

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 2003

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Statement of Financial Performance

for the half-year ended 31 December 2003

| | | Telstra Group | |
|--|------|--------------------------------|---------------|
| | | Half-year ended 31 December | |
| | Note | 2003 \$m | 2002 \$m |
| Ordinary activities | | | |
| Revenue | | | |
| Sales revenue | | 10,456 | 10,468 |
| Other revenue (excluding interest revenue). | 2 | 370 | 899 |
| | | 10,826 | 11,367 |
| Expenses | | | |
| Labour | | 1,635 | 1,624 |
| Goods and services purchased | | 1,690 | 2,011 |
| Other expenses | 2 | 2,148 | 2,510 |
| | | 5,473 | 6,145 |
| Share of net loss from associates and joint venture entities | 2,6 | 29 | 969 |
| | | 5,502 | 7,114 |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) | | 5,324 | 4,253 |
| Depreciation and amortisation | | 1,802 | 1,703 |
| Earnings before interest and income tax expense (EBIT) | | 3,522 | 2,550 |
| Interest revenue | | 27 | 39 |
| Borrowing costs | | 382 | 471 |
| Net borrowing costs | | 355 | 432 |
| Profit before income tax expense | | 3,167 | 2,118 |
| Income tax expense | 3 | 874 | 968 |
| Net profit | | 2,293 | 1,150 |
| Outside equity interests in net loss | | - | 34 |
| Net profit available to Telstra Entity shareholders | | 2,293 | 1,184 |
| Other valuation adjustments to equity | | | |
| Net exchange differences on translation of financial statements of non-Australian controlled entities | | (43) | (10) |
| Reserves recognised on equity accounting our interest in associates and joint ventures | | (9) | 5 |
| Fair value reserve recognised on acquisition of controlling interest in joint venture entity | | - | (1) |
| Increase in opening retained earnings on adoption of new accounting standard | 4 | - | 1,415 |
| Valuation adjustments attributable to Telstra Entity shareholders and recognised directly in equity | | (52) | 1,409 |
| Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners | | 2,241 | 2,593 |
| Interim dividends per share (cents) | | | |
| - ordinary dividend | 9 | 13.0 | 12.0 |
| - special dividend | | - | 3.0 |
| Total interim dividends per share | | 13.0 | 15.0 |
| Basic and diluted earnings per share (cents) | 2 | 17.9 | 9.2 |

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

Statement of Financial Position

as at 31 December 2003

| | Note | Telstra Group | | |
|--|------|-----------------------|------------------------|-----------------------|
| | | as at | | |
| | | 31 Dec 2003 \$m | 30 June 2003 \$m | 31 Dec 2002 \$m |
| Current assets | | | | |
| Cash assets | | 559 | 1,300 | 1,365 |
| Receivables | | 3,656 | 3,619 | 3,875 |
| Inventories | | 239 | 260 | 252 |
| Other assets | | 674 | 578 | 553 |
| Total current assets | | 5,128 | 5,757 | 6,045 |
| Non current assets | | | | |
| Receivables | | 596 | 877 | 1,274 |
| Inventories | | 14 | 14 | 6 |
| Investments - accounted for using the equity method | | 113 | 159 | 240 |
| Investments - other | | 80 | 96 | 97 |
| Property, plant and equipment | | 22,666 | 23,012 | 23,068 |
| Future income tax benefit | | - | - | 60 |
| Intangibles - goodwill | | 1,958 | 2,018 | 2,006 |
| Intangibles - other | | 1,050 | 1,146 | 1,298 |
| Other assets | | 2,428 | 2,520 | 2,719 |
| Total non current assets | | 28,905 | 29,842 | 30,768 |
| Total assets | | 34,033 | 35,599 | 36,813 |
| Current liabilities | | | | |
| Payables | | 1,944 | 2,525 | 2,377 |
| Interest-bearing liabilities | | 1,488 | 1,323 | 2,080 |
| Income tax payable | | 356 | 660 | 599 |
| Provisions | | 371 | 353 | 381 |
| Revenue received in advance | | 864 | 973 | 840 |
| Total current liabilities | | 5,023 | 5,834 | 6,277 |
| Non current liabilities | | | | |
| Payables | | 42 | 51 | 91 |
| Interest-bearing liabilities | | 10,796 | 11,232 | 11,857 |
| Provision for deferred income tax | | 1,895 | 1,814 | 2,077 |
| Provisions | | 762 | 814 | 843 |
| Revenue received in advance | | 405 | 432 | 433 |
| Total non current liabilities | | 13,900 | 14,343 | 15,301 |
| Total liabilities | | 18,923 | 20,177 | 21,578 |
| Net assets | | 15,110 | 15,422 | 15,235 |
| Shareholders' equity | | | | |
| Telstra Entity | | | | |
| Contributed equity | 2 | 6,073 | 6,433 | 6,433 |
| Reserves | | (205) | (150) | 7 |
| Retained profits | 2 | 9,240 | 9,137 | 8,846 |
| Shareholders' equity available to Telstra Entity shareholders | | 15,108 | 15,420 | 15,286 |
| Outside equity interests | | | | |
| Contributed equity | | 1 | 1 | 206 |
| Reserves | | - | - | 28 |
| Retained profits/(accumulated losses) | | 1 | 1 | (285) |
| Total outside equity interests | | 2 | 2 | (51) |
| Total shareholders' equity | | 15,110 | 15,422 | 15,235 |

