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 2005

Page number

Half-Year Financial Statements

Notes to the Half-Year Financial Statements

Income Statement

for the half-year ended 31 December 2005

	Note	Telstra Group Half-year ended 31 December	
		2005	2004
		$m	$m
Income			
Revenue (excluding finance income)		**11,449**	11,286
Other income		**129**	74
		11,578	11,360
Expenses			
Labour		**2,053**	1,882
Goods and services purchased		**2,214**	2,141
Other expenses		**2,011**	1,855
		6,278	5,878
Share of net (gain)/loss from jointly controlled and associated entities		**1**	(1)
		6,279	5,877
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**5,299**	5,483
Depreciation and amortisation		**1,810**	1,732
Earnings before interest and income tax expense (EBIT)		**3,489**	3,751
Finance income		**36**	34
Finance costs		**479**	458
Net finance costs		**443**	424
Profit before income tax expense		**3,046**	3,327
Income tax expense		**907**	942
Net profit		**2,139**	2,385
Outside equity interests in net loss		**1**	-
Net profit available to Telstra Entity shareholders		**2,140**	2,385
Ordinary interim dividends (cents per share)		**¢**	¢
- interim dividend	8	**14.0**	14.0
- special dividend to be paid with the interim dividend	8	**6.0**	6.0
Total interim dividend per share		**20.0**	20.0
Basic earnings per share (cents per share)		**17.3**	19.1
Diluted earnings per share (cents per share)		**17.3**	19.0

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

Balance Sheet

as at 31 December 2005

	Telstra Group as at 31 Dec 2005 $m	Telstra Group as at 30 June 2005 $m
Current assets		
Cash and cash equivalents	**817**	1,548
Trade and other receivables	**3,833**	3,581
Inventories	**317**	232
Derivative financial instruments	**7**	4
Other assets	**212**	249
	5,186	5,614
Assets classified as held for sale	**45**	-
Total current assets	**5,231**	5,614
Non current assets		
Trade and other receivables	**103**	65
Inventories	**15**	15
Investments accounted for using the equity method	**29**	51
Property, plant and equipment	**22,901**	22,939
Intangibles - goodwill	**2,101**	2,037
Intangibles - other	**4,045**	4,160
Deferred tax assets	**31**	31
Derivative financial instruments	**407**	-
Defined benefit assets	**446**	247
Total non current assets	**30,078**	29,545
Total assets	**35,309**	35,159
Current liabilities		
Trade and other payables	**2,416**	2,805
Borrowings	**1,872**	1,507
Current tax liabilities	**477**	534
Provisions	**424**	421
Derivative financial instruments	**13**	11
Revenue received in advance	**1,009**	1,132
Total current liabilities	**6,211**	6,410
Non current liabilities		
Trade and other payables	**18**	115
Borrowings	**11,201**	10,941
Deferred tax liabilities	**1,885**	1,826
Provisions	**911**	894
Derivative financial instruments	**937**	864
Revenue received in advance	**413**	388
Total non current liabilities	**15,365**	15,028
Total liabilities	**21,576**	21,438
Net assets	**13,733**	13,721
Equity		
Telstra Entity		
Share capital	**5,548**	5,536
Reserves	**(30)**	(151)
Retained profits	**8,209**	8,334
Equity available to Telstra Entity shareholders	**13,727**	13,719
Minority interests	**6**	2
Total equity	**13,733**	13,721

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 2005

	Note	Telstra Group Half-year ended 31 December 2005 $m	2004 $m
Cash flows from operating activities			
Receipts from trade and other receivables (inclusive of goods and services tax (GST))		**12,417**	12,274
Payments of accounts payable and to employees (inclusive of GST))		**(7,466)**	(6,972)
Net cash generated from operations		**4,951**	5,302
Income taxes paid		**(1,003)**	(909)
Net cash provided by operating activities		**3,948**	4,393
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(1,761)**	(1,544)
- intangibles		**(282)**	(287)
Capital expenditure (before investments)		**(2,043)**	(1,831)
- shares in controlled entities (net of cash acquired)		**(7)**	(567)
- investment in jointly controlled entities		**(12)**	(6)
- investment in associated entities (including share buy-back)		**16**	-
- shares in listed securities and other investments		**-**	(1)
Investment expenditure		**(3)**	(574)
Total capital expenditure		**(2,046)**	(2,405)
Loan to associated entities		**-**	(6)
Proceeds from:			
- sale of property, plant and equipment		**20**	14
- sale of listed securities and other investments		**-**	7
Interest received		**34**	33
Dividends received		**-**	2
Net cash used in investing activities		**(1,992)**	(2,355)
Operating cash flows less investing cash flows		**1,956**	2,038
Cash flows from financing activities			
Proceeds from borrowings		**3,869**	2,331
Proceeds from Telstra bonds		**-**	497
Repayment of borrowings		**(3,623)**	(1,348)
Repayment of Telstra bonds		**(13)**	(262)
Repayment of finance leases principal amount		**(4)**	(11)
Purchase of shares for employee share plans		**(6)**	-
Employee share loans (net)		**11**	8
Finance costs paid		**(470)**	(436)
Dividends paid		**(2,485)**	(1,639)
Share buy-back	6	**-**	(756)
Net cash used in financing activities		**(2,721)**	(1,616)
Net increase/(decrease) in cash		**(765)**	422
Foreign currency conversion		**4**	(5)
Cash at the beginning of the period		**1,534**	690
Cash at the end of the period	6	**773**	1,107

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

Statement of Changes in Shareholders' Equity

for the half-year ended 31 December 2005

	Telstra Group Half-year ended 31 December 2005 $m	2004 $m
Share capital		
Opening balance	**5,536**	5,786
- share based payments	**12**	15
- share buy-back	**-**	(280)
Closing balance	**5,548**	5,521
Reserves		
Foreign currency translation reserve		
Opening balance	**(193)**	-
- reserves recognised on equity accounting our interest in jointly controlled and associated entities	**1**	(3)
- adjustment on translation of financial statements of non-Australian controlled entities	**81**	(210)
Closing balance	**(111)**	(213)
Cash flow hedging reserve		
Opening balance	**-**	-
- adjustment to opening balance on adoption of new accounting standard	**79**	-
Adjusted opening balance	**79**	-
- net hedging gains/(losses) recognised directly in equity	**23**	-
- net hedging gains/(losses) transferred from equity and included in net profit	**(60)**	-
Closing balance	**42**	-
Consolidation fair value reserve		
Opening balance	**38**	44
- fair value adjustment on acquisition of controlling interest in jointly controlled entity	**(3)**	(3)
Closing balance	**35**	41
General reserve		
Opening balance	**4**	5
- reserves recognised on equity accounting our interest in jointly controlled and associated entities	**-**	5
- transfer of reserve on sale of controlled entities	**-**	(6)
Closing balance	**4**	4
Total reserves	**(30)**	(168)
Retained profits		
Opening balance	**8,334**	8,675
- adjustment to opening balance on adoption of new accounting standard	**(5)**	-
Adjusted opening balance	**8,329**	8,675
- net profit for the period	**2,139**	2,385
- actuarial gain on defined benefit plans	**223**	66
- dividends	**(2,485)**	(1,639)
- share buy-back	**-**	(476)
- fair value adjustment on acquisition of controlling interest in jointly controlled entity	**3**	3
- transfer of reserve on sale of controlled entities	**-**	5
Closing balance	**8,209**	9,019

Statement of Changes in Shareholders' Equity (continued)

	Telstra Group Half-year ended 31 December 2005 $m	2004 $m
Minority interests		
Opening balance	**2**	2
- share of movement in share capital	**5**	-
- share of net profit/(loss)	**(1)**	-
Closing balance	**6**	2
Total recognised income and expense for the period		
Net income recognised directly in equity	**268**	(143)
Net profit for the period	**2,139**	2,385
	2,407	2,242
Total income and expense for the period attributable to:		
Telstra Entity	**2,408**	2,242
Minority interests	**(1)**	-
	2,407	2,242

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

Notes to the Half-Year Financial Statements

1. Basis of preparation

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 2005. 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 the financial report

This half-year financial report has been prepared in accordance with the requirements of the Australian Corporations Act 2001 and Accounting Standards applicable in Australia, including AASB 134: "Interim Financial Reporting".

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 income statement, balance sheet and cash flows of the Telstra Group as the 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 and some financial assets and liabilities (including derivative instruments) which are recorded at fair value. 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 affect:

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

Actual amounts 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.

This is our first financial report prepared in accordance with the Australian equivalents to International Financial Reporting Standards (A-IFRS). AASB 1: "First time adoption of Australian equivalents to International Financial Reporting Standards" (AASB 1) has been applied in preparing our interim financial report. The financial report until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from A-IFRS.

When preparing this financial report we have amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with A-IFRS. With the exception of financial instruments, the comparative figures have been restated to reflect these adjustments. We have taken the exemption available under AASB 1 to only apply AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement", from 1 July 2005.

1.2 Further clarification of terminology used in our income statement

Under the requirements of AASB 101: "Presentation of Financial Statements", we must classify all of our expenses (apart from any finance costs and our share of net (gain)/loss from jointly controlled and associated 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.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our net profit prior to including the effect of net finance 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.

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

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

Notes to the Half-Year Financial Statements (continued)

1. Basis of preparation (continued)

1.2 Further clarification of terminology used in our income statement (continued)

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

When a specific item from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining our operating performance for the reporting period, its nature and amount is disclosed separately in note 3.

1.3 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.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies

2.1 Change in accounting policies

The following accounting policy changes occurred during the half-year ended 31 December 2005.

Our transition to Australian equivalents to International Financial Reporting Standards (A-IFRS) resulted in changes to a number of our accounting policies, including the accounting for mobile handset subsidies. As part of the transition to A-IFRS we have elected to expense handset subsidies as incurred. As a result, we have provided the full details of our accounting policies applied as at 31 December 2005.

The accounting policies set out below have been applied in preparing the financial report for the half-year ended 31 December 2005, the comparative information presented in these financial statements and in the preparation of the opening A-IFRS balance sheet as at 1 July 2004, except for the accounting policies in respect of financial instruments.

Reconciliations and descriptions of the impact of transition to A-IFRS on the Telstra Group's income statement, balance sheet and cash flows are provided in note 9.

There were no accounting policy changes during the half-year ended 31 December 2004.

Accounting policies

2.2 Principles of consolidation

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

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

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

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies.

An entity is considered to be a controlled entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity so as to obtain benefits from its activities.

Investments in our jointly controlled and associated entities are accounted for as set out in note 2.9.

2.3 Foreign currency translation

(a) Transactions

Foreign currency transactions are converted into the relevant functional currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into the relevant functional currency at market exchange rates at balance date. Any currency translation gains and losses that arise are included in our net profit or loss for the half-year. Where we enter into a hedge for a specific expenditure commitment or for the construction of an asset, hedging gains and losses are accumulated in equity over the period of the hedge and are transferred to the carrying value of the asset upon completion, or included in the income statement at the same time as the discharge of the expenditure commitment.

(b) Translation of financial reports of foreign operations that have a functional currency that is not Australian dollars.

