

Telstra Corporation Limited and controlled entities

Half year results and operations review

Half year ended 31 December 2005

Result in line with guidance, focus is on executing strategy

Results

- **Total income grew by 1.9% or \$218 million**
- **Sales revenue grew by 1.5% or \$164 million**
- **EBIT declined by 7.0% to \$3.5 billion**
- **Basic earnings per share of 17.3 cents**
- **Dividends of 20 cents per share declared**
- **Internet and IP solutions revenue grew by 42.3% or \$264 million**
- **Mobiles revenue grew by 4.6% or \$109 million**
- **Advertising and directories revenue increased by 6.3% or \$56 million**
- **Total broadband SIOs increased by 89.5% to 2.3 million**

Financial Highlights

Half year ended 31 December 2005

Result in line with guidance, focus is on executing strategy

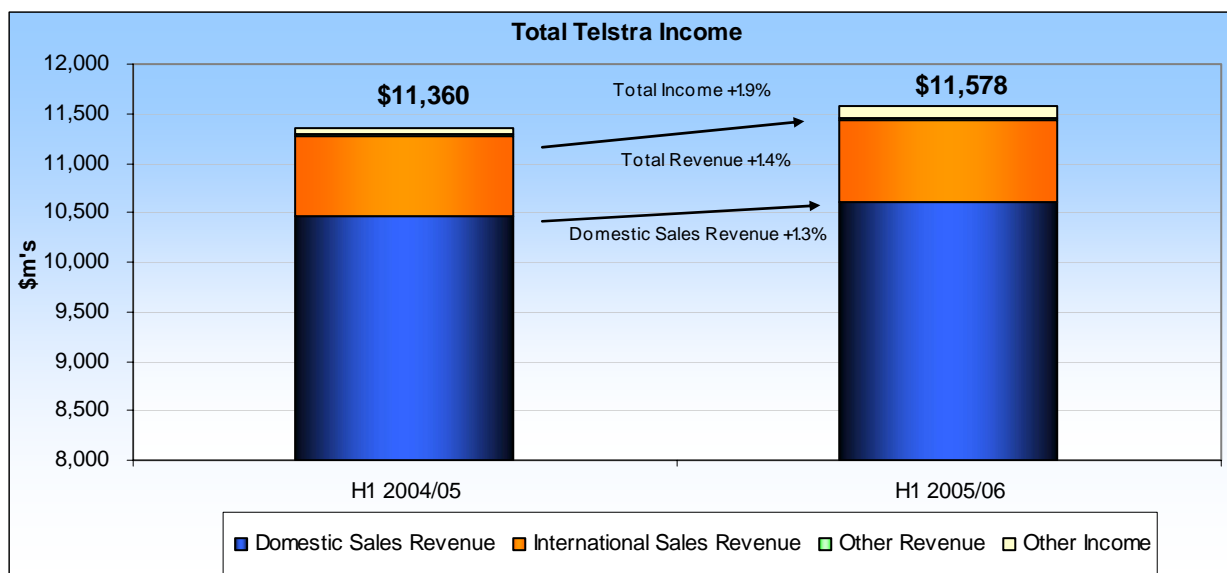
Telstra Corporation Limited and its controlled entities (Telstra) reported **profit after tax (PAT)** of \$2,140 million for the half year ended 31 December 2005, a decrease of \$245 million or 10.3% on the prior half year. **Basic earnings per share (EPS)** declined by 9.9% to 17.3 cents. **Earnings before interest and tax, depreciation and amortisation (EBITDA)** decreased by 3.4% or \$184 million to \$5.3 billion.

Margins declined with a decrease in **EBIT margin** of 2.8% to 30.5% and an **EBITDA margin** decrease of 2.3% to 46.3%.

Income

Total income grew by 1.9% or \$218 million in the current half year to \$11.6 billion. Revenue growth was impacted by a significant decline in PSTN revenue of 7.6% or \$313 million, as well as declines in specialised data and ISDN products. Revenue growth was achieved through increases in broadband, mobiles, IP solutions, advertising and directories, and pay TV bundling.

Domestic sales revenue grew by 1.3% or \$133 million in the current half year to \$10.6 billion.



Expenses

Operating expenses (before depreciation, amortisation, interest and tax) increased by 6.8% or \$402 million due to higher labour costs, goods and services purchased, and other expenses supporting revenue growth.

Total expenses (before interest and tax) increased by 6.3% or \$480 million which included depreciation and amortisation growth of 4.5%.

Net finance costs grew by \$19 million or 4.5% due to higher average borrowings following share buy backs and acquisitions of controlled entities in the prior year and increased levels of capital expenditure, in conjunction with marginally higher interest rates.

Income tax expense decreased by 3.7% or \$35 million. The effective tax rate of 29.8% was marginally higher than the rate in the prior corresponding period of 28.3%.

Australian Equivalents to International Financial Reporting Standards

The half year ended 31 December 2005 is the **first period reported under Australian Equivalents to International Financial Reporting Standards (A-IFRS)**. The new standards have impacted both the recognition and classification of many items in our income statement and balance sheet. Prior period comparative numbers have been restated where appropriate to reflect the impact of adoption of A-IFRS, with the exception of the accounting standard relating to financial instruments, which was only adopted from 1 July 2005. For detailed information regarding the impact of A-IFRS on our financial information, refer to the half year financial statements. These are available on our investor relations website at www.telstra.com.

Cash flow

Operating cash flow less cash flow used in investing activities (free cash flow) decreased by 4.0% for the half year ended 31 December 2005. This decline was driven by reduced net cash provided by operating activities of \$3.9 billion, which decreased by 10% or \$445 million due to lower cash profits and higher working capital, offset by reduced net cash used in investing activities of \$2.0 billion. Investing cash decreased by 15% or \$363 million due to lower investment expenditure, with the prior corresponding period including the acquisitions of the KAZ Group, PSINet, Telstra Business Systems (Damovo), Universal Publishers and Sytec.

Capital expenditure

Operating capital expenditure for the half year ended 31 December 2005 increased by 8.4% or \$154 million. Domestic core operating expenditure of \$1.8 billion increased by 4.8% or \$82 million. Higher capital expenditure was driven primarily by growth in mobiles and broadband assets, payments for our 3G asset sharing agreement, increased expenditure by our overseas subsidiaries as well as growth in our international capacity assets.

Treasury operations

The financial position remained strong with current long-term credit ratings as of January 2006 of A+, A2 and A+ from S&P, Moody's and Fitch respectively. Both Fitch and Moody's have Telstra on a negative outlook due to uncertainty surrounding the regulatory environment, competitive environment and T3, and S&P is currently reviewing its outlook with an outcome expected in February 2006. The net debt position was \$12.7 billion, which was a \$1 billion increase on the equivalent balance at 30 June 2005, largely due to high cash balances at 30 June 2005 after the receipt of our Euro borrowings late in June 2005. The balance sheet continues to have strong capital settings.

Dividend

A fully franked interim ordinary dividend of 14 cents per share has been declared and is payable on 24 March 2006. In addition we have declared a special dividend of 6 cent per share as the final instalment of the second tranche of our \$1.5 billion per annum capital management program, which will be paid with the interim dividend.

Capital management

The Board has decided not to proceed with the third tranche of the \$1.5 billion per annum capital management program in fiscal 2007 in order to invest the funds in implementing our new strategy, which is intended to deliver long term shareholder value. It is the Board's intention to pay a dividend of 28c per share each year for the next three fiscal years, subject to the Board's half yearly dividend declaration process and review of the business and regulatory conditions.

Outlook

We are in the first stage of implementing the new strategic plan announced in November 2005. As foreshadowed in the plan, we have seen margin pressure continue as our revenue mix changes. Earnings have declined at both the EBITDA and EBIT lines, impacted by the accelerating decline in high margin PSTN product revenue.

As foreshadowed in our plan, we expect revenue growth of between 2% and 2.5% compounded annually between now and 2010.

In relation to expenses, we will be driving efficiencies in the business through our 'one factory' model and streamlining the business to eliminate the high cost of maintaining and supporting complex legacy IT systems, products and services.

We expect depreciation and amortisation expense to grow over the next few years as we invest heavily in transforming the IT base and undertake network fixes, together with accelerating depreciation and write-offs of certain assets that are to be phased out over the 2006 and 2007 fiscal years.

Cash flow will be impacted by our investments in capital expenditure over the next two to three years and free cash flow is expected to reflect this.

Our commercial priorities will continue to be focussed on the customer and our 1 click, 1 touch, 1 button, 1 screen approach to our customers' experience. Our revenue priorities will continue to be the development of our Internet and IP revenue base from both fixed and wireless broadband, Sensis and competing vigorously in the mobiles market.

The second half of the 2006 fiscal year will be impacted by accelerated depreciation, redundancies and other costs associated with our transformational initiatives announced in November 2005. We also expect pressure to continue on our PSTN revenues and mobiles growth rates. We expect our EBIT decline for the fiscal 2006 full year to be in the range of 15% to 20%, before restructuring and redundancy provisions, and 21% to 26% including restructuring and redundancy provisions. All forward looking forecasts are subject to a reasonable regulatory outcome.

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Income Statement

for the half year ended 31 December 2005

	Half Year Ended 31 December			
	2005	2004 (in \$ millions)	Change	Change %
Revenue				
PSTN	3,818	4,131	(313)	(7.6)
Mobiles	2,486	2,377	109	4.6
Internet and IP solutions	888	624	264	42.3
Specialised data	453	495	(42)	(8.5)
ISDN products	421	453	(32)	(7.1)
Advertising and Directories	944	888	56	6.3
Intercarrier services	166	138	28	20.3
Solutions management	480	463	17	3.7
HK CSL	373	380	(7)	(1.8)
TelstraClear	321	304	17	5.6
Offshore services revenue	139	119	20	16.8
Inbound calling products	225	231	(6)	(2.6)
Pay TV bundling	156	121	35	28.9
Customer premises equipment	135	108	27	25.0
Payphones	54	63	(9)	(14.3)
Other sales & service	380	380	0	0.0
Sales revenue	11,439	11,275	164	1.5
Other revenue	10	11	(1)	(9.1)
Total revenue	11,449	11,286	163	1.4
Other income	129	74	55	74.3
Total income	11,578	11,360	218	1.9
Expenses				
Labour	2,053	1,882	171	9.1
Goods and services purchased	2,214	2,141	73	3.4
Other expenses	2,011	1,855	156	8.4
Expenses before equity acc/depn/amort/interest	6,278	5,878	400	6.8
Share of net (profit)/loss from assoc. and jointly controlled entities	1	(1)	2	(200.0)
Total operating expenses before depn/amort/interest	6,279	5,877	402	6.8
EBITDA	5,299	5,483	(184)	(3.4)
Depreciation	1,448	1,421	27	1.9
Amortisation (excl goodwill)	362	311	51	16.4
Total depreciation/amortisation	1,810	1,732	78	4.5
Total operating expenses before interest	8,089	7,609	480	6.3
EBIT	3,489	3,751	(262)	(7.0)
Net finance costs	443	424	19	4.5
Profit before income tax	3,046	3,327	(281)	(8.4)
Income tax expense	907	942	(35)	(3.7)
Profit after tax (bef. minority interests)	2,139	2,385	(246)	(10.3)
Minority interests	1	0	1	n/m
Profit after tax	2,140	2,385	(245)	(10.3)
Effective tax rate ⁽ⁱ⁾	29.8%	28.3%		1.5%
EBITDA margin on sales revenue ⁽ⁱ⁾	46.3%	48.6%		(2.3)%
EBIT margin on sales revenue ⁽ⁱ⁾	30.5%	33.3%		(2.8)%
Basic earnings per share (cents) ⁽ⁱⁱ⁾	17.3	19.1	(1.8)	(9.4)%
Diluted earnings per share (cents) ⁽ⁱⁱ⁾	17.3	19.0	(1.7)	(8.9)%

(i) The reported percentage growth represents the percentage movement from the prior corresponding period.

