Telstra Corporation Limited and controlled entities

Appendix 4D
Half-year report
for the half-year ended 31 December 2004

Appendix 4D
Half-year report
31 December 2004
Telstra Corporation Limited ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2004	2003	Movement	Movement
	$m	$m	$m	%
Extract from the statement of financial performance				
Revenue from ordinary activities (including interest revenue)	**11,417**	10,853	564	5.2%
Net profit available to Telstra Entity shareholders.	**2,337**	2,293	44	1.9%

For the half-years ended 31 December 2004 and 31 December 2003, all items included in our statement of financial performance are considered to be from ordinary activities. As a result, our profit from ordinary activities after tax available to Telstra Entity shareholders is the same as our net profit available to Telstra Entity shareholders.

During the half-year ended 31 December 2004, there were no significant items that impacted on the results recorded in our statement of financial performance.

During the half-year ended 31 December 2003, the following significant item impacted on the results recorded in our statement of financial performance:

On 28 August 2003, we sold our 22.6% shareholding in our associated entity IBM Global Services Australia Ltd (IBMGSA) with a book value of $5 million. Proceeds from the sale of this investment amounted to $154 million, resulting in a profit before income tax expense of $149 million. As part of the disposal, we negotiated changes to a 10 year contract with IBMGSA to provide information technology services. This modification to our service contract resulted in an expense of $130 million being recognised and the removal of $1,596 million of expenditure commitments disclosed as at 30 June 2003. The net impact on our profit before income tax expense of this transaction was a profit of $19 million ($58 million after taking into account income tax benefits).

Dividends

	Half-year ended 31 December	
	2004	2003
	¢	¢
Dividends per share		
Interim dividend in respect of the 31 December half-year		
- ordinary dividend	**14**	13
- special dividend	**6**	-
Total interim dividend	**20**	13
Final ordinary dividend for the financial year ended 30 June provided for and paid during the interim period	**13**	12

Our interim ordinary dividend and special dividend in respect of the half-year ended 31 December 2004 and our dividend for the half-year ended 31 December 2003 are fully franked at a tax rate of 30%. The interim ordinary dividend and special dividend in respect of the half-year ended 31 December 2004 will have a record date of 1 April 2005 with payment to be made on 29 April 2005. Shares will trade excluding entitlement to the dividend on 24 March 2005.

The special dividend is part of our capital management program, whereby the company intends to return approximately $1.5 billion to ordinary shareholders through special dividends and/or share buy-backs each year through to fiscal 2007.

Our final ordinary dividend in respect of the financial year ended 30 June 2004, provided for and paid during the interim period, was fully franked at a tax rate of 30%. The final ordinary dividend had a record date of 24 September 2004 and payment was made on 29 October 2004.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Contents and reference page

Appendix 4D Requirements	Reference
1. Reporting period and the previous corresponding period.	Refer to the 31 December 2004 half-year financial report lodged with this document.
2. Results for announcement to the market.	Refer page 2 for "results for announcement to the market".
3. Net tangible assets per security.	Refer item 1 on page 4 of this report.
4. Details of entities where control has been gained or lost during the period.	Refer item 2 on page 4 of this report.
5. Details of individual and total dividends or distributions and dividend or distribution payments.	Refer to the "results for announcement to the market" on page 2 of this report. Also refer to note 4: Dividends and note 8: Events after balance date in the 31 December 2004 half-year financial report lodged with this document for additional information.
6. Details of dividend or distribution reinvestment plans in operation.	Refer item 3 on page 4 of this report.
7. Details of joint ventures and associated entities	Refer item 4 on page 5 of this document for details on our joint ventures and associated entities.
8. Accounting standards used in compiling reports by foreign entities (e.g. International Accounting Standards).	Not applicable.
9. If the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Refer item 5 on page 7 of this report.
10. Adoption of International Financial Reporting Standards	Refer item 6 on page 7 of this report.

