Half-year Review

2006

Telstra

content

Our Vision

To do for customers what no one else has done: create a world of 1 click, 1 touch, 1 button, 1 screen, 1 step solutions that are simple, easy and valued by individuals, businesses, enterprises and government.

investor information

	Financial Calendar 2006	Indicative Financial Calendar 2007
Half-year results announcement	**9 Feb**	15 Feb
Ex-dividend share trading commences	**20 Feb**	26 Feb
Record date for interim dividend	**24 Feb**	2 Mar
Interim dividend paid	**24 Mar**	30 Mar
Annual results announcement	**10 Aug**	9 Aug
Ex-dividend share trading commences	**21 Aug**	20 Aug
Record date for final dividend	**25 Aug**	24 Aug
Final dividend paid	**22 Sep**	21 Sep
Annual General Meeting	**14 Nov**	TBA

Note: Timing of events may be subject to change. Any changes will be notified to the market.

Dear Shareholders

The first half of the 2006 financial year has been challenging for Telstra. The Board had to make tough decisions, including advising you in August that Telstra's operating earnings would decline for the first time in light of the adverse operating trends in the business.

The Board and the new senior management team agreed we needed to transform your company. We must innovate, reduce complexity and costs in the business and look to the future – internet protocol (IP), broadband and wireless technologies – to deliver truly integrated services for our customers. >>

Left to right:

Donald G McGauchie AO
Chairman

Sol Trujillo
Chief Executive Officer

In November 2005, we announced a ground breaking program designed to reverse the negative financial trends and focus on delivering customers new experiences that should lead to the creation of long term value for our shareholders.

This transformational strategy represents an historic and fundamental change in the way we operate. It will not happen overnight – it will take three to five years to complete. Although it's early days, we can already report progress: hard decisions have been made and challenging targets set, new strategies are in play, savings have been identified and key contracts signed.

FINANCIALS

The result for the half-year reflects the trends that emerged in the previous financial year.

Income was up, but so were our expenses. Total income (excluding finance income) increased by $218 million, or 1.9%, to $11.6 billion, while total expenses (excluding finance costs) increased by $480 million, or 6.3%, to $8.1 billion. Telstra reported a profit after tax of $2.1 billion, down $245 million or 10.3% on the previous corresponding half-year.

Costs are rising faster than revenue and this is unsustainable. We are fixing this with our new strategy, our new management team and our new approach to customer service.

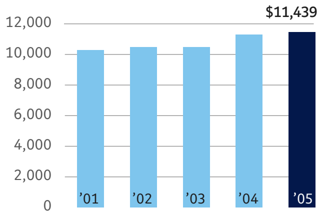
Telstra continues to be challenged by a shifting revenue mix from traditional high margin fixed line PSTN voice products to newer but lower margin products. PSTN revenues declined 7.6%. PSTN usage – and therefore revenue – continued to fall at an accelerating rate. This is a major concern for us, which we are addressing with our new strategy.

↑ 1.5%

Sales revenue increased by 1.5% to $11,439 million. Revenue growth was due to increases in broadband, mobiles, IP solutions, advertising and directories and pay TV bundling, offset by declines in revenues from PSTN calling products, specialised data and ISDN products.

* 01-03 prepared under previous AGAAP, 04-05 prepared under A-IFRS

Sales revenue ($m)*
Half-year ended 31 December



Total income growth was driven by internet and IP solutions (including broadband), mobiles and our information services, search and transaction business, Sensis.

The growth in broadband customers continues to surge. We added more than 300,000 BigPond® broadband customers over the six months and retail broadband revenue was up 62.6% compared with the prior corresponding period.

Mobiles revenue growth of 4.6% was driven by increased wireless data product usage. Telstra added 345,000 total mobile customers in the half-year for a total of 8.6 million. The rollout of a new national 3G network is a key part of our plans for continued mobiles growth.

Sensis continued to grow, with a 5.3% increase in revenues on a stand alone basis. White Pages® increased its revenue by 13%, driven mainly by online growth.

Total company expense growth (excluding finance costs) of 6.3% was driven by increased labour costs, goods and services purchased and depreciation and amortisation expense.

Our free cash flow generation remains strong despite a 4% decline to $2 billion.

We have declared an interim dividend of 14 cents per share and a special dividend of 6 cents per share, bringing the total interim dividend to 20 cents per share or $2.5 billion.