(ii) Basic and diluted earnings per share are impacted by the effect of shares held in trust for employee share plans and instruments held under executive remuneration plans.

Cash flow summary for the half year ended 31 December 2005

	Half Year Ended 31 December			
	2005	2004	Change	Change %
	(in \$ millions)			
Receipts from Customers	12,417	12,274	143	1.2
Payments to Suppliers/Employees	(7,466)	(6,972)	(494)	7.1
Income Tax Paid	(1,003)	(909)	(94)	10.3
Operating Cash Flow	3,948	4,393	(445)	(10.1)
Operating Capital Expenditure	(1,985)	(1,831)	(154)	8.4
Customer bases	(58)	0	(58)	N/M
Capital expenditure before investments	(2,043)	(1,831)	(212)	11.6
Investment Expenditure	(3)	(574)	571	(99.5)
Capital Expenditure	(2,046)	(2,405)	359	(14.9)
Receipts from Asset Sales/Other Proceeds	54	50	4	8.0
Cash flow used in Investing Activities	(1,992)	(2,355)	363	(15.4)
Operating Cash Flow less Cash Flow used in Investing Activities	1,956	2,038	(82)	(4.0)
Movements in Borrowings/Finance Leases	229	1,207	(978)	(81.0)
Employee Share Loans (Net)	11	8	3	37.5
Dividends Paid	(2,485)	(1,639)	(846)	51.6
Share Buy Back	-	(756)	756	N/M
Finance costs paid	(470)	(436)	(34)	7.8
Payments for growthshare shares	(6)	0	(6)	N/M
Net Financing Activities	(2,721)	(1,616)	(1,105)	(68.4)
Net Cash Flow	(765)	422	(1,187)	(281.3)

Balance sheet summary as at 31 December 2005

	As at			
	31-Dec-05	30-Jun-05	Change	Change %
	(in \$ millions)			
Current Assets	5,231	5,614	(383)	(6.8)
Intangibles	6,146	6,197	(51)	(0.8)
Property, Plant and Equipment	22,901	22,939	(38)	(0.2)
Total Non-Current Assets	30,078	29,545	533	1.8
Total Liabilities	21,576	21,438	138	0.6
Net Assets/Shareholders' Equity	13,733	13,721	12	0.1
Gross Debt ⁽ⁱ⁾	13,604	13,319	285	2.1
Net Debt ⁽ⁱ⁾	12,732	11,772	960	8.2
Ratios				
EBITDA Interest Cover (times)	12.0	12.0	(0.0)	0.0%
Net Debt to EBITDA	1.2	1.1	0.1	9.1%
Return on average assets ⁽ⁱⁱ⁾	20.4%	20.6%		(0.2%)
Return on average equity ⁽ⁱⁱ⁾	31.1%	30.5%		0.6%
Return on average investment ⁽ⁱⁱ⁾	26.9%	27.2%		(0.3%)
Net debt to capitalisation ⁽ⁱⁱ⁾	48.1%	45.8%		2.3%

(i) The Net Debt and Gross Debt balances as at 30 June 2005 do not reflect the impact of the relevant A-IFRS standard for financial instruments as this standard was only adopted as at 1 July 2005. Had it been adopted for 30 June 2005, Gross Debt would have been \$13,208 million and Net Debt would have been \$11,660 million.

(ii) The percentage growth represents the percentage movement from the prior corresponding period.

Statistical data summary

for the half year ended 31 December 2005

	Half Year Ended 31 December			Change %
	2005	2004	Change	
Billable traffic data (in millions)				
Local calls (number of calls)	3,882	4,412	(530)	(12.0)
National long distance minutes ⁽ⁱ⁾	3,666	3,977	(311)	(7.8)
Fixed-to-mobile minutes	2,234	2,206	28	1.3
International direct minutes	273	304	(31)	(10.2)
Mobile voice telephone minutes ⁽ⁱⁱ⁾	3,610	3,404	206	6.1
Number of SMS sent	1,312	1,142	170	14.9
Network and operations data (in millions)				
Basic access lines in service ⁽ⁱⁱⁱ⁾				
Residential	5.50	5.70	(0.20)	(3.5)
Business	2.37	2.51	(0.14)	(5.6)
Total retail customers	7.87	8.21	(0.34)	(4.1)
Domestic wholesale	2.15	1.98	0.17	8.6
Total basic access lines in services	10.02	10.19	(0.17)	(1.7)
ISDN access (basic lines equivalents) (in thousands) ^(iv)	1,312	1,318	(5)	(0.4)
Mobile services in operation (SIO) (in thousands)^(v)				
GSM	6,975	6,868	107	1.6
CDMA	1,597	1,115	482	43.2
Mobile services in operation	8,572	7,983	589	7.4
Total Wholesale mobile SIOs (in thousands)	102	69	33	47.8
Online subscribers (in thousands)				
Narrowband subscribers	1,143	1,201	(58)	(4.8)
Broadband subscribers - Retail	1,173	622	551	88.6
Broadband subscribers - Wholesale ^(vi)	1,164	611	553	90.5
Total Broadband subscribers	2,337	1,233	1,104	89.5
Total online subscribers	3,480	2,434	1,046	43.0
Total FOXTEL subscribers (in thousands)	1,074	985	89	9.0
Employee data				
Domestic full-time staff ^(vii)	39,406	39,623	(217)	(0.5)
Full-time staff and equivalents ^(viii)	45,876	46,178	(302)	(0.7)

⁽ⁱ⁾ Includes national long distance minutes from our public switched telephone network (PSTN) and independently operated payphones. Excludes minutes related to calls from non-PSTN networks, such as ISDN and virtual private networks.

⁽ⁱⁱ⁾ Includes all calls made from mobile telephones including long distance and international calls, excludes data, messagebank, international roaming and Hong Kong CSL.

⁽ⁱⁱⁱ⁾ Excludes Incontact services (a free service with restrictive calling access) and advanced access services, such as ISDN services.

^(iv) Expressed in equivalent number of clear voice channels.

^(v) Excludes Hong Kong CSL SIOs.

^(vi) Within Broadband, retail products include cable, satellite, HyperConnect, ADSL and Business DSL, while wholesale products include DSL Layer 1, DSL Layer 2, DSL layer 3, Spectrum Sharing and vISP Broadband.

^(vii) Excludes offshore, casual and part time employees.

^(viii) Includes all domestic and offshore employees, including controlled entities.

Note: Statistical data information reported in this summary and elsewhere in this document represents management's best estimates.

Segment information

for the half year ended 31 December 2005

	Consumer and Small Business \$m	Telstra Country Wide \$m	Telstra Business and Government \$m	Other Business Segments \$m	Subtotal \$m	Telstra Wholesale \$m	Total \$m
Half year ended 31 December 2005							
Segment revenue	2,564	3,169	2,717	1,715	10,165	1,413	11,578
EBIT	1,288	2,646	1,681	(3,402)	2,213	1,276	3,489
Half year ended 31 December 2004							
Segment revenue	2,696	3,091	2,705	1,652	10,144	1,213	11,357
EBIT	1,470	2,605	1,724	(3,130)	2,669	1,082	3,751
YoY revenue growth	-4.9%	2.5%	0.4%	3.8%	0.2%	16.5%	1.9%
YoY EBIT growth	-12.4%	1.6%	-2.5%	8.7%	-17.1%	17.9%	-7.0%

(1) Other Business Segments ('Other') consists of Sensis, Corporate Areas, Telstra Operations, Bigpond, Telstra Media and our international subsidiaries.

Since 31 December 2005, there has been an adjustment to our business structure involving the establishment of a new business unit named 'Small to Medium Enterprises'. The new group has been drawn from the Telstra Consumer and Small Business segment and the Telstra Business and Government segment. This change will be reflected in our 30 June 2006 report.

(2) Telstra holds all of its fixed assets in one central asset accounting group. All depreciation charges are incurred in this group. The asset accounting group is included in Other and contributes significantly to the EBIT position.

(3) 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 they are for internal management reporting. Where no reasonable allocation basis exists, we have not reallocated individual items to alternative segments.

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.

(4) Revenue derived from our Bigpond internet products are recorded in the customer facing business units of Telstra Consumer and Small Business, Telstra Country Wide and Telstra Business and Government. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations (included in Other) recognises certain expenses in relation to the installation and running of the broadband cable network.

Operating revenues

The following table shows operating revenues for the half years ended 31 December 2005 and 2004.

	Half Year Ended 31 December		Change	Change %
	2005	2004 (in \$ millions)		
PSTN Products				
Basic access	1,658	1,700	(42)	(2.5)
Local calls	553	689	(136)	(19.7)
PSTN value added services	123	126	(3)	(2.4)
National long distance calls	471	527	(56)	(10.6)
Fixed to mobile	761	806	(45)	(5.6)
International direct	106	124	(18)	(14.5)
Fixed interconnection	146	159	(13)	(8.2)
Total PSTN	3,818	4,131	(313)	(7.6)
Mobiles				
Mobile services	2,275	2,179	96	4.4
Mobile handsets	211	198	13	6.6
Total Mobiles	2,486	2,377	109	4.6
Internet & IP Solutions				
BigPond narrowband	117	142	(25)	(17.6)
BigPond broadband	330	203	127	62.6
Wholesale broadband	204	106	98	92.5
Internet direct	70	61	9	14.8
IP solutions	134	94	40	42.6
Other	33	18	15	83.3
Total Internet and IP solutions	888	624	264	42.3
Specialised Data	453	495	(42)	(8.5)
ISDN Products	421	453	(32)	(7.1)
Advertising and Directories	944	888	56	6.3
Intercarrier services	166	138	28	20.3
Solutions management	480	463	17	3.7
Hong Kong CSL	373	380	(7)	(1.8)
TelstraClear	321	304	17	5.6
Offshore Services Revenue	139	119	20	16.8
Inbound calling products	225	231	(6)	(2.6)
Pay TV Bundling	156	121	35	28.9
Customer premises equipment	135	108	27	25.0
Payphones	54	63	(9)	(14.3)
Other sales & service	380	380	0	0.0
Sales revenue	11,439	11,275	164	1.5
Other revenue	10	11	(1)	(9.1)
Total revenue	11,449	11,286	163	1.4
Other income	129	74	55	74.3
Total income	11,578	11,360	218	1.9
Domestic sales revenue	10,600	10,467	133	1.3

Total revenue increased by 1.4%. Revenue growth was attributable to increases in broadband, mobiles, IP solutions, advertising and directories and pay TV bundling, offset by a decline in revenues from PSTN calling products, specialised data, narrowband and ISDN products.