Our operations include subsidiaries, associates, joint ventures and branch operations, the activities and operations of which are in an economic environment where their functional currency is not Australian dollars. The financial statements of these entities are translated to Australian dollars (our presentation currency) using the following method:

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

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.3 Foreign currency translation (continued)

Exchange differences relating to foreign currency monetary items forming part of the net investment in our entities operating in an economic environment where their functional currency is not Australian dollars, together with related tax effects, are eliminated against the foreign currency translation reserve in our consolidated financial statements.

Where we hedge our investment in entities which are in an economic environment where their functional currency is not Australian dollars, the gains or losses on the hedging instrument are recognised in the foreign currency translation reserve until we dispose of the operation, at which time the cumulative gains and losses are transferred to the income statement.

Upon disposal or partial disposal of a foreign operation, the balance of the foreign currency translation reserve relating to the entity, or the part disposed of, is transferred to the income statement and becomes part of the gain or loss on sale.

2.4 Cash and cash equivalents

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

Bank deposits are recorded at amounts to be received.

Bills of exchange and commercial paper are classified as 'available-for-sale' financial assets and are therefore held at fair value. The carrying amount of these assets approximates their fair value due to the short term to maturity.

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

2.5 Trade and other receivables

Trade debtors and other receivables are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost.

A provision for doubtful debts is raised based on a review of outstanding amounts at balance date. Bad debts specifically provided for in previous years are eliminated against the provision for doubtful debts. In all other cases, bad debts are written off as an expense directly in the income statement.

2.6 Inventories

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

We allocate cost to the majority of inventory items on hand at balance date using the weighted average cost basis. For the remaining quantities on hand, actual cost is used where the item was purchased for use in a particular asset or project, and the 'first in first out' basis is used for materials purchased for production of directories.

Net realisable value of items expected to be sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

2.7 Construction contracts

(a) Valuation

We record construction contracts in progress at cost (including any profits recognised) less progress billings and any provision for foreseeable losses.

Cost includes:

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

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

(b) Recognition of profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion, refer to note 2.18(d) for further details.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.7 Construction contracts (continued)

Profits are recognised when:

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

(c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

2.8 Assets classified as held for sale

Our non current assets are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. We only classify an asset as held for sale if it is available for immediate sale in its present condition subject to only usual and customary terms, and its sale is highly probable.

We record assets held for sale assets at the lower of its carrying amount and fair value less costs to sale. An impairment loss is recognised for any initial or subsequent write down of the assets to fair value less costs to sell. We do not depreciate or amortise these assets while they are classified as held for sale.

2.9 Investments

(a) Controlled entities

Our investments in controlled entities are recorded at cost less impairment of the investment value.

Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 2.26.

(b) Jointly controlled and associated entities

(i) Jointly controlled entities

A jointly controlled entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in jointly controlled entities, including partnerships, are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

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

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

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

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

Where we have long term assets that in substance form part of our investment in our equity accounted interests and our equity accounted amount of investment falls below zero, we reduce the value of the assets in proportion with our cumulative losses.

(ii) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20% and 50%, and are able to apply significant influence to the decisions of the entity, that entity is an associated entity. Associated entities are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.9 Investments (continued)

(c) Jointly controlled assets

A jointly controlled asset involves the joint control of one or more assets acquired and dedicated for the purpose of a joint venture. The assets are used to obtain benefits for the venturers. Where the asset is significant we record our share of the asset. We record expenses based on our percentage ownership interest of the jointly controlled asset.

(d) Listed securities and investments in other corporations

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

Our investments in listed securities and in other corporations are classified as 'available-for-sale' financial assets and as such are measured at fair value at each reporting date.

Net fair values of our investments are calculated on the following bases:

- for listed securities traded in an organised financial market, we use the current quoted market bid price at balance date; and
- for investments in unlisted entities whose securities are not traded in an organised financial market, we establish fair value by using valuation techniques including reference to discounted cash flows and fair values of recent arms length transactions involving the same instruments or other instruments that are substantially the same.

We remeasure the fair value of our investments in listed securities and other corporations at each reporting date. Any gains or losses are recognised in equity until we dispose of the investment, or we determine it to be impaired, at which time we transfer all cumulative gains and losses to the income statement.

2.10 Impairment

(a) Non-financial assets

Our tangible and intangible assets (excluding inventories, assets arising from construction contracts, deferred tax assets, pension assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds their recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal. We recognise any decrement in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

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

For assets that do not generate largely independent cash inflows the recoverable amount is determined for the cash generating unit to which that asset belongs. Our cash generating units (CGUs) are determined according to the lowest level of aggregation for which an active market exists and the assets involved create largely independent cash inflows.

(b) Financial assets

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets are impaired.

For financial assets held at fair value, we consider the financial asset to be impaired when there has been an extended period in which the fair value of the financial asset has been below the acquisition cost and the decline in fair value is not expected to be recovered. At this time, all revaluation losses in relation to the impaired financial asset that have been accumulated within equity are recognised in the income statement.

For financial assets held at cost or amortised cost, we consider the financial asset to be impaired when there is a difference between the carrying value and the present value of estimated discounted future cash flows. Any impairment losses are recognised immediately in the income statement.

Impairment losses recognised in the income statement are not reversed.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.11 Property, plant and equipment

(a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 2.11(b). The cost of our constructed property, plant and equipment includes:

- the cost of material and direct labour;
- an appropriate proportion of direct and indirect overheads; and
- where we have an obligation for removal of the asset or restoration of the site, an estimate of the cost of restoration or removal if that cost can be reliably estimated.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition.

(b) Depreciation

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

The service lives and residual values (where applicable) of all assets are reviewed each year. As part of that review asset lives are reassessed. Any reassessment in a particular year will affect the depreciation expense (either increasing or decreasing) through to the end of the reassessed useful life for both that current year and future years.

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

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

2.12 Leased plant and equipment

We account for leases in accordance with AASB 117: “Leases”. We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains all such risks and benefits.

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

Operating lease payments are charged to the income statement in the periods in which they are incurred.

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

2.13 Intangible assets

Intangible assets are assets that have value but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

(a) Internally generated intangible assets

Research costs are recorded as an expense as incurred. Development costs are capitalised if the project is technically and commercially feasible and we have sufficient resources to complete the development.

Software assets

We record direct costs associated with the development of business software for internal use as software assets if the development costs satisfy the criteria for capitalisation described above.

Costs included in software assets developed for internal use are:

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

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives to us. Amortisation commences once the software is ready for use.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.13 Intangible assets (continued)

(b) Goodwill

On the acquisition of investments in controlled entities, jointly controlled entities and associated entities, when we pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is recognised as goodwill in the Telstra Group balance sheet. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a jointly controlled or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment in accordance with note 2.10 on an annual basis, or when an indication of impairment exists.

(c) Other intangible assets

We acquire other intangible assets either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit.

Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with note 2.10 on an annual basis, or where an indication of impairment exists.

Our other intangible assets include mastheads, patents, trademarks, licences, brandnames and customer bases.

(d) Deferred expenditure

Deferred expenditure mainly includes upfront payments for basic access installations and connections fees of in place and new services, and direct incremental costs of establishing a customer contract.

Significant items of expenditure are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Any costs in excess of future revenue are recognised immediately in the income statement.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised.

Handset subsidies are expensed as incurred.

2.14 Trade and other payables

Trade and other payables, including accruals, are recorded when we are required to make future payments as a result of a purchase of assets or services.

2.15 Borrowings

Our borrowings fall into two categories:

(a) Borrowings in a designated hedging relationship

Our offshore borrowings which are designated as hedged items are subject to either fair value or cash flow hedges. The method by which they are hedged determines their accounting treatment.

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges (to hedge against changes in value due to interest rate or currency movements) is adjusted for fair value movements attributable to the hedged risk. Fair value is calculated using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve which is independently derived and representative of Telstra's cost of borrowing. These borrowings are remeasured each reporting period and the gains or losses are recognised in the income statement along with the associated gains or losses on the hedging instrument.

Borrowings subject to cash flow hedges (to hedge against currency movements) are recognised initially at fair value based on the applicable spot price plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost, translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds is recognised in the income statement over the borrowing period using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Currency gains or losses on the borrowings are recognised in the income statement, along with the associated gains or losses on the hedging instrument, which have been transferred from the cash flow hedging reserve to the income statement.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.15 Borrowings (continued)

(b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include commercial paper borrowings, Telstra Bonds, loans from associates, unsecured promissory notes and other borrowings.

All such instruments are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instrument and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

Borrowings are included as non current liabilities except for those with maturities less than twelve months from the balance sheet date, which are classified as current liabilities.

2.16 Provisions

Provisions are recognised when the group has:

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(a) Employee benefits

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

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

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

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

(b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on the risks specific to the liability with similar due dates.

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

(c) Restoration costs

We provide for costs of restoration or removal in relation to our fixed assets when we have a legal or constructive obligation. These costs include our obligations relating to the dismantling, removal, remediation, restoration and other expenditure associated with our fixed assets or site fitouts. Restoration provisions are initially recorded when a reliable estimate of the costs to be incurred can be determined, discounted to present value. Our estimates are based upon a review of lease contracts, legal requirements, historical information and expected future costs. Any changes to these estimates are adjusted on a progressive basis as required.

Where restoration costs are incurred due to the acquisition, construction or development of a non current asset, the provision is raised and recorded at that time as part of the cost of the asset where the cost is reliably measurable.

(d) Redundancy and restructuring costs

We recognise a provision for redundancies when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out with those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation in those affected by the restructuring that the restructuring will go ahead.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.17 Share capital

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

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

Where we undertake a share buy-back, contributed equity is reduced in accordance with the structure of the buy-back arrangement. Costs associated with the buy-back, net of tax, are also deducted from contributed equity. We also record the purchase of Telstra Entity shares by our employee share plan trusts as a reduction in share capital.

Share based remuneration associated with our employee share plans is recognised as additional share capital. Non-recourse loans provided to employees to participate in these employee share plans are recorded as a reduction in share capital.

Refer to note 2.25 for further details regarding our accounting for employee share plans.

2.18 Revenue

The underlying accounting principles of revenue recognition are the same for both A-IFRS and the United States Generally Accepted Accounting Principles (USGAAP). As such we have applied the more detailed guidance under USGAAP to the timing of revenue recognition for both A-IFRS and USGAAP financial statements where there is no conflict between the two.

Sales revenue

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

(a) Delivery of services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

We record revenue earned from:

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

Installation and connection fee revenues are deferred and recognised over the average estimated customer contract life. For basic access installation and connections this is an average of five years. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life. Also refer to note 2.13(d).

(b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

Generally we record the full gross amount of sales proceeds as revenue, however if we are acting as an agent under a sales arrangement, we record the revenue on a net basis, being the gross amount billed less the amount paid to the supplier. We review the facts and circumstances of each sales arrangement to determine if we are an agent or principal under the sale arrangement.

(c) Rent of network facilities

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

(d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract.

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

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

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.18 Revenue (continued)

(e) Advertising and directory services

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

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

(f) Interest revenue

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

Revenue arrangements with multiple deliverables

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 is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

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

2.19 Advertising expenses

Costs for advertising products and services or promoting our corporate image are expensed as incurred. These costs are included in promotion and advertising expenses within our other expenses category.