PROGRESS ON NEW STRATEGIC DIRECTION

Our strategy announcement on 15 November 2005 marked a new beginning for Telstra. The company is moving forward by focusing on broadband, building a new national 3G wireless network, deploying IP technology to meet the evolving needs of customers, and driving our Sensis business.

The new strategy will be delivered through the one factory approach. The four basic principles of the one factory methodology are: do it once, do it right for customers, do it in an integrated way and do it at a low unit cost.

Market based management, also core to the strategy, will be instrumental in knowing our customers better than ever before.

This involves extensive customer research, which is already well advanced. We will know the customer better than any of our competitors.

Although the transformation of Telstra is only in its infancy, progress is encouraging. The core network transformation is on schedule with key vendor contracts finalised. The national 3G mobile network is on track. New cost reduction programs have commenced and capital expenditure savings of $300 million have been identified for redirection to transformation initiatives. A new contract for acquiring mobile handsets is already delivering savings, and we have exited leases on 15 office buildings.

A 'benefits now' team has been established and is driving rapid savings worth several hundred million dollars over the year.

MANAGEMENT TEAM

There have been several new appointments to the senior leadership team in the first half of the year. These have been driven by the need for a more innovative approach that involves better segmenting our customer base and bringing new services to market.

Telstra confirmed its commitment to the small and medium enterprises (SME) segment by creating a new group to specialise in this area.

We have created a new product management group. It will deliver new products, particularly wireless broadband products, that work together, deliver real value to our customers and differentiate us from our competitors.

There is an enormous amount of work ahead of us, and there is a real sense of urgency around the work to be undertaken.

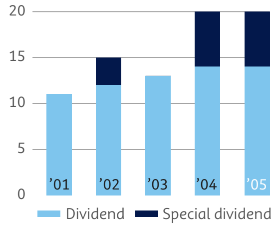
OUTLOOK

In the short term, we expect tough trading conditions to continue for the remainder of the 2006 financial year. Earnings before interest and tax (EBIT) is expected to fall by 7-10% before items associated with the new strategy are included. Including this year's investment in transforming Telstra, EBIT is expected to fall by 15-20% or, if we take a large provision for redundancies, by 21-26%.

Total dividends per share were 20 cents for the half-year which included a special dividend of 6 cents per share. Both dividends are fully franked.

* 02 includes special dividend of 3 cents per share
04 and 05 includes special dividend of 6 cents per share

Dividends per share*
(cents per share)
Half-year ended 31 December



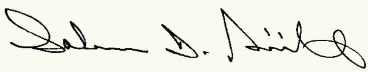
In the longer term, we expect total revenues to grow by 2-2.5% per annum over the next five years, with 20-30% of this growth to come from new products and services. In five years, our cost base will be no higher than the annualised costs we reported in this half-year. We intend to be extremely disciplined in our cost structure in the coming years, leading to improved profit margins for the business.

Under the new senior management team and with the support of your board, we are working to protect and grow shareholder value. This is why we will continue to advocate changes to the current intrusive regulatory regime and why we have undertaken a new strategic direction.

Be assured that, as Telstra's transformation journey continues, we are committed to keeping you, our shareholders, informed every step of the way. We want you to understand the issues that affect the future of your company. We encourage you to visit out internet sites, www.telstra.com and www.nowwearetalking.com.au, to find out more about our journey. We would welcome your participation in the policy debate or your views about our new strategic direction.

We and the senior management team will continue to tell it like it is.

Donald G McGauchie AO
Chairman



Sol Trujillo
Chief Executive Officer

strategy

By streamlining our operations, while better satisfying the needs of our customers with 1 CLICK, 1 TOUCH, 1 SCREEN, 1 BUTTON, 1 STEP solutions, we can deliver the financial performance improvements expected by our shareholders.


On 15 November 2005, we announced the results of our strategic and operational review. This review is a blueprint for building a new Telstra by providing a solid platform to drive future growth and create shareholder value.

The strategy will provide new networks, processes and products and for the first time, a truly integrated customer experience. Costs will be taken out of the business by simplifying our network and IT architecture. Revenue will grow with new and innovative products, services, applications and capabilities.

Customers will enjoy a simple and easy way of doing things – **1 click, 1 touch, 1 screen, 1 button and 1 step**.