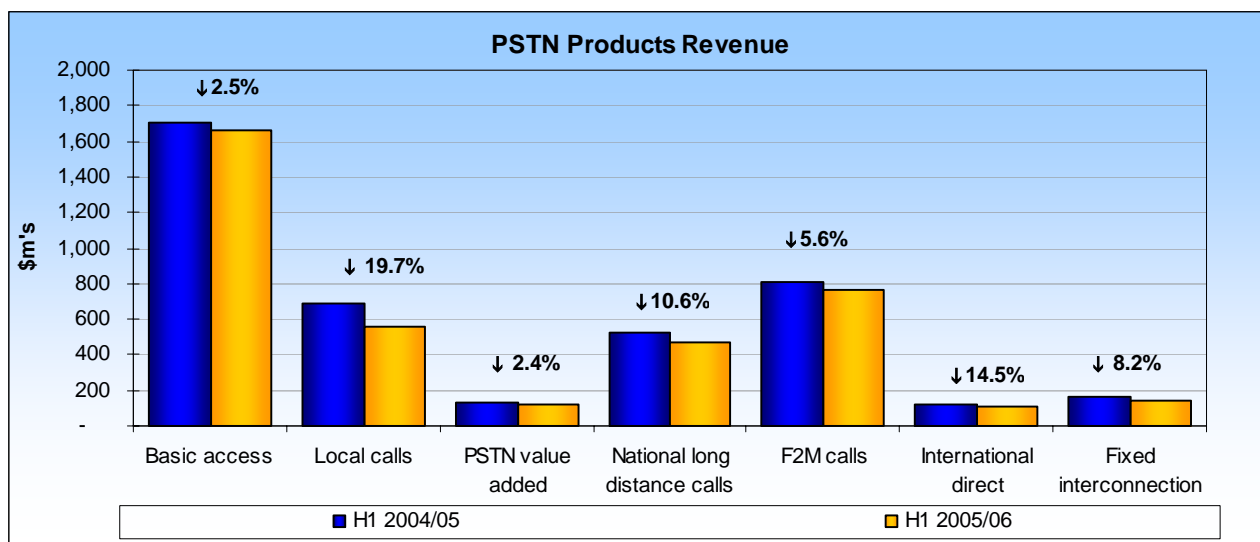
Domestic sales revenue grew by 1.3% during the half year.

PSTN products

	Half Year Ended 31 December			Change %
	2005 (in \$ millions except for statistical data)	2004	Change	
Basic access revenue				
Retail	1,309	1,388	(79)	(5.7)
Domestic wholesale	349	312	37	11.9
Total basic access revenue	1,658	1,700	(42)	(2.5)
Local call revenue	553	689	(136)	(19.7)
PSTN value added services revenue	123	126	(3)	(2.4)
National long distance call revenue	471	527	(56)	(10.6)
Fixed to mobile revenue	761	806	(45)	(5.6)
International direct revenue	106	124	(18)	(14.5)
Fixed interconnection	146	159	(13)	(8.2)
Total PSTN revenue	3,818	4,131	(313)	(7.6)
Basic access lines in service (in millions)				
Residential	5.50	5.70	(0.20)	(3.5)
Business	2.37	2.51	(0.14)	(5.6)
Retail	7.87	8.21	(0.34)	(4.1)
Domestic wholesale	2.15	1.98	0.17	8.6
Total access lines in service (in millions)	10.02	10.19	(0.17)	(1.7)
Number of local calls (in millions)	3,882	4,412	(530)	(12.0)
National long distance minutes (in millions)	3,666	3,977	(311)	(7.8)
Fixed to mobile minutes (in millions)	2,234	2,206	28	1.3
International direct minutes (in millions)	273	304	(31)	(10.2)

Total PSTN products revenue declined by 7.6% or \$313 million for the half year compared with a decline of 3.6% for fiscal 2005 (inclusive of fixed interconnection).

There has been a general reduction in PSTN volumes with a decline in retail basic access lines, and volume reductions across local calls, national long distance, international direct[®] and fixed interconnection. Yields have also declined in local calls, national long distance, fixed to mobile, international direct[®] and fixed interconnection due to competitive pricing pressure and continuing customer migration to other products.



Retail basic access revenue decreased due to declining basic access lines in service and reduced new service and in place connections. As expected, this is consistent with the ongoing trend in the retail basic access market and is underpinned by competition and migration to other products, such as broadband and mobiles.

Wholesale basic access revenue grew as a result of an increase in the number of access lines, as well as an increase in yield due to the change in the mix of business and consumer plans.

Local call revenue declined due to a 12% reduction in the volume of calls. This resulted from product substitution to mobiles and SMS accelerated by the take up of capped mobile plans, and substitution to local data calls as customers migrate to broadband services. Local call revenue also declined due to reductions in yield. The consumer market yield has declined due to increased usage of package discounts and free call offers relative to the prior corresponding period. The business market yield declined due to competitive pricing pressures and the wholesale market yield decreased due to higher volume discounts.

The small decline in PSTN value added services is due to products such as PABX indial and siteline reaching the end of their lifecycle, resulting in customer migration to other products such as customnet.

National long distance revenue decreased mainly due to a 7.8% decline in call minutes as a result of product substitution to mobile and internet products. Yield also decreased due to heavy discounting and increased usage of capped calling arrangements.

Fixed to mobile revenue has decreased due to declining yields, while volumes increased slightly. The decline in yield is due to increasing discounts provided to customers and customer migration to capped plans. Overall volumes have grown slightly due to strong usage in the business sector, offset by reduced usage in the consumer sector as customer traffic migrates to SMS and mobile to mobile services.

The International direct[®] revenue decline was due mainly to the reduction in minutes of use of 10.2%. This reduction was due to the continued migration to aggressively priced prepaid calling cards offered by competitors and customers migrating to other competitors' products. There was also a small decline in yield due to price reductions in certain capped plans.

The fixed interconnection revenue decline was due to both reductions in yield and reduction in volume. Yields decreased due to access price rebalancing in line with our undertakings lodged with the ACCC. Volumes decreased in line with the ongoing trend of declining PSTN usage.

Mobiles

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions except for statistical data)			
Access fees and call charges	1,403	1,402	1	0.1
Value added services				
International roaming	131	119	12	10.1
Mobile messagebank	98	93	5	5.4
Mobile data	308	271	37	13.7
Total value added services	537	483	54	11.2
Mobile services revenue - Retail	1,940	1,885	55	2.9
Mobile services revenue - Wholesale	16	11	5	45.5
Mobile services revenue - Mobiles Interconnection	319	283	36	12.7
Total mobile services revenue	2,275	2,179	96	4.4
Mobile handset sales	211	198	13	6.6
Total mobiles goods and services revenue ⁽ⁱ⁾	2,486	2,377	109	4.6
GSM mobile SIO (in thousands)	6,975	6,868	107	1.6
CDMA mobile SIO (in thousands)	1,597	1,115	482	43.2
Total mobile SIO (in thousands)	8,572	7,983	589	7.4
Prepaid mobile SIO (in thousands)	3,839	3,390	449	13.2
Postpaid mobile SIO (in thousands)	4,733	4,593	140	3.0
Total retail mobile SIO (in thousands)	8,572	7,983	589	7.4
GSM wholesale mobile SIO (in thousands)	33	11	22	200.0
CDMA wholesale mobile SIO (in thousands)	69	58	11	19.0
Total wholesale mobile SIO (in thousands)	102	69	33	47.8
Number of SMS sent (in millions)	1,312	1,142	170	14.9
Deactivation rate	8.6%	9.5%	(0.9%)	
Mobile retail voice telephone minutes (in millions)	3,610	3,404	206	6.1
Average retail revenue per user per month ^{(ii) (iii)}	38.50	40.32	(1.82)	(4.5)
Average retail prepaid revenue per user per month ^{(ii) (iii)}	10.81	13.10	(2.29)	(17.5)
Average retail postpaid revenue per user per month ^{(ii) (iii)}	60.35	59.75	0.60	1.0
Average Mobile data revenue per user per month	6.12	5.80	0.32	5.5

⁽ⁱ⁾ Excludes revenue from:

- calls from our fixed network, which we categorise as fixed to mobile; and
- Hong Kong CSL, which is recognised as HK CSL.

⁽ⁱⁱ⁾ Average retail revenue per user per month is calculated using average retail SIOs and includes mobile data, messagebank and roaming revenues. It excludes interconnection and wholesale revenue.

⁽ⁱⁱⁱ⁾ Average retail revenue per user per month has been restated in 04/05 to exclude \$11 million of revenue which was included in error.

Mobile services revenue, including interconnect and wholesale mobiles, grew by 4.4% or \$96 million in the half year. Including growth in mobile handset revenue of 6.6% or \$13 million, total mobiles achieved growth of 4.6% or \$109 million to \$2.5 billion. Mobiles goods and services revenue, excluding interconnection, increased by 3.5%.

Access fees and call revenue was flat despite an increase of 7.4% in the number of services in operation and an increase of 6.1% in the number of calling minutes. Increased discounts and the continued migration of customers to capped plans has significantly impacted yield, and contributed to the slowing down of mobiles growth. Additional prepaid offers such as 50% recharging bonus, 5c credit and 1c per minute have further offset the revenue benefits from volume growth.

Value added services increased by 11% or \$54 million and comprised:

- international roaming revenue growth of 10% or \$12 million due to increased outbound roaming minutes of 11% following the introduction of country specific pricing from December 2004. Contributing to this growth was the increase in inbound roaming prices charged to wholesale partners introduced during September 2004; and
- mobile data revenue increased by 14% or \$37 million due to growth in:
 - Short Message Service (SMS) revenue of 3.8% or \$9 million resulting from a 15% increase in the number of messages sent, offset by the 1c text offer and other discounting initiatives such as Telstra Rewards and Bonus Options;
 - Other mobile data growth of 73% or \$28 million due to increased usage of Telstra mobile broadband driven by growth in the number of services in operation and Blackberry devices resulting from offers such as \$120 credit, 3 month free or 5 hour free e-mail; and
 - Messagebank® revenue increases of 5.4% or \$5 million attributable to a 6.0% increase in minutes, offset by a slight reduction in yield as a result of discounting initiatives.

Wholesale mobiles grew by 46% or \$5 million due to increased resale of GSM services and minutes of use.

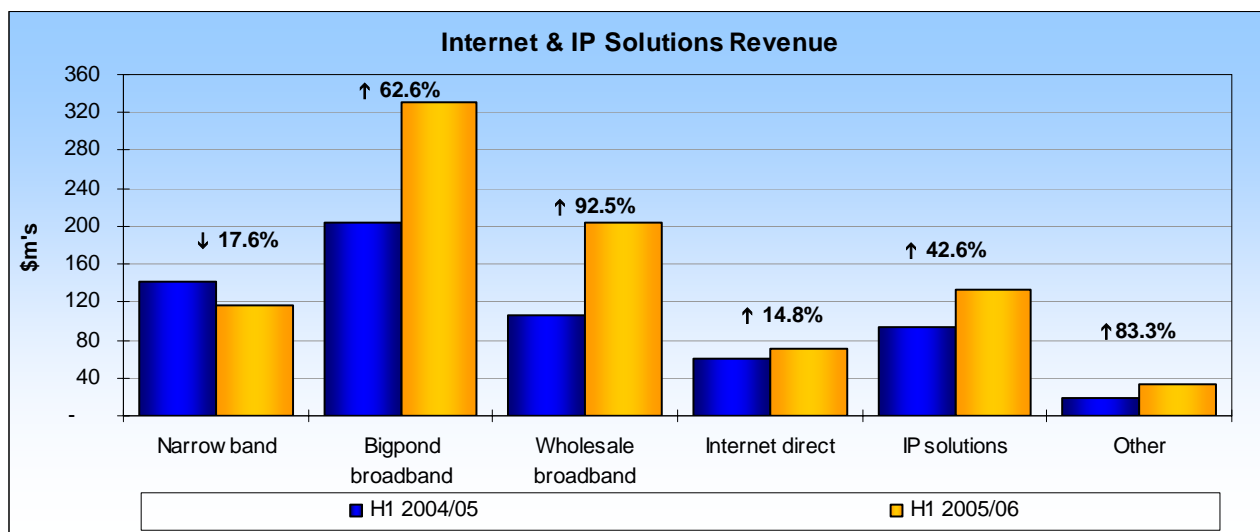
Mobiles interconnection increased by 13% or \$36 million due to the inclusion of revenue from Hutchison for roaming on the Telstra GSM network from April 2005, as well as an increase in terminating volumes for CDMA and prepaid services.

