

Telstra Corporation Limited
Half year end results and operations review
Half year ended 31 December 2003

Good profit growth with strong cash management

Financial highlights

- **Reported earnings before interest and tax (EBIT)** increased by \$972 million or 38.1% to \$3.5 billion, comprising a decline in **reported revenues** of 4.8% to \$10.8 billion, and a **reported expense** decline of 17.2% to \$7.3 billion. **Reported net profit after tax and outside equity interests (NPAT)** increased by \$1.1 billion or 93.7% to \$2.3 billion. The increase in reported EBIT and NPAT is largely attributable to the non cash write down of the investment in Reach Ltd, of \$965 million, in the half year ended 31 December 2002.
- **Underlying¹ sales revenue** decreased 0.1% to \$10.5 billion. Growth occurred across mobiles, internet and IP solutions, PSTN products, and Sensis (advertising and directories), partly offset by a decline in revenues from controlled entities, particularly the foreign exchange impact on Hong Kong CSL's result, other sales and service and ISDN. **Underlying¹ domestic sales revenue** increased \$87 million or 0.9% to \$9.7 billion. Excluding revenue from NDC construction activity and cable recovery and recycling project, underlying domestic sales revenue increased \$175 million or 1.8% to \$9.7 billion. **Underlying¹ total revenue** (excluding interest) declined \$29 million or 0.3% to \$10.6 billion.
- **Underlying¹ operating expenses** (before depreciation, amortisation & interest) declined \$228 million or 4.1% to \$5.3 billion, driven by a decline in goods and services purchased. **Underlying¹ total expenses** (including depreciation and amortisation but before interest and tax) declined by \$129 million or 1.8% to \$7.1 billion with underlying depreciation and amortisation growth of 5.8%.
- **Underlying¹ earnings before interest and tax** increased \$100 million or 3.0% to \$3.5 billion, from reduced expenses, particularly network payments and cost reduction programs. Underlying EBIT margin has increased by 1.0% to 33.1% with underlying EBITDA margin increasing 2.0% to 50.4%.
- **Underlying¹ profit after tax and outside equity interests** increased \$115 million or 5.7% to \$2.1 billion, with earnings per share increasing 6.3% to 16.7 cents.
- **Operating capital expenditure** declined by 10.7% to \$1.4 billion and represents 13.5% of sales revenue. **Domestic core operating capital expenditure²** declined by \$157 million or 10.8% to \$1.3 billion.
- **Free cash flow³** declined 13.7% to \$1.8 billion, driven by a reduction in proceeds from asset and investment sales and increased tax paid. Excluding prior year asset sales of \$570 million relating to the seven commercial properties, free cash flow grew \$281 million or 18.2%
- A **fully franked interim ordinary dividend** of 13c per share has been declared and is payable on 30 April 2004. This represents an increase of 8% on the interim ordinary dividend declared in the corresponding period in the prior year.
- **Customer Service performance** continued to lift as will be seen in the soon to be released December quarter ACA report, with work continuing in the company to drive further improvements to meet customers' expectations.
- A strong **Statement of financial position** (Balance Sheet) with strong capital settings was maintained.

All results stated in \$A unless otherwise indicated.

N/M refers to not meaningful.

All statistical data represents management's best estimates and excludes all Telstra internal usage statistics.

Footnotes:

1. Underlying results are produced to allow like for like comparison by removing those items which are either not of a comparable nature owing to structural changes to the business e.g. acquisitions/consolidations, significant and non recurring or not part of the core operations of the business.

The half years ended 31 December 2003 and 2002 underlying results EXCLUDE:

Proceeds from asset/investment sales and book value of asset/investment sales, the diminution in value of investments, the non cash write down of the investment in Reach and Reach contract exit transactions, and the tax benefit from the accounting impact of tax consolidation.

2. Domestic core operating capital expenditure is operating capital expenditure excluding HKCSL & TelstraClear operating capital expenditure.