The transformation of Telstra will not happen overnight. We estimate the strategy will take between three and five years to fully implement and require an incremental capital investment of $2-$3 billion up to 2010. To stay ahead of the game, we must invest. We must innovate. We must improve.

The key features of the new strategy are:

1. market based management
2. a next generation network (NGN)
3. a national 3G GSM mobile network
4. simpler business and operational support systems

Market based management

Through customer research, we will know our customers better than any of our competitors.

Market based management is a simple process that puts customers at the centre of everything we do. It is based on extensive research that informs us about our customers' needs, priorities and expectations. This knowledge forms the basis of a relationship with our customers around which we organise all our processes and procedures – in fact, our whole company.

When completed, we will have conducted 90,000 consumer interviews and involved 16,000 small businesses in our small business consumer research panel.

Progress to date

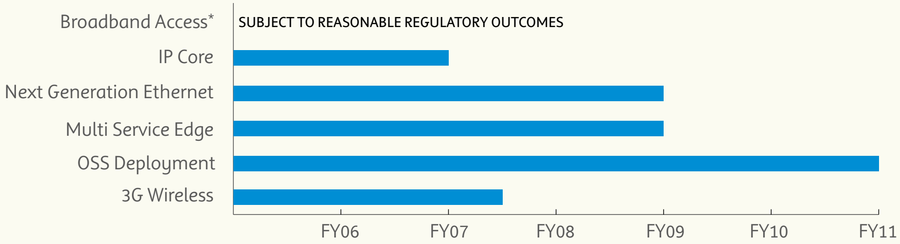
We have already conducted 22,000 interviews with consumer and small business customers. This is ground breaking research for the Australian telecommunications market.

Next Generation Network (NGN)

Telstra currently has more than 300 different network platforms made up of multiple fixed line and wireless networks. The NGN project will remove this network duplication via the construction of a state-of-the-art Internet Protocol (IP) core network. Reliable, robust, secure and offering huge capacity, this new core network will be in place by the end of 2007.

It will enable us to offer an array of new services such as broadband internet access many times faster than today's speeds, multi-channel TV delivered over the internet and video conferencing.

Strategy timeline



* Includes IP DSLAMs and FTTN

The proposed fibre-to-the-node (FTTN) network would have seen fibre extended from Telstra's telephone exchanges out to neighbourhood 'nodes' with the aim of providing high-speed ADSL2+ broadband internet to metropolitan areas. Due to regulatory uncertainty, the FTTN network upgrade has been placed on hold for the time being. Existing infrastructure combined with software and network upgrades will continue to meet our customers' needs, including appealing broadband offers.

Progress to date

Work on the IP core and IP DSLAM (Digital Subscriber Line Access Multiplexer) initiatives continues, with major contracts signed with Cisco and Alcatel. The first IP DSLAMs arrived at the end of February 2006.

National 3G GSM mobile network

At present, Telstra has three mobile networks – GSM, CDMA and 3G GSM. This duplication results in more complexity for our customers and higher operating costs.

With recent technology advances, Telstra will build one national wireless network – a new 3G GSM network which will cover more than 1.6 million square kilometres, 98% of the population and will replace the existing CDMA mobile network. Voice, video and high speed data capabilities over the new 3G GSM network will exceed those of the existing CDMA network capabilities while offering at least the same, if not better, coverage.

Progress to date

Contracts have been signed with Ericsson to roll out the network to 5,000 sites across Australia. Construction teams have been mobilised in each state, with more than 1,500 audits and 250 site designs already completed.

Simpler systems

Telstra has over 1,200 business and operational support systems. We are looking to reduce this number by 75% in three years and 80% in five years, at a cost of $1 billion over five years.

Systems rationalisation will mean significant improvements to the customer experience and long term savings for Telstra. Customers will enjoy improved service via real time product and service activation; flexible bill reporting and analysis; and proactive management of any problems.

Progress to date

We are currently negotiating contracts with our preferred vendors to carry out this part of the strategy. Under the customer experience layer, known as our operational support systems (OSS), detailed scoping has been completed.

Cost reductions

With simpler, more efficient systems, Telstra will not require the same number of employees and aims to reduce its total workforce by between 6,000 and 8,000 over the next three years.