2.20 Borrowing costs

Borrowing costs are recognised as an expense in our income statement when incurred.

2.21 Taxation

(a) Income taxes

Our income tax expense represents the sum of current tax and deferred tax. Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Deferred tax is calculated at the tax rates that are expected to apply to the period when our asset is realised or the liability is settled. Both our current tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

We apply the balance sheet liability method for calculating our deferred tax. Deferred tax is the expected tax payable or recoverable on all taxable and deductible temporary differences determined through reference to the tax bases of assets and liabilities and their carrying amount for financial reporting purposes as at the reporting date.

We generally recognise deferred tax liabilities for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit or taxable income at the time of the transaction.

In respect of our investments in subsidiaries, associates and joint ventures, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

We generally recognise deferred tax assets for all deductible temporary differences and for the carry forward of unused tax losses and tax credits. These tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses and tax credits can be utilised. We are unable to recognise deferred tax assets arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit or taxable income at the time of the transaction.

In respect of our investments in subsidiaries, associates and joint ventures, we recognise deferred tax assets for all deductible temporary differences provided it is probable that our temporary differences will reverse in the future and taxable profit will be available against which our temporary differences can be utilised.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.21 Taxation (continued)

The carrying amount of our deferred tax assets is reviewed at each reporting date. We reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

Our current and deferred tax is recognised as an expense or revenue in the income statement, except when it relates to items directly debited or credited to equity, in which case our current and deferred tax is also recognised directly in equity.

We offset deferred tax assets and deferred tax liabilities in the balance sheet where they relate to income taxes levied by the same taxation authority and to the extent that we intend to settle our current tax assets and liabilities on a net basis. Our deferred tax assets and deferred tax liabilities are netted within the tax consolidation group, as these deferred tax balances relate to the same taxation authority. We do not net deferred tax balances between controlled entities, apart from those within the tax consolidation group.

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

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

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

2.22 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of the instruments in the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans).

2.23 Insurance

We specifically carry the following types of insurance:

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

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

The Telstra Entity and certain controlled entities are self insured for workers' compensation.

2.24 Post-employment benefits

(a) Defined contribution plans

Our commitment to defined contribution plans is limited to making the contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

(b) Defined benefit plans

We currently sponsor two post-employment benefit plans. The Telstra Entity and some of our Australian controlled entities participate in the Telstra Superannuation Scheme (Telstra Super). Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in the HK CSL Retirement Scheme. Both these post-employment benefit plans have defined contribution and defined benefit divisions. Given that these plans have elements of both defined contribution and defined benefit, these hybrid plans are treated as defined benefit plans in accordance with AASB 119: "Employee Benefits".

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.24 Post-employment benefits (continued)

We recognise an asset/(liability) for the net pension surplus/(deficit) recorded in each of our post-employment defined benefit plans.

At reporting date, where the fair value of the plan assets exceeds the present value of the defined benefit obligations, the net surplus is recognised as an asset. We recognise the asset as we have the ability to control this surplus to generate future funds that are available to us in the form of reductions in future contributions or as a cash refund.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit would be recognised as a liability.

We use fair value to determine the value of the plan assets at reporting date. Fair value is calculated by reference to the net market values of the plan assets.

Defined benefit obligations are based on the expected future payments required to settle the obligations arising from our current and past employee services. This obligation is influenced by many factors, including final salaries and employee turnover. We employ qualified actuaries to calculate the present value of the defined benefit obligations. These obligations are measured net of tax.

The actuaries use the projected unit credit method to determine the present value of the defined benefit obligations of each plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on government guaranteed securities with similar due dates to these expected cash flows.

For funding purposes, we perform a full actuarial valuation every three years for Telstra Super and the HK CSL Retirement Scheme. In addition, we perform other actuarial valuations with sufficient regularity to ensure we meet our business and reporting requirements.

We recognise all our pension costs in the income statement with the exception of actuarial gains and losses that are recognised directly in retained profits. Components of pension costs include current and past service cost, interest cost and expected return on assets. Current and past service cost represents the increase in the present value of the defined benefit obligation resulting from our employees' service in the current and prior periods respectively. Interest cost represents the increase in the present value of the defined benefit obligation resulting from the employee benefits being one period closer to settlement. Expected return on assets represents movement in market value interest, dividends and other revenue items that is expected to be derived from plan assets.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions. All of the actuarial gains and losses associated with our defined benefit plans are recognised directly in retained profits in the period in which they occur.

We are unable to offset the net surplus/(deficit) position of Telstra Super and the HK CSL Retirement Scheme as we have no legally enforceable right to use a surplus in one defined benefit plan to settle obligations under the other defined benefit plan. In addition, we do not intend to settle these obligations on a net basis.

2.25 Employee share plans

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP 97 and TESOP 99.

The Telstra Growthshare Trust (Growthshare) was established to allocate equity based instruments as required. Current equity based instruments include options, restricted shares, performance rights, deferred shares, directshares and ownshares. Options, performance rights, and restricted shares are subject to performance hurdles. Deferred shares are subject to a specified period of service.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also include the results, position and cash flows of Growthshare.

We recognise an expense for all share-based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is 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 is 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 the requirements of AASB 2 to equity instruments issued prior to 7 November 2002.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.25 Employee share plans (continued)

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

2.26 Derivative financial instruments

We use derivative financial instruments such as forward exchange contracts, cross currency swaps and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations.

The use of hedging instruments is governed by the guidelines set by our Board of Directors.

From 1 July 2004 to 30 June 2005

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

Adjustments on transition date: 1 July 2005

Under AASB 132/139, our accounting policy has changed to recognise our financial instruments in the balance sheet and to record all derivatives at fair value. At the date of transition changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on the hedge type. For further information concerning the adjustments on transition date reference should be made to note 2.30.

From 1 July 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as 'held for trading' financial instruments. All of our derivative financial instruments are stated at fair value.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract, recorded as a hedge receivable or hedge payable in our balance sheet. We do not offset the hedge receivable or hedge payable with the underlying financial asset or financial liability being hedged, as the transactions are generally with different counterparties and are not generally settled on a net basis.

Where we have a legally recognised right to set off the financial asset and the financial liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our balance sheet. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our balance sheet.

Our derivative instruments that are held to hedge exposures can be classified into three different types, depending on the reason we are holding them - fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness may result in significant volatility in the income statement.

In order for a derivative instrument to qualify for hedge accounting it must be formally designated and documented as a hedge of a particular item or transaction, it must be expected to be highly effective in offsetting changes in cash flows or fair value of the hedged item, and for cash flow hedges of forecast transactions, the forecast transaction must be highly probable.

We document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedges

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.26 Derivative financial instruments (continued)

Where a fair value hedge qualifies for hedge accounting, gains or losses from remeasuring the fair value of the hedge instrument are recognised in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged. This will increase volatility of reported profits due to the inclusion of some ineffectiveness arising from the application of hedge accounting.

(b) Cash flow hedges

We use cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period. Cash flow hedges are used for our foreign currency borrowings, and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedge instrument are recognised directly in equity in the cash flow hedging reserve until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed asset), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create some volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the income statement.

If a forecast hedged transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that were reported in equity are transferred immediately to the income statement.

(c) Hedges of a net investment in a foreign operation

Our investments in foreign operations are exposed to foreign currency risk, which arises when we translate the net assets of our foreign investments from their functional currency to Australian dollars. We hedge our net investments to mitigate exposure to this risk by using forward foreign currency contracts, cross currency swaps and/or commercial paper in the relevant currency of the investment.

Gains and losses on remeasurement of our derivative instruments designated as hedges of foreign investments are recognised in the foreign currency translation reserve in equity to the extent they are considered to be effective.

The cumulative amount of the recognised gains or losses included in equity are transferred to the income statement when the foreign operation is sold.

For all of our hedging instruments (fair value, cash flow or net investment), any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective are recognised directly in the income statement in the period in which they occur.

(d) Derivatives that are not in a designated hedging relationship

For any ‘held for trading’ derivative instruments, i.e. those which are not in a designated hedging relationship, any gains or losses on remeasuring the instruments to fair value are recognised directly in the income statement in the period in which they occur.

(e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value through profit or loss.

2.27 Fair value estimation

The fair value of our derivatives and some financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Valuation techniques include where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm’s length transactions, involving the same instruments or other instruments that are substantially the same, and option pricing models.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.27 Fair value estimation (continued)

We calculate the fair value of our forward exchange contracts by reference to forward exchange market rates for contracts with similar maturity profiles at the time of valuation.

The net fair values of our cross currency and interest rate swaps and other financial assets and financial liabilities that are measured at fair value (apart from our listed investments) are determined using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. The net fair values of our listed investments are determined by reference to prices quoted on the relevant stock exchanges where the securities are traded.

Unless there is evidence to suggest otherwise, the nominal value of financial assets and financial liabilities less any adjustments for impairment with a short term to maturity are considered to approximate net fair value.

2.28 Financial assets

From 1 July 2004 to 30 June 2005

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to ensure this information complies with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. At the date of transition, adjustments to carrying amounts are taken to retained profits or reserves. With the exception of those financial assets which are designated in hedge relationships (refer to note 2.26). At the date of transition to AASB 132 and AASB 139 there were no significant adjustments to carrying amounts. For further information concerning the adjustments on transition date, reference should be made to note 2.30.

From 1 July 2005

We classify our financial assets in the following categories. These are financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. We determine the classification at initial recognition and re-evaluate this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance date.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when we provide money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that we have the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.28 Financial assets (continued)

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method less impairment. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

In the event that we have 'financial assets at fair value through the profit or loss' realised and unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity in the available-for-sale investments reserve. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments, previously recognised in equity are included in the income statement.

Purchases and sales of financial assets are recognised on settlement date - the date on which we receive or deliver an asset. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

2.29 Financial instrument transaction costs

We have elected to apply the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP, transaction costs were excluded from the carrying value of our financial assets and financial liabilities disclosed in the financial report. Under A-IFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts was immaterial.

2.30 Comparative information - financial instruments

We have elected to apply the exemption available under AASB 1 to apply AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139: "Financial Instruments: Recognition and Measurement" from 1 July 2005. Accordingly, we have changed our accounting policies for financial instruments from 1 July 2005.

The transitional rules for first time adoption of A-IFRS required that we restate our comparative financial report using A-IFRS, except for financial instruments within the scope of AASB 132 and AASB 139 where comparative information was not required to be restated. Accordingly, we have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For information on the restatement of our comparative financial statements using A-IFRS excluding AASB 132 and AASB 139 reference should be made to note 9.