Appendix 4D

Half-year ended 31 December 2004

1. Net tangible assets per security

	Telstra Group Half-year ended 31 December	
	2004	2003
	¢	¢
Net tangible assets per security	**105.7**	110.8

2. Details of entities where control has been gained or lost during the period

We have gained control over the following significant entities during the half-year ended 31 December 2004:

KAZ Group Limited

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

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

PSINet UK Limited

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

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

ESA Holding Pty Ltd

On 17 September 2004, we acquired 100% of the issued share capital of ESA Holding Pty Ltd and its controlled entity, Damovo (Australia) Pty Ltd, and Damovo HK Limited (Damovo Group) for total consideration of $66 million, including acquisition costs.

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

Universal Publishers Pty Ltd

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

Universal Publishers is a publisher of mapping and travel related products. Its publishing program includes street directories, guides, maps and road atlases.

For further details of our acquisitions please refer to note 6: Investment changes, in the 31 December 2004 half-year financial report lodged with this document.

We have not lost control of any significant entities during the half-year ended 31 December 2004.

We did not gain or lose control of any significant entities during the half-year ended 31 December 2003 that would materially affect users' understanding of the financial report as at 31 December 2004.

Profit contribution

The amount of net (profit)/losses contributed by our acquisitions during the half-year ended 31 December 2004 is not considered significant to gain an understanding of our half-year report.

For details of the contributions made by each of these entities, refer to the normalisation schedule provided in the half-year results and operations review lodged with this document.

3. Details of dividend or distribution reinvestment plans in operation

During the half-years ended 31 December 2004 and 31 December 2003, we had no dividend or distribution reinvestment plans in operation.

Appendix 4D Half-year ended 31 December 2004

4. Details of investments in joint ventures and associated entities

Our investments in associated entities are listed below:

		Ownership interest	
		As at	
		31 December	30 June
		2004	2004
Name of associated entity	**Principal activities**	%	%
Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (a)	Network cable provider	**39.9**	39.9
Ecard Pty Ltd	Smart card transaction processing	**50.0**	50.0
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Keycorp Limited	Electronic transactions solutions	**47.9**	47.9
Telstra Foundation Limited	Charitable trustee organisation	**100.0**	100.0

(a) Balance date is 31 December.

Appendix 4D — Half-year ended 31 December 2004

4. Details of investments in joint ventures and associated entities (continued)

Our investments in joint venture entities are listed below:

		Telstra Group	
		Ownership interest As at	
Name of joint venture entity	**Principal activities**	**31 December 2004 %**	30 June 2004 %
FOXTEL Partnerships #	Pay television	**50.0**	50.0
Customer Services Pty Ltd	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (a)	International connectivity services to wholesale customers	**50.0**	50.0
Stellar Call Centres Pty Ltd	Call centre services and solutions	**50.0**	50.0
Xantic B.V. (incorporated in Netherlands) (b)	Global satellite communications	**35.0**	35.0
TNAS Limited (incorporated in New Zealand) (b)	Toll free number portability in New Zealand	**33.3**	33.3
1300 Australia Pty Ltd (1)	Acquisition and marketing of 1300 "phone words"	**50.0**	50.0
Money Solutions Pty Ltd (2)	Financial advice and education services	**50.0**	-
HelpYouPay Systems Pty Ltd (formerly Red2Black Systems Pty Ltd) (2)	Debt management services	**50.0**	-
HelpYouPay Pty Ltd (formerly Red2Black Payment Services Pty Ltd) (2)	Debt management services	**50.0**	-
Enhanced Processing Technologies Inc (US) (2)	Software sales	**60.0**	-
Enhanced Processing Technologies Pty Ltd (2)	Business process outsourcing	**60.0**	-
Adstream (Aust) Pty Ltd (3)	Digital advertising services and asset management	**33.3**	-
3GIS Pty Ltd (a) (4)	Management services	**50.0**	-
3GIS Partnership (a) (4)	3G network services	**50.0**	-

This includes both the FOXTEL partnership and the FOXTEL television partnership.