Progress to date

The total workforce now stands at approximately 51,000, a reduction of 1,000 since 30 June.

regulation

Telstra is SUBJECT to a value destroying REGULATORY REGIME, which unfairly restricts our ability to compete, and forces our shareholders to subsidise our competitors.

Regulation and the regulatory environment we operate in are crucial to the future success of Telstra. The current regulatory environment restricts Telstra's ability to compete fairly in the market and maximise value for customers and shareholders.

Telstra is undertaking significant network investment to deliver state-of-the-art services to our customers. Investment is required to upgrade the core network, upgrade the fixed access network and introduce a single, national 3G mobile network. Telstra needs regulatory certainty, especially in relation to the fibre-to-the-node (FTTN) project, before we are willing to invest our shareholders' funds in certain elements of our network upgrade plans.

We continue to work with the Government and the Australian Competition and Consumer Commission (ACCC) on achieving a satisfactory regulatory outcome for our shareholders and customers alike. There are several key regulatory decisions, either recently made or pending, which will shape the future of your company. These include:

1. Unconditioned Local Loop (ULL)
2. network investment safeguards
3. operational separation
4. ACCC review of regulation on fixed network services

ULL

ULL is the use of copper wire that runs between a customer premises and the equipment at the end of the copper wire, generally located in a Telstra exchange. The copper wire forms part of Telstra's copper access network which Telstra is responsible for maintaining, including rectifying any faults on the network.

The present regulatory regime requires Telstra to provide competitors with access to its copper wire at a price which is supposed to allow Telstra to recover the efficient costs of providing ULL. Telstra's equipment at the end of the copper wire can be replaced with the competitors' own equipment and the competitors can then provide the full range of communications services (including voice and data) to their customers using Telstra's copper access network. The amount Telstra can charge to ensure it recovers the costs of providing ULL is a significant regulatory issue.

Over several years, Telstra has sought to achieve price certainty for the supply of ULL through the lodgement of undertakings with the regulator. If accepted by the regulator, an undertaking provides a standard set of terms, including price, for the supply of ULL for a set period of time. The regulator has rejected each of Telstra's undertakings and has even recommended Telstra's prices be discounted below what the regulator has previously considered to be 'model prices' for ULL.

The regulator also advocates 'geographically de-averaged' ULL prices. This means competitors pay lower rates for access to copper wire in metropolitan areas than in regional or country areas. This encourages our competitors to offer services in highly profitable metropolitan areas with little or no regard to regional Australia, which is left for Telstra to service at considerable cost. From 1 March 2006 the Government has imposed a retail pricing parity obligation on

‘The real issue Telstra faces is that despite management and the board’s efforts, the company’s destiny and that of the industry lies in the hands of the competition regulator’

Citigroup analyst Tim Smeallie, quoted in *The Australian* (10 February 2006)

‘...the propensity of regulators to expropriate the bulk of the gains from new investment could create an outcome where Telstra shareholders funded investments in the network that produced better returns for its competitors than its shareholders’

Stephen Bartholomeusz, *The Age* (10 February 2006)

Telstra to charge its retail customers for a basic line rental product at the same price no matter where they live in Australia. Telstra therefore believes that the regulator should allow Telstra to structure its price for ULL in a manner that is consistent with the Government’s policy intent of one price for all Australians.

In December 2005, Telstra lodged another undertaking with the regulator reflecting this view.

Network investment safeguards

Telstra wants regulatory or legislative certainty before we invest shareholders’ funds in the FTTN phase of the next generation wireline networks, which will provide broadband services at far superior speeds than are available today.

Telstra requires certainty that we will be able to make our own decisions and therefore have control over this very substantial investment. For example, we should not be forced to offer our competitors access to this network at prices below our cost. If this were to occur, Telstra’s competitors could enjoy all the benefits associated with access to the new high speed network with minimal risk to their shareholders, while Telstra shareholders bear the investment risks.

To date, we have been unable to obtain such regulatory certainty and as a result, in December 2005 Telstra announced the FTTN upgrade of the wireline access network is on hold.

Operational separation

Federal Parliament has passed legislation imposing operational separation on Telstra, but what is operational separation? The Government’s stated objective of operational separation is ‘to provide transparency that Telstra is not favouring its own retail activities over the activities of its wholesale customers, while allowing Telstra to obtain legitimate benefits from vertical integration’. (Explanatory Memorandum to amending legislation p82)

Telstra acknowledges that operational separation will provide more clarity and transparency of our business. We are now focused on implementing it in a way that does not reduce flexibility or substantially add to our costs.