Blended average revenue per user (ARPU) declined by 4.5%, due to the higher proportion of growth in the lower yielding prepaid services. Postpaid ARPU increased by 1.0% due to increases in data revenue, but prepaid ARPU declined by 18% as a result of discounting initiatives on offer for prepaid customers. Mobile data ARPU continued to grow now representing 16% of retail mobile services revenue, an increase of 2% from the prior corresponding half year period.

Mobile handset revenue grew by 6.6% or \$13 million, with the additional sales revenue associated with increased selection of postpaid GSM and CDMA phones available for '\$0 upfront' with a mobile repayment option, as well as the take up of a free HP printer offer in December 2005 with selected Nokia phones.

Internet and IP solutions

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions except for statistical data)			%
Internet & IP solutions revenue				
BigPond narrowband	117	142	(25)	(17.6)
BigPond broadband	330	203	127	62.6
Wholesale broadband	204	106	98	92.5
Internet direct	70	61	9	14.8
IP solutions	134	94	40	42.6
Other	33	18	15	83.3
Total Internet & IP solutions revenue	888	624	264	42.3
Broadband subscribers - Retail (in thousands)	1,173	622	551	88.6
Broadband subscribers - Wholesale (in thousands)	1,164	611	553	90.5
Total Broadband subscribers (in thousands)	2,337	1,233	1,104	89.5
Narrowband subscribers - Retail (in thousands)	1,143	1,201	(58)	(4.8)
Total online subscribers (in thousands)	3,480	2,434	1,046	43.0



Total broadband revenue growth of \$225 million was the main contributor to the Internet and IP solutions revenue growth of \$264 million or 42%.

Growth in BigPond® broadband revenue of \$127 million was driven by subscriber growth of 89%, with significant growth in both ADSL and cable subscribers. The high growth of this product is attributable to increased internet penetration, self install kits and successful broadband marketing campaigns. Symmetrical HDSL (previously business DSL) has also contributed to the revenue growth, due to migration of customers from traditional products such as Frame and DDS, as this product provides the same geographical coverage, similar assurance levels and is more economically priced.

Wholesale broadband growth of 93% or \$98 million was driven by subscriber growth of 91% and an increase in yield. This resulted from fewer special deals in the market place and the migration of customers to higher speed plans.

IP solutions revenue grew by 43% or \$40 million. IP MAN/Ethernet grew by \$25 million as a result of major government contract wins and the expansion of existing services. The increase in volume was partially offset by a decline in yield. IP WAN grew by \$14 million, driven by customer migration from older product technologies such as frame relay and ISDN.

Internet direct growth was driven by subscriber growth, including the increased take up by Virtual ISP's, growing demand for high-speed global internet direct connectivity and premium packages which has driven service growth and excess usage revenue as a result of customers exceeding their monthly gigabyte allowance; however this was partially offset by declining yields due to aggressive pricing in the market place.

Other internet products increased due to growth in wholesale internet and data traffic driven by broadband uptake. Content offerings revenue also increased, specifically in BigPond Movies[®], BigPond Music[®] and BigPond webhosting[®].

Offset by:

Narrowband revenue declined by 18% or \$25 million due to competitive price reductions and the migration of high yield users to broadband services.

Specialised data

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions except for statistical data)			
Data revenue				
Frame relay	158	180	(22)	(12.2)
ATM	46	45	1	2.2
Digital data services	103	115	(12)	(10.4)
Leased lines	116	121	(5)	(4.1)
International private lines	15	14	1	7.1
Other specialised data	15	20	(5)	(25.0)
Total data revenue	453	495	(42)	(8.5)
Domestic Frame access ports (in thousands)	33	32	1	3.1

Data revenue declined by 8.5%, reflecting a decline in mature products such as Frame relay and digital data services (DDS), where customers have migrated to IP and DSL based product options.

Frame relay revenue declined by 12% due to heavy discounting to retain key customers and customer migration to new technologies.

DDS revenue declined by 10% due to customers migrating to new technologies such as broadband and IP solutions.

Leased lines declined by 4.1% due to customer migration to IP and DSL based product options. This was partially offset by major contract wins, which resulted in an increase in large megabit bearer revenues and an increase in Mainframe data services as customers migrate from wideband.

ISDN

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions except for statistical data)			
ISDN revenue				
Access	212	210	2	1.0
Calls				
Data	65	88	(23)	(26.1)
Voice	144	155	(11)	(7.1)
Total calls	209	243	(34)	(14.0)
Total ISDN revenue	421	453	(32)	(7.1)
ISDN access lines (basic access line equivalents) (in thousands)	1,312	1,318	(6)	(0.5)

ISDN access revenue increased by 1.0% due to customer mix changes with growth in the SME market, partially offset by corporate customers migrating to new advanced data products and consumer customers migrating to broadband as a result of broadband promotions. SIOs have remained relatively static during the half year.

The 14% reduction in calling revenue includes a 26% decline in data call revenue, as customers migrate to Telstra's and competitor's alternative products, which offer higher bandwidth at reduced prices.

Voice call revenue declined by 7.1% due to a reduction in yield as a result of increased price competition and customer migration to alternative products.

Advertising and Directories

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			%
Advertising and Directories	944	888	56	6.3

Advertising and directories revenue grew by 6.3% or \$56 million.

Yellow Pages® revenue grew by 3% due mainly to growth in the online business. White Pages® revenue also grew by 13% due to both print and online growth. Trading Post classifieds revenue declined by \$4 million due to competition in the print classifieds market offset by growth in online classifieds. Sensis' other business revenue grew by \$19 million due to inclusion of a full 6 months of revenue from Universal Publishers.

Intercarrier services

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			%
Intercarrier services revenue	166	138	28	20.3

Intercarrier services revenue increased by 20% or \$28 million due to growth in facilities access revenue from increased demand for access to Telstra exchanges, including its associated equipment and access to mobile towers. Similarly, growth in the number of providers using unconditioned local loop (ULL) services as well as increased demand for wholesale transmission for expansion of providers' DSL network coverage also contributed to this increase.

Solutions management

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			%
Solutions management revenue	480	463	17	3.7

Solutions management revenue increased by 3.7% or \$17 million, and included higher revenue from a full six months of revenues from the KAZ Group acquired in July 2004.

Solutions management revenue increased due to increased activity in Managed WAN, which provides a proactive reporting layer on top of customer IP solutions and has grown in line with the IP market. Also, the KAZ group has grown due to increases in managed radio from the addition of some major contracts, in particular the Commonwealth Games, together with increases in professional services activities, hosted infrastructure services and desktop services.

Hong Kong CSL

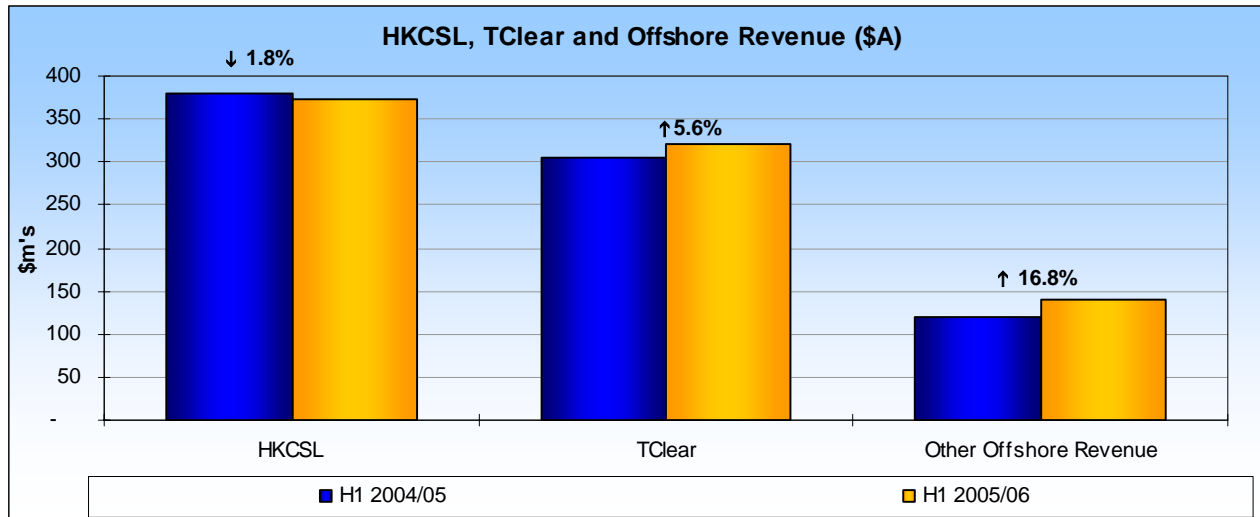
	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			
Hong Kong CSL sales revenue	<u>373</u>	<u>380</u>	(7)	(1.8)

Hong Kong CSL's sales revenue decreased by \$7 million or 1.8%. In Hong Kong dollars, 0.1% growth was achieved, which was subsequently offset by unfavourable currency fluctuations. Increases were experienced in data, international voice and prepaid revenues, offset by a decline in local voice revenue due to continued aggressive price competition.

TelstraClear

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			
TelstraClear sales revenue	<u>321</u>	<u>304</u>	17	5.6

TelstraClear achieved sales revenue growth of \$17 million or 5.6% from continued strong retail revenue. In New Zealand dollars, TelstraClear increased sales revenue by 5.8%, attributable to an increase in HomePlan Access revenue. Revenue for this period includes a full six months of revenue generated from the acquisition of Sytec in November 2004.



Other offshore revenue

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions)			
Total offshore services revenue	139	119	20	16.8
<i>Comprising:</i>				
Telstra Europe	103	94	9	9.6
Telstra Inc	21	17	4	23.5
Other CE	15	8	7	87.5
	139	119	20	16.8

Other offshore revenue increased by 17% or \$20 million for the half year.

Growth in offshore services revenue was attributable to:

- Growth in Telstra Europe, including a full six months of revenue generated by the PSINet Group acquired in August 2004. This was offset by a decline in voice revenues due to the continued erosion of customer bases; and
- An increase in other offshore services revenue of \$7 million. This increase was generated by new business operations of Telstra Singapore and Telstra Hong Kong. In addition, the acquisition of KAZ provided synergies by combining services in one bundle to customers in these locations.

Inbound calling products

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions)			
Inbound calling products revenue	225	231	(6)	(2.6)
B party minutes (in millions)	1,482	1,339	143	10.7
A party calls (in millions)	502	477	25	5.2

Inbound calling products revenue declined by 2.6% or \$6 million due to:

- A reduction in our Freecall™ 1800 product of \$4 million arising from intense price competition. This has led to a yield reduction, offset by higher call minutes;
- A Party revenue increasing by \$2 million due to an increase in call volumes and call charges; and
- B Party revenue declined by \$6 million due to competitive market pressures. This resulted in lower yields which have been offset by higher call minutes.

Pay TV bundling

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions except for statistical data)			
Pay TV bundling revenue	156	121	35	28.9
FOXTEL Pay TV bundling subscribers (thousands)	287	265	22	8.3
Austar Pay TV bundling subscribers (thousands)	54	43	11	25.6
Bundled Pay TV subscribers (thousands)	341	308	33	10.7

Pay TV bundling has continued to grow rapidly with the migration to FOXTEL Digital and the minimal price installation/upgrade offered during the half year. In particular, the 10th Anniversary promotion for FOXTEL has been a key driver of growth. Revenue increased by 29% or \$35 million due to an increase in the number of services provided and spend per subscriber for both FOXTEL and Austar. Subscribers on FOXTEL bundles increased by 8.3% and Austar bundles have increased by 11,000 subscribers.