Under previous AGAAP disclosures, derivative financial instruments were classified within other assets and other liabilities. For comparative purposes these previous AGAAP amounts have been reclassified to derivative financial instruments on the balance sheet on transition to A-IFRS. The effect of changes in the accounting policies for financial instruments including derivatives, as a result of the adoption of AASB 132 and AASB 139 as at 1 July 2005 is shown on the following page.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.30 Comparative information - financial instruments (continued)

		Telstra Group		
	Note	30 June 2005 $m	Effect of adoption $m	1 July 2005 $m
Current assets				
Cash and cash equivalents		1,548	-	1,548
Trade and other receivables		3,581	-	3,581
Inventories		232	-	232
Derivative financial instruments	(i)	4	6	10
Other assets		249	-	249
Total current assets		5,614	6	5,620
Non current assets				
Trade and other receivables		65	-	65
Inventories		15	-	15
Investments accounted for using the equity method		51	-	51
Property, plant and equipment		22,939	-	22,939
Intangibles - goodwill		2,037	-	2,037
Intangibles - other		4,160	-	4,160
Deferred tax assets		31	-	31
Derivative financial instruments	(i)	-	512	512
Defined benefit assets		247	-	247
Total non current assets		29,545	512	30,057
Total assets		35,159	518	35,677
Current liabilities				
Trade and other payables		2,805	-	2,805
Borrowings	(iii)	1,507	3	1,510
Current tax payable		534	-	534
Provisions		421	-	421
Derivative financial instruments	(i)	11	5	16
Revenue received in advance		1,132	-	1,132
Total current liabilities		6,410	8	6,418
Non current liabilities				
Trade and other payables		115	-	115
Borrowings	(iii)	10,941	219	11,160
Deferred tax liabilities	(iv)	1,826	32	1,858
Provisions		894	-	894
Derivative financial instruments	(i)	864	185	1,049
Revenue received in advance		388	-	388
Total non current liabilities		15,028	436	15,464
Total liabilities		21,438	444	21,882
Net assets		13,721	74	13,795
Equity				
Telstra Entity				
Share capital		5,536	-	5,536
Reserves	(vi)	(151)	79	(72)
Retained profits	(vii)	8,334	(5)	8,329
Equity available to Telstra Entity shareholders		13,719	74	13,793
Minority interests		2	-	2
Total shareholders' equity		13,721	74	13,795

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.30 Comparative information - financial instruments (continued)

Adjustments were made at the date of transition (1 July 2005) to restate the opening balance sheet of the Telstra Group to a position consistent with the accounting policies specified in note 2. These are listed below. Also included is where the transitional provisions will have an effect on future periods.

(i) From 1 July 2005, the recognition and measurement of all derivatives (including any embedded derivatives) is at fair value. Changes in fair value are either taken to the income statement or an equity reserve. At 1 July 2005 a $328 million increase in net assets was recognised representing:

- a gain of $333 million on the remeasurement of our interest rate swaps and cross currency swaps to fair value; and
- a loss of $5 million on the remeasurement of forward foreign exchange contracts to fair value.

These adjustments are reflected in the previous table as an increase in current assets (derivative financial instruments) of $6 million, an increase in non current assets (derivative financial instruments) of $512 million, offset by an increase in current liabilities (derivative financial instruments) of $5 million and an increase in non current liabilities (derivative financial instruments) of $185 million.

At 1 July 2005, there were no material embedded derivatives which required separate measurement and reporting.

(ii) From 1 July 2005, financial assets and financial liabilities which are not at fair value are measured at amortised cost. The adjustment to carrying amounts for the change in this measurement basis at 1 July 2005 was immaterial.

(iii) From 1 July 2005, the carrying value of the hedged item in fair value hedges is adjusted for fair value movements attributable to the hedged risk. At 1 July 2005 a loss of $222 million was recognised on the remeasurement of our foreign currency borrowings in fair value hedges. This loss represents a capped adjustment - refer (v) below.

This adjustment is reflected in the above table as an increase in current borrowings of $3 million and an increase in non current borrowings of $219 million.

(iv) At 1 July 2005, a $32 million increase in non current deferred tax liabilities was recognised, representing the tax effect of the above adjustments.

(v) At the date of transition, the adjustment to the carrying value of items in fair value hedges is capped such that the adjustment is the lower of:

- the remeasurement to fair value of the hedged item for the designated hedged risk; and
- the remeasurement to fair value of the hedging instrument.

At 1 July 2005, this resulted in a 'capping' adjustment to our foreign currency borrowings in fair value hedges of $70 million. This adjustment will be amortised to the income statement on an effective yield to maturity basis over the term of the underlying borrowing.

(vi) From 1 July 2005, the effective portion of the movement in fair value of derivatives accounted for as cash flow hedges is deferred in equity until such time as the hedged item affects profit or loss. The ineffective portion is recognised immediately in the income statement. At 1 July 2005 a post tax net increase in reserves of $79 million was recognised representing:

- an increase of $81 million to the cash flow hedging reserve, comprising the deferred portion of the fair value of our interest rate swaps and cross currency swaps in cash flow hedges relating to our foreign currency borrowings; and
- a decrease of $2 million to the cash flow hedging reserve, comprising the deferred portion of the fair value of our forward foreign exchange contracts in cash flow hedges of highly probable forecast transactions.

(vii) At 1 July 2005, the reduction to retained earnings of $5 million comprised:

- a decrease of $222 million on the remeasurement of our foreign currency borrowings in fair value hedges;
- an increase of $215 million on the remeasurement of our derivatives, excluding the portion deferred in equity relating to our cash flow hedges; and
- an increase of $2 million for the tax effect.

(viii) From 1 July 2005, movement in the fair value of derivatives accounted for as fair value hedges, together with the gain or loss on the related hedged item attributable to the hedged risk will be recognised in the income statement.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies (continued)

2.30 Comparative information - financial instruments (continued)

(ix) From 1 July 2005, the recognition in the income statement of the movement in the fair value of derivatives which were not designated as hedging instruments. At 1 July 2005, the remeasurement to fair value of derivatives not in designated hedge relationships was immaterial.

(x) The effectiveness of hedging relationships was assessed from 1 July 2005. No adjustment was made in relation to hedges under the superseded policies which were not highly effective before 1 July 2005.

(xi) The designation of certain financial instruments as available-for-sale investments (such as investments in listed securities and in other corporations). From 1 July 2005, these items are recorded at fair value, rather than at cost in accordance with the superseded policy, with changes in fair value recognised in equity. At 1 July 2005, the net impact on the balance sheet and income statement was zero as the carrying value under previous AGAAP approximated fair value.

(xii) We did not have any items that did not qualify for hedge accounting, we did not designate an individual item within a net position as a hedged item, nor did we discontinue hedge accounting for any items.

Notes to the Half-Year Financial Statements (continued)

3. Items requiring specific disclosure

Strategic review

On 15 November 2005, we announced our preliminary results from the strategic review that was initiated on 1 July 2005.

We unveiled a strategy for improving our business by deploying:

- a company wide market based management system;
- the adoption of a one factory approach to managing operations; and
- the delivery of integrated services to our customers.

We also announced several key decisions and commitments regarding our processes, systems and products, which will impact the future performance of our Company. The outcomes of these decisions and commitments are currently in progress, and dependant to some extent on certain regulatory outcomes. The strategic review has not had a material impact on the income statement and balance sheet of the Telstra Group as at 31 December 2005.

We anticipate that the strategic review will have a significant impact on the operations of the Company in future reporting periods. As a result, the outcomes of this review are expected to significantly affect our future financial results and position.

Significant items affecting the income statement

During the half-years ended 31 December 2005 and 31 December 2004, there were no transactions affecting the income statement that require specific disclosure.

Significant items affecting the balance sheet

During the half-year ended 31 December 2005, there were no transactions affecting the balance sheet that requires specific disclosure.

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	
	2005	2004
	$m	$m
Ordinary dividends		
Final dividends for the financial year ended 30 June provided for and paid during the interim period		
- Final dividend	**1,739**	1,639
- Special dividend paid with the final dividend	**746**	-
	2,485	1,639
Ordinary dividends per share (cents)	**¢**	¢
Final dividends for the financial year ended 30 June provided for and paid during the interim period		
- Final dividend	**14.0**	13.0
- Special dividend paid with the final dividend	**6.0**	-
	20.0	13.0

Our dividends provided for and paid during the interim period are fully franked at a tax rate of 30%.

Dividends proposed and not recognised as a liability

As the interim dividend and special dividend for the half-year ended 31 December 2005 was not declared, determined or publicly recommended by the Board as at 31 December 2005, no provision for dividend was raised prior to, or as at, that date in the balance sheet. 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

Business segments

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.

During the half-year ended 31 December 2005, we have adjusted our business segments by:

- combining Telstra Services (previously known as Infrastructure Services) and Telstra Technology, Innovation and Products into one group named Telstra Operations for segment reporting purposes;
- electing to voluntarily disclose Sensis as a separate reportable segment, this business unit was previously included in our "Other" segment; and
- adjusting our Corporate areas included in our "Other" segment to reflect the creation of the Strategic Marketing business unit.

For segment reporting purposes, these revised business segments provide the following types of products and services:

Telstra Operations is responsible for:
- leading the development and implementation of product, technology and information technology strategies for our company;
- the overall planning, design, specification of standards, and commissioning of our communication networks;
- the construction of infrastructure for Telstra's fixed, mobile, Internet protocol (IP) and data networks;
- the operation and maintenance, including activation and restoration of these networks as the primary service delivery manager;
- the supply of products and services over these networks, as well as application platforms and the online environment;
- the delivery of information technology solutions to support our products, services and customer support function;
- the office of the Chief Information Officer; and
- the Telstra Research Laboratories.

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

Corporate areas include:
- Legal Services - provides legal services across the Company;
- Public Policy and Communications - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It also has responsibility for regulatory positioning and negotiation;
- Finance and Administration - encompasses the functions of business and finance services, treasury, risk management and assurance, investor relations and the office of the company secretary. It also includes the financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group;
- Human Resources - encompasses talent management, organisational development, human resource operations, health, safety and environment, as well as workplace relations and remuneration;
- Strategic Marketing - is responsible for the co-ordination and delivery of marketing activities across business units and market segments; and
- Operations Support - responsible for all operational support functions for Telstra including program management, procurement, billing and credit management.

In our segment result tables, the "Other" segment consists of the Corporate areas, and the Telstra BigPond and Telstra Media business segments, which are not reportable segments in their own right.

Since 31 December 2005, there have been adjustments to our business structure. This has involved the establishment of a new business unit named Small to Medium Enterprises and the movement of Operations Support for segment reporting purposes. The Small to Medium Enterprises group has been drawn from the Telstra Consumer and Small Business (formerly known as Telstra Consumer and Marketing) and the Telstra Business and Government business units. Our Operations Support group has moved from being reported within our corporate areas to become part of the Telstra Operations segment. These changes will be reflected in our 30 June 2006 financial report.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

Segment results

Our operating results achieved for our business segments do not reflect segment revenues and segment expenses in certain circumstances. For financial reporting purposes, items are reported within the same business segment as for internal management reporting. Where no reasonable allocation basis exists, we have not reallocated individual items to alternative segments in accordance with the applicable accounting standard.

The following narrative explains our segment results for those individual items where no reasonable allocation basis exists:

- Sales revenue associated with mobile handsets for Telstra Consumer and Small Business, Telstra Business and Government and Telstra Country Wide are allocated totally to the Telstra Consumer and Small Business segment, with the exception of products sold in relation to small to medium enterprises which are allocated to Telstra Business and Government. Ongoing prepaid and postpaid mobile service revenues derived from our mobile usage is recorded in each of these segments depending on the type and location of customer serviced. In addition, the majority of goods and services purchased, associated with our mobile handset and service revenues, are allocated to the Telstra Consumer and Small Business segment.