Our draft operational separation plan is currently in the public consultation phase and the Minister for Communications will notify Telstra whether or not it is approved by 30 June 2006. The pricing principles aspect of operational separation is not yet finalised. We are working with the ACCC and Government to make sure the application of the principles does not impede our ability to fairly compete in the market. We expect this to be finalised by 30 June 2006.

ACCC review

On 21 December 2005, the ACCC announced a broad ranging strategic review that will examine the future regulation requirements of certain key network and wholesale services on the fixed network.

The review will mainly focus on existing declarations of fixed network services. However it will also cover broader questions surrounding regulation, in light of emerging market, technological and network developments. The review is expected to take up to a year to complete.

Telstra welcomes the announcement of a wide ranging review of fixed network regulation.

business activity



BigPond®

BigPond® remains Australia's leading Internet Service Provider (ISP) with more than 2.3 million customers. In the first half of 2005/06, Telstra's retail broadband customer base grew by 37% to 1.2 million, delivering strong revenue growth in a competitive environment.

BigPond® Wireless was launched in August offering wireless broadband access to the internet using Telstra's mobile network. BigPond® Wireless already has more than 10,000 subscribers.

BigPond®'s content business continues to grow with BigPond® music sales growing strongly despite increasing competition. The BigPond® Movies and BigPond® Games businesses are set to release new products in the second half of the financial year.

Sensis

Sensis is one of Australia's leading information resources and one of the world's top 10 directories companies. The first half results included accelerated revenue growth in the online advertising business, with growth of more than 50%.

A number of innovative and exciting service initiatives were introduced across the product portfolio including the Yellow Pages® On the Go directory, the provision of movies and weather information on the Sensis® 1234 voice service and the launch of the text version of Sensis Mobile on all Telstra Active (3G), WAP and i-mode[1] compatible phones.

Online transaction capability was launched on our tradingpost.com.au website in November, allowing consumers to contact a seller by phone or email, buy online or make an offer.

Consumer and Marketing

Telstra Consumer and Marketing remains the market leader in packaging, where customers combine the purchase of fixed, mobile, broadband or pay TV services. Telstra leads with 2.9 million[2] households preferring a single carrier providing them with more than one product.

In September 2005, Telstra launched 3G services in the major capital cities and coverage was available to 46% of the Australian population. The new mobiles service launched under the Telstra Active™ brand offers customers video calling, capped plans and information and entertainment services. This allows our customers to view video news reports from National Nine News, CNN and Sky News, amongst others, and access mobile email.

Business and Government

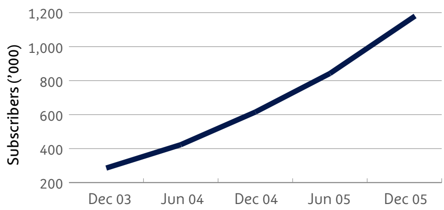
Telstra Business and Government signed several major customer contracts over the first half of the year. These demonstrate our commitment and capability in successfully transforming the business into an integrated carriage, services and solutions business.

Recent customer wins include KAZ, our information and communications technology (ICT) solutions provider, winning separate five year contracts with the Department of Defence, (worth approximately $200 million) and ING Australia (worth approximately $33 million).

↑ 37%

Retail broadband subscribers grew 37% in the half, making BigPond® the market leader in broadband growth

Retail broadband subscribers



Westpac renewed its contract for a further five years, worth approximately $400 million. PricewaterhouseCoopers signed a contract to roll out 2,000 mobile broadband services, which will be the single largest rollout of mobile broadband services in Australia.

Country Wide

Telstra Country Wide local managers oversee the telecommunications needs of more than six million customers, who live and work outside Australia's major cities. This local presence and commitment is a key component of our continued growth.

Since July 2005, we have invested $45.5 million to extend mobile and high-speed wireless data coverage in regional areas. Through the Government's Higher Bandwidth Incentive Scheme (HiBiS), we have brought broadband ADSL to 787 exchanges since the scheme began in April 2004.

Wholesale

Telstra Wholesale continued to deliver strong revenue growth, particularly in the area of broadband products. To date, Telstra Wholesale has achieved year-on-year revenue growth of 18%.