(a) Balance date is 31 December.

(b) Balance date is 31 March.

(1) On 12 May 2004, we acquired 50% of the share capital of 1300 Australia Pty Ltd. The amount invested was not significant.

(2) On 19 July 2004, we acquired 100% of the issued share capital of KAZ Group Limited and its controlled entities (KAZ Group). These joint venture entities were all acquired as part of the KAZ Group acquisition. For further details of the KAZ Group acquisition refer to note 6: Investment changes in the 31 December 2004 half-year financial report lodged with this document.

(3) On 19 July 2004, we acquired 33.3% of the share capital of Adstream (Aust) Pty Ltd. The amount invested was not significant.

(4) On 6 December 2004, we signed agreements with Hutchison 3G Australia Pty Ltd (H3GA), a subsidiary of Hutchison Telecommunications (Australia) Limited, to jointly own and operate H3GA's existing third generation (3G) radio access network and fund future network development.

The 3GIS Partnership has been established to operate this network, the costs of which will be recharged equally to each of the partners. 3GIS Pty Ltd was established to act as agent for the 3GIS Partnership.

Appendix 4D

Half-year ended 31 December 2004

4. Details of investments in joint ventures and associated entities (continued)

Share of joint venture entities' and associated entities' net profits/ (losses)

	Telstra Group	
	Half-year ended 31 December	
	2004	2003
	$m	$m
Share of profit from associated entities.	-	7
Share of losses from joint venture entities . . .	-	(36)
	-	(29)

5. Statement about the audit status

Our half-year report is based on the financial report of Telstra Corporation Limited and its controlled entities for the half-year ended 31 December 2004, which has been reviewed by the Australian National Audit Office (ANAO). Our half-year financial report is not subject to audit dispute or qualification. Refer to the 31 December 2004 half-year financial report for the independent review report provided to the members of Telstra Corporation Limited.

6. Adoption of International Financial Reporting Standards

Australian entities reporting under the Corporations Act 2001 must prepare their financial statements under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the Australian Accounting Standards Board (AASB) from 1 January 2005. This will involve preparing our first set of financial statements applying Australian equivalents of International Financial Reporting Standards (A-IFRS) for the half-year ending 31 December 2005 and for the financial year ending 30 June 2006.

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

Currently we provide two years of comparative financial performance information in our year end financial statements to comply with applicable US Securities and Exchange Commission (SEC) requirements. The SEC has proposed relief from this requirement for foreign registered companies, however a final ruling has yet to be released. Under the SEC proposal, foreign registered companies will have the option to provide only one year of comparatives when applying A-IFRS on initial adoption. This means we may have the option to apply A-IFRS from 1 July 2004. However, if the proposal of the SEC is not approved, or we elect not to exercise the option for one year of comparative information, the transitional impacts of applying A-IFRS will be as at 1 July 2003.

This section outlines the known transitional adjustments at both 1 July 2004 and 1 July 2003 to enable users of this financial report to understand the potential transitional adjustments at both dates. The transitional impacts are different at each of the potential transition dates.

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

We have established a formal IFRS project team to manage the convergence to A-IFRS and to enable us to be prepared to report for the first time in accordance with the timetable outlined above. The project team is monitored by a governance committee comprising senior members of management, which reports regularly to the Audit Committee of the Telstra Board of Directors on the progress towards adoption. The governance committee is monitoring our adoption of A-IFRS in accordance with an established project implementation plan. The committee has also been following the developments in IFRS and the potential impact for our transition to A-IFRS.

The IFRS project is comprised of dedicated workstreams with project teams responsible for evaluating the impact of a specific group of accounting changes resulting from the adoption of A-IFRS. The technical evaluation phase of each workstream is substantially complete and the project is in the design and implementation phases. The project is achieving its scheduled milestones and we expect to be in a position to fully comply with the requirements of A-IFRS for the 2006 financial year.