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

In addition, revenue derived from our BigPond Internet products is recorded in the customer facing business units of Telstra Consumer and Small Business, Telstra Business and Government and Telstra Country Wide. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations recognise certain expenses in relation to the installation and running of the broadband cable network. In accordance with our application of the definition of business segment in relation to customer type, we have not reallocated these items to the Telstra BigPond business segment.

Notes to the Half-Year Financial Statements (continued)

5. Segment information (continued)

The following tables detail the results of our business segments, based on the reporting structure as at 31 December 2005.

Telstra Group

	Telstra Consumer & Small Business	Telstra Country Wide	Telstra Business & Government	Telstra International	Telstra Operations	Telstra Wholesale	Sensis	Other (a)	Eliminations	Total of all segments
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2005										
Revenue from external customers	2,564	3,080	2,687	695	47	1,265	1,002	109	-	11,449
Other income from external customers	-	89	1	2	9	2	-	26	-	129
Segment revenue from external customers	2,564	3,169	2,688	697	56	1,267	1,002	135	-	11,578
Inter-segment revenue	-	-	29	15	31	146	10	1	(232)	-
Total segment revenue	2,564	3,169	2,717	712	87	1,413	1,012	136	(232)	11,578
Segment result	1,288	2,646	1,681	27	(1,676)	1,276	511	(2,294)	31	3,490
Share of equity accounted net profits/(losses)	-	-	-	5	-	-	-	(6)	-	(1)
Earnings before interest and income tax expense (EBIT)	1,288	2,646	1,681	32	(1,676)	1,276	511	(2,300)	31	3,489

(a) 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

	Telstra Consumer & Small Business $m	Telstra Country Wide $m	Telstra Business & Government $m	Telstra International $m	Telstra Operations $m	Telstra Wholesale $m	Sensis $m	Other (a) $m	Eliminations $m	Total of all segments $m
Half-year ended 31 December 2004										
Revenue from external customers	2,695	3,050	2,682	685	56	1,072	952	94	-	11,286
Other income from external customers	1	41	4	5	36	(1)	(1)	18	(29)	74
Income from external customers	2,696	3,091	2,686	690	92	1,071	951	112	(29)	11,360
Less net gain on sale of investment	-	-	-	3	-	-	-	-	-	3
Segment revenue from external customers	2,696	3,091	2,686	687	92	1,071	951	112	(29)	11,357
Inter-segment revenue	-	-	19	18	40	142	11	(6)	(224)	-
Total segment revenue	2,696	3,091	2,705	705	132	1,213	962	106	(253)	11,357
Segment result	1,468	2,605	1,725	59	(1,558)	1,082	505	(2,146)	7	3,747
Share of equity accounted net profits/(losses)	2	-	(1)	-	-	-	-	-	-	1
Net gain on sale of investment	-	-	-	3	-	-	-	-	-	3
Earnings before interest and income tax expense (EBIT)	1,470	2,605	1,724	62	(1,558)	1,082	505	(2,146)	7	3,751

(a) 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)

6. Notes to the statement of cash flows

Reconciliation of cash balances

	Half-year ended 31 December	
	2005	2004
	$m	$m
Cash and cash equivalents	**817**	1,107
Bank overdraft	**(44)**	-
	773	1,107

Acquisitions and disposals

During the half-year ended 31 December 2005 we did not make any significant acquisitions or disposals of investments.

Share buy-back

No share buy-back was undertaken in the half-year ended 31 December 2005.

In the half-year ended 31 December 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 the purchase consideration of $750 million and associated transaction costs of $6 million.

Other

On 9 December 2005, we announced our intention to merge our 100% owned subsidiary Telstra CSL Limited with New World Mobile Holdings Limited (NWMHL). We will own 76.4% of the merged entity and receive $42 million (HK$244 million) in cash, NWMHL will hold the remaining 23.6%. The transaction is subject to approval by the shareholders of NWMHL and the Office of the Telecommunications Authority, Hong Kong. If approved, the merger will be finalised by 31 March 2006. The financial effect of the merger was not brought to account as at 31 December 2005.

Notes to the Half-Year Financial Statements (continued)

7. Contingent liabilities and contingent assets

There have been no significant changes from 30 June 2005 to guarantees, indemnities and support provided by us, or to legal actions we are involved in, apart from:

Reach committed capital expenditure

Due to the adoption of Australian equivalents to International Financial Reporting Standards (A-IFRS), we no longer have a contingent liability for Reach Ltd's (Reach) committed capital expenditure due to the recognition of additional equity accounted losses in Reach and a liability on our balance sheet. Refer to note 9(h) for further details.

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 2005 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:

Dividends declaration

On 9 February 2006, the directors of Telstra Corporation Limited declared a fully franked interim dividend of 14 cents per ordinary share and a fully franked special dividend of 6 cents per ordinary share. The record date for the interim and special dividends is 24 February 2006 with payment to be made on 24 March 2006. Shares will trade excluding entitlement to the dividends on 20 February 2006.

A provision for dividend payable has been raised as at the date of declaration, amounting to $2,485 million. The interim and special dividends will 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 2005.

Disposal of our jointly controlled entity, Xantic B.V

During the half-year ended 31 December 2005, we entered into an agreement with Stratos Global Corporation for the sale of our 35% interest in our jointly controlled entity, Xantic B.V (Xantic). Completion of this transaction was subject to certain conditions precedent being satisfied. As a result, we separately disclosed the carrying value of our investment in Xantic as "assets classified as held for sale" in our balance sheet as at 31 December 2005.

We received US$13 million as a result of a capital return by Xantic on 27 January 2006. The transaction is expected to be completed in mid February 2006 with cash consideration of US$67million to be received. The net gain on sale of this investment will be recognised in our income statement for the year ended 30 June 2006.

Common law claims

On 20 January 2006, representative proceedings were commenced against Telstra in the Federal Court. It is alleged by the applicant, in his capacity as a representative of an alleged class, that Telstra's senior management formed various views and opinions about the company which ought to have been disclosed to the Australian Stock Exchange before 7 September 2005.

The Corporate Regulator, Australian Securities and Investments Commission, investigated Telstra's compliance with disclosure obligations over the period which is the subject of the proceeding and announced in December 2005 that no further action would be taken against Telstra.

Telstra rejects any suggestion that its continuous disclosure policies are inadequate and, in the interests of its shareholders, will vigorously defend the proposed claim.

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards

Australian entities reporting under the Corporations Act 2001 are required to prepare their financial reports for financial years commencing on or after 1 January 2005 under the Australian equivalents of International Financial Reporting Standards (A-IFRS) as adopted by the Australian Accounting Standards Board (AASB). This involved preparing our first set of financial reports applying A-IFRS for the half-year ended 31 December 2005.

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

Comparatives were remeasured and restated for the half-year ended 31 December 2004 and the financial year ended 30 June 2005. Most of the adjustments on transition were required to be made to opening retained profits at the beginning of the first comparative period (i.e. at 1 July 2004).

We set out below the key differences in accounting policy arising from the application of A-IFRS.

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

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

Under AASB 2 we recognised an expense for all share based remuneration determined at the grant date with reference to the fair value of the equity instruments issued. The fair value was calculated using an appropriate valuation technique to estimate the price of those equity instruments in an arm's length transaction between knowledgeable, willing parties. The fair value calculated is 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 elected not to apply AASB 2 to equity instruments issued prior to 7 November 2002 (the effective date of IFRS 2).

This approach gave rise to a net positive transitional adjustment to retained profits. If we had not made this election, resulting in all equity instruments issued prior to 7 November 2002 being subject to AASB 2, then opening retained profits on transition would decrease, with a corresponding increase in share capital. Furthermore, there would have been an increase in labour expense for the half-year ended 31 December 2004 and 31 December 2005, and for the full year ended 30 June 2005. Equity instruments issued prior to 7 November 2002, for which we have elected not to apply AASB 2, include those granted under Telstra Employee Share Ownership Plan Trust (TESOP 97) and Telstra Employee Share Ownership Plan Trust II (TESOP 99), as well as certain Growthshare issues.

We own 100% of the equity of Telstra Growthshare Pty Ltd and the Telstra ESOP Trustee Pty Ltd, the corporate trustees for Growthshare, TESOP 97 and TESOP 99, which administer our share based payment plans. Under previous AGAAP we did not control or significantly influence these trusts, as beneficial ownership and control remained with the employees who participate in the share plans, administered by the Trustee on their behalf.

Under A-IFRS, we have included the results, position and cash flows of Growthshare, TESOP 97 and TESOP 99 within our consolidated financial report.

(i) On transition as at 1 July 2004

To record the initial recognition of Growthshare within the Telstra Group, the loan receivable with Growthshare was eliminated ($65 million), share capital reduced to reflect the shares held in the Telstra Entity ($117 million), and the cash held by Growthshare was recognised ($3 million).

Other assets and liabilities held by the trusts were considered insignificant to the Telstra Group.

Shares issued under TESOP 97 and TESOP 99, in conjunction with the non-recourse loans, have been accounted for as options. As a result, the outstanding balance of the Telstra Group loans to employees under TESOP 97 and TESOP 99 amounting to $174 million (comprising $24 million current receivables and $150 million non current receivables), was deducted from share capital on transition to A-IFRS.

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

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

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

(ii) As at 31 December 2004

At 31 December 2004, the effect of adopting AASB 2 on the Telstra Group was to increase cash assets by $5 million, decrease current receivables by $24 million, non current receivables by $184 million, and share capital by $272 million. Telstra Group labour expense decreased by $16 million, finance income decreased by $1 million, and dividends decreased by $3 million for the half-year ended 31 December 2004.

(iii) At 30 June 2005

The cumulative effect on the Telstra Group at 30 June 2005 was to increase cash assets by $8 million, decrease current receivables by $24 million, non current receivables by $175 million, and share capital by $257 million. Telstra Group labour expense decreased by $10 million, finance income decreased by $2 million, and dividends decreased by $7 million for the year ended 30 June 2005.

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

We previously amortised goodwill over the period of expected benefit, not exceeding 20 years. Under A-IFRS goodwill acquired in a business combination is not amortised, but instead is subject to impairment testing at each reporting date, or upon the occurrence of triggers that may indicate a potential impairment. If there is an indication of impairment resulting in an impairment loss, it is recognised immediately in the income statement.

Under the transitional arrangements of AASB 1 we had the option of applying AASB 3 prospectively from the transition date to A-IFRS. We chose 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 was frozen as at 1 July 2004; and
- the value of goodwill was frozen as at transition date, with any amortisation that was reported under previous AGAAP subsequent to transition date reversed for A-IFRS restatements.

If this election had not been made, there would not have been a significant impact on the balance sheet or income statement because our accounting treatment of significant business combinations under previous AGAAP was consistent with A-IFRS and USGAAP, whereby we recognised all identifiable assets and liabilities upon acquisition, including intangible assets.

(i) On transition as at 1 July 2004

There were no adjustments on transition as a result of AASB 3.

(ii) As at 31 December 2004

The effect on the Telstra Group at 31 December 2004 of the cessation of amortisation of goodwill was to increase intangibles - goodwill and decrease amortisation expense by $72 million. Also investments accounted for using the equity method increased by $1 million, with a corresponding increase in share of net gains from jointly controlled and associated entities.