Telstra Wholesale continued to focus on improving the stability of and access to Telstra systems as part of an ongoing commitment to overall service improvements. As a result, wholesale customers experienced record levels of automation in relation to order requests over the past six months, with average automated orders now exceeding 150,000 each month.

Telstra Services

Telstra Services is the service arm that builds, operates and maintains the networks, and is the face of Telstra to many customers. Telstra Services will play a critical role in implementing many of Telstra's planned strategic initiatives.

International

In December 2005, the merger of Hong Kong CSL and New World PCS was announced. Once final regulatory and shareholder approvals are received, this will create Hong Kong's largest mobile business. Telstra will own 76.4% of the merged company.

TelstraClear, Telstra's fully owned New Zealand subsidiary, is focusing on its national IP backbone network and its residential networks in Wellington and Christchurch, where it has introduced a digital television service.

Corporate Social Responsibility

Our activities over the first half included:

- Conducting Blood for Life day, with more than 2,600 Telstra staff donating blood to the Red Cross Blood Service.
- Ongoing support of the adolescent and young adult cancer care program, onTrac@Peter Mac.
- Supporting 525 community projects and providing grants of around $4 million through the Telstra Foundation Community Development Fund and Telstra's Kids Fund.
- Equal first ranking in the Horwath 2005 Corporate Governance Report, which rates the corporate governance practices of Australia's top 250 companies.

SELECTED ITEMS FROM THE

income statement

	6 months to Dec. 2005 $m	6 months to Dec. 2004 [a] $m	change %
Sales revenue	11,439	11,275	1.5
1 **Total income (excluding finance income)**	**11,578**	**11,360**	**1.9**
2 **Total expenses (excluding finance costs)**	**8,089**	**7,609**	**6.3**
Net finance costs	443	424	4.5
Profit before income tax expense	3,046	3,327	(8.4)
3 **Income tax expense**	**907**	**942**	**(3.7)**
Net profit	2,139	2,385	(10.3)
Outside equity interests in net loss	1	–	N/M
Net profit available to Telstra Entity shareholders	2,140	2,385	(10.3)
Basic earnings per share (cents)	17.3	19.1	(9.4)
Diluted earnings per share (cents)	17.3	19.0	(8.9)
Interim dividend declared per share (cents) [b]	14.0	14.0	–
Special dividend declared per share (cents) [b]	6.0	6.0	–
Total interim ordinary dividends declared including special dividend [b]	2,485	2,485	–
Dividend franking percentage at 30% tax rate	100%	100%	–

[a] This is our first financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards (A-IFRS). When preparing this financial report we have amended certain accounting and valuation methods applied in the previous Australian Generally Accepted Accounting Principles (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 an exemption available to only apply AASB 132: 'Financial Instruments: Disclosure and Presentation' and AASB 139: 'Financial Instruments: Recognition and Measurement', from 1 July 2005.

[b] 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 income tax payments anticipated to be made to earnings in the current year should enable full franking of the fiscal 2006 final ordinary dividend.

1 Total income

↑ 1.9 %

Total income (excluding finance income) increased by 1.9% or $218 million to **$11,578 million**, due to:

- sales revenue increasing by 1.5% or $164 million to $11,439 million mainly due to growth in broadband, mobiles, IP solutions, advertising and directories, and pay TV bundling revenues, offset by a decline in revenues from PSTN calling products, specialised data, narrowband and ISDN products. As the market continues to move towards newer technologies to satisfy their telecommunications requirements, we continue to see a shift in customer demand from our traditional products such as PSTN to our emerging products such as broadband; and
- other revenue/other income grew by 63.5% or $54 million to $139 million primarily due to an increase in Higher Bandwidth Incentive Scheme (HiBiS) receipts from the Government resulting from the provision of broadband services to regional, rural and remote areas of Australia.

2 Total expenses

↑ 6.3 %

Total expenses (excluding finance costs) increased by 6.3% or $480 million to **$8,089 million** due to:

- an increase in labour expense of 9.1% or $171 million, led by a rise in salary rates and higher redundancies;
- increased goods and services purchased of 3.4% or $73 million, attributable to increased network payments resulting from an expansion in some of our overseas businesses and higher service fees due to growth in pay TV volumes;
- an increase in other expenses of 8.4% or $156 million, mainly due to higher service contracts and other agreements resulting from increased network maintenance, increased activity to meet broadband demand and increased consultancy usage; and
- higher depreciation and amortisation expense of 4.5% or $78 million, primarily due to the growth in communications plant and software additions required to support the increasing demand for broadband ADSL services, as well as the additional expense resulting from our recent investments in 3G networks, both domestic and offshore.