6. Adoption of International Financial Reporting Standards (continued)

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

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

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

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

On adoption of AASB 2 we will recognise an expense for all share-based remuneration determined with reference to the fair value of the equity instruments issued. The fair value of our equity instruments will be calculated using a valuation technique consistent with the Black Scholes methodology, to estimate the price of those equity instruments in an arm's length transaction between knowledgeable, willing parties.

The fair value calculated in accordance with AASB 2 will be charged against profit over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

Under the transitional exemptions of AASB 1: "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" (AASB 1) we have elected not to apply AASB 2 to equity instruments issued prior to 7 November 2002 (the effective date of IFRS 2). This approach gives rise to a positive transitional adjustment to retained profits.

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

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for the Telstra Growthshare Trust, which administers our share based payment plans. Under current AGAAP we do not control or significantly influence the trust, as beneficial ownership and control remains with the employees who participate in the share plans, administered by the trustee on their behalf.

As a result of adopting AASB 2 and in light of recent changes made to UIG 112: "Consolidation - Special Purpose Entities" (UIG 112), we will be required to consolidate the results, financial position and cash flows of the Telstra Growthshare Trust from transition date. The following adjustments will be recorded on initial consolidation:

- elimination of the loan receivable from the Telstra Growthshare Trust (2004: $65 million, 2003: $88 million);
- reduction in share capital to reflect the shares held in Telstra Corporation Limited by the Telstra Growthshare Trust (2004: $117 million, 2003: $121 million); and
- the recognition of cash assets held by the Telstra Growthshare Trust (2004: $3 million, 2003: $1 million).

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

Our interpretation of AASB 2 is that shares issued under the Telstra Employee Share Ownership Plans (TESOP 97 and TESOP 99), in conjunction with its non-recourse loans, are to be accounted for as options.

6. Adoption of International Financial Reporting Standards (continued)

(a) AASB 2: “Share-Based Payment” (AASB 2) (continued)

As a result, the outstanding balance of the loans to employees under TESOP 97 and TESOP 99 of $174 million, comprising $24 million current receivables and $150 million non-current receivables (2003: $198 million, comprising $24 million current receivables and $174 million non-current receivables), will be deducted from share capital.

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). Under current AGAAP, we do not control or significantly influence these trusts as beneficial ownership and control remains with the employees who participate in the share plans administered by the Trustee on their behalf. As a result, we do not consolidate the operations of these trusts into the Telstra Group.

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

(b) AASB 3: “Business Combinations” (AASB 3)

Our current accounting policy is to amortise goodwill over the period of expected benefit. Under A-IFRS goodwill acquired in a business combination will no longer be amortised, but instead will be subject to impairment testing at each reporting date, or upon the occurrence of triggers that may indicate a potential impairment. If there is an indication of impairment, it will be recognised immediately in the statement of financial performance.

Under the transitional arrangements of AASB 1 we have the option of applying AASB 3 prospectively from the transition date to A-IFRS. We have chosen this option rather than to restate all previous business combinations. The impact of AASB 3 and associated transitional arrangements is as follows:

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

The prohibition of amortisation of goodwill will have the effect of reducing expenses and therefore improving reported profits of the Telstra Group, subject to any impairment charges that may be required from time to time. This change in policy under A-IFRS may result in increased volatility of future earnings where impairment losses are incurred. The amortisation charge for the Telstra Group for the half-year ended 31 December 2004 was $72 million and $123 million for the financial year ended 30 June 2004 (2003: $116 million).

In addition, the amortisation charge for notional goodwill that has previously been included in the share of net loss from joint venture entities and associated entities will cease. The notional amortisation charge for the Telstra Group for the half-year ended 31 December 2004 was $1 million and $2 million for the financial year ended 30 June 2004 (2003: $61 million).