Customer premises equipment

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions)			
Customer premises equipment revenue	135	108	27	25.0

Customer premises equipment (CPE) revenue increased by 25%. This was driven by growth in PBX equipment sales as a result of the inclusion of a full six months of results from Telstra Business Systems (Damovo), which was acquired in September 2004, and new initiatives in the sale of Enhanced CPE Data Line, which includes Customnet/Spectrum CPE.

This was partially offset by a decline in first and extension phones due to substitution of rental phones for mobiles or sale CPE.

Payphones

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions except for statistical data)			
Payphones revenue	54	63	(9)	(14.3)
Payphones (in thousands)	59	63	(2)	(6.3)

Payphone revenue declined by 14%, due to the combined effect of lower usage from product substitution mainly to mobile phones, and also ongoing competition from non Telstra prepaid calling cards and private payphone operators.

The reduction of payphone services in operation was due to the loss of some payphones to private operators and the removal of some low usage public payphones.

Other sales & services

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions)			
Total other sales and services revenue	380	380	0	0.0
<i>Comprising:</i>				
Telstra information and connection services	61	70	(9)	(12.9)
Customnet and spectrum	56	57	(1)	(1.8)
Card services	27	32	(5)	(15.6)
Virtual private network	9	7	2	28.6
Security Products	18	26	(8)	(30.8)
HFC Cable	41	36	5	13.9
Conferlink	24	23	1	4.3
Commercial and recoverable works	25	29	(4)	(13.8)
External Construction	59	40	19	47.5
Other	60	60	0	0.0
Total other sales and services revenue	380	380	0	0.0

Other sales and services revenue remained flat.

External construction revenue increased by \$19 million due to the commencement of the Hutchison asset sharing agreement in December 2004 relating to the design, construction, operation and maintenance of the 3G network.

HFC Cable usage revenue increased due to higher cable SIOs as a result of FOXTEL promotional activity and increased revenue associated with a scheduled FOXTEL contract rate increase.

Offset by:

Telstra information and connection services revenue declined by 13% as a result of lower call volumes.

Security products revenue declined by 31% due to a change in accounting treatment for third party rebates. Revenue sharing with security companies now reflects the net impact in revenue, whereas previously the expense component was included in cost of goods and services purchased.

Card services declined due to the substitution and migration to alternative calling products such as mobile phones.

Commercial and recoverable works declined due to the winding down of Austar installations, and the decline in digital migration of FOXTEL services due to higher demand for the upgrade of the set top boxes.

Other income

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions)			
Total other income	129	74	55	74.3
<i>Comprising:</i>				
Proceeds from asset and investment sales	17	29	(12)	(41.4)
Cost of asset and investment sales	(8)	(22)	14	(63.6)
Net gain on disposal of plant and equipment	9	7	2	28.6
USO Levy Receipts	28	32	(4)	(12.5)
Government subsidies	63	11	52	472.7
Miscellaneous income	29	24	5	20.8
	129	74	55	74.3

Other income increased by 74% or \$55 million primarily due to an increase in the Higher Bandwidth Incentive Scheme (HiBiS) receipts. The higher HiBiS receipts were attributable to an increase in the provision of broadband services to regional, rural and remote areas of Australia.

Operating expenses

	2005	Half Year Ended 31 December		Change %
		2004	Change	
	(in \$ millions)			
Expenses				
Labour	2,053	1,882	171	9.1
Goods and services purchased	2,214	2,141	73	3.4
Other expenses	2,011	1,855	156	8.4
Expenses before equity acc/depn/amort/finance costs	6,278	5,878	400	6.8
Share of net loss/(profit) from associates and jointly controlled entities	1	(1)	2	(200.0)
Total operating expenses before depn/amort/finance costs	6,279	5,877	402	6.8
Total depreciation/amortisation	1,810	1,732	78	4.5
Total operating expenses before finance costs	8,089	7,609	480	6.3

Operating expenses before finance costs increased by 6.3%. Excluding depreciation and amortisation, operating expenses grew by 6.8%.

The increase in expenses was due to higher labour costs resulting from increased salary rates and higher redundancies, increased network payments mainly due to expansion in some of our overseas businesses, higher service fees due to increased pay TV volumes, and higher service contracts and other agreements due to increased network maintenance, increased activity to meet broadband demand and increased consultancy usage.

Labour expense

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions except for statistical data)			
Total labour expense	2,053	1,882	171	9.1
Full time staff & equivalents	45,876	46,178	(302)	(0.7)

Labour expenses increased by 9.1% or \$171 million due to:

- An increase in redundancy expense of \$75 million to \$96 million. During the period 1,084 full time domestic staff were made redundant, compared with 259 in the prior corresponding period;
- Salary increases of \$45 million through enterprise agreements and normal annual salary reviews; and
- Increase in controlled entities' labour expense of \$59 million. Key drivers of this growth include entities acquired during 2004, annual salary increases and staff increases.

These increases were partially offset by:

- Full time staff and equivalents decreased by 0.7% as we look to streamline our business; and
- A decrease in the use of overtime and contract and agency payments a result of cost cutting initiatives.

An actuarial investigation of Telstra Super based on the fund's position as at 31 December 2003 confirmed that a surplus continued to exist in the fund. Based on the recommendations of the actuary, we did not contribute to Telstra Super during the half year. The continuation of the super holiday is, however, dependent on the performance of the fund and we will continue to closely monitor the situation in the light of the current financial market performance. As at 31 December 2005, the Vested Benefits Index (the ratio of fund assets to members' vested benefits) of the defined benefits divisions was approximately 115%.

Goods and services purchased

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			%
Total goods and services purchased	2,214	2,141	73	3.4
<i>Comprising:</i>				
Cost of goods sold	406	406	0	0.0
Usage commissions	130	136	(6)	(4.4)
Handset subsidies	211	194	17	8.8
Network payments	1,005	960	45	4.7
Commercial project payments	17	27	(10)	(37.0)
Service fees	154	126	28	22.2
Managed services	110	102	8	7.8
Other goods and services purchased	181	190	(9)	(4.7)
	2,214	2,141	73	3.4

Goods and services purchased increased by 3.4% due to the following:

- Network payments grew by \$45 million due mainly to expansion of our UK, USA and Asian operations, increased retail activity in TelstraClear, particularly in broadband, and additional Wholesale cable operations and maintenance costs associated with our 3G partnership activities. Domestic outpayments also increased but were offset by reduced payments to REACH.
- Service fees increased by \$28 million due to an increased volume of pay TV bundled services.
- Increased handset subsidies, including Hong Kong CSL subsidies, of \$17 million is due to a rise in the take up of handsets on subsidised plans. During the half year we made an A-IFRS accounting policy change to expense handset subsidies as incurred, previously we deferred and amortised them over the contract period.
- Managed services increased by \$8 million due to increased activity across major contracts and, a full six months of activity from the KAZ Group and Telstra Business Services (Damovo) – these were acquired part way through the December 2004 half year period.

Offset by:

- Commercial project payments decreased by \$10 million, which related to the level of amortisation of deferred installation costs and fluctuates in accordance with our installations over the five prior years. An equivalent amount is amortised into revenue hence there is no EBIT impact.
- Other goods and services purchased decreased by \$9 million due mainly to a change in accounting treatment of payments to information services providers; this amount is now offset against the corresponding revenue item, which is included in other sales and services revenue. There was also decreased paper purchase costs associated with the directories business, offset by increased dealer performance commissions.
- Usage commissions decreased by \$6 million because we acquired Keycorp's carriage service business during the period which previously provided these services to Telstra. This decrease was offset by minor growth in retail usage commissions due to increased activity.
- Cost of goods sold (COGS) remained flat overall but included the following:
 - Increased ADSL and satellite costs due to increased uptake of BigPond® broadband;
 - Additional costs associated with a full 6 months of ownership of Universal Publishers, which was acquired on 20 December 2004, and other entities that were acquired part way though the prior corresponding half year; and
 - Reduced COGS in Hong Kong CSL due to lower handset sales.

Other expenses

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			%
Total other expenses	2,011	1,855	156	8.4
Comprising:				
Rental expense on operating leases	292	280	12	4.3
Bad debts/recovery costs/doubtful debts	62	71	(9)	(12.7)
Inventory Writedowns	6	5	1	20.0
Net foreign currency conversion losses/(gains)	(3)	(46)	43	(93.5)
Audit fees	4	5	(1)	(20.0)
Service contracts and other agreements	892	777	115	14.8
Marketing	154	163	(9)	(5.5)
General administration	398	411	(13)	(3.2)
Other operating expense	188	189	(1)	(0.5)
Impairment and diminution expenses	18	0	18	N/M
Total other expenses	2,011	1,855	156	8.4

Other expenses increased by 8.4% due to:

- Higher service contracts and other agreements as a result of:
 - Increased network maintenance and rehabilitation activity;
 - Maintenance of the existing Hutchinson 3G network and the design and construction of a new 3G network;
 - Increased use of external constructors, as a result of increased maintenance work program;
 - Increased consultancy; and
 - A full six months of expenses for KAZ, PSINet, and Telstra Business Systems (Damovo), acquired during 2004/2005.
- Lower currency gains due to changes in the accounting treatment on applying A-IFRS, primarily related to the REACH capacity prepayment.
- Higher impairment and diminution expenses due to the retirement of a number of IT assets.
- Increased rental expense on operating leases due to:
 - The acquisition of KAZ, PSINet, Universal Publishers and Telstra Business Systems during 2004/2005, therefore not incurring a full six months of rent in the prior year; and
 - Increased rental rates and property requirements.

Offset by

- Lower general administration costs due to:
 - Reduced IT costs arising from savings achieved in IT repairs and maintenance through consolidating contracts and negotiating price reductions, the consolidation of server leases and the closure of a project IT system.
 - Decreased seminars and conferences and travel costs resulting from a focus on discretionary costs.
- Offset by
 - Increased legal costs.
- A decrease in bad and doubtful debts resulting from a review of the provisioning level.
- Reduced marketing costs due to a company review and centralised focus on marketing efficiencies.

Share of net loss (profit) from associates and jointly controlled entities

	Half Year Ended 31 December			
	2005	2004	Change	Change %
	(in \$ millions)			
Share of net loss/(profit) from associates and jointly controlled entities	1	(1)	2	(200.0)

The current year share of equity losses was attributable to payments to REACH, a \$5 million equity injection in FOXTEL, offset by equity profits in Xantic.

Depreciation and Amortisation

	Half Year Ended 31 December			
	2005	2004	Change	Change %
	(in \$ millions)			
Total depreciation and amortisation	1,810	1,732	78	4.5
<i>Comprising:</i>				
Depreciation	1,448	1,421	27	1.9
Amortisation (excl goodwill)	362	311	51	16.4
	1,810	1,732	78	4.5

Depreciation and amortisation increased by 4.5% or \$78 million due to the growth in communications plant and software asset additions required to support the increasing demand for broadband ADSL services. Our recent investment in 3G networks, both domestic and offshore, also contributed to this increase. Offsetting these increases were reductions due to service life reviews for communications assets. Amortisation of patents and trademarks also increased, following the acquisitions of KAZ, PSINet, Telstra Business Systems (Damovo) and Universal Publishers during the first half of fiscal 2005.

International

Hong Kong CSL financial summary

	Half Year Ended 31 December			Half Year Ended 31 December		
	2005 (in A\$ millions)	2004	Change %	2005 (in HK\$ millions)	2004	Change %
Sales revenue	373	380	(1.8)	2,175	2,173	0.1
Total revenue	375	380	(1.3)	2,189	2,173	0.7
Total operating expense	267	271	(1.5)	1,561	1,550	0.7
EBITDA	108	109	(0.9)	628	623	0.8
EBIT	37	47	(21.3)	342	377	(9.3)
CAPEX	51	59	(13.6)	296	342	(13.5)
EBITDA margin	28.9%	28.7%	0.1%	28.9%	28.7%	0.2%

Amounts presented in HK\$ have been prepared in accordance with A-IFRS.