3 Income tax expense

↓ 3.7 %

Income tax expense decreased by 3.7% or $35 million to **$907 million**, giving an effective tax rate of 29.8%. The lower income tax expense was primarily due to the reduction in profit before income tax.

SELECTED ITEMS FROM THE

balance sheet

	As at 31 Dec. 2005 $m	As at 30 June 2005 [a] $m
Cash and cash equivalents	817	1,548
Other current assets	4,414	4,066
1 **Total current assets**	**5,231**	**5,614**
Property, plant and equipment	22,901	22,939
Intangibles	6,146	6,197
Other non current assets	1,031	409
2 **Total non current assets**	**30,078**	**29,545**
Total assets	35,309	35,159
Current borrowings	1,872	1,507
Other current liabilities	4,339	4,903
Non current borrowings	11,201	10,941
Other non current liabilities	4,164	4,087
3 **Total liabilities**	**21,576**	**21,438**
4 **Equity**	**13,733**	**13,721**

SELECTED ITEMS FROM THE

statement of cash flows

	6 months to Dec. 2005 $m	6 months to Dec. 2004 [a] $m
Net cash provided by operating activities	3,948	4,393
Net cash used in investing activities	(1,992)	(2,355)
5 **Free cash flow**	**1,956**	**2,038**
6 **Net cash used in financing activities**	**(2,721)**	**(1,616)**
Net increase/(decrease) in cash	(765)	422

[a] This is our first financial report prepared in accordance with 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 an exemption available to only apply AASB 132: ‘Financial Instruments: Disclosure and Presentation’ and AASB 139: ‘Financial Instruments: Recognition and Measurement’, from 1 July 2005.

1 Total current assets

Total current assets decreased by $383 million to **$5,231 million** due to:

- a decrease in cash assets of $731 million as our cash balances and net cash flow generated from operations was used to fund our investing and financing activities including increased dividend payments; and
- an increase in other current assets of $348 million predominantly due to higher trade receivables and accrued revenues impacted by the timing of cash receipts. In addition, inventories increased due to higher inventory of mobile handsets and material held for consumption on capital work programs.

2 Total non current assets

Total non current assets increased by $533 million to **$30,078 million** due to:

- an increase in other non current assets of $622 million due to the recognition of an interest rate swap asset on adoption of the new financial instruments accounting standard. In addition, our defined benefit assets increased as a result of actuarial gains on measurement of these assets as at the 31 December 2005 balance sheet date; and
- a decrease in property, plant and equipment of $38 million mainly due to the additions in our communications plant and software assets being offset by our depreciation and amortisation.

3 Total liabilities

Total liabilities increased by $138 million to **$21,576 million** due to:

- higher total borrowings of $625 million, mainly due to an increase in borrowings during the half-year and the impact of the market revaluation of certain borrowings on adoption of the new financial instruments accounting standard; and
- a decrease in total other liabilities of $487 million predominantly due to lower trade and other payables as a result of installment payments on the deferred settlement of the 3G radio access network. In addition, the timing of cash payments and lower accruals contributed to the decrease in total other liabilities.

4 Equity

Equity increased by $12 million to **$13,733 million**. This increase was due to the inclusion of our net profit for the period of $2,139 million, actuarial gain on our defined benefit assets of $223 million, adjustment on translation of financial statements of non-Australian controlled entities of $81 million and the addition of the cash flow hedging reserve of $42 million. This increase was offset by the payment of the fiscal 2005 final ordinary dividend of $2,485 million.

5 Free cash flow

Free cash flow decreased by $82 million to **$1,956 million** mainly due to a reduction in net cash provided by operating activities as a result of lower operating profit and higher working capital. This reduction was partly offset by a fall in net cash used in investing activities due to lower investment expenditure compared with the prior corresponding period. The prior corresponding period included the major investment acquisitions of the KAZ Group, PSINet and Telstra Business Systems.

6 Net cash used in financing activities

Net cash used in financing activities increased by $1,105 million to **$2,721 million** mainly due to lower net proceeds received on borrowings and increased dividend payments, partially offset by there being no share buy-back in the current half-year.

shareholder information

How can I access and change information about my shareholding?