Contingent liabilities and contingent assets 8

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 2003

| | Telstra Group | |
|---|------------------------|---------|
| | Half-year ended | |
| | 31 December | |
| | 2003 | 2002 |
| | \$m | \$m |
| Cash flows from operating activities | | |
| Receipts from trade and other receivables (inclusive of goods and services tax (GST) (i)) | 11,370 | 11,356 |
| Payments of accounts payable and to employees (inclusive of GST (i)). | (6,466) | (6,513) |
| Interest received | 27 | 27 |
| Borrowing costs paid. | (423) | (529) |
| Dividends received | 1 | 1 |
| Income taxes paid | (1,086) | (839) |
| GST remitted to the Australian Taxation Office (ATO) | (498) | (552) |
| Net cash provided by operating activities | 2,925 | 2,951 |
| Cash flows from investing activities | | |
| Payments for: | | |
| - property, plant and equipment | (1,200) | (1,231) |
| - internal use software assets | (174) | (297) |
| - patents, trademarks and licences | (2) | (2) |
| Capital expenditure (before investments) | (1,376) | (1,530) |
| - investment in associates and joint venture entities (including share buy-back) | 1 | (15) |
| - shares in listed securities and other investments | - | (1) |
| Investment expenditure. | 1 | (16) |
| Total capital expenditure | (1,375) | (1,546) |
| Proceeds from: | | |
| - sale of property, plant and equipment | 98 | 692 |
| - sale of shares in controlled entities | - | 5 |
| - sale of joint venture entities | - | 3 |
| - sale of associated entities | 155 | - |
| - sale of listed securities and other investments | 24 | 7 |
| - sale of business | - | 4 |
| Net cash used in investing activities | (1,098) | (835) |
| Cash flows from financing activities | | |
| Proceeds from: | | |
| - borrowings | 2,128 | 4,302 |
| Repayment of: | | |
| - borrowings | (1,944) | (4,129) |
| - Telstra bonds. | (204) | (581) |
| - finance leases principal amount. | (3) | (14) |
| Employee share loans | 14 | 19 |
| Dividends paid | (1,544) | (1,415) |
| Share buy-back (ii) | (1,009) | - |
| Net cash used in financing activities | (2,562) | (1,818) |
| Net increase/(decrease) in cash | (735) | 298 |
| Foreign currency conversion | (6) | (3) |
| Cash at the beginning of the period | 1,300 | 1,070 |
| Cash at the end of the period | 559 | 1,365 |

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

Statement of Cash Flows(continued)

Cash flow notes

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

Our receipts from trade and other receivables includes estimated GST of \$988 million (2002: \$1,002 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 \$376 million (2002: \$308 million) and estimated GST paid in relation to investing activities amounted to \$114 million (2002: \$142 million).

(ii) Share buy-back

On 24 November 2003 we completed an off-market share buy-back of 238,241,174 ordinary shares as part of our ongoing capital management program.

The cost of the share buy-back comprised a purchase consideration of \$1,001 million and associated transaction costs of \$8 million. Refer note 2 for further information.

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

Property, plant and equipment

Our property, plant and equipment included capitalised borrowing costs of \$30 million for the half-year ended 31 December 2003 (2002: \$38 million). These amounts were included in borrowing costs paid in our statement of cash flows.

Software assets (internal use software assets)

Our software assets developed for internal use included capitalised borrowing costs of \$8 million for the half-year ended 31 December 2003 (2002: \$14 million). These amounts were included in borrowing costs paid in our statement of cash flows.

(iv) Acquisitions and disposals

During the half-years ending 31 December 2003 and 31 December 2002 there were no significant acquisitions or disposals of investments.

Statement of Changes in Shareholders' Equity

for the half-year ended 31 December 2003

| | Telstra Group | | | | | | | Total \$m |
|--|------------------------------|-----------------------------|--|----------------|------------------------------------|----------------------------|---------------------------------------|--------------|
| | Contributed equity \$m | Reserves | | | Consolidation fair value \$m | Retained profits \$m | Outside equity interests \$m | |
| | | Asset revaluation \$m | Foreign currency conversion \$m | General \$m | | | | |
| Balance at 30 June 2002 | 6,433 | 32 | (55) | (17) | 54 | 7,661 | (2) | 14,106 |
| - Increase to opening retained profits on adoption of new accounting standard (ii) | - | - | - | - | - | 1,415 | - | 1,415 |
| - change in outside equity interests' capital, reserves and accumulated losses (apart from net loss) | - | - | - | - | - | - | (16) | (16) |
| - net profit/(loss) | - | - | - | - | - | 1,184 | (34) | 1,150 |
| - reserves recognised on equity accounting our interest in associates and joint venture entities | - | - | 1 | 4 | - | - | - | 5 |
| - adjustment on translation of financial statements of non-Australian controlled entities | - | - | (10) | - | - | - | - | (10) |
| - fair value adjustment on acquisition of controlling interest in joint venture entity | - | - | - | - | (2) | 1 | 1 | - |
| - fully franked final dividend (i) | - | - | - | - | - | (1,415) | - | (1,415) |
| Balance at 31 December 2002 | 6,433 | 32 | (64) | (13) | 52 | 8,846 | (51) | 15,235 |
| - change in outside equity interests' capital, reserves and accumulated losses (apart from net profit/(loss)) | - | - | - | - | - | (8) | 55 | 47 |
| - net profit/(loss) | - | - | - | - | - | 2,245 | (1) | 2,244 |
| - reserves recognised on equity accounting our interest in associates and joint venture entities | - | - | (22) | (1) | - | - | - | (23) |
| - adjustment on translation of financial statements of non-Australian controlled entities | - | - | (151) | - | - | - | - | (151) |
| - fair value adjustment on acquisition of controlling interest in joint venture entity | - | - | - | - | (2) | 3 | (1) | - |
| - transfer of foreign currency translation reserve and general reserve on sale of controlled entities and associates | - | - | (3) | 22 | - | (19) | - | - |
| - fully franked interim dividend (i) | - | - | - | - | - | (1,930) | - | (1,930) |
| Balance at 30 June 2003 | 6,433 | 32 | (240) | 8 | 50 | 9,137 | 2 | 15,422 |

Statement of Changes in Shareholders' Equity (continued)

for the half-year ended 31 December 2003

| | Telstra Group | | | | | | | |
|--|------------------------------|-----------------------------|--|----------------|---|----------------------------|---------------------------------------|---------------|
| | Contributed equity \$m | Reserves | | | Consolida- tion fair value \$m | Retained profits \$m | Outside equity interests \$m | Total \$m |
| | | Asset revaluation \$m | Foreign currency conversion \$m | General \$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 associates and joint venture 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 (iii) | (360) | - | - | - | - | (649) | - | (1,009) |
| - fully franked final dividend (i) | - | - | - | - | - | (1,544) | - | (1,544) |
| Balance at 31 December 2003 | 6,073 | 32 | (292) | 8 | 47 | 9,240 | 2 | 15,110 |

(i) Franked at 30% tax rate

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.

(ii) Due to the first time application of accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets" during the half-year ended 31 December 2002, we adjusted the opening balance of retained profits at 1 July 2002 by the amount of the dividend provided for as at 30 June 2002.

(iii) On 24 November 2003 we completed an off-market share buy-back of 238,241,174 ordinary shares as part of our ongoing capital management program. The ordinary shares were brought back at \$4.20 per share, comprising a fully franked dividend component of \$2.70 per share and a capital component of \$1.50 per share.

The cost of the share buy-back comprised a purchase consideration of \$1,001 million and associated transaction costs of \$8 million.

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 2003. 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 financing and investing activities 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.

