290
Total operating expenses		**7,755**	7,233
Operating income		**3,520**	3,223
Net interest expense		**(374)**	(354)
Share of net profits/(losses) of joint venture entities and associated venture entities		**1**	(98)
Other income		**26**	458
Net income before income tax expense		**3,173**	3,229
Income tax expense		**989**	894
Net income before cumulative effect adjustments		**2,184**	2,335
Cumulative effect of change in accounting principles, net of tax		**-**	4
Net income per USGAAP		**2,184**	2,339

Notes to the Half-Year Financial Statements (continued)

9. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

	Telstra Group Half-year ended 31 December 2004 $m	Telstra Group Half-year ended 31 December 2003 $m
USGAAP Earnings per share		
Net income per USGAAP	**2,184**	2,339
	¢	¢
Basic earnings per share before cumulative effect of change in accounting principles	**17.5**	18.4
Cumulative effect of change in accounting principles (net of tax):		
Consolidation of variable interest entities	**-**	-
Basic earnings per share per USGAAP (cents)	**17.5**	18.4
Dilutive earnings per share before cumulative effect of change in accounting principles	**17.4**	18.3
Cumulative effect of change in accounting principles (net of tax):		
Consolidation of variable interest entities	**-**	-
Diluted earnings per share per USGAAP (cents)	**17.4**	18.3

Reconciliation of weighted average number of ordinary shares and common share equivalents used for earnings per share calculations	**Number (in millions)** 2004	2003
Number of shares used for AGAAP earnings per share calculations	**12,581**	12,817
Adjusted for:		
- weighted average TESOP 97 and 99 options outstanding during the period	**(62)**	(67)
- stock held by employee share plan trusts	**(20)**	(21)
Number of shares used for USGAAP basic earnings per share calculations	**12,499**	12,729
Effect of dilutive employee share options	**37**	38
Weighted average number of potential ordinary shares and common share equivalents used for USGAAP diluted earnings per share calculations	**12,536**	12,767

	Telstra Group Half-year ended 31 December 2004 $m	Telstra Group Half-year ended 31 December 2003 $m
Total comprehensive income disclosure		
Net income per USGAAP	**2,184**	2,339
USGAAP other comprehensive loss	**(256)**	(246)
USGAAP total comprehensive income	**1,928**	2,093

Notes to the Half-Year Financial Statements (continued)

9. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group		
		as at		
		31 Dec	30 June	31 Dec
		2004	2004	2003
	Note	**$m**	$m	$m
Reconciliation of shareholders' equity to USGAAP				
AGAAP shareholders' equity per statement of financial position		**15,254**	15,361	15,110
Cumulative adjustments required to agree with USGAAP				
Property, plant and equipment		**(25)**	10	50
Listed investments (available-for-sale securities)		**55**	56	50
Retirement benefits		**160**	253	4,166
Income tax	9(b)	**151**	144	(1,001)
Minority interests		**(2)**	(2)	(2)
Employee share loans		**(166)**	(174)	(184)
Derivative financial instruments and hedging activities		**(403)**	(274)	(395)
PCCW converting note		**-**	-	1
Sale of Global Wholesale Business to Reach		**(882)**	(882)	(882)
Equity accounting and write down adjustments for Reach		**608**	584	619
Consolidation adjustment for HKCSL		**936**	936	936
Fair value/general reserve adjustments		**(54)**	(54)	(54)
Goodwill and other intangible asset adjustments		**(745)**	(605)	(838)
Consolidation of variable interest entities		**(37)**	(62)	(63)
Shareholders' equity per USGAAP		**14,850**	15,291	17,513
Statement of financial position measured and classified per USGAAP				
Current assets				
Cash		**1,107**	690	562
Receivables, net		**3,525**	3,336	3,430
Inventories		**214**	229	239
Deferred tax asset		**246**	200	172
Other assets		**735**	718	674
Total current assets		**5,827**	5,173	5,077
Non current assets				
Receivables		**74**	80	110
Derivative financial instruments		**764**	664	416
Inventories		**9**	10	14
Investments - accounted for using the equity method		**53**	44	116
Investments - other non current		**210**	221	207
Property, plant and equipment		**47,594**	46,184	45,016
Accumulated depreciation of property, plant and equipment		**(24,174)**	(23,160)	(22,133)
Goodwill, net		**2,589**	2,273	1,909
Other intangible assets, net		**1,642**	1,512	1,050
Prepaid pension assets		**160**	253	4,166
Other assets		**2,358**	2,326	2,352
Total non current assets		**31,279**	30,407	33,223
Total assets		**37,106**	35,580	38,300

Notes to the Half-Year Financial Statements (continued)

9. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

	Telstra Group		
	as at		
	31 Dec 2004 $m	30 June 2004 $m	31 Dec 2003 $m
Statement of financial position measured and classified per USGAAP (continued)			
Current liabilities			
Payables	**2,665**	2,338	1,944
Borrowings - short term debt	**733**	870	1,205
Borrowings - long term debt due within one year	**2,627**	2,376	283
Income tax payable	**500**	539	357
Provisions	**385**	358	371
Revenue received in advance	**976**	1,113	882
Total current liabilities	**7,886**	7,594	5,042
Non current liabilities			
Payables	**89**	35	-
Derivative financial instruments	**596**	390	630
Borrowings - long term debt	**10,167**	9,095	10,743
Deferred tax liability	**2,185**	1,861	3,068
Provisions	**830**	778	762
Revenue received in advance	**501**	534	540
Total non current liabilities	**14,368**	12,693	15,743
Total liabilities	**22,254**	20,287	20,785
Minority interests	**2**	2	2
Net assets	**14,850**	15,291	17,513
Shareholders' equity			
Contributed equity	**5,793**	6,073	6,073
Share loan to employees	**(166)**	(174)	(184)
Stock held by employee share plan trusts	**(113)**	(117)	(117)
Additional paid in capital from employee share plans	**396**	382	382
Total share capital	**5,910**	6,164	6,154
Accumulated other comprehensive loss (reserves)	**(691)**	(435)	(800)
Retained earnings	**9,631**	9,562	12,159
Total shareholders' equity	**14,850**	15,291	17,513

Notes to the Half-Year Financial Statements (continued)

9. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

(a) Retirement benefits

The components of net periodic pension cost for our defined benefit superannuation plans are as follows:

Net periodic pension cost (all funds combined)

	Half-year ended 31 December	
	2004	2003
	$m	$m
Service cost on benefits earned	**141**	175
Interest cost on projected benefit obligation	**215**	279
Expected return on assets	**(263)**	(416)
Expenses and taxation	**31**	34
Member contributions for defined benefits	**(27)**	(54)
Amortisation of transition asset.	**-**	(42)
Amortisation of fund loss	**-**	77
Net periodic pension cost per USGAAP . .	**97**	53
Reverse amount expensed for AGAAP . . .	**(4)**	(2)
Total USGAAP adjustment	**93**	51

(b) Income tax

For AGAAP, fair value adjustments in a business combination, including the recognition of identifiable intangible 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 the half-year ended 31 December 2004, we recognised a number of identifiable intangible assets as a result of our acquisitions. For USGAAP, we have recorded a deferred tax liability of $65 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 $2 million for the half-year ended 31 December 2004.

(c) 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 EITF 01-8, some of our solutions management contracts entered into after 1 July 2003 are considered to contain operating and finance leases. As such, at 31 December 2004 we have reclassified $12 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.

(d) 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 Standard 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 operations or cash flows.

Directors' Declaration

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) the financial statements and notes, set out on pages 2 to 37, of the Telstra Group:

(i) comply with the Accounting Standards, the Corporations Regulations 2001 and Urgent Issues Group Consensus Views;

(ii) give a true and fair view of the financial position as at 31 December 2004 and performance, as represented by the results of the operations and cash flows, for the half-year ended 31 December 2004; and

(iii) in the directors' opinion, have been made out in accordance with the Corporations Act 2001.

(b) 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.

For and on behalf of the Board

Donald McGauchie AO
Chairman

Ziggy Switkowski
Chief Executive Officer and Managing Director

10 February 2005
Sydney, Australia

Independent Review Report

To the Members of Telstra Corporation Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Telstra Group (the Telstra Entity and the entities it controlled during the period) for the half-year ended 31 December 2004.

The directors of the Telstra Group are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Telstra Group, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", 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.

Review approach

I have conducted an independent review of the financial report in order to make a statement about it to the members of the Telstra Group and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

The review was conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to my attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with my understanding of the Telstra Group's financial position and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. I have not performed an audit and, accordingly, I do not express an audit opinion.

I have also reviewed the quantification of the major differences between accounting principles generally accepted in Australia compared to accounting principles generally accepted in the United States of America, which is presented in note 9 to the financial report. I have reviewed note 9 in order to state whether, in all material respects, anything has come to my attention that would indicate that it does not present fairly, the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States of America, in so far as they apply to the Telstra Group.

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 contracted an accounting firm for the purpose of providing my review of the financial report. This firm has been engaged to undertake other non-audit services by Telstra. The provision of these services has not impaired my independence.

Independent Review Report (continued)

Statement

Based on my review, which is not an audit, I have not become aware of any matter that makes me believe that the financial report of the Telstra Group is not in accordance with:

(a) the Corporations Act 2001, including:
   (i) giving a true and fair view of the financial position of the Telstra Group at 31 December 2004 and of its performance for the half-year ended on that date; and
   (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Further, as a result of my review, I have not become aware of any matter that makes me believe that note 9 does not present fairly the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States of America, in so far as they apply to the Telstra Group.

PJ Barrett
Auditor-General

10 February 2005
Canberra, Australia