An adjustment of $4 million was made to the acquisition of Damovo (Australia) Pty Ltd to recognise an additional identifiable intangible asset, with a corresponding decrease to goodwill.

(iii) At 30 June 2005

The effect on the Telstra Group at 30 June 2005 of the cessation of amortisation of goodwill was to increase intangibles - goodwill and decrease amortisation expense by $145 million. Also investments accounted for using the equity method increased by $2 million, with a corresponding decrease in share of net loss from jointly controlled and associated entities.

At 30 June 2005, intangibles - other increased by $4 million with a corresponding decrease in intangibles - goodwill associated with the acquisition of Damovo (Australia) Pty Ltd.

(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", was adopted, replacing the "income statement approach" required by previous AGAAP. Under the new method we generally recognise deferred tax balances in the balance sheet when there is a difference between the carrying value of an asset or liability and its tax base.

The adoption of the “balance sheet approach” has resulted in a number of additional deferred tax balances being recognised, as well as adjustments to existing deferred tax balances. Furthermore, additional deferred tax liabilities have been recognised, associated with fair value adjustments on entities acquired by us. Where the acquisition has occurred after 1 July 2004 a corresponding adjustment has been made to goodwill in accordance with AASB 3.

(i) On transition as at 1 July 2004

Telstra Group deferred tax liabilities decreased by $66 million as a result of the transition to other A-IFRS standards. This comprised an increase of $135 million associated with the defined benefit asset (as detailed in note 9(e)), a decrease of $129 million for the tax effect of the transitional adjustment relating to borrowing costs (as detailed in note 9(g)) and a decrease of $72 million from expensing handset subsidies upfront (as detailed in note 9(j)). Opening retained profits increased by $66 million as a result of these entries.

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

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

In addition, transitional adjustments to the Telstra Group deferred tax balances arose from the change in accounting for income taxes to a balance sheet approach. This adjustment consisted of:

- a net increase in deferred tax assets of $28 million, representing the recognition of additional temporary differences, partially offset by the tax effect of fair value adjustments on entities acquired by us; and
- a net increase in deferred tax liabilities of $38 million, comprising $77 million for tax base differences on buildings and $66 million for the tax effect of fair value adjustments on entities acquired by us, partially offset by adjustments to plant and equipment and other temporary differences of $105 million.

Opening retained profits increased by $22 million, and the asset revaluation reserve reduced by $32 million to a balance of nil as a result of these entries.

(ii) As at 31 December 2004

Telstra Group deferred tax liabilities decreased by $84 million associated with other A-IFRS standards as at 31 December 2004. This comprised a decrease of $130 million for borrowing costs no longer capitalised (note 9(g)), a decrease of $12 million for the change in the discount rate of the deferred payment of equipment (note 9(d)), and a decrease of $77 million for expensing handset subsidies (note 9(j)). This was offset by an increase of $135 million for the defined benefit asset (note 9(e)). Retained profits decreased by $27 million associated with the tax effect of the defined benefit actuarial gain. Telstra Group tax expense for the half-year ended 31 December 2004 decreased by $45 million.

In addition, adjustments to the Telstra Group deferred tax balances arose from the change in accounting for income taxes to a balance sheet approach. This consisted of:

- a net increase in deferred tax assets of $30 million, representing the recognition of additional temporary differences, partially offset by the tax effect of fair value adjustments on entities acquired by us; and
- a net increase in deferred tax liabilities of $99 million, comprising $73 million for tax base differences on buildings and $111 million for the tax effect of fair value adjustments on entities acquired by us, partially offset by adjustments to plant and equipment and other temporary differences of $85 million.

As a result of these adjustments associated with the change to the balance sheet approach, Telstra Group goodwill increased by $60 million and the FCTR increased by $9 million as at 31 December 2004. Income tax expense for the half-year ended 31 December 2004 increased by $8 million.

(iii) At 30 June 2005

Telstra Group deferred tax liabilities decreased by $160 million associated with other A-IFRS standards as at 30 June 2005. This comprised a decrease of $129 million for borrowing costs no longer capitalised (note 9(g)), a decrease of $8 million for the change in the discount rate of our deferred payment of equipment (note 9(d)) and a decrease of $91 million for expensing handset subsidies (note 9(j)). This was offset by an increase of $68 million for the defined benefit asset (note 9(e)). Retained profits increased by $20 million associated with the tax effect of the defined benefit actuarial loss. Telstra Group tax expense for the year ended 30 June 2005 decreased by $74 million.

In addition, adjustments to the Telstra Group deferred tax balances arose from the change in accounting for income taxes to a balance sheet approach. This consisted of:

- a net increase in deferred tax assets of $29 million, representing the recognition of additional temporary differences, partially offset by the tax effect of fair value adjustments on entities acquired by us; and
- a net increase in deferred tax liabilities of $101 million, comprising $74 million for tax base differences on buildings and $104 million for the tax effect of fair value adjustments on entities acquired by us, partially offset by adjustments to plant and equipment and other temporary differences of $77 million.

As a result of these adjustments associated with the change to the balance sheet approach, Telstra Group goodwill increased by $63 million and the FCTR increased by $9 million as at 30 June 2005. Income tax expense for the year ended 30 June 2005 increased by $8 million.

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

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

Under the transitional exemptions of AASB 1 we had the option to use an asset's fair value, or previously revalued amount, as its deemed cost from the date of transition. Telstra elected to apply the cost model under AASB 116, and therefore the carrying value of Telstra's property, plant and equipment (some of which had been previously revalued) and intangible assets on the date of transition was deemed to be cost under A-IFRS. If this election had not been made, we would have had to restate these assets to their original historical cost.

Under previous AGAAP, we recognised the gross proceeds on sale of non current assets as revenue and the cost in other expenses. A-IFRS requires the net gain on sale of non current assets to be classified as other income, not separately treated as revenue and other expenses.

(i) On transition as at 1 July 2004

There were no adjustments on transition as a result of AASB 116.

(ii) As at 31 December 2004

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

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

For the Telstra Group, the change in the discount rate and the cessation of interest capitalisation resulted in a decrease in our property, plant and equipment of $28 million, and a decrease in current and non current payables of $24 million (comprising $14 million current and $10 million non current) as at 31 December 2005. Finance costs of the Telstra Group for the half-year ended 31 December 2004 increased by $4 million.

We have reclassified revenue of $96 million and other expenses of $22 million to other income for the net gain on sale of non current assets for the half-year ended 31 December 2004.

(iii) At 30 June 2005

At 30 June 2005, this change in the discount rate and the cessation of interest capitalisation resulted in a decrease in our property, plant and equipment of $37 million, and a decrease in current and non current payables of $10 million (comprising $3 million current and $7 million non current) for the Telstra Group. Finance costs for the year ended 30 June 2005 increased by $27 million.

We have reclassified revenue of $476 million and other expenses of $215 million to other income for the net gain on sale of non current assets for the year ended 30 June 2005.

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

Under previous AGAAP, we did not recognise an asset or liability on our balance sheet for the net position of the defined benefit plans we sponsor in Australia and Hong Kong.

On adoption of A-IFRS, we recognised the net position of each plan as a transitional adjustment to the balance sheet, with a corresponding entry to retained profits. The transitional adjustment was based on an actuarial valuation of each scheme at transition date determined in accordance with AASB 119.

A revised AASB 119 was issued in December 2004 and applies to annual reporting periods beginning on or after 1 January 2006. We have elected under s.334(5) of the Corporations Act 2001 to early adopt this revised accounting standard for the financial year commencing 1 July 2005.

This revised standard is similar to the current accounting standard, with the exception of the treatment of actuarial gains and losses. This revised standard enables us to either:

- recognise actuarial gains and losses directly in the income statement;
- recognise actuarial gains and losses in the income statement using the “corridor approach”; or
- recognise actuarial gains and losses directly in retained profits.

Under this revised standard, we have elected to recognise actuarial gains and losses directly in retained profits. The actuarial gains and losses are based on an actuarial valuation of each plan at reporting date. Other components of pension costs are recognised in the income statement as a labour expense. Where appropriate, this additional labour cost is capitalised as part of our constructed plant and equipment.

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

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

(i) On transition as at 1 July 2004

The Telstra Group adjustment on transition resulted in a $537 million defined benefit asset, and a corresponding increase to opening retained profits.

(ii) As at 31 December 2004

At 31 December 2004, the effect on the Telstra Group balance sheet was to record a defined benefit asset of $529 million, increase property, plant and equipment by $13 million, and increase retained profits for actuarial gains by $91 million. Labour expense increased by $86 million for the half-year ended 31 December 2004 for the Telstra Group.

(iii) At 30 June 2005

The cumulative effect on the Telstra Group balance sheet at 30 June 2005 was to record a defined benefit asset of $247 million, increase property, plant and equipment by $24 million and decrease retained profits for actuarial losses by $90 million. Telstra Group labour expense increased by $175 million, depreciation expense increased by $1 million for the year ended 30 June 2005.

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

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. Previously, we fixed goodwill and certain fair value adjustments in Australian dollars based on the exchange rate at the acquisition date.

Under the transitional rules of AASB 1 we have taken advantage of an exemption that permits application of AASB 121 retrospectively to goodwill and fair value adjustments arising in all business combinations that occurred before the date of transition to A-IFRS. This exemption allows us to reset the goodwill and fair value adjustments 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).

Under AASB 1 we have also applied an exemption that permitted the resetting of the FCTR to nil as at the date of transition to A-IFRS.

(i) On transition as at 1 July 2004

The Telstra Group transitional adjustments to reset the goodwill and fair value adjustments of foreign controlled entities resulted in a decrease to the FCTR of $297 million, corresponding with an increase to property, plant and equipment of $3 million, an increase of $14 million to intangible assets and a decrease in goodwill of $314 million. The A-IFRS FCTR following these and other A-IFRS adjustments was $343 million. This FCTR balance was reset to nil with a corresponding decrease to opening retained profits for this amount.

(ii) As at 31 December 2004

The effect on the Telstra Group balance sheet at 31 December 2004 was to decrease intangibles - goodwill by $478 million, increase intangibles - other by $14 million, increase property, plant and equipment by $4 million and decrease FCTR by $125 million. The impact on the income statement was a decrease in other expenses of $8 million representing a change in the functional currency of a foreign controlled entity.

(iii) At 30 June 2005

The cumulative effect on the Telstra Group balance sheet at 30 June 2005 was to decrease intangibles - goodwill by $454 million, increase intangibles - other by $9 million, increase property, plant and equipment by $2 million and decrease FCTR by $111 million. The impact on the income statement for the year ended 30 June 2005 was a decrease in other expenses of $11 million representing a change in the functional currency of a foreign controlled entity.

(g) AASB 123: "Borrowing Costs"

In accordance with previous AGAAP, we previously capitalised borrowing costs incurred in respect of internally constructed property, plant and equipment and software assets that met 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.

(i) On transition as at 1 July 2004

We transferred the unamortised capitalised borrowing costs included in property, plant and equipment and software assets to retained profits. This gave rise to a reduction in Telstra Group property, plant and equipment of $399 million, a reduction in software assets of $63 million and a decrease to opening retained profits of $462 million.