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

Note 10 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 financial year ended 30 June 2003, apart from:

Revenue arrangements with multiple deliverables

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

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

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

Notes to the Half-Year Financial Statements (continued)

1. Summary of accounting policies (continued)

1.2. Changes in accounting policy (continued)

Revenue arrangements with multiple deliverables (continued)

We allocate the consideration from the revenue arrangement to its separate units based on the relative fair values of each unit. If the fair value of the delivered item is not available, then it is allocated revenue based on the difference between the total arrangement consideration and the fair value of the undelivered item. The revenue allocated to each unit under EITF 00-21 is then recognised in accordance with our revenue recognition policies described in note 1.19 "Revenue" of the 30 June 2003 financial report.

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

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

We have assessed the requirements of EITF 00-21 and determined that there is no material impact on our statement of financial performance or statement of financial position as at and for the half-year ended 31 December 2003.

1.3. Adoption of International Financial Reporting Accounting Standards

The Australian Financial Reporting Council (FRC) has determined that Australian entities reporting under the Corporations Act 2001 must prepare their financial statements under International Financial Reporting Standards (IFRS) as adopted by the Australian Accounting Standards Board from 1 January 2005. This will involve completing a first time set of financial statements under IFRS for the half-year ended 31 December 2005 and for the financial year ended 30 June 2006.

Comparatives will also be remeasured under IFRS and restated for the half-year ending 31 December 2004 and the financial years ending 30 June 2005 and 30 June 2004.

We have established a project team, monitored by a governance committee, to manage the convergence to IFRS and ensure we are prepared to report for the first time under IFRS in accordance with the timetable outlined above.

Currently the major areas of our focus are issues associated with adoption of IAS 12 - Income Taxes, IAS 16 - Property, Plant & Equipment, IAS 19 - Employee Benefits, IAS 36 - Impairment of Assets and IAS 32/39 - Financial Instruments. Adoption of IFRS may result in changes to our accounting policies, procedures and financial reporting systems. We are currently evaluating the potential impact of applying IFRS on our statement of financial position and performance. At this stage of the project it is not possible to quantify the potential impact of convergence to IFRS.

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 share of net loss from associates and joint venture entities) according to either the nature (type) of the expense or the function (activity to which the expense relates).

We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake. On this basis, our goods and services purchased includes payments made to other carriers to terminate international and domestic outgoing calls and international transit traffic, cost of the purchase of goods sold and the purchase cost of mobile handsets from third party suppliers. This category does not include any indirect or fixed costs, and therefore is not identical to the equivalent functional expense category.

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

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

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 | |
|--|-----------------------------|-------------|
| | 2003 \$m | 2002 \$m |
| 2. Items requiring specific disclosure | | |
| The following items form part of the ordinary operations of our business and their disclosure is considered 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 other revenue: | | |
| - proceeds on sale of our investment in IBM Global Services Australia Limited (i) | 154 | - |
| - proceeds on sale of properties (iii) | - | 570 |
| Total specific other revenue items | 154 | 570 |
| Items included in other expenses: | | |
| - net book value of investment and modification of information technology services contract with IBM Global Services Australia Limited (i) | (135) | - |
| - book value on sale of properties (iii) | - | (439) |
| Total specific other expense items | (135) | (439) |
| Item included in share of net loss from associates and joint venture entities | | |
| - write down of the carrying value of our investment in Reach Ltd (iv) | - | (965) |
| Net specific items | 19 | (834) |
| Income tax benefit/(expense) | 39 | (41) |
| Net specific items after income tax expense | 58 | (875) |

During the half-year ended 31 December 2003, we recognised 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)

The following item had a significant impact on our statement of financial position during the half-year ended 31 December 2003:

(ii) On 24 November 2003, we completed an off-market share buy-back of 238,241,174 ordinary shares as part of our ongoing capital management program. The ordinary shares were brought back at \$4.20 per share, comprising a fully franked dividend component of \$2.70 per share and a capital component of \$1.50 per share. The Commonwealth of Australia did not participate in the share buy-back.

The shares bought back were subsequently cancelled, reducing the number of fully paid ordinary shares on issue. In total, 1.85% of our total issued ordinary shares, or 3.71% of our non Commonwealth owned ordinary shares, were bought back.

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

| | Half-year ended 31 Dec 2003 Number of shares |
|---------------------------------------|--|
| Balance at 30 June 2003. | 12,866,600,200 |
| Shares bought back | (238,241,174) |
| Balance at 31 December 2003 | <u>12,628,359,026</u> |

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

The cost of the share buy-back comprised a purchase consideration of \$1,001 million and associated transaction costs of \$8 million.

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

| | Half-year ended 31 Dec 2003 \$m |
|------------------------------|--|
| Contributed equity | (360) |
| Retained profits | (649) |
| | <u>(1,009)</u> |

During the half-year ended 31 December 2002, we recognised the following transactions as requiring specific disclosure:

(iii) On 1 August 2002, we sold a portfolio of seven office properties for \$570 million. The carrying value of these properties was \$439 million at the time of sale. We entered into operating leases totalling \$518 million in relation to these properties on normal commercial terms of between five and twelve years, most of which commenced on 19 August 2002.

(iv) As at 31 December 2002, we made the decision to write down the carrying amount of our investment in our 50% owned joint venture, Reach Ltd (REACH). This resulted in a reduction of our investments accounted for using the equity method in our statement of financial position and an increase to our share of net loss from associates and joint venture entities in the statement of financial performance, amounting to \$965 million.

The write down occurred due to the depressed conditions in the global market for international data and internet capacity resulting in high levels of excess capacity, intense price competition and lower than expected revenues.

Notes to the Half-Year Financial Statements (continued)

| | Half-year ended 31 December | |
|---|--------------------------------|-------------|
| | 2003 \$m | 2002 \$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 | 3,167 | 2,118 |
| Notional income tax expense on profit calculated at 30% | 950 | 635 |
| Which is adjusted by the tax effect of: | | |
| Effect of lower rates of tax on overseas income | (7) | (14) |
| Research and development concessions | (4) | (3) |
| Share of net loss from associates and joint venture entities | 1 | 294 |
| Profit on sale of non current assets | (58) | (21) |
| Non-deductible depreciation and amortisation | 33 | 16 |
| Reduction in the value of investments and intercompany receivables | - | 12 |
| Assessable foreign source income not included in accounting profit | 13 | 34 |
| Under/(over) provision of tax in prior years | 22 | (26) |
| Additional effect of prior year reset tax values on entering tax consolidation (i) | (58) | - |
| Other adjustments | (18) | 41 |
| Income tax expense on profit | 874 | 968 |
| Income tax expense comprises the following items: | | |
| Current taxation provision | 821 | 929 |
| Movement in future income tax benefit | - | (25) |
| Movement in deferred income tax liability | 89 | 90 |
| Over provision of tax in prior years | (36) | (26) |
| | 874 | 968 |

(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 tax consolidated 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 has resulted in a further reset of tax values and an additional tax benefit of \$58 million. These benefits reflect the increase in future tax deductions available from these reset values.