You can contact the Telstra Share Registry on 1300 88 66 77 or you can visit our website at *www.telstra.com.au/abouttelstra/investor/services.cfm.* From this site you can access your holding information, you can make changes to your holding record, or you can download forms to complete and return to the Telstra Share Registry to ensure that your details are up to date.

To access your shareholder information via this secure website you will need to log in using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), as well as your surname or company name and postcode.

Can I reinvest my dividends into a dividend reinvestment plan with Telstra?

Telstra does not currently have a dividend reinvestment plan (DRP). In the past, we could not easily introduce a DRP because the Telstra Corporation Act prevented a reduction in the Commonwealth's equity below 50.1%. Since the passing of the sale legislation that restriction no longer applies, however, we are not currently looking to raise additional capital so we have not reconsidered the introduction of a DRP at this time.

What is this new website '*www.nowwearetalking.com.au*' about?

nowwearetalking.com.au is an interactive website for shareholders, customers and anyone with an interest in the challenges facing the telecommunications industry in Australia. The site features views and opinions from industry experts and some popular blogs written by Telstra staff talking about their day-to-day work.

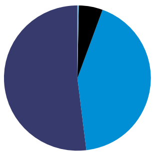
Shareholders are especially welcome to join and contribute to the *nowwearetalking.com.au* discussion forums.

Shareholders by state as at 31 December 2005

Shareholders by state*	Number of Shareholders	Number of Shares
Australian Capital Territory	35,329	65,084,093
New South Wales	495,448	1,047,656,636
Northern Territory	7,663	11,979,809
Queensland	236,933	499,200,354
South Australia	120,506	234,466,080
Tasmania	23,493	42,580,559
Victoria	508,303	1,034,268,811
Western Australia	157,944	306,239,890
Total Australia	1,585,619	3,241,476,232

** Retail Shareholders (holding less than 100,000 shares) as at 31 December 2005.*

Total Shares **



New Zealand Private **0.35%**
Other Overseas Private **5.46%**
Australian Private **42.39%**
Commonwealth of Australia **51.80%**

*** Includes American Depository Receipts*

[1] i-mode and the i-mode logo are registered trade marks of NTT DoCoMo, Inc. in Japan and other countries
[2] Consumer survey conducted by Roy Morgan Research Centre, December 2005

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Incorporated in the Australian Capital Territory

Telstra is listed on Stock Exchanges in Australia, New Zealand (Wellington), and the USA (New York)

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Websites
Telstra's Investor Relations home page at:
http://www.telstra.com.au/abouttelstra/investor

Telstra's new interactive website:
http://www.nowwearetalking.com.au

Mini Glossary

ACCC Australian Competition and Consumer Commission – the body responsible for regulating the telecommunications industry

ADSL Asymmetric Digital Subscriber Line – compression technology that allows voice, data, video to be delivered over an existing copper network

CDMA Code Division Multiple Access – a mobile standard which provides voice, data, fax and short messaging services

DSLAM Digital Subscriber Line Access Multiplexer – technology located at Telstra exchanges that separates voice and data signals

FTTN Fibre to the node – infrastructure that delivers fibre close to customer premises. FTTN will deliver broadband data and potentially television services to customer premises

GSM Global System for Mobile Communications – one of Telstra's two digital networks. GSM covers 96% of the Australian population

IP Internet Protocol – the method or protocol by which data is sent from one computer to another on the internet

IP Core – the core element of a network which carries and logically splits voice, data and video using IP technology

Multi Service Edge – technology that aggregates customer lines with multiple services such as voice, video, data and internet

Next Generation Ethernet – high speed technology that aggregates all traffic onto the IP network

NGN Next Generation Network – enables multiple services such as voice, video and data to be integrated and efficiently carried over the network

ULL Unconditioned Local Loop – is the use of copper wire that runs between a customer premises and the equipment at the end of the copper wire, generally located in a Telstra exchange

Wireless – use of radio transmission signal to connect to a network (i.e. mobile communication)

Wireline – relates to the fixed access network, that uses either existing copper or fibre lines to connect to a fixed network

3G GSM Third Generation Global System for mobile communications – is the evolution of the current GSM 2G and 2.5G technology to support voice and high speed data and multimedia services

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