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

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

(ii) As at 31 December 2004

At 31 December 2004, the cumulative effect on the Telstra Group balance sheet was to decrease property, plant and equipment by $402 million and reduce software assets by $61 million. Depreciation expense decreased by $46 million and finance costs increased by $48 million for the half-year ended 31 December 2004 for the Telstra Group.

(iii) At 30 June 2005

The effect on the Telstra Group balance sheet at 30 June 2005 was to decrease property, plant and equipment by $401 million and reduce software assets by $57 million. Telstra Group depreciation expense decreased by $94 million and finance costs increased by $90 million for the year ended 30 June 2005.

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

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

(i) On transition as at 1 July 2004

On transition to AASB 128/131, there was a decrease to Telstra Group non current receivables of $208 million representing the capacity prepayment with our joint venture entity Reach Ltd (Reach). This non current asset was deemed to be an extension of our investment in Reach under A-IFRS and was absorbed by the carried forward losses in Reach not previously recognised. The impact of this change on the Telstra Group was to decrease opening retained profits by $348 million for our share of the accumulated losses, offset by an increase of $140 million to the FCTR for the translation differences on our investment in Reach. The FCTR attributable to Reach was reset to nil as detailed in the adjustment outlined in note 9(f).

(ii) As at 31 December 2004

The cumulative effect on the Telstra Group balance sheet at 31 December 2004 was to decrease non current receivables by $184 million. Foreign exchange losses decreased by $24 million for the half-year ended 31 December 2004 for the Telstra Group.

(iii) At 30 June 2005

On 16 April 2005 we swapped our capacity prepayment with Reach for an Indefeasible Right of Use (IRU). This IRU was recorded as a deferred expense under previous AGAAP and was being amortised over the term of the IRU being 15 years. As part of this arrangement, we agreed to fund Reach's committed capital expenditure together with our co-shareholder PCCW Limited for the period until 2022, up to a value of US$106 million each, if required. Our share was disclosed as a contingent liability under previous AGAAP.

Under A-IFRS, the IRU was deemed to be an extension of our investment in Reach, similar to the capacity prepayment. Furthermore, our commitment to Reach for the committed capital expenditure required us to recognise additional equity accounted losses in Reach of $103 million for the year ended 30 June 2005. This has given rise to a provision of $90 million ($32 million current and $58 million non current) as at 30 June 2005 for the net present value of our share of the committed capital expenditure. Other assets - current decreased by $1 million, intangibles - other decreased by $217 million and trade and other payables decreased by $1 million. For the year ended 30 June 2005, finance costs increased by $2 million associated with the unwinding of the present value discount, amortisation expense decreased by $3 million, finance income decreased by $18 million and exchange losses decreased by $20 million.

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

Our accounting policy under previous AGAAP was to assess our current and non current assets for impairment by determining the recoverable amount of those assets. We wrote down the value of the non current asset where the carrying amount exceeds recoverable amount. We assessed recoverable amount for a group of non current assets where those assets were considered to work together as one.

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

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

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

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

Each of our controlled entities, joint venture entities and associated entities has also been assessed, and generally each significant entity has at least one separate cash generating unit in their own right. Under AGAAP, we assessed recoverable amount on a similar basis, and there is no 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 were recognised on transition to A-IFRS.

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

As part of the IFRS project, intangibles recognised under previous AGAAP, including software assets developed for internal use and deferred expenditure, were reviewed to confirm that the criteria in AASB 138 have been met. Software assets developed for internal use, and deferred expenditure were reclassified from other current and non current assets to intangible assets on transition to AASB 138.

Under previous AGAAP, we capitalised the subsidised component of mobile handsets that were sold as part of a service contract as a subscriber acquisition cost. This capitalised balance was then amortised over the contract term.

UIG 1042 “Subscriber Acquisition Costs in the Telecommunications Industry” (UIG 1042) was released by the AASB in December 2004 and prescribes the appropriate accounting treatment of subscriber acquisition costs based on the requirements of AASB 138. Specifically, UIG 1042 requires the cost of telephones provided to subscribers to be excluded from subscriber acquisition costs. As a result, under A-IFRS we have elected to expense mobile handset subsidies as incurred.

(i) On transition as at 1 July 2004

On transition, other current and non current assets decreased by $205 million and $34 million respectively for the write-off of deferred mobile handset subsidies, with a corresponding decrease in opening retained profits.

Software assets developed for internal use and deferred expenditure were reclassified from other current and non current assets to intangible assets on transition to AASB 138. This reclassification adjustment for the Telstra Group amounts to $2,578 million as at transition date. This comprises $286 million from other current assets and $2,292 million from other non current assets.

(ii) As at 31 December 2004

The write-off of deferred mobile handset subsidies decreased other current and non current assets by $208 million and $48 million respectively as at 31 December 2004. Goods and services purchased for the half-year ended 31 December 2004 increased by $17 million.

The cumulative effect on the Telstra Group balance sheet at 31 December 2004 of the reclassification of software and deferred expenditure was to increase intangibles - other by $2,615 million. This comprised $305 million from other current assets and $2,310 million from other non current assets.

(iii) At 30 June 2005

The write-off of deferred mobile handset subsidies decreased other current and non current assets by $241 million and $62 million respectively. Goods and services purchased for the year ended 30 June 2005 increased by $64 million.

The cumulative effect on the Telstra Group balance sheet at 30 June 2005 of the reclassification of software and deferred expenditure was to increase intangibles - other by $2,851 million. This comprised $305 million from other current assets and $2,546 million from other non current assets.

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

We were required to comply with AASB 132/139 from 1 July 2005. An exemption is available under AASB 1 such that comparative information does not need to be restated under these standards. We have elected to apply the exemption and accordingly, there was no impact on the 30 June 2005 financial report. If we had not applied this exemption, then at 1 July 2004 there would have been an increase in reserves and a decrease in opening retained profits. The impact on the income statement for the year ended 30 June 2005 would not have been significant. Refer to note 2.30 for further information regarding our accounting under these standards.

Nature of A-IFRS adjustments

In the following tables, presentation adjustments reflect the reclassification of previously recognised amounts into their A-IFRS categories.

Accounting adjustments reflect the remeasurement of previously recognised amounts, or the recognition of additional amounts required under A-IFRS.

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of profit under previous AGAAP to A-IFRS for the half-year ended 31 December 2004.

		Telstra Group			
		Half-year ended 31 December 2004			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Income					
Revenue (excluding finance income)	9(d)	11,382	(96)	-	11,286
Other income	9(d)	-	74	-	74
		11,382	(22)	-	11,360
Expenses					
Labour	9(a),(e)	1,812	-	70	1,882
Goods and services purchased	9(j)	2,124	-	17	2,141
Other expenses	9(d),(f),(h)	1,909	(22)	(32)	1,855
		5,845	(22)	55	5,878
Share of net gain from jointly controlled and associated entities	9(b)	-	-	(1)	(1)
		5,845	(22)	54	5,877
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		5,537	-	(54)	5,483
Depreciation and amortisation	9(b),(g)	1,850	-	(118)	1,732
Earnings before interest and income tax expense (EBIT)		3,687	-	64	3,751
Finance income	9(a)	35	-	(1)	34
Finance costs	9(d),(g)	406	-	52	458
Net finance costs		371	-	53	424
Profit before income tax expense		3,316	-	11	3,327
Income tax expense	9(c)	979	-	(37)	942
Net profit available to Telstra Entity shareholders		2,337	-	48	2,385

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of profit under previous AGAAP to A-IFRS for the year ended 30 June 2005.

		Telstra Group			
		Year ended 30 June 2005			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Income					
Revenue (excluding finance income)	9(d)	22,657	(476)	-	22,181
Other income	9(d)	-	261	-	261
		22,657	(215)	-	22,442
Expenses					
Labour	9(a),(e)	3,693	-	165	3,858
Goods and services purchased	9(j)	4,147	-	64	4,211
Other expenses	9(d),(f),(h)	4,055	(215)	(31)	3,809
		11,895	(215)	198	11,878
Share of net (gain)/loss from jointly controlled and associated entities	9(b),(h)	(9)	-	101	92
		11,886	(215)	299	11,970
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		10,771	-	(299)	10,472
Depreciation and amortisation	9(b),(e),(g),(h)	3,766	-	(241)	3,525
Earnings before interest and income tax expense (EBIT)		7,005	-	(58)	6,947
Finance income	9(a),(h)	103	-	(20)	83
Finance costs	9(d),(g),(h)	839	-	119	958
Net finance costs		736	-	139	875
Profit before income tax expense		6,269	-	(197)	6,072
Income tax expense	9(c)	1,822	-	(66)	1,756
Net profit available to Telstra Entity shareholders		4,447	-	(131)	4,316

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of our balance sheet under previous AGAAP to A-IFRS as at transition date, 1 July 2004.

		Telstra Group			
		1 July 2004			
			Effect of transition to A-IFRS		
		Previous	Presentation	Accounting	
		AGAAP	adjustments	adjustments	A-IFRS
	Note	$m	$m	$m	$m
Current assets					
Cash and cash equivalents	9(a)	687	-	3	690
Trade and other receivables	2.30,9(a)	3,608	(192)	-	3,416
Inventories		229	-	-	229
Derivative financial instruments	2.30	-	169	-	169
Other assets	9(j)	803	(286)	(205)	312
Total current assets		5,327	(309)	(202)	4,816
Non current assets					
Trade and other receivables	2.30,9(a),(h)	740	(387)	(273)	80
Inventories		10	-	-	10
Investments accounted for using the equity method		40	-	-	40
Available for sale investments		80	-	-	80
Property, plant and equipment	9(f),(g)	22,863	-	(396)	22,467
Intangibles - goodwill	9(f)	2,104	-	(314)	1,790
Intangibles - other	2.30,9(f),(g),(j)	1,501	2,557	(49)	4,009
Deferred tax assets	9(c)	2	-	28	30
Derivative financial instruments	2.30	-	238	-	238
Other assets	9(e),(j)	2,326	(2,292)	503	537
Total non current assets		29,666	116	(501)	29,281
Total assets		34,993	(193)	(703)	34,097
Current liabilities					
Trade and other payables		2,338	-	-	2,338
Borrowings		3,246	-	-	3,246
Current tax liabilities		539	-	-	539
Provisions		358	-	-	358
Revenue received in advance		1,095	-	-	1,095
Total current liabilities		7,576	-	-	7,576
Non current liabilities					
Trade and other payables		49	-	-	49
Borrowings	2.30	9,014	(429)	-	8,585
Deferred tax liabilities	9(c)	1,807	-	(28)	1,779
Provisions		778	-	-	778
Derivative financial instruments	2.30	-	410	-	410
Revenue received in advance		408	-	-	408
Total non current liabilities		12,056	(19)	(28)	12,009
Total liabilities		19,632	(19)	(28)	19,585
Net assets		15,361	(174)	(675)	14,512
Equity					
Telstra Entity					
Share capital	9(a)	6,073	(174)	(113)	5,786
Reserves	9(c),(f),(h)	(105)	-	154	49
Retained profits		9,391	-	(716)	8,675
Equity available to Telstra Entity shareholders		15,359	(174)	(675)	14,510
Minority interests		2	-	-	2
Total equity		15,361	(174)	(675)	14,512

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of our balance sheet under previous AGAAP to A-IFRS as at 31 December 2004.