Notes to the Half-Year Financial Statements (continued)

4. Dividends

Due to the application of accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets" for the half-year ended 31 December 2002 and subsequent reporting periods, a provision can no longer be raised at balance date if the dividend is declared after that date. As a result, during the half-year ended 31 December 2002, we changed our accounting policy to reflect this position and we now provide for a dividend in the period in which it is declared. There has been no change in the timing of dividends declared by the directors and as a result we will continue to make a public announcement of the dividend after balance date.

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

| | Half-year ended 31 December | |
|--|--|-------|
| | 2003 | 2002 |
| | \$m | \$m |
| Ordinary shares | | |
| Final ordinary dividend for the financial year ended 30 June provided for and paid during the interim period | 1,544 | 1,415 |
| Dividends per share (cents) | | |
| Final ordinary dividend for the financial year ended 30 June provided for and paid during the interim period | 12.0 | 11.0 |

As the interim dividend for the half-year ended 31 December 2003 was not declared, determined or publicly recommended as at 31 December 2003, no provision for dividend was raised prior to, or as at, that date in the statement of financial position. The interim dividend is reported as an event after balance date (refer note 9).

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.

Business segments

During the half-year we formed a new group being Telstra Technology, Innovations and Product. This brings together product development areas, network technologies, IT systems and Telstra Research Laboratories.

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

- **Telstra Consumer and Marketing** is responsible for:
 - serving consumer customers with fixed, wireless and data products;
 - management of Telstra brands, advertising and sponsorship; and
 - implementing our bundling initiatives.
- **Telstra Country Wide** is responsible for:
 - customers outside the mainland state capital cities, and in Tasmania and the Northern Territory.
- **Telstra Business and Government** is responsible for:
 - the provision of the full range of products and services to corporate, small to medium enterprises and government customers; and
 - managing our interests in our North American, Japanese and European retail operations.
- **Telstra International** is responsible for:
 - delivering business growth through enhancing the value of our existing international investments and developing new business opportunities; and
 - managing our interest in the Asia-Pacific region, including our operations in Hong Kong, India, China and New Zealand.
- **Infrastructure Services'** responsibilities include:
 - management and delivery of telecommunications infrastructure and related services;
 - operational service and delivery of the entire fixed and mobile networks, along with online products and platforms; and
 - end-to-end project management, planning, design, construction, integration, operations and maintenance of communications networks and systems for Telstra and other telecommunications companies.
- **Telstra Wholesale** is responsible for:
 - the provision of telecommunications services and related information applications that are based on the Telstra network infrastructure to other carriers, carriage service providers and ISPs.
- **Telstra Technology, Innovation and Products** is responsible for:
 - the overall planning, design and construction management of our domestic fixed communication networks and associated systems to deliver technology solutions to support our products, services and customer support;
 - the office of the Chief Information Officer; and
 - product development and the Telstra Research Laboratories.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

- **BigPond, Media Services and Sensis** is responsible for:
 - management and growth of Telstra's internet products, services and content, 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 print, voice and online products and services.
- **Corporate areas** include:
 - Legal & Office of Company Secretary - provides legal services 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, industry, community groups and staff. It manages personnel, health and safety, environment, remuneration and training. It also has responsibility for regulatory positioning and negotiation;
 - Human Resources - responsibilities include recruitment, learning and development, and human resources management;
 - Corporate Development - encompasses the functions of business development, commercial analysis, corporate strategy, mergers and acquisitions, strategic projects and investor relations; and
 - Finance & Administration - encompasses the functions of business and finance services, treasury, productivity, risk management and assurance, 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. Telstra Technology, Innovation and Products manages the annual capital expenditure of these assets on behalf of our other business segments.

The Corporate areas and BigPond, Media Services and Sensis group are not reportable segments and have been aggregated in the "Other" segment.

For segment reporting purposes the TelstraClear group is reported as part of the International segment. However, for internal management reporting purposes TelstraClear is reported as part of Telstra Business and Government.

During the half-year there has been a change in segment accounting policy in relation to how certain charges are allocated across segments. Previously, outpayments for use of the networks were allocated to other segments via transfer pricing. As a result of the cessation of transfer pricing, these costs are now directly allocated to the appropriate segments. Prior year comparatives have been adjusted to reflect this change in policy.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

The following tables detail the major segments, based on the reporting structure as at 31 December 2003.

Half-year ended 31 December 2003

| Business Units | Telstra Consumer & Marketing (a) | Telstra Country Wide (a) | Telstra Business & Government (a) (c) | Telstra International | Infra-structure Services | Telstra Wholesale | Telstra Technology, Innovation and Product | Other (b) | Eliminations | Total of segments |
|---|----------------------------------|--------------------------|---------------------------------------|-----------------------|--------------------------|-------------------|--|----------------|--------------|-------------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Sales revenue from external customers | 2,868 | 2,622 | 2,153 | 659 | 32 | 1,270 | 1 | 851 | - | 10,456 |
| Other revenue from external customers (before interest) | 2 | 57 | 186 | 1 | 6 | - | 2 | 128 | (12) | 370 |
| Total revenue from external customers (before interest) | 2,870 | 2,679 | 2,339 | 660 | 38 | 1,270 | 3 | 979 | (12) | 10,826 |
| Less revenues from sale of investments and dividends | - | - | 185 | 1 | - | - | - | - | (7) | 179 |
| Segment revenue from external customers | 2,870 | 2,679 | 2,154 | 659 | 38 | 1,270 | 3 | 979 | (5) | 10,647 |
| Add inter-segment revenue | - | - | 18 | 14 | 27 | 135 | 23 | 5 | (222) | - |
| Total segment revenue | 2,870 | 2,679 | 2,172 | 673 | 65 | 1,405 | 26 | 984 | (227) | 10,647 |
| Segment result under AGAAP | 1,579 | 2,355 | 1,483 | (11) | (753) | 1,299 | (800) | (1,763) | 4 | 3,393 |
| Less share of equity accounted net losses/(profits) | (1) | - | (2) | 2 | - | - | - | 30 | - | 29 |
| Less net book value of investments sold | - | - | 27 | - | - | - | - | 1 | (7) | 21 |
| Add revenues from sale of investments and dividends | - | - | 185 | 1 | - | - | - | - | (7) | 179 |
| Earnings before interest and income tax expense (EBIT) - segment result under USGAAP | 1,580 | 2,355 | 1,643 | (12) | (753) | 1,299 | (800) | (1,794) | 4 | 3,522 |

(a) These segment results do not reflect actual segment results achieved due to the majority of costs of goods and services associated with sales revenues for all three of these segments being allocated totally to the Telstra Consumer and Marketing segment. This allocation reflects management's accountability framework and internal reporting system and accordingly no reasonable basis for allocation to the three segments exists.