Amounts presented in A\$ represent amounts included in Telstra's consolidated result.

Total revenue increased by 0.7% or HK\$16 million. Significant revenue increases were achieved in data, international voice and prepaid revenues. Local voice revenue, however, continued to be impacted by strong price competition, while handset sales also declined due to lower third party volumes. Despite the declines in local voice revenue, CSL average revenue per user still remained well above the market average.

Total operating expenses increased 0.7% mainly due to higher disbursement and network charges as well as licence fees, while EBITDA increased by 0.8%.

CSL continues to promote its 3G services through the deployment of pioneering technology, including the launch of Asia's first 3G video sharing service. In December 2005, the merger of Hong Kong CSL and New World Mobile Holdings Limited was announced which, once final regulatory and shareholder approvals are received, will create Hong Kong's largest mobile business. Under the merger, CSL will continue to drive the uptake of 3G services by offering a wide range of infotainment content while addressing specific needs of different market segments.

REACH

REACH is primarily focused on meeting the increasing needs of its shareholders, Telstra and PCCW, as well as third party voice and satellite services. Operational performance of the business continues to track according to plan, with a continued focus on cost containment.

TelstraClear financial summary

	Half Year Ended 31 December			Half Year Ended 31 December		
	2005 (in A\$ millions)	2004	Change %	2005 (in NZ\$ millions)	2004	Change %
Sales revenue	321	304	5.6	349	330	5.8
Total revenue	321	306	4.9	349	331	5.4
Total operating expense	270	253	6.7	293	274	6.9
EBITDA	51	53	(3.8)	56	57	(1.8)
EBIT	(18)	(13)	(38.5)	(16)	(10)	(60.0)
CAPEX	58	48	20.8	63	51	23.5
EBITDA margin	15.9%	17.4%	(1.5%)	16.0%	17.3%	(1.3%)

Amounts presented in NZ\$ have been prepared in accordance with A-IFRS.

Amounts presented in A\$ represent amounts included in Telstra's consolidated result.

In NZ\$, total revenue growth of 5.4% or NZ\$18 million was achieved. On a stand-alone basis, including intercompany revenue, TelstraClear revenue increased by 4.0%. Revenue growth was achieved from continued strong retail revenue, particularly in the consumer and small and medium enterprise sector. Included in this result was the acquisition of Sytec in November 2004. This was partially offset by a decrease in wholesale revenue due to pricing adjustments that reduced market rates for data capacity. In Australian dollars total revenue increased by 4.9% to \$321 million.

Total operating expense growth of NZ\$19 million or 6.9% was attributed to the following;

- Six months of expenses relating to Sytec compared with two months included in the prior corresponding half year period across all categories of expenses.
- cost of sales increased in line with the increase in revenue; and
- an increase in labour expenses resulting from an increase in headcount, primarily due to HomePlan growth, which has been reviewed in line with the new strategy;

EBITDA decreased by 1.8% or NZ\$1 million. An increase in capitalisation in the prior year resulted in increased depreciation and amortisation, decreasing EBIT by 60% or \$6 million.

Net finance costs

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			%
Finance costs	479	458	21	4.6
Finance income	36	34	2	5.9
Net finance costs	443	424	19	4.5

Net finance costs increased by \$19 million or 4.5%.

The increase in net finance costs was attributable to increased average borrowings following prior period share buy backs, investment acquisitions and increased levels of capital expenditure. Interest rates have also been marginally higher compared with the prior corresponding period. Furthermore, a full six months of interest amortisation associated with the deferred settlement on the acquisition of our 50% share in the 3G network assets was included. This increase was partially offset by gains made on the revaluation of borrowings and hedges resulting in a difference on application of A-IFRS, amounting to a net impact of \$20 million.

Income tax expense

	Half Year Ended 31 December			Change %
	2005 (in \$ millions)	2004	Change	
Income Tax Expense	907	942	(35)	(3.7)

Income tax expense decreased by 3.7% or \$35 million mainly due to lower operating profit of \$84 million tax effected, offset by deferred tax resulting from the origination and reversal of temporary differences.

The effective tax rate of 29.8% was marginally higher than the prior corresponding period rate of 28.3%.

Cash flow

	Half Year Ended 31 December			
	2005	2004	Change	Change
	(in \$ millions)			
Net cash provided by operating activities	3,948	4,393	(445)	(10.1)
Net cash used in investing activities	(1,992)	(2,355)	363	(15.4)
Operating Cash Flow less Cash Flow used in Investing Activities	1,956	2,038	(82)	(4.0)
Net cash used in financing activities	(2,721)	(1,616)	(1,105)	(68.4)
Net increase/(decrease) in cash	(765)	422	(1,187)	(281.3)

Operating cash flow less cash flow used in investing activities (free cash flow) decreased by 4.0% for the half year ended 31 December 2005.

Net cash provided by operating activities decreased by 10% to \$3.9 billion due to lower cash profits and higher working capital. Working capital increases have resulted primarily from higher debtors balances, as a result of the timing of receipts, and higher inventory levels due to bulk purchases of mobile handsets and material held for consumption on capital work programs.

Net cash used in investing activities decreased by 15% or \$363 million to \$2.0 billion due to lower investment expenditure, with the prior corresponding period including the acquisitions of the KAZ Group, PSINet, Telstra Business Systems (formally known as Damovo), Universal Publishers and Sytec. Lower operating capital expenditure was offset by increased payments associated with the deferred payment terms of the Hutchison 3G network sharing contract of \$312 million.

Net cash used in financing activities increased by \$1.1 billion or 68% to \$2.7 billion due mainly to the net repayment of borrowings and increased dividend payments, partially offset by there being no share buyback in the current half year.

Net cash used in investing activities

	Half Year Ended 31 December			Change %
	2005	2004	Change	
	(in \$ millions)			
Switching	187	192	(5)	(2.6)
Transmission	186	174	12	6.9
Customer access	423	478	(55)	(11.5)
Mobile telecommunications networks	486	245	241	98.4
International assets	179	107	72	67.3
Capitalised software	212	294	(82)	(27.9)
Specialised Network Functions	86	140	(54)	(38.6)
Other (incl. deferred expenditure)	226	201	25	12.4
Operating capital expenditure	1,985	1,831	154	8.4
Customer bases	58	0	58	N/M
Capital expenditure before investments	2,043	1,831	212	11.6
Add: investments	3	574	(571)	(99.5)
Capitalised expenditure and investments	2,046	2,405	(359)	(14.9)
Sale of capital equipment, investments and other	(20)	(15)	(5)	33.3
Interest received	(34)	(33)	(1)	(3.0)
Dividends received	0	(2)	2	100.0
Net cash used in investing activities	1,992	2,355	(363)	(15.4)
Operating Capital expenditures	1,985	1,831	154	8.4
Less: offshore operating capital expenditure	118	107	11	10.3
Less: International Cable Capacity	61	0	61	N/M
Domestic core operating capital expenditure⁽ⁱ⁾	1,806	1,724	82	4.8

(i) Domestic core operating capital expenditure is operating capital expenditure excluding HKCSL & TelstraClear operating capital expenditure and international cable capacity expenditure

Operating capital expenditure for the half year ended 31 December 2005 increased by 8.4% or \$154 million. Domestic core operating expenditure of \$1.8 billion increased by 4.8% or \$82 million.

Increased capital expenditure was driven primarily by growth in the mobiles asset technology, increased expenditure by our overseas subsidiaries, as well as growth in our international capacity assets. Mobiles capital expenditure increased by \$241 million due to the cash payment made of \$312 million associated with the asset sharing agreement with Hutchison 3G Australia Pty Ltd. In addition, expenditure on mobiles assets increased due to 3G programs of work, offset by a reduction in the GSM and CDMA coverage program. Growth in international assets of \$72 million was due to the purchase of international transmission capacity to meet internet demand. In addition, capital expenditure on transmission assets increased due to continuing demand for high speed data services, which was impacted by the acquisition of several large corporate customer contracts.

The reduction in expenditure on the customer access network of \$55 million was due to decreased ADSL material cost and lower volumes on the narrowband program.

Reduction in the software development program of \$82 million was due to the completion of major initiatives, such as one of our customer relationship management applications and the business-to-business capability for local call resale program. In addition, there was a significant one off payment made in the prior corresponding period for the purchase of the long term Microsoft desktop and SAP licenses.

The reduction in capital expenditure on specialised network functions of \$54 million was due to the completion of various 3G programs such as the provision of 3G mobile data solutions for the provision of i-mode content and BigPond® infranet development.

Customer bases expenditure increased by \$58 million primarily due to the acquisition of customer bases from Keycorp relating to their payment transactions network carriage services business.

Investment expenditure made in the first half of fiscal 2006 was \$3 million. In the prior corresponding period, investment expenditure of \$574 million included acquisitions of the KAZ Group, PSINet Group, Telstra Business Systems, Universal Publishers and Sytec.

Balance sheet - detail

As at 31 December 2005

	As at		Change	Change %
	31-Dec-05	30-Jun-05		
	(in \$ millions)			
Current Assets				
Cash and cash equivalents	817	1,548	(731)	(47.2)
Trade and other receivables	3,833	3,581	252	7.0
Inventories	317	232	85	36.6
Derivative financial instruments	7	4	3	75.0
Other Assets	257	249	8	3.2
Total Current Assets	5,231	5,614	(383)	(6.8)
Non-Current Assets				
Trade and other receivables	103	65	38	58.5
Inventories	15	15	0	0.0
Investments accounted for using the equity method	29	51	(22)	(43.1)
Property, Plant and Equipment	22,901	22,939	(38)	(0.2)
Intangibles - goodwill	2,101	2,037	64	3.1
Intangibles - other	4,045	4,160	(115)	(2.8)
Deferred tax assets	31	31	0	0.0
Derivative financial instruments	407	0	407	0.0
Defined benefit asset	446	247	199	80.6
Total Non-Current Assets	30,078	29,545	533	1.8
Total Assets	35,309	35,159	150	0.4
Current Liabilities				
Trade and other payables	2,416	2,805	(389)	(13.9)
Borrowings	1,872	1,507	365	24.2
Current Tax Liabilities	477	534	(57)	(10.7)
Provisions	424	421	3	0.7
Derivative financial instruments	13	11	2	18.2
Revenue Received in advance	1,009	1,132	(123)	(10.9)
Total Current Liabilities	6,211	6,410	(199)	(3.1)
Non-Current Liabilities				
Trade and other payables	18	115	(97)	(84.3)
Borrowings	11,201	10,941	260	2.4
Provisions	911	894	17	1.9
Deferred tax liabilities	1,885	1,826	59	3.2
Derivative financial instruments	937	864	73	8.4
Revenue Received in advance	413	388	25	6.4
Total Non-Current Liabilities	15,365	15,028	337	2.2
Total Liabilities	21,576	21,438	138	0.6
Net Assets	13,733	13,721	12	0.1
Shareholders' Equity				
Share capital	5,548	5,536	12	0.2
Reserves	(30)	(151)	121	(80.1)
Retained Profits	8,209	8,334	(125)	(1.5)
Equity available to Telstra Entity Shareholders	13,727	13,719	8	0.1
Minority Interests	6	2	4	0.0
Total Equity	13,733	13,721	12	0.1