(c) AASB 112: “Income Taxes” (AASB 112)

On transition to A-IFRS, a new method of accounting for income taxes, known as the "balance sheet approach", will be adopted, replacing the "income statement approach” currently used by Australian companies. Under the new method we will generally recognise deferred tax balances in the statement of financial position when there is a difference between the carrying value of an asset or liability and its tax base.

The identified tax adjustments to deferred tax liabilities that arise on transition to other A-IFRS standards, comprise an increase of $137 million (2003: $64 million) associated with the pension asset as detailed in note 6(e), an increase of $10 million (2003: $10 million) for the tax effect of the transferred asset revaluation reserve as detailed in note 6(d), and a decrease of $137 million (2003: $142 million) for the tax effect of the transitional adjustment relating to borrowing costs as detailed in note 6(g).

In addition, a net transitional adjustment to deferred tax liabilities of $174 million (2003: $183 million) arises from the change in method of accounting for income taxes from an income statement approach to a balance sheet approach, for items not previously required to be recognised. This comprises $95 million (2003: $95 million) for the tax effect of fair value adjustments on entities acquired by Telstra, tax base differences on buildings of $107 million (2003: $118 million), partially offset by tax losses of $28 million (2003: $30 million).

The tax consequences of some aspects of the adoption of A-IFRS are still unclear. The Australian Taxation Office has established a national tax liaison group IFRS sub-committee to identify, calculate and manage issues arising from IFRS adoption.

6. Adoption of International Financial Reporting Standards (continued)

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

There are also some technical aspects of AASB 112 that are the subject of further clarification as to how they will apply to Telstra. Finalisation of these matters could give rise to further transitional adjustments from the adoption of AASB 112.

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

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

Under A-IFRS, we will deem the carrying value of our property, plant and equipment to be cost from the date of transition. On transition to A-IFRS, an entity is required to derecognise items where A-IFRS do not permit such recognition. As we have elected to adopt the cost model as our accounting policy, the asset revaluation reserve will be derecognised as it is not a valid reserve under the cost model. The balance will be transferred to the general reserve on transition to A-IFRS, pending further examination of the tax consequences of the transfer. The treatment of the tax effect as detailed in note 6(c) may change based on the resolution of the tax consequences.

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

Under current AGAAP, we do not recognise an asset or liability in our statement of financial position for the net position of the defined benefit schemes we sponsor in Australia and Hong Kong.

On adoption of A-IFRS, AASB 119 requires us to recognise the net position of each scheme as a transitional adjustment in the statement of financial position, with a corresponding entry to retained profits. The transitional adjustment is based on an actuarial valuation of each scheme at transition date determined in accordance with AASB 119. This adjustment will result in a $537 million (2003: $250 million) defined benefit pension asset, an increase to opening retained profits of $400 million (2003: $186 million), and a $137 million (2003: $64 million) increase to the deferred tax liability, as detailed in note 6(c).

AASB 119 permits a number of options for recognising actuarial gains and losses on an ongoing basis. We have elected to apply the option to recognise actuarial gains and losses directly in retained profits. Other components of pension costs will be recognised in the statement of financial performance.

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

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

Translation differences in relation to our foreign controlled entities subsequent to transition to A-IFRS will continue to be recorded in the FCTR. The gain or loss on a future disposal of a foreign controlled entity will exclude the translation differences that arose before the date of transition to A-IFRS.

Under the transitional rules of AASB 1 we will be taking advantage of an exemption that permits goodwill and fair value adjustments related to foreign controlled entities to be reset to the functional currency of the foreign operations at the original date of acquisition. The financial impact of restating goodwill and fair value adjustments not denominated in the functional currencies of that entity are primarily attributable to our investments in the Telstra CSL Group (HKCSL) and TelstraClear Limited (TelstraClear).

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

On an ongoing basis, AASB 121 requires goodwill and fair value adjustments arising on the acquisition of a foreign controlled entity, to be expressed in the functional currency of the foreign operation. In conjunction with the transitional adjustments, this may result in additional fluctuations in our FCTR on an ongoing basis.