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

(c) Included in the revenues from sale of investments and dividends is the sale of our 22.6% share in our associated entity IBM Global Services Australia Limited (IBMGSA). Refer note 2 for further information.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

Half-year ended 31 December 2002

| Business Units | Telstra Consumer & Marketing (a) | Telstra Country Wide (a) | Telstra Business & Government (a) | Telstra International (b) | Infrastructure Services | Telstra Wholesale | Telstra Technology, Innovation and Product | Other (c) (d) | Eliminations | Total of segments |
|---|----------------------------------|--------------------------|-----------------------------------|---------------------------|-------------------------|-------------------|--|----------------|--------------|-------------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Sales revenue from external customers | 2,805 | 2,528 | 2,206 | 768 | 137 | 1,181 | - | 843 | - | 10,468 |
| Other revenue from external customers (before interest) | 8 | 40 | 8 | 52 | 7 | - | 13 | 771 | - | 899 |
| Total revenue from external customers (before interest) | 2,813 | 2,568 | 2,214 | 820 | 144 | 1,181 | 13 | 1,614 | - | 11,367 |
| Less revenues from sale of investments and dividends | 1 | - | 2 | 29 | - | - | - | - | - | 32 |
| Segment revenue from external customers | 2,812 | 2,568 | 2,212 | 791 | 144 | 1,181 | 13 | 1,614 | - | 11,335 |
| Add inter-segment revenue | - | - | 20 | 13 | 357 | 129 | 27 | 43 | (589) | - |
| Total segment revenue | 2,812 | 2,568 | 2,232 | 804 | 501 | 1,310 | 40 | 1,657 | (589) | 11,335 |
| Segment result under AGAAP | 1,553 | 2,265 | 1,537 | (21) | (678) | 1,203 | (660) | (1,649) | (48) | 3,502 |
| Less share of equity accounted net losses/(profits) | (1) | - | 2 | 944 | - | - | - | 24 | - | 969 |
| Less net book value of investments sold | - | - | (6) | 21 | - | - | - | - | - | 15 |
| Add revenues from sale of investments and dividends | 1 | - | 2 | 29 | - | - | - | - | - | 32 |
| Earnings before interest and income tax expense (EBIT) - segment result under USGAAP | 1,555 | 2,265 | 1,543 | (957) | (678) | 1,203 | (660) | (1,673) | (48) | 2,550 |

(a) These segment results do not reflect actual segment results achieved due to the majority of costs of goods and services associated with sales revenues for all three segments being allocated totally to the Telstra Consumer and Marketing segment. This allocation reflects management's accountability framework and internal reporting system and accordingly no reasonable basis for allocation to the three segments exists.

(b) Included in the share of equity accounted net losses/(profits) is the write down of our investment in our 50%

owned joint venture, Reach Ltd. Refer note 2 for further information.

(c) Included in other revenue from external customers is the sale of the seven office properties for \$570 million. Refer note 2 for further information.

(d) Sales revenue for the other segment relates primarily to revenue earned by our subsidiary Sensis Pty Ltd. 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 | |
| | 2003 | 2002 |
| Information about our products and services | \$m | \$m |
| Sales revenue from | | |
| Basic access | 1,610 | 1,556 |
| Local calls | 778 | 796 |
| PSTN value added services | 134 | 141 |
| National long distance calls | 578 | 582 |
| Fixed to mobile | 808 | 753 |
| International direct | 139 | 161 |
| Mobile services and handsets | 1,919 | 1,804 |
| Data and internet services | 1,443 | 1,413 |
| Sensis® (advertising and directories) | 769 | 731 |
| Customer premises equipment | 92 | 100 |
| Payphones | 72 | 75 |
| Intercarrier services | 583 | 591 |
| Inbound calling products | 238 | 250 |
| Solutions management | 233 | 239 |
| Various controlled entities | 738 | 874 |
| Other sales and services | 322 | 402 |
| | 10,456 | 10,468 |

Notes to the Half-Year Financial Statements (continued)

6. Share of net loss from associates and joint venture entities

| | Ownership interest | | | |
|--|--------------------|-----------|-----------------|-------------|
| | as at | | Half-year ended | |
| | 31 December | | 31 December | |
| Note | 2003 % | 2002 % | 2003 \$m | 2002 \$m |
| Our (gains)/losses from associates and joint venture entities were as follows: | | | | |
| Joint venture entities | | | | |
| - FOXTEL Partnerships | 50.0 | 50.0 | 30 | 23 |
| - Stellar Call Centres Pty Ltd | 50.0 | 50.0 | (1) | (1) |
| - Xantic B.V. | 35.0 | 35.0 | 7 | 2 |
| - Reach Ltd (iii). | 50.0 | 50.0 | - | 946 |
| | | | 36 | 970 |
| Associated entities | | | | |
| - IBM Global Services Australia Limited (i) | - | 22.6 | (3) | (5) |
| - Australian-Japan Cable Holdings Limited | 39.9 | 39.9 | - | (2) |
| - Solution 6 Holdings Limited (ii) | - | 13.2 | - | 2 |
| - ECard Pty Ltd | 50.0 | 50.0 | 1 | 6 |
| - PT Mitra Global Telekomunikasi Indonesia 9 | 20.4 | 20.4 | (5) | (2) |
| | | | (7) | (1) |
| | | | 29 | 969 |

(i) Refer to note 7 for details regarding change in ownership interests from 30 June 2003.

(ii) On 8 May 2003, we sold 1 million of our shares in Solution 6 Holdings Limited reducing our ownership interest from 13.2% to 12.7%. On 19 June 2003, we sold our remaining 32 million shares for \$17 million.