Half Yearly Comparison
Half Year Ended 31 December 2005

Summary Reported ⁽ⁱ⁾ Half Yearly Data	Half 1 Dec-03	Growth	Half 2 Jun-04	Growth	Full Year Jun-04	Growth	Half 1 Dec-04	Growth	Half 2 Jun-05	Growth	Full Year Jun-05	Growth	Half 1 Dec-05	Growth
Revenue														
Mobiles														
Mobile services - Retail	1,733	6.2%	1,721	7.9%	3,454	7.0%	1,885	8.8%	1,850	7.5%	3,735	8.1%	1,940	2.9%
Mobile services - Wholesale	7	16.7%	9	43.3%	16	30.0%	11	60.4%	13	51.1%	24	55.3%	16	45.6%
Mobile interconnection	257	1.2%	258	9.5%	515	5.0%	284	10.8%	263	2.0%	547	6.2%	319	12.3%
Mobile services	1,997	5.5%	1,988	8.2%	3,985	6.9%	2,179	9.1%	2,127	7.0%	4,306	8.1%	2,275	4.4%
Mobile handsets	186	8.1%	166	(22.5%)	352	(8.9%)	198	6.2%	183	10.2%	381	8.4%	211	6.6%
Total Mobiles	2,183	5.8%	2,153	5.0%	4,336	5.4%	2,377	8.9%	2,310	7.3%	4,687	8.1%	2,486	4.6%
Internet and IP solutions	468	19.7%	545	27.9%	1,013	24.0%	624	33.3%	753	38.1%	1,377	35.9%	888	42.3%
PSSTN products														
Basic access	1,610	3.5%	1,627	6.6%	3,237	5.0%	1,700	5.6%	1,662	2.1%	3,362	3.9%	1,658	(2.5%)
Local calls	778	(2.3%)	726	(5.8%)	1,504	(4.0%)	689	(11.4%)	595	(18.0%)	1,284	(14.7%)	553	(19.7%)
PSSTN value added services	134	(5.0%)	125	(10.0%)	259	(7.5%)	126	(5.6%)	124	(0.8%)	250	(3.7%)	123	(2.4%)
National long distance calls	578	(0.7%)	543	(6.4%)	1,121	(3.5%)	527	(8.8%)	486	(10.6%)	1,013	(9.7%)	471	(10.6%)
Fixed to mobile	808	7.3%	789	3.3%	1,597	5.3%	806	(0.3%)	760	(3.7%)	1,566	(1.9%)	761	(5.6%)
International direct	139	(13.7%)	127	(13.2%)	266	(13.4%)	124	(10.8%)	110	(12.9%)	234	(11.8%)	106	(14.5%)
Fixed interconnect	177	2.7%	159	(10.2%)	336	(3.6%)	159	(10.1%)	150	(5.8%)	309	(8.1%)	146	(8.2%)
Total PSSTN products	4,224	1.5%	4,096	(0.2%)	8,320	0.7%	4,131	(2.2%)	3,887	(5.1%)	8,018	(3.6%)	3,818	(7.6%)
Specialised Data	516	(5.3%)	518	(6.1%)	1,034	(5.7%)	495	(4.1%)	471	(8.9%)	966	(6.5%)	453	(8.5%)
ISDN Products	473	(3.3%)	454	0.2%	927	(1.6%)	453	(4.2%)	437	(3.7%)	890	(3.9%)	421	(7.1%)
Advertising and Directories ⁽ⁱⁱⁱ⁾	764	5.4%	578	20.2%	1,342	11.3%	888	16.3%	697	20.6%	1,585	18.2%	944	6.3%
Intercarrier services	129	(17.6%)	123	(13.5%)	252	(15.6%)	138	7.5%	153	24.7%	291	15.5%	166	20.3%
Solutions management ⁽ⁱⁱⁱ⁾	243	1.6%	265	6.8%	508	4.2%	463	90.6%	468	76.4%	931	83.2%	480	3.7%
Hong Kong CSL	377	(22.1%)	349	(17.7%)	726	(20.0%)	380	0.9%	354	1.6%	734	1.1%	373	(1.8%)
TelstraClear	282	3.3%	292	6.2%	574	4.7%	304	8.0%	321	10.0%	625	8.8%	321	5.6%
Offshore Services Revenue ^(iv)	48	26.3%	83	230.2%	131	107.2%	119	147.8%	133	61.3%	252	93.1%	139	16.8%
Inbound calling products	238	(5.2%)	238	(2.2%)	476	(3.7%)	231	(2.8%)	218	(8.1%)	449	(5.6%)	225	(2.6%)
PayTV	65	NM	89	287.3%	154	569.9%	121	86.1%	142	59.5%	263	70.7%	156	28.9%
Customer premises equipment ^(v)	92	(11.5%)	92	(5.6%)	184	(8.7%)	108	17.2%	121	31.7%	229	24.5%	135	25.0%
Payphones	72	(4.0%)	69	(5.1%)	141	(4.5%)	63	(12.5%)	58	(15.6%)	121	(14.0%)	54	(14.3%)
Other sales & service	283	(40.4%)	336	(18.0%)	619	(30.0%)	380	34.5%	363	8.0%	743	20.1%	380	0.0%
Sales revenue	10,457	(0.1%)	10,280	2.5%	20,737	1.2%	11,275	7.8%	10,886	5.9%	22,161	6.9%	11,439	1.5%
Other revenue	13	(28.5%)	11	(33.9%)	24	(31.0%)	11	(17.6%)	9	(10.7%)	20	(14.5%)	10	(9.1%)
Other income	268	(6.6%)	138	0.0%	406	(4.5%)	74	(72.4%)	187	35.5%	261	(35.7%)	129	74.3%
Total income	10,738	(0.3%)	10,429	2.4%	21,167	1.0%	11,360	5.8%	11,083	6.3%	22,442	6.0%	11,578	1.9%
Selected statistical data														
Mobile voice telephone minutes	3,011	16.1%	3,134	17.8%	6,145	16.9%	3,404	13.0%	3,342	6.7%	6,746	9.8%	3,610	6.1%
Short Message Service (SMS) (number of messages)	928	45.6%	1,016	28.8%	1,944	36.3%	1,142	23.0%	1,147	12.9%	2,289	17.8%	1,312	14.9%
Mobile services in operation (thousands)	6,985	14.5%	7,604	15.8%	7,604	15.8%	7,983	14.3%	8,227	8.2%	8,227	8.2%	8,572	7.4%
Broadband Retail subscribers	288	53.3%	427	77.8%	427	77.8%	622	116.3%	856	100.5%	856	100.5%	1,173	88.6%
Broadband Wholesale subscribers	220	288.9%	379	213.4%	379	213.4%	611	177.9%	888	134.4%	888	134.4%	1,164	90.5%
Total Broadband subscribers (thousands)	508	107.8%	806	123.2%	806	123.2%	1,233	142.9%	1,744	116.5%	1,744	116.5%	2,337	89.5%
Narrowband subscribers (thousands)	1,178	6.8%	1,194	3.1%	1,194	3.1%	1,201	1.9%	1,205	1.0%	1,205	1.0%	1,143	(4.8%)
- Retail	8.64	(3.8%)	8.44	(4.2%)	8.44	(4.2%)	8.21	(5.0%)	8.05	(4.6%)	8.05	(4.6%)	7.87	(4.1%)
- Wholesale	1.71	22.1%	1.84	18.7%	1.84	18.7%	1.98	15.8%	2.07	12.5%	2.07	12.5%	2.15	8.6%
Basic access lines in service	10.35	(0.3%)	10.28	(0.8%)	10.28	(0.8%)	10.19	(1.5%)	10.12	(1.6%)	10.12	(1.6%)	10.02	(1.7%)
Local calls (number of calls)	4,831	(3.7%)	4,566	(4.4%)	9,397	(4.0%)	4,412	(8.7%)	4,057	(11.1%)	8,469	(9.9%)	3,882	(12.0%)
National long distance minutes	4,343	(6.7%)	4,177	(7.3%)	8,520	(7.0%)	3,977	(8.4%)	3,766	(9.8%)	7,743	(9.1%)	3,666	(7.8%)
Fixed to mobile minutes	2,099	7.3%	2,127	7.0%	4,226	7.2%	2,206	5.1%	2,169	2.0%	4,375	3.5%	2,234	1.3%
International direct minutes	338	(12.7%)	313	(11.3%)	651	(12.0%)	304	(10.1%)	276	(11.8%)	580	(10.9%)	273	(10.2%)
ISDN access (basic lines equivalents) (thousands)	1,224	2.9%	1,288	6.2%	1,288	6.2%	1,318	7.7%	1,327	3.0%	1,327	3.0%	1,312	(0.5%)
Pay TV bundling	208	1489.6%	257	103.1%	257	103.1%	309	48.5%	335	30.2%	335	30.2%	341	10.4%

(i) All revenue quoted is on reported basis and has not been adjusted for those items which are either not of a comparables nature owing to structural changes to the business eg acquisitions, significant and non-recurring nor part of the core operations.

(ii) The growth rates relating to advertising and directories have been impacted by the acquisition of the Trading Post group in March 2004.

(iii) The growth rates relating to solutions management have been impacted by the acquisition of the KAZ group in July 2004.

(iv) The growth rates in offshore services revenue have been impacted by the acquisition of Cable Telecom in February 2004 and the PSINet group in August 2004.

(v) The growth rates relating to customer premises equipment have been impacted by the acquisition of Telstra Business Systems (formerly known as Damovo) in September 2004.



Product reconciliation to align comparative figures with the reported format
Half Year Ended 31 December 2005

	Reported previously released	Reported New Hierarchy	Movement	Included	Amount	Excluded	Amount
	Dec-04	Dec-04					
Mobile services	1,896	2,179	283	Mobiles Interconnection	47		
				Mobiles Terminating (Declared)	236		
Mobile handsets	198	198	-				
Total Mobiles	2,094	2,377	283		283		
Internet and IP solutions	624	624	-				
PSTN products							
Basic access	1,700	1,700	-				
Local calls	689	689	-				
PSTN value added services	126	126	-				
National long distance calls	527	527	-				
Fixed to mobile	806	806	-				
International direct	124	124	-				
PSTN interconnect	-	159	159	Fixed interconnection	159		
Total PSTN products	3,972	4,131	159				
Specialised Data	495	495	-				
ISDN Products	453	453	-				
Advertising and Directories	890	888	(2)			Yellow Pages Direct	(2)
Intercarrier services	580	138	(442)			Fixed interconnection	(159)
						Mobiles Interconnection	(47)
						Mobiles Terminating (Declared)	(236)
Solutions management	463	463	-				
Hong Kong CSL	380	380	-				
TelstraClear	304	304	-				
Offshore services revenue	119	119	-				
Inbound calling products	231	231	-				
Pay TV bundling	121	121	-				
Customer premises equipment	107	108	1	Enhanced Fee For Service	1		
Payphones	63	63	-				
Other sales & service	379	380	1	Yellow Pages Direct	2	Enhanced Fee For Service	(1)
Sales revenue	11,275	11,275	-		445		(445)