6. Adoption of International Financial Reporting Standards (continued)

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

In accordance with AGAAP, we capitalise borrowing costs incurred in respect of internally constructed property, plant and equipment and sofware assets that meet the criteria of qualifying assets. The benchmark treatment required under A-IFRS is to expense borrowing costs. AASB 123 does however permit the alternative treatment of capitalising these costs where they relate to qualifying assets. We have elected to change our policy in line with the benchmark treatment and expense our borrowing costs.

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

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

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

On transition to AASB 128/131, there is a decrease to non current receivables of $208 million (2003: $1 million increase), representing a capacity prepayment with our joint venture entity Reach Ltd (Reach). This non current asset is deemed to be an extension of our investment in Reach under A-IFRS. This results in equity accounting being reinstated against the capacity prepayment as part of the transition to A-IFRS.

The increase in our deemed investment balance in Reach is, however, absorbed by the carried forward losses in Reach not previously recognised. The impact of this change will be to decrease opening retained profits by $348 million (2003: $81 million) for our share of the accumulated losses, offset by an increase of $140 million (2003: $82 million) to the FCTR for the translation differences in our investment in Reach. The Reach FCTR will be reset to nil as detailed in the adjustment outlined in note 6(f).

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

Our current accounting policy under AGAAP is to assess our current and non current assets for impairment by determining the recoverable amount of those assets. We then write down the value of the non current asset where the carrying amount exceeds recoverable amount. Current AGAAP enables us to assess recoverable amount for a group of non current assets where those assets are considered to work together as one.

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

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

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

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

6. Adoption of International Financial Reporting Standards (continued)

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

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

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

Under AASB 132/139, our accounting policy will change to recognise our financial instruments in the statement of financial position and to record all derivatives and some financial assets and financial liabilities at fair market value. Those financial assets and financial liabilities which are not at fair value will be carried at cost or amortised cost.

AASB 139 recognises fair value hedge accounting, cash flow hedge accounting and hedges of investments in foreign operations. Fair value hedges are used to hedge against changes in fair values, whereas cash flow hedges are used to hedge against variability in cash flows.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness outside the prescribed range precludes the use of hedge accounting, which may result in significant volatility in the statement of financial performance.

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

Exposure to foreign currency risk also arises through our ongoing business activities, predominantly where we have purchase or settlement commitments in foreign currencies.

Cash flow hedges are used to hedge foreign currency exposures of anticipated foreign currency transactions that are considered to be highly probable.

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

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

The gains and losses on hedging instruments that arise from the use of fair value hedges will be recognised in the statement of financial performance. The gains and losses on hedging instruments that arise from the use of cash flow hedges, to the extent they are considered effective, will be deferred to equity until the hedged item is recognised in the statement of financial performance. This will create some volatility in equity reserve balances. Gains and losses on hedging instruments used in hedges of net investments in foreign operations will be recognised in the foreign currency translation reserve in equity.

Under existing AGAAP, the gain or loss arising from our hedge activities is treated consistently with the gain or loss arising on the original hedged transaction or balance. This results in the majority of movements being recognised in the statement of financial performance, with the majority of hedging activities of net investments in foreign operations taken to the FCTR.

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

We are required to comply with AASB 132/139 from 1 July 2005. An exemption is available under AASB 1 such that comparative information does not need to be restated under these standards. We have yet to determine whether we will be applying the exemption. The application of AASB 139 on the recognition and measurement of our financial assets and financial liabilities, including derivatives, will give rise to a transition adjustment and increase volatility in reported profits. The increase in volatility of reported profits includes some ineffectiveness arising from the application of hedge accounting.