(iii) During the half-year ended 31 December 2002, our net loss from Reach Ltd (REACH) included the following components:

| | Half-year ended 31 Dec 2002 \$m |
|--|--|
| Our share of REACH's profits up to suspension of equity accounting | (57) |
| Notional goodwill amortisation up to suspension of equity accounting | 60 |
| Recognition of deferred profit up to suspension of equity accounting | (22) |
| Write down of the carrying value of our investment (note 2) | 965 |
| | 946 |

Notes to the Half-Year Financial Statements (continued)

7. Investment changes

The changes in the composition of the Telstra Group from 30 June 2003 are as follows:

| Name of entity | Country of incorporation | Date of change in investment | Immediate parent | |
|---|--------------------------|------------------------------|------------------|---|
| | | | % Change | % of equity held after change in investment |
| Disposals and liquidations | | | | |
| Controlled entities | | | | |
| Worldcorp Holdings (S) Pte Ltd (i) | Singapore | 17 October 2003 | 100.0 | - |
| Worldcorp Publishing Pte Ltd (i) | Singapore | 17 October 2003 | 100.0 | - |
| Associated entities | | | | |
| IBM Global Services Australia Limited (ii) | Australia | 28 August 2003 | 22.6 | - |
| CityLink Limited (iii) | New Zealand | 1 October 2003 | 27.1 | - |
| myinternet Limited (iv) | Australia | 19 December 2003 | 21.1 | - |
| Listed securities | | | | |
| Commander Communications Limited (v) | Australia | 18 July 2003 | 16.4 | - |
| Other significant investment changes | | | | |
| Telstra New Zealand Holdings Limited (vi) | New Zealand | 1 July 2003 | | |
| Telstra eBusiness Services Pty Ltd (vi) | Australia | 28 November 2003 | | |

(i) Non-operating companies that were dissolved.

(ii) On 28 August 2003, we sold our 22.6% shareholding in our associated entity IBM Global Services Australia Limited for \$154 million. Refer note 2 for further details.

(iii) On 1 October 2003, we sold our 27.1% shareholding in our associated entity CityLink Limited for \$0.7 million.

(iv) On 19 December 2003, we participated in a share buy-back undertaken by myinternet Limited that resulted in us disposing of our entire ownership interest in this entity for nominal consideration.

(v) On 18 July 2003, we sold our remaining 16.4% interest in Commander Communications Limited for \$24 million.

(vi) The following entities changed names during the period:

- NDC New Zealand Limited changed its name to Telstra New Zealand Holdings Limited on 1 July 2003.
- InsNet Pty Ltd changed its name to Telstra eBusiness Services Pty Ltd on 28 November 2003.

Notes to the Half-Year Financial Statements (continued)

8. Contingent liabilities and contingent assets

There have been no significant changes from 30 June 2003 to guarantees, indemnities and support provided by us, or to legal actions we are involved in, apart from:

As at 30 June 2003, 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 2003, the lease payments over the remaining period of the leases (approximately 12 years) amount to \$918 million (30 June 2003: \$1,042 million). The reduction is predominantly due to movements in exchange rates and semi-annual repayments.

The Telstra Entity and its partners, News Corporation Limited and Publishing and Broadcasting Limited, and Telstra Media Pty Ltd and its partner, Sky Cable Pty Ltd, have previously entered into agreements relating to pay television programming with various parties. At 31 December 2003, we have commitments of \$2,046 million (30 June 2003: \$2,208 million) under these agreements relating mainly to minimum subscriber guarantees. The reduction of \$162 million from 30 June 2003 is predominantly due to movements in exchange rates and a further six month expiry of these guarantees.

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 decreased by \$162 million during the period.

Since the 30 June reporting date we have become aware that a potential requirement for an amount no greater than \$65 million may exist to support Reach Ltd (Reach), an associate, to meet its financial commitments.

Reach's 2004 business plan is currently being finalised.

Notes to the Half-Year Financial Statements (continued)

9. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 31 December 2003 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 9 January 2004, our 50% owned pay television joint venture FOXTEL entered into a \$550 million bank facility arrangement to fund its full digital conversion and launch of new digital services. The use of this facility is subject to certain conditions being met and full repayment is due on 30 September 2008.

As part of this arrangement, our controlled entity Telstra Media Pty Ltd as a FOXTEL partner, and FOXTEL itself have pledged their relative assets as collateral in favour of the banks.

In addition, we and FOXTEL's other ultimate shareholders, News Corporation Limited and Publishing and Broadcasting Limited, have entered into an Equity Contribution Deed (ECD). Under the ECD, FOXTEL is required to call on a maximum of \$200 million in equity contributions in certain specified circumstances such as necessary to avoid default of a financial covenant. These equity contributions are based on ownership interests and, as a result, our maximum contingent liability is \$100 million. The ECD expires on 30 April 2009.

On 20 January 2004, we completed the sale of our 20.4% shareholding in our associated entity PT Mitra Global Telekomunikasi Indonesia (MGTI). Revenue from the sale of this investment amounted to \$50 million, resulting in a profit before income tax expense of \$21 million.

In addition, we were also released from our contingent liabilities in relation to MGTI as disclosed in our 30 June 2003 financial report. These contingencies included our liability for calls against standby equity under the joint venture agreement (\$25 million) and our several liability if the other shareholders defaulted on their share of the standby equity call (\$102 million). It also included a limited recourse pledge over our shareholding in MGTI to support MGTI's obligations under a previous loan agreement entered into. The debt drawn down at 30 June 2003 amounted to \$106 million.

On 12 February 2004, the directors of Telstra Corporation Limited declared a fully franked interim dividend of 13 cents per ordinary share, payable on 30 April 2004 to those shareholders on record at 26 March 2004. A provision for dividend payable has been raised as at the date of declaration, amounting to \$1,642 million.

The financial effect of the above transactions after balance date have not been recognised in our statements of financial performance, financial position or cash flows for the half-year ending 31 December 2003.