3. Free cash flow = operating cash flow less cash used in Investing activities.

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Statement of financial performance for the half year ended 31 December 2003

	2003		2002		Half Year Ended 31 December		Reported Change %	Underlying ¹ Change %
	Reported	Underlying ¹	Reported	Underlying ¹	Reported Change \$m	Underlying ¹ Change \$m		
	(in \$ million)							
PSTN products								
Basic access	1,610	1,610	1,556	1,556	54	54	3.5	3.5
Local calls	778	778	796	796	(18)	(18)	(2.3)	(2.3)
PSTN value added services	134	134	141	141	(7)	(7)	(5.0)	(5.0)
National long distance	578	578	582	582	(4)	(4)	(0.7)	(0.7)
Fixed to mobile	808	808	753	753	55	55	7.3	7.3
International direct	139	139	161	161	(22)	(22)	(13.7)	(13.7)
Total PSTN products	4,047	4,047	3,989	3,989	58	58	1.5	1.5
Mobiles								
Mobile services	1,733	1,733	1,632	1,632	101	101	6.2	6.2
Mobile handsets	186	186	172	172	14	14	8.1	8.1
Total Mobiles	1,919	1,919	1,804	1,804	115	115	6.4	6.4
Data and Internet								
Data	509	509	526	526	(17)	(17)	(3.2)	(3.2)
ISDN (Access and Calls)	471	471	496	496	(25)	(25)	(5.0)	(5.0)
Internet and IP solutions	463	463	391	391	72	72	18.4	18.4
Total Data and Internet	1,443	1,443	1,413	1,413	30	30	2.1	2.1
Sensis (advertising and directories)	769	769	731	731	38	38	5.2	5.2
Intercarrier services	583	583	591	591	(8)	(8)	(1.4)	(1.4)
Inbound calling products	238	238	250	250	(12)	(12)	(4.8)	(4.8)
Solutions management	233	233	239	239	(6)	(6)	(2.5)	(2.5)
Other Controlled Entities (excl HK CSL & TelstraClear)	79	79	117	117	(38)	(38)	(32.5)	(32.5)
Hong Kong CSL	377	377	484	484	(107)	(107)	(22.1)	(22.1)
TelstraClear	282	282	273	273	9	9	3.3	3.3
Customer premises equipment	92	92	100	100	(8)	(8)	(8.0)	(8.0)
Payphones	72	72	75	75	(3)	(3)	(4.0)	(4.0)
Other sales & service	322	322	402	402	(80)	(80)	(19.9)	(19.9)
Sales revenue	10,456	10,456	10,468	10,468	(12)	(12)	(0.1)	(0.1)
Other revenue	370	94	899	111	(529)	(17)	(58.8)	(15.3)
Total revenue	10,826	10,550	11,367	10,579	(541)	(29)	(4.8)	(0.3)
Expenses:								
Labour	1,635	1,635	1,624	1,624	11	11	0.7	0.7
Goods and services purchased	1,690	1,690	2,011	1,946	(321)	(256)	(16.0)	(13.2)
Other expenses	2,148	1,930	2,510	1,914	(362)	16	(14.4)	0.8
Expenses before equity acc/depn/amort/interest	5,473	5,255	6,145	5,484	(672)	(229)	(10.9)	(4.2)
Share of net loss from associates and joint venture entities	29	29	969	28	(940)	1	(97.0)	3.6
Total operating expenses & share of net loss from associates & joint venture entities before depn/amort/interest	5,502	5,284	7,114	5,512	(1,612)	(228)	(22.7)	(4.1)
EBITDA	5,324	5,266	4,253	5,067	1,071	199	25.2	3.9
EBITDA excl share of net loss from associates & joint venture entities	5,353	5,295	5,222	5,095	131	200	2.5	3.9
Depreciation	1,412	1,412	1,346	1,346	66	66	4.9	4.9
Amortisation (excl goodwill)	330	330	300	300	30	30	10.0	10.0
Goodwill amortisation	60	60	57	57	3	3	5.3	5.3
Total depreciation/amortisation	1,802	1,802	1,703	1,703	99	99	5.8	5.8
Total operating expenses & share of net loss from associates & joint venture entities before interest	7,304	7,086	8,817	7,215	(1,513)	(129)	(17.2)	(1.8)
EBIT	3,522	3,464	2,550	3,364	972	100	38.1	3.0
EBIT excl share of net loss from associates & joint venture entities	3,551	3,493	3,519	3,392	32	101	0.9	3.0
Net borrowing costs	355	355	432	432	(77)	(77)	(17.8)	(17.8)
Profit before income tax	3,167	3,109	2,118	2,932	1,049	177	49.5	6.0
Tax ⁽ⁱ⁾	874	971	968	943	(94)	28	(9.7)	3.0
Profit after tax (bef. Outside equity interests)	2,293	2,138	1,150	1,989	1,143	149	99.4	7.5
Outside equity interests	0	0	(34)	(34)	34	34	N/M	N/M
Profit after tax	2,293	2,138	1,184	2,023	1,109	115	93.7	5.7
Effective tax rate ⁽ⁱⁱ⁾	27.6%	31.2%	45.7%	32.2%			(18.1)	(1.0)
EBITDA margin on sales revenue ⁽ⁱⁱ⁾	50.9%	50.4%	40.6%	48.4%			10.3	2.0
EBIT margin on sales revenue ⁽ⁱⁱ⁾	33.7%	33.1%	24.4%	32.1%			9.3	1.0
Earnings per share (cents) ⁽ⁱⁱⁱ⁾	17.9	16.7	9.2	15.7			94.6	6.3