		Telstra Group			
		31 December 2004			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Current assets					
Cash and cash equivalents	9(a)	1,102	-	5	1,107
Trade and other receivables	2.30,9(a)	3,942	(181)	-	3,761
Inventories		214	-	-	214
Derivative financial instruments	2.30	-	157	-	157
Other assets	9(j)	812	(305)	(208)	299
Total current assets		6,070	(329)	(203)	5,538
Non current assets					
Trade and other receivables	2.30,9(a),(h)	614	(323)	(226)	65
Inventories		9	-	-	9
Investments accounted for using the equity method	9(b)	48	-	1	49
Available for sale investments		78	-	-	78
Property, plant and equipment	9(d),(e),(f),(g)	23,324	-	(413)	22,911
Intangibles - goodwill	9(b),(c),(f)	2,354		(350)	2,004
Intangibles - other	2.30,9(b),(f),(g),(j)	1,630	2,600	(43)	4,187
Deferred tax assets	9(c)	2	-	30	32
Derivative financial instruments	2.30	-	181	-	181
Other assets	9(e),(j)	2,359	(2,310)	481	530
Total non current assets		30,418	148	(520)	30,046
Total assets		36,488	(181)	(723)	35,584
Current liabilities					
Trade and other payables	9(d)	2,665	-	(14)	2,651
Borrowings	2.30	3,360	(17)	-	3,343
Current tax liabilities		500	-	-	500
Provisions		385	-	-	385
Derivative financial instruments	2.30	-	17	-	17
Revenue received in advance		958	-	-	958
Total current liabilities		7,868	-	(14)	7,854
Non current liabilities					
Trade and other payables	9(d)	142	-	(10)	132
Borrowings	2.30	10,116	(582)	-	9,534
Deferred tax liabilities	9(c)	1,885	-	15	1,900
Provisions		830	-	-	830
Derivative financial instruments	2.30	-	567	-	567
Revenue received in advance		393	-	-	393
Total non current liabilities		13,366	(15)	5	13,356
Total liabilities		21,234	(15)	(9)	21,210
Net assets		15,254	(166)	(714)	14,374
Equity					
Telstra Entity					
Share capital	9(a)	5,793	(166)	(106)	5,521
Reserves	9(c),(f),(h)	(160)	-	(8)	(168)
Retained profits		9,619	-	(600)	9,019
Equity available to Telstra Entity shareholders		15,252	(166)	(714)	14,372
Minority interests		2	-	-	2
Total equity		15,254	(166)	(714)	14,374

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of our balance sheet under previous AGAAP to A-IFRS as at 30 June 2005.

		Telstra Group			
		30 June 2005			
			Effect of transition to A-IFRS		
	Note	Previous AGAAP $m	Presentation adjustments $m	Accounting adjustments $m	A-IFRS $m
Current assets					
Cash and cash equivalents	9(a)	1,540	-	8	1,548
Trade and other receivables	2.30,9(a)	3,609	(28)	-	3,581
Inventories		232	-	-	232
Derivative financial instruments	2.30	-	4	-	4
Other assets	9(h),(j)	796	(305)	(242)	249
Total current assets		6,177	(329)	(234)	5,614
Non current assets					
Trade and other receivables	9(a)	240	(131)	(44)	65
Inventories		15	-	-	15
Investments accounted for using the equity method	9(b)	49	-	2	51
Property, plant and equipment	9(d),(e),(f),(g)	23,351	-	(412)	22,939
Intangibles - goodwill	9(b),(c),(f)	2,287	-	(250)	2,037
Intangibles - other	2.30,9(b),(f),(g),(h),(j)	1,581	2,840	(261)	4,160
Deferred tax assets	9(c)	2	-	29	31
Other assets	9(e),(j)	2,608	(2,546)	185	247
Total non current assets		30,133	163	(751)	29,545
Total assets		36,310	(166)	(985)	35,159
Current liabilities					
Trade and other payables	9(d),(h)	2,809	-	(4)	2,805
Borrowings	2.30	1,518	(11)	-	1,507
Current tax liabilities		534	-	-	534
Provisions	9(h)	389	-	32	421
Derivative financial instruments	2.30	-	11	-	11
Revenue received in advance		1,132	-	-	1,132
Total current liabilities		6,382	-	28	6,410
Non current liabilities					
Trade and other payables	9(d)	122	-	(7)	115
Borrowings	2.30	11,816	(875)	-	10,941
Deferred tax liabilities	9(c)	1,885	-	(59)	1,826
Provisions	9(h)	836	-	58	894
Derivative financial instruments	2.30	-	864	-	864
Revenue received in advance		388	-	-	388
Total non current liabilities		15,047	(11)	(8)	15,028
Total liabilities		21,429	(11)	20	21,438
Net assets		14,881	(155)	(1,005)	13,721
Equity					
Telstra Entity					
Share capital	9(a)	5,793	(155)	(102)	5,536
Reserves	9(c),(f),(h)	(157)	-	6	(151)
Retained profits		9,243	-	(909)	8,334
Equity available to Telstra Entity shareholders		14,879	(155)	(1,005)	13,719
Minority interests		2	-	-	2
Total equity		14,881	(155)	(1,005)	13,721

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of equity under previous AGAAP to A-IFRS.

	Telstra Group							
		Reserves						
	Share capital $m	Asset revaluation $m	Foreign currency translation $m	General $m	Consoli-dation fair value $m	Retained profits $m	Minority interests $m	Total $m
Balance at 1 July 2004 under AGAAP	6,073	32	(186)	5	44	9,391	2	15,361
Share based payments 9(a)	(287)	-	-	-	-	51	-	(236)
Deferred tax 9(c)	-	(32)	-	-	-	88	-	56
Net defined benefit asset 9(e)	-	-	-	-	-	537	-	537
Foreign currency 9(f)	-	-	46	-	-	(343)	-	(297)
Expensing of borrowing costs previously capitalised 9(g)	-	-	-	-	-	(462)	-	(462)
Equity accounting for Reach Ltd 9(h)	-	-	140	-	-	(348)	-	(208)
Expensing handset subsidies previously deferred 9(j)	-	-	-	-	-	(239)	-	(239)
Balance at 1 July 2004 under A-IFRS	5,786	-	-	5	44	8,675	2	14,512
Balance at 31 December 2004 under AGAAP	5,793	32	(237)	4	41	9,619	2	15,254
Share based payments 9(a)	(272)	-	-	-	-	69	-	(203)
Cease amortisation of goodwill 9(b)	-	-	-	-	-	73	-	73
Deferred tax 9(c)	-	(32)	9	-	-	98	-	75
Deferred payment for equipment 9(d)	-	-	-	-	-	(4)	-	(4)
Net defined benefit asset 9(e)	-	-	-	-	-	542	-	542
Foreign currency 9(f)		-	(125)	-	-	(335)	-	(460)
Expensing of borrowing costs previously capitalised 9(g)	-	-	-	-	-	(463)	-	(463)
Equity accounting for Reach Ltd 9(h)	-	-	140	-	-	(324)	-	(184)
Expensing handset subsidies previously deferred 9(j)	-	-	-	-	-	(256)	-	(256)
Balance at 31 December 2004 under A-IFRS	5,521	-	(213)	4	41	9,019	2	14,374

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of equity under previous AGAAP to A-IFRS (continued)

	Telstra Group							
		Reserves						
	Share capital $m	Asset revaluation $m	Foreign currency translation $m	General $m	Consoli-dation fair value $m	Retained profits $m	Minority interests $m	Total $m
Balance at 30 June 2005 under AGAAP	5,793	32	(231)	4	38	9,243	2	14,881
Share based payments 9(a)	(257)	-	-	-	-	66	-	(191)
Cease amortisation of goodwill 9(b)	-	-	-	-	-	147	-	147
Deferred tax 9(c)	-	(32)	9	-	-	174	-	151
Deferred payment for equipment 9(d)	-	-	-	-	-	(27)	-	(27)
Net defined benefit asset 9(e)	-	-	-	-	-	271	-	271
Foreign currency 9(f)		-	(111)	-	-	(332)	-	(443)
Expensing of borrowing costs previously capitalised 9(g)	-	-	-	-	-	(458)	-	(458)
Equity accounting for Reach Ltd 9(h)	-	-	140	-	-	(447)	-	(307)
Expensing handset subsidies previously deferred 9(j)	-	-	-	-	-	(303)	-	(303)
Balance at 30 June 2005 under A-IFRS	5,536	-	(193)	4	38	8,334	2	13,721

Notes to the Half-Year Financial Statements (continued)

9. Adoption of International Financial Reporting Standards (continued)

Reconciliation of the statement of cash flows under previous AGAAP to A-IFRS.

	Telstra Group					
	Year ended 30 June 2005			Half-year ended 31 December 2004		
	Previous AGAAP	Adjustments	A-IFRS	Previous AGAAP	Adjustments	A-IFRS
	$m	$m	$m	$m	$m	$m
Cash flows from operating activities . . . .(i),(ii),(iii)	8,163	797	8,960	3,993	400	4,393
Cash flows from investing activities . . (i),(iii),(iv),(v)	(3,809)	43	(3,766)	(2,384)	29	(2,355)
Cash flows from financing activities. . . . (ii),(iv),(v)	(3,512)	(835)	(4,347)	(1,189)	(427)	(1,616)
Net increase in cash . . . .(v)	842	5	847	420	2	422

As a result of the adoption of A-IFRS, the following reclassifications have been made to the statement of cash flows:

(i) Interest received has been reclassified from operating activities to investing activities (June 2005: $80 million, December 2004: $34 million);

(ii) Borrowing costs paid has been reclassified from operating activities to cash flows from financing activities and renamed finance costs (June 2005: $879 million, December 2004: $436 million);

(iii) Dividends received are classified as cash flows from investing activities after previously being included in cash flows from operating activities (June 2005: $2 million, December 2004: $2 million);

(iv) Loans to joint venture and associated entities was reclassified from financing activities to investing activities (June 2005: $37 million, December 2004: $6 million); and

(v) Adjustments required as a result of the consolidation of Growthshare. For further information refer to note 9(a).

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 50, of the Telstra Group:

(i) comply with the Accounting Standards and the Corporations Regulations 2001;

(ii) give a true and fair view of the financial position as at 31 December 2005 and performance, as represented by the results of the operations and cash flows, for the half-year ended 31 December 2005; 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.

The directors have elected to adopt AASB 119: "Employee Benefits" early for the half-year ended 31 December 2005 in accordance with subsection 334(5) of the Corporations Act 2001.

For and on behalf of the Board

Donald G McGauchie AO **Chairman**	Solomon D Trujillo **Chief Executive Officer**

9 February 2006
Sydney, Australia

Independent Review Report

To the Members of Telstra Corporation Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of cash flows, statement of changes in shareholders' equity, 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 2005.

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 134 "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 134 "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.

Independence

I am independent of the Telstra Group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. I have given to the directors of the Telstra Entity a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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 2005 and of its performance for the half-year ended on that date; and
  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Ian McPhee
Auditor-General

9 February 2006
Canberra, Australia