Notes to the Half-Year Financial Statements (continued)

10. 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 2003 financial statements. The following tables are provided to supplement those disclosures for the half-year ended 31 December 2003.

| | Half-year ended 31 December | |
|---|-----------------------------|--------------|
| | 2003 \$m | 2002 \$m |
| Reconciliation of net income to USGAAP | | |
| AGAAP net income reported in statement of financial performance | 2,293 | 1,184 |
| Adjustments required to agree with USGAAP | | |
| Property, plant and equipment | (46) | (223) |
| Retirement benefit (expense)/gain | (51) | 73 |
| Income tax benefit | 9 | 101 |
| Derivative financial instruments and hedging activities | 143 | (182) |
| PCCW converting note | 7 | (7) |
| Equity accounting and write-off adjustments for Reach Ltd | (80) | 767 |
| Fair value / general reserve adjustments | - | 6 |
| Goodwill adjustments | 61 | (191) |
| Consolidation of employee share plan trusts (a) | 3 | - |
| Net income per USGAAP | 2,339 | 1,528 |
| Statement of financial performance measured and classified per USGAAP | | |
| Operating revenue | 10,456 | 10,468 |
| Operating expenses: | | |
| Labour | 1,686 | 1,551 |
| Goods and services purchased (i) | 1,456 | 1,834 |
| Depreciation and amortisation | 1,801 | 1,728 |
| Other operating expenses | 2,290 | 2,079 |
| Total operating expenses | 7,233 | 7,192 |
| Operating income | 3,223 | 3,276 |
| Net interest expense | (354) | (475) |
| Dividend income | - | 1 |
| Share of net (losses)/profits of associates and joint venture entities | (98) | 27 |
| Other income/(expense) | 458 | (169) |
| Net income before income tax expense and minority interests | 3,229 | 2,660 |
| Income tax expense | 894 | 857 |
| Net income before minority interests and cumulative effect adjustments | 2,335 | 1,803 |
| Minority interests | - | 34 |
| Net income before cumulative effect adjustments | 2,335 | 1,837 |
| Cumulative effect of change in accounting principles, net of tax (a) | 4 | (309) |
| Net income per USGAAP | 2,339 | 1,528 |

Notes to the Half-Year Financial Statements (continued)

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

Reconciliations to financial reports prepared using

USGAAP (continued)

| | Half-year ended 31 December | |
|---|-----------------------------|---------------|
| | 2003 | 2002 |
| | \$m | \$m |
| USGAAP Earnings per share | | |
| Net income per USGAAP | 2,339 | 1,528 |
| | ¢ | ¢ |
| Basic earnings per share before cumulative effect of change in accounting principles | 18.4 | 14.4 |
| Cumulative effect of change in accounting principles (net of tax): | | |
| Transition impairment of CSL goodwill | - | (2.4) |
| Consolidation of employee share plan trusts | - | - |
| Basic earnings per share per USGAAP (cents) | 18.4 | 12.0 |
| Dilutive earnings per share before cumulative effect of change in accounting principles | 18.3 | 14.3 |
| Cumulative effect of change in accounting principles (net of tax): | | |
| Transition impairment of CSL goodwill | - | (2.4) |
| Consolidation of employee share plan trusts | - | - |
| Diluted earnings per share per USGAAP (cents) | 18.3 | 11.9 |
| Reconciliation of weighted average number of ordinary shares and common share equivalents used for earnings per share calculations | | |
| | Number (in millions) | |
| Number of shares used for AGAAP earnings per share calculations | 12,817 | 12,867 |
| Adjusted for: | | |
| - weighted average TESOP 97 and 99 options outstanding during the period | (67) | (76) |
| - treasury stock not considered to be outstanding (a) | (21) | - |
| Number of shares used for USGAAP basic earnings per share calculations | 12,729 | 12,791 |
| Weighted average number of employee share options exercised during the period | 38 | 37 |
| Number of shares used for USGAAP diluted earnings per share calculations | 12,767 | 12,828 |
| Total comprehensive income disclosure | | |
| | Half-year ended 31 December | |
| | 2003 | 2002 |
| | \$m | \$m |
| Net income per USGAAP | 2,339 | 1,528 |
| USGAAP other comprehensive loss | (246) | (256) |
| USGAAP Total comprehensive income | 2,093 | 1,272 |

Notes to the Half-Year Financial Statements (continued)

10. United States generally accepted accounting principles disclosures (continued)**Reconciliations to financial reports prepared using****USGAAP (continued)**

| | As at 31 December | |
|---|-------------------|---------------|
| | 2003 \$m | 2002 \$m |
| Reconciliation of shareholders' equity to USGAAP | | |
| AGAAP shareholders' equity per statement of financial position | 15,110 | 15,235 |
| Cumulative adjustments required to agree with USGAAP | | |
| Property, plant and equipment | 50 | 196 |
| Listed investments (available-for-sale securities) | 50 | 80 |
| Retirement benefits | 4,166 | 4,160 |
| Income tax | (1,001) | (1,159) |
| Minority interests | (2) | 51 |
| Employee share loans | (184) | (211) |
| Derivative financial instruments and hedging activities | (395) | (310) |
| PCCW converting note | 1 | 7 |
| Sale of Global Wholesale Business to Reach Ltd | (882) | (882) |
| Equity accounting and write-off adjustments for Reach Ltd | 619 | 792 |
| Consolidation adjustment for Telstra CSL Limited | 253 | 817 |
| Fair value / general reserve adjustments | (54) | (58) |
| Goodwill adjustments | (155) | (191) |
| Consolidation of employee share plan trusts (a) | (63) | - |
| Shareholders' equity per USGAAP | 17,513 | 18,527 |
| Statement of financial position measured and classified per USGAAP | | |
| Current assets | | |
| Cash | 562 | 1,365 |
| Accounts receivable, net | 3,430 | 3,859 |
| Inventories | 239 | 252 |
| Deferred tax asset | 172 | 244 |
| Other assets | 674 | 553 |
| Total current assets | 5,077 | 6,273 |
| Non current assets | | |
| Receivables | 110 | 202 |
| Derivative financial instruments | 416 | 1,372 |
| Inventories | 14 | 6 |
| Investments - accounted for using the equity method | 116 | 241 |
| Investments - other non current | 207 | 528 |
| Property, plant and equipment | 45,016 | 43,642 |
| Accumulated depreciation of property, plant and equipment | (22,133) | (20,194) |
| Goodwill, net | 1,909 | 2,483 |
| Other intangible assets, net | 1,050 | 1,298 |
| Prepaid pension assets | 4,166 | 4,154 |
| Other assets | 2,352 | 2,375 |
| Total non current assets | 33,223 | 36,107 |
| Total assets | 38,300 | 42,380 |

Notes to the Half-Year Financial Statements (continued)