(i) Underlying tax calculations represent management's best estimates

(ii) The reported and underlying percentage growth represents the percentage movement from the prior corresponding period

Product definitions have been reviewed and where necessary in the Half Year Ended 31 December 2002, comparative figures have been adjusted to align with changes in presentation in the Half Year Ended 31 December 2003. (Refer reconciliation on page 53).

(iii) 2002 EPS is based on 12,866 million shares, 2003 EPS uses the weighted average of 12,817 million shares as a result of the share buyback.

Cash flow summary

For the half year ended 31 December 2003

Cashflow Summary

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Receipts from Customers	11,370	11,356	14	0.1
Payments to Suppliers/Employees	(6,466)	(6,513)	47	(0.7)
Net Interest and Finance Charges	(396)	(502)	106	(21.1)
Income Tax Paid	(1,086)	(839)	(247)	29.4
Dividends Received	1	1	0	0.0
GST Remitted to the ATO	(498)	(552)	54	(9.8)
Operating Cash Flow	2,925	2,951	(26)	(0.9)
Operating Capital Expenditure	(1,411)	(1,580)	169	(10.7)
Less Capitalised Interest	37	52	(15)	(28.6)
Operating Capital Expenditure	(1,374)	(1,528)	154	(10.1)
Investment Expenditure	1	(16)	17	(106.3)
Patents, Trademarks and Licences (including 3G spectrum)	(2)	(2)	0	0.0
Capital Expenditure - excluding Capitalised Interest	(1,375)	(1,546)	171	(11.1)
Receipts from Asset Sales/Other Proceeds	277	711	(434)	(61.0)
Cash flow used in Investing Activities	(1,098)	(835)	(263)	31.5
Free Cash Flow (Operating Cash Flow less Cash Flow used in Investing Activities)	1,827	2,116	(289)	(13.7)
Movements in Borrowings/Finance Leases	(23)	(422)	399	(94.5)
Employee Share Loans (Net)	14	19	(5)	(26.3)
Dividends Paid	(1,544)	(1,415)	(129)	9.1
Share Buy Back	(1,009)	0	(1,009)	N/M
Net Financing Activities	(2,562)	(1,818)	(744)	40.9
Net Cash Flow	(735)	298	(1,033)	(346.6)

Statement of financial position summary

As at 31 December 2003

Statement of Financial Position

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Current Assets	5,128	6,045	(917)	(15.2)
Intangibles	3,008	3,304	(296)	(9.0)
Property, Plant and Equipment	22,666	23,068	(402)	(1.7)
Total Non-Current Assets	28,905	30,768	(1,863)	(6.1)
Net Debt	11,055	10,848	207	1.9
Total Liabilities	18,923	21,578	(2,655)	(12.3)
Gross Debt	12,196	12,958	(762)	(5.9)
Net Assets/Shareholders' Equity	15,110	15,235	(125)	(0.8)