A-IFRS TRANSITIONAL ADJUSTMENTS – 1 JULY 2004

A-IFRS Adjustment – Retained Earnings	1 Jul 04 Adjustment A\$m	Explanation of Adjustment
AASB 2 – Share-based payments	51	Share-based remuneration is recognised as an expense over the vesting period – the transitional adjustment primarily represents the reversal of the expense recognised under previous AGAAP
AASB 112 – Income tax (tax effect of A-IFRS adjustments & impact of change in tax methodology)	88	This adjustment represents the tax effect of the other A-IFRS standards & the change in method of accounting for income taxes, giving rise to items not previously recognised.
AASB 119 – Recognise net pension asset	537	Recognition of the net position of the defined benefit plans on adoption of A-IFRS.
AASB 121 – Resetting Foreign Currency Translation Reserve (FCTR) to zero	(46)	This adjustment reflects Telstra’s decision to elect under A-IFRS to reset the FCTR balance to nil on transition, after the impact of other A-IFRS adjustments.
AASB 121 – Restating goodwill from an Australian dollar denominated balance to a foreign currency denominated balance	(297)	Under the transitional rules Telstra elected to restate goodwill and fair value adjustments arising from all business combinations before transition based on the exchange rate at transition.
AASB 123 – Write off of borrowing costs previously capitalised	(462)	Telstra elected on transition to A-IFRS to change its accounting policy to expense all borrowing costs.
AASB 128 – Equity accounting Reach losses against the Capacity Prepayment (CPP)	(348)	On transition to A-IFRS the Reach Capacity Prepayment was deemed an extension of our investment in Reach, triggering equity accounting; the investment balance is eliminated by carried forward equity accounting losses from Reach not previously recognised.
AASB 138 – Expensing handset subsidies previously deferred	(239)	Under previous AGAAP Telstra capitalised the subsidised component of handsets, sold as part of a service contract, as a subscriber acquisition cost to be amortised over the contract term. UIG 1042 excludes the cost of telephones from subscriber acquisition costs & as a result we have changed our accounting policy to expense handset subsidies as incurred.
Total net decrease to retained earnings	(716)	

A-IFRS TRANSITIONAL ADJUSTMENTS – 1 JULY 2004

A-IFRS Adjustment – Equity	1 Jul 04 Adjustment A\$m	Explanation of Adjustment
AASB 112 – Asset Revaluation Reserve	(32)	Recognition of the deferred tax impact of previously revalued items of property, plant and equipment.
AASB 2 – Share based payments	(287)	Adjustment against share capital for the reclassification of the employee share loans and to recognise the Telstra shares held by the Growthshare Trust.
AASB 121/128 – Foreign Currency Translation Reserves (FCTR)	186	Represents the reset of the FCTR on transition
Total debit to equity balances	(133)	

A-IFRS TRANSITIONAL ADJUSTMENTS – 1 JULY 2005

A-IFRS Adjustment – Balance Sheet	1 Jul 05 Adjustment A\$m	Explanation of Adjustment
AASB 139 – Increase in Assets <ul style="list-style-type: none"> - Current assets: derivatives - Non current assets: derivatives 	<p style="text-align: right;">6</p> <p style="text-align: right;">512</p>	<p>Represents the recognition & measurement of derivatives at fair value as at the 1 Jul 05 transition date for AASB 139</p>
AASB 139 – Increase in Current liabilities <ul style="list-style-type: none"> - Current borrowings - Current derivatives 	<p style="text-align: right;">3</p> <p style="text-align: right;">5</p>	
AASB 139 – Increase in Non Current Liabilities <ul style="list-style-type: none"> - Non current borrowings - Non current derivatives - Deferred tax impact 	<p style="text-align: right;">219</p> <p style="text-align: right;">185</p> <p style="text-align: right;">32</p>	<p>Increase due to remeasuring borrowings at fair value as at the 1 Jul 05 transition date</p> <p>Represents the recognition & measurement of derivatives at fair value as at the 1 Jul 05</p> <p>Deferred tax liability associated with the fair value adjustments described above.</p>

RESTATEMENT OF 30 JUNE 2005 BALANCE SHEET

Balance Sheet	Previous AGAAP 30 Jun 05 A\$m	A-IFRS Restated 30 Jun 05 A\$m ⁽¹⁾	Movement A\$m	Explanation of movements
CURRENT ASSETS				
Cash & cash equivalents	1,540	1,548	8	
Trade receivables & other receivables	3,609	3,581	(28)	Reduction in receivables due mainly to reclassification of the employee share loans against share capital in accordance with AASB 2
Inventories	232	232	-	
Derivatives	-	10	10	
Other assets	796	249	(547)	Reclassification of deferred expenditure to intangibles–other in non current assets (\$305m), & write off of deferred handset subsidies (\$241m)
NON CURRENT ASSETS				
Trade receivables & other receivables	240	65	(175)	Reduction in receivables due to reclassification of the employee share loans against share capital
Inventories	15	15	-	
Investments	49	51	2	
PP&E	23,351	22,939	(412)	Reduction due mainly to ceasing capitalisation of borrowing costs
Intangibles	3,868	6,197	2,329	Net increase due to reclassification from other current & non current assets (software & deferred expenditure) – (\$2,851m), cessation of goodwill amortisation (\$145m), partially offset by a reduction in CSL goodwill (\$454m) and equity accounting against the Reach IRU (\$217m)
Derivatives	-	512	512	Represents the recognition & measurement of derivatives at fair value as at the 1 Jul 05 transition date for AASB 139
Other assets	2,610	278	(2,332)	Reflects the reclassification to Intangibles, partially offset by the recognition of the defined benefit asset (\$247M)

(1) These balances take into account the 1 July 2005 A-IFRS adjustments in respect of AASB 139 (see separate table for 1 July 2005 adjustments).

RESTATEMENT OF 30 JUNE 2005 BALANCE SHEET

Balance Sheet	Previous AGAAP 30 Jun 05 A\$m	A-IFRS Restated 30 Jun 05 A\$m ⁽¹⁾	Movement A\$m	Explanation of movements
CURRENT LIABILITIES				
Trade & other payables	2,809	2,805	(4)	
Borrowings	1,518	1,510	(8)	
Current tax liabilities	534	534	-	
Provisions	389	421	32	Recognition of current portion of the liability for the Reach committed capex
Derivatives	-	16	16	
Revenue in advance	1,132	1,132	-	
NON CURRENT LIABILITIES				
Trade & other payables	122	115	(7)	
Borrowings	11,816	11,610	(656)	Represents the reclassification to the derivatives line item, partially offset by an increase in borrowings from remeasuring at fair value as at 1 Jul 05
Deferred tax liabilities	1,885	1,858	(27)	Decrease in deferred tax liability due to the tax effect of our A-IFRS adjustments (\$128m), partially offset by the impact of a change in accounting for taxes under A-IFRS (\$101m)
Provisions	836	894	58	Recognition of non current portion of the liability for the Reach committed capex
Derivatives	-	1,049	1,049	Reclassification of derivatives from borrowings & the impact of measurement at fair value as at 1 Jul 05
Revenue in advance	388	388	-	
EQUITY				
Share capital	5,793	5,536	(257)	Reclassification of employee share loans & adjustment to reflect Telstra shares held by the Growthshare Trust
Reserves	(157)	(72)	85	Movement represents the deferral of the effective portion of cash flow hedges to be amortised to the income statement as the hedged item affects the income statement
Retained earnings	9,243	8,329	(914)	Refer to reconciliation of retained earnings

RESTATEMENT OF 30 JUNE 2005 BALANCE SHEET

RECONCILIATION OF RETAINED EARNINGS MOVEMENT

A-IFRS Adjustments	1 Jul 04 Transition Adjustments A\$m	Movement to 31 Dec 04 A\$m	Movement to 30 Jun 05 A\$m	30 Jun 05 A-IFRS Ret Earnings A\$m
Opening retained earnings – previous AGAAP	9,391	-	-	9,391
Opening retained earnings – A-IFRS	-	8,675	9,019	-
Movement in previous AGAAP retained earnings	-	228	(376)	(148)
Share-based payments	51	18	(3)	66
Deferred tax (tax effect of A-IFRS adjustments & impact of change in methodology)	88	10	76	174
Recognition of net defined benefit asset (gross)	537	5	(271)	271
Re-setting of FCTR to nil & impact of restating goodwill	(343)	8	3	(332)
Expensing of capitalised borrowing costs	(462)	(1)	5	(458)
Equity accounting losses against Reach CPP/IRU	(348)	24	(123)	(447)
Expensing of handset subsidies	(239)	(17)	(47)	(303)
Cessation of goodwill amortisation	-	73	74	147
Cessation of capitalised interest on deferred PP&E payment	-	(4)	(23)	(27)
Retained earnings under A-IFRS	8,675	9,019	8,334	8,334

RESTATEMENT OF 31 DECEMBER 2004 INCOME STATEMENT

Income Statement for 6 month period	Previous AGAAP 31 Dec 04 A\$m	A-IFRS Restated 31 Dec 04 A\$m	Difference A\$m	Explanation of movements
INCOME				
Revenue	11,382	11,286	(96)	Under A-IFRS the net gain on sale of non-current assets is reported in other income, rather than gross proceeds in revenue
Other income	-	74	74	Net gain on sale of non current assets reported in other income under A-IFRS
EXPENSES				
Labour	1,812	1,882	70	Represents the pension cost in respect of the defined pension plans (\$86M), partially offset by a lower cost associated with share-based payments (\$16M)
Goods & services purchased	2,124	2,141	17	Reflects the impact in the period of handset subsidies being expensed under A-IFRS
Other expenses	1,909	1,855	(54)	This difference reflects the change in reporting the net gain on sale of non current assets in other income & the impact of currency movements
EBITDA	5,537	5,483	(54)	
Depreciation & amort.	1,850	1,732	(118)	Cessation of goodwill amortisation (\$72M) & impact of the transitional write off of accumulated capitalised borrowing costs (\$46M)
EBIT	3,687	3,751	64	
Net finance costs	371	424	53	Difference due mainly to the decision not to capitalise borrowing costs under A-IFRS
Income tax expense	979	942	(37)	Reduction due to the impact of the various A-IFRS changes (\$45M), partially offset by an increase in tax expense from the change in methodology
Profit after tax	2,337	2,385	48	

RESTATEMENT OF 30 June 2005 INCOME STATEMENT

Income Statement	Previous AGAAP 30 Jun 05 A\$m	A-IFRS Restated 30 Jun 05 A\$m	Diff A\$m	H1 Diff A\$m	H2 Diff	Explanation of movements
INCOME						
Revenue	22,657	22,181	(476)	(96)	(380)	Net gain on sale of non-current assets is now reported in other income, rather than gross proceeds in revenue – H2 had higher proceeds than H1
Other income	-	261	261	74	187	Net gain on sale of non current assets reported in other income under A-IFRS – higher gains in H2
EXPENSES						
Labour	3,693	3,858	165	70	95	Represents the pension cost in respect of the defined pension plans (\$175m), partially offset by a lower cost associated with share-based payments (\$10m)
Goods & services purchased	4,147	4,211	64	17	47	Reflects the impact of handset subsidies being expensed under A-IFRS – H2 has a proportionately higher expense than H1
Other expenses	4,055	3,809	(246)	(54)	(192)	This difference reflects the change in reporting the net gain on sale of non current assets in other income & the impact of currency movements
Share of (gains) /losses from associates	(9)	92	101	(1)	102	The movement in H2 represents the continuation of equity losses under A-IFRS arising from our commitment to Reach for the committed capex
EBITDA	10,771	10,472	(299)	(54)	(245)	
Depreciation & amort.	3,766	3,525	(241)	(118)	(123)	Cessation of goodwill amortisation (\$145m) & impact of the transitional write off of accumulated capitalised borrowing costs (\$94m) – H2 consistent with H1
EBIT	7,005	6,947	(58)	64	(122)	
Net finance costs	736	875	139	53	86	Difference due mainly to the decision not to capitalise borrowing costs under A-IFRS – net finance costs higher in H2
Income tax expense	1,822	1,756	(66)	(37)	(29)	Reduction due to the impact of the various A-IFRS changes, offset by an increase in tax expense from the change in methodology
Profit after tax	4,447	4,316	(131)	48	(179)	H2 NPAT is lower under A-IFRS, whereas H1 reflected an increase