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

Reconciliations to financial reports prepared using

USGAAP (continued)

| | As at 31 December | |
|---|-------------------|---------------|
| | 2003 \$m | 2002 \$m |
| Statement of financial position measured and classified per USGAAP (continued) | | |
| Current liabilities | | |
| Payables | 1,944 | 2,371 |
| Borrowings - short term debt | 1,205 | 1,259 |
| Borrowings - long term debt due within one year | 283 | 821 |
| Income tax payable | 357 | 599 |
| Provisions | 371 | 381 |
| Revenue received in advance | 882 | 858 |
| Total current liabilities | 5,042 | 6,289 |
| Non current liabilities | | |
| Payables | - | 91 |
| Derivative financial instruments | 630 | 420 |
| Borrowings - long term debt | 10,743 | 12,255 |
| Deferred tax liability | 3,068 | 3,420 |
| Provisions | 762 | 843 |
| Revenue received in advance | 540 | 586 |
| Total non current liabilities | 15,743 | 17,615 |
| Total liabilities | 20,785 | 23,904 |
| Minority interests | 2 | (51) |
| Shareholders' equity | | |
| Contributed equity | 6,073 | 6,433 |
| Share loan to employees | (184) | (211) |
| Additional paid in capital from employee share plans (a) | 382 | 333 |
| Treasury stock (a) | (117) | - |
| Total share capital | 6,154 | 6,555 |
| Accumulated other comprehensive loss | (800) | (51) |
| Retained earnings | 12,159 | 12,023 |
| Total shareholders' equity | 17,513 | 18,527 |
| Total liabilities and shareholders' equity | 38,300 | 42,380 |

(i) Cost of sales includes both direct and indirect costs involved in the sale of the Company's goods and services. For a service company this would commonly include depreciation and other indirect costs associated with the provision of services. However, we do not report our costs according to this description and classify all of our expenses according to the nature of the expense, referred to as "goods and services purchased" in relation to the sale of goods and services. Goods and services purchased mainly comprises:

- Network service capacity from external communication service providers;
- Mobile handsets sold to customers;
- Cost of goods sold (other than mobile handsets); and
- Directory paper costs.

Goods and services purchased does not equate to cost of sales due to the non inclusion of depreciation and other indirect costs associated with the provision of our telecommunications services.

Notes to the Half-Year Financial Statements (continued)

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

Reconciliations to financial reports prepared using

USGAAP (continued)

(a) Additional explanation of significant differences between AGAAP and USGAAP

Consolidation of Variable Interest Entities

We have adopted FASB Interpretation No. 46 revised December 2003 (FIN 46), "Consolidation of Variable Interest Entities", in relation to the Telstra Employee Share Ownership Plan Trust (TESOP97), the Telstra Employee Share Ownership Plan Trust II (TESOP99) and the Telstra Growthshare Trust, in accordance with the effective dates outlined in FIN 46.

FIN 46 requires a beneficiary to consolidate a variable interest entity if it is the primary beneficiary of that entity. The primary beneficiary is defined as having a variable interest in a variable interest entity that will absorb a majority of the entity's expected losses.

TESOP97, TESOP99 and the Telstra Growthshare Trust are variable interest entities. We consolidate these trusts under USGAAP as we are considered to be the primary beneficiary of the trusts. Under AGAAP we do not consolidate or equity account these trusts as we are not the beneficiary of the trusts or significantly influence the trusts.

Telstra Growthshare Trust

The Telstra Growthshare Trust has purchased \$117 million worth of shares in Telstra Corporation Limited at 31 December 2003. This represents a total of 21,002,481 shares. The purchase of these shares has been fully funded by Telstra Corporation Limited. Under USGAAP these shares are recorded as treasury stock, thereby reducing total share capital. These shares are not considered to be outstanding for the purposes of computing basic and diluted earnings per share.

Cumulative Trust contributions made by Telstra Corporation Limited to the Telstra Growthshare Trust from commencement up to 31 December 2003 totalled \$49 million. These contributions were recorded as compensation expense under AGAAP and prior to the adoption of FIN 46 were reversed against additional paid in capital for USGAAP purposes. These contributions are used by the Trust to purchase Telstra shares on market to underpin the issue of restricted share, performance rights and deferred share options. On consolidation of the Trust, these contributions are now recorded against additional paid in capital under USGAAP.

Telstra Corporation Limited provides a loan to the Telstra Growthshare Trust to purchase shares on market to underpin the issue of options. The loan balance at 31 December 2003 is \$65 million. On consolidation of the Trust, this loan is eliminated, together with any associated interest.

Notes to the Half-Year Financial Statements (continued)

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

Reconciliations to financial reports prepared using

USGAAP (continued)

(a) Additional explanation of significant differences between AGAAP and USGAAP (continued)

Consolidation of Variable Interest Entities (continued)

Finance Lease Agreements

We entered into US finance leases for communications exchange equipment in fiscal 2000 and fiscal 1999 with the following entities which are incorporated in the Cayman Islands.

- Coleman Leasing Limited
- Coventry Leasing Limited
- Croswell Leasing Limited
- Clarke Leasing Limited
- Gurner Leasing Limited
- Sutherland Leasing Limited

We have prepaid all lease rentals due under the terms of the leases.

These entities lease the communications exchange equipment from the ultimate lessor and then sublease the equipment to us. We have guaranteed that the lease payments will be paid by these entities to the ultimate lessor as scheduled over the lease terms.

These entities are considered to be variable interest entities under FIN 46. Our maximum potential exposure to loss as a result of our agreements with these entities at 31 December 2003 is \$918 million. This amount has been disclosed as a contingent liability under AGAAP in note 8 to these financial statements.

Revenue Arrangements with Multiple Deliverables

As discussed in note 30(w) "Recently issued United States accounting standards" of the 30 June 2003 financial statements, we have adopted Emerging Issues Task Force consensus No. 00-21 (EITF 00-21), "Revenue Arrangements with Multiple Deliverables", from 1 July 2003 for both our AGAAP and USGAAP financial statements.

EITF 00-21 prescribes the determination of multiple revenue-generating activities and whether those activities contain more than one unit of accounting. Revenue from arrangements involving multiple deliverables that contain more than one unit of accounting must be allocated among the units based on their relative fair values. For further information regarding our adoption of EITF 00-21 refer to note 1.2.

We have assessed the changes required by EITF 00-21 to have no material impact on our statement of financial performance or statement of financial position as at and for the half year ended 31 December 2003.

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 29, 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 2003 and performance, as represented by the results of the operations and cash flows, for the half-year ended 31 December 2003; 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

Handwritten signatures of Robert C Mansfield and Ziggy Switkowski. The signature of Robert C Mansfield is on the left, and the signature of Ziggy Switkowski is on the right.

Robert C Mansfield
Chairman

Ziggy Switkowski
**Chief Executive Officer
and Managing Director**

Date: 12 February 2004
Melbourne, 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 2003.

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 Standards 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 10 to the financial report. I have reviewed note 10 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.

Independent Review Report (continued)

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.

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 2003 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 10 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

Date: 12 February 2004
Canberra, Australia