Statistical data summary

For the half year ended 31 December 2003

Statistical Summary

	Half Year Ended 31 December			
	2003	2002	Change	Change %
Billable traffic data (in millions)				
Local calls (number of calls)	4,831	5,019	(188)	(3.7)
National long distance minutes ⁽ⁱ⁾	4,343	4,656	(313)	(6.7)
Fixed-to-mobile minutes	2,099	1,955	144	7.4
International direct minutes	338	387	(49)	(12.7)
Mobile voice telephone minutes ⁽ⁱⁱ⁾	3,011	2,594	417	16.1
Inbound Calling Products - B Party Minutes	1,351	1,343	8	0.6
Network and operations data				
Basic access lines in service ⁽ⁱⁱⁱ⁾				
Residential	6.07	6.27	(0.2)	(3.2)
Business	2.51	2.66	(0.1)	(5.6)
Total retail customers	8.58	8.93	(0.3)	(3.9)
Domestic wholesale	1.68	1.41	0.3	19.1
Total basic access lines in services (in millions)	10.26	10.34	(0.1)	(0.8)
ISDN access (basic lines equivalents) (in thousands) ^(iv)	1,224	1,190	34	2.8
Mobile services in operation (SIO) (in thousands)^(v)				
GSM	6,139	5,421	718	13.2
CDMA	846	677	169	25.0
Mobile services in operations	6,985	6,098	887	14.5
CDMA Wholesale SIO (in thousands)	53	42	11	26
Number of SMS sent (in millions)	910	632	278	44
Online subscribers (in thousands)				
Narrowband subscribers	1,178	1,103	75	6.8
Broadband subscribers ^(vi)	507	244	262	107.8
Total online subscribers	1,685	1,347	338	25.1
FOXTEL subscribers (in thousands)				
FOXTEL cable subscribers	474	480	(6)	(1.3)
FOXTEL direct to home satellite subscribers	388	329	59	17.9
Total FOXTEL subscribers	862	809	53	6.6
Value-added services (in thousands)				
Mobile messagebank customers	4,907	5,218	(311)	(6.0)
EasyCall® call waiting customers	5,605	5,605	0	0.0
Fixed line Messagebank® customers	1,398	1,434	(36)	(2.5)
Calling number display customers	1,077	925	152	16.4
Employee data				
Domestic full-time staff ^(vii)	35,324	38,291	(2,967)	(7.7)
Full-time staff and equivalents ^(viii)	40,080	43,038	(2,958)	(6.9)

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

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

⁽ⁱⁱⁱ⁾ Excludes 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, Broadband subscribers include DSL Layer 2 and 3S subscribers; retail products include cable, satellite, ISP, HyperConnect and ADSL, while wholesale products include Flexstream, DSL layer 2 and DSL layer 3S

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

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

Summary of operating results

For the half year ended 31 December 2003

Telstra Corporation Limited reported a profit after tax and outside equity interests (PAT) of \$2,293 million for the half year ended 31 December 2003, an increase of \$1,109 million on the prior year. The increase of 93.7% was primarily due to the non cash write down of the investment in Reach Ltd of \$965 million in the previous corresponding half year.

After adjusting to allow like for like comparisons with the half year ended 31 December 2002, as detailed on the normalisation schedule, underlying¹ PAT increased \$115 million or 5.7% to \$2,138 million, with earnings per share increasing 6.3% to 16.7 cents. Underlying¹ EBIT increased by \$100 million or 3.0% to \$3,464 million, and underlying¹ EBITDA increased by \$199 million or 3.9% to \$5,266 million.

Revenue

Reported total revenue declined by \$541 million or 4.8% driven by the inclusion of revenue from the sale of seven commercial properties of \$570 million in the half year ended 31 December 2002.

Underlying¹ total revenue declined \$29 million or 0.3%.