6. Adoption of International Financial Reporting Standards (continued)

(l) Summary of transitional adjustments

The following provides a summary of the known estimable transitional adjustments from AGAAP to A-IFRS as at 1 July 2003 and 1 July 2004, based on the A-IFRS's as currently issued and interpreted. The transitional impacts disclosed below do not include any adjustments from applying AASB 132/139, on the basis that these standards are to be applied prospectively, with comparatives only required from 1 July 2005. Refer to note 6(k) for further information.

Any transitional adjustments identified are based on the work-in-progress of our IFRS project team and our best judgements at reporting date, and may be subject to change. Further adjustments may arise as we approach the 1 July 2005 application date and the IFRS project team concludes the implementation phase of the project.

		Telstra Group	
		Increase/(decrease) from the transition to A-IFRS as at	
		1 July 2004	**1 July 2003**
	Note	**$m**	**$m**
Cash assets - cash balance of the Telstra Growthshare Trust	6(a)	3	1
Receivables - reverse current employee share loans - TESOP 97 and TESOP 99	6(a)	(24)	(24)
Receivables - reverse non current employee share loans - Telstra Growthshare Trust	6(a)	(65)	(88)
Receivables - reverse non current employee share loans - TESOP 97 and TESOP 99	6(a)	(150)	(174)
Receivables - equity accounting of capacity prepayment for Reach Ltd.	6(h)	(208)	1
		(423)	(261)
Property, plant and equipment - retranslation of fair value adjustments	6(f)	3	2
Property, plant and equipment - expensing of borrowing costs previously capitalised	6(g)	(396)	(401)
		(393)	(399)
Intangibles - goodwill - retranslation of goodwill	6(f)	(316)	(295)
Intangibles - other - reclassification of software assets from other assets	6(j)	1,923	2,001
Intangibles - other - retranslation of fair value adjustments	6(f)	11	8
		1,934	2,009
Defined benefit pension asset - recognition of net defined benefit surplus	6(e)	537	250
Other assets - reclassification of software assets to intangibles - other	6(j)	(1,923)	(2,001)
Other assets - expensing of borrowing costs previously capitalised as part of software assets	6(g)	(63)	(72)
		(1,986)	(2,073)
Provision for deferred income tax - tax effect of the transferred asset revaluation reserve	6(c)	10	10
Provision for deferred income tax - deferred tax liability associated with the pension asset	6(e)	137	64
Provision for deferred income tax - tax effect of expensing borrowing costs	6(g)	(137)	(142)
Provision for deferred income tax - recognition of differences between carrying value and tax base	6(c)	174	183
		184	115

Appendix 4D Half-year ended 31 December 2004

6. Adoption of International Financial Reporting Standards (continued)

(m) Statement of changes in shareholders' equity

The following statement of changes in shareholders' equity provides a summary of the known estimable transitional adjustments from AGAAP to A-IFRS as at 1 July 2004, based on the A-IFRS's as currently issued and interpreted. The transitional impacts disclosed below do not include any adjustments from applying AASB 132/139, on the basis that these standards are to be applied prospectively, with comparatives only required from 1 July 2005. Refer to note 6(k) for further information.

Any transitional adjustments identified are based on the work-in-progress of our IFRS project team and our best judgements at reporting date, and may be subject to change. Further adjustments may arise as we approach the 1 July 2005 application date and the IFRS project team concludes the implementation phase of the project.

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

6. Adoption of International Financial Reporting Standards (continued)

(m) Statement of changes in shareholders' equity (continued)

The following statement of changes in shareholders' equity provides a summary of the known estimable transitional adjustments from AGAAP to A-IFRS as at 1 July 2003, based on the A-IFRS's as currently issued and interpreted. The transitional impacts disclosed below do not include any adjustments from applying AASB 132/139, on the basis that these standards are to be applied prospectively, with comparatives only required from 1 July 2005. Refer to note 6(k) for further information.

Any transitional adjustments identified are based on the work-in-progress of our IFRS project team and our best judgements at reporting date, and may be subject to change. Further adjustments may arise as we approach the 1 July 2005 application date and the IFRS project team concludes the implementation phase of the project.

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