Sales revenue decreased \$12 million or 0.1%, benefiting from growth in mobiles, the continuing impact of rebalancing initiatives and increases in mobile services in operation. Growth in internet and IP products and Sensis (advertising and directories) revenues, was offset by a decline in revenues from controlled entities, including Hong Kong CSL, other sales and service and ISDN.

Domestic sales revenue increased by \$87 million or 0.9% to \$9,739 million. Excluding NDC construction and cable recovery and recycling revenues, domestic sales revenue increased by 1.8% to \$9,703 million.

Expenses

The decrease in **reported total expenses** of \$1.5 billion or 17.2% includes the non cash write down of the investment in Reach Ltd and the cost of asset and investments sold in the half year ended 31 December 2002.

Underlying¹ operating expenses (before depreciation/amortisation) declined by \$228 million or 4.1% largely due to a \$256 million or 13.2% decline in underlying¹ goods and services purchased, comprising reduced network payments for services provided by Reach and cost reduction programs. **Underlying¹ operating expenses** (including depreciation and amortisation but before interest and tax) declined \$129 million or 1.8%, and includes depreciation and amortisation growth of 5.8%.

Net borrowing costs declined by \$77 million or 17.8% due to reduction of long term debt and costs incurred in the prior year following closure of various interest rate swaps.

Reported tax expense declined by \$94 million or 9.7% primarily due to a \$58 million benefit, which related to the consolidation of Multimedia subsidiary into the Telstra Tax Group as a result of the adoption of tax consolidation from July 2002. Underlying¹ tax expense has increased by 3.0%.

Free cash flow³ declined 13.7% to \$1.8 billion, driven by a reduction in proceeds from asset and investment sales and increased tax paid. After removing the impact of the sale of seven commercial properties in the prior year, free cash increased by \$281 million or 18.2%.

Treasury operations

Telstra financial position remains strong with current credit ratings of AA-, Aa3 and AA- from S&P, Moody's and Fitch respectively.

Dividend

A fully-franked interim ordinary dividend of 13c per share has been declared and is payable on 30 April 2004. This represents an increase of 8% on the interim ordinary dividend declared in the corresponding period in the prior year.

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Operating and Financial Review

Results of operations

The following table illustrates reported and underlying¹ results for the half years ended 31 December 2003 and 2002.

Table 1 - Results of operations

	2003		Half Year Ended 31 December 2002		Reported Change %	Underlying ¹ Change %
	Reported	Underlying ¹	Reported	Underlying ¹		
	(in \$ million)					
Sales revenue	10,456	10,456	10,468	10,468	(0.1)	(0.1)
Other revenue	370	94	899	111	(58.8)	(15.3)
Total revenue	10,826	10,550	11,367	10,579	(4.8)	(0.3)
Expenses before equity acc/depn/amort/interest	5,473	5,255	6,145	5,484	(10.9)	(4.2)
Share of net loss from associates and joint ventures	29	29	969	28	(97.0)	3.6
Total expenses before depn/amort/interest	5,502	5,284	7,114	5,512	(22.7)	(4.1)
Depreciation & amortisation	1,802	1,802	1,703	1,703	5.8	5.8
Total expenses	7,304	7,086	8,817	7,215	(17.2)	(1.8)
Earnings before interest & tax (EBIT)	3,522	3,464	2,550	3,364	38.1	3.0

Reported earnings before interest and tax (EBIT) grew 38.1%, driven by a number of items that occurred in the half years ended 31 December 2003 and 2002 making like for like comparisons difficult. After adjusting for these items, underlying¹ EBIT increased by 3.0%.

The items that required adjustment for this comparison are reflected on the normalisation schedule on page 50, and consist of:

- The write down in investments of \$968 million, largely comprising the non cash write down of the investment in Reach Ltd of \$965 million in the prior year;
- Reach contract exit expenses of \$41 million in the prior year; and
- Asset and investment sales generated EBIT of \$58 million in the current year and \$195 million in the prior year.

Operating revenues

The following table includes reported and underlying¹ operating revenues for the half years ended 31 December 2003 and 2002.

Table 2 - Operating revenue by major product and service category

	2003		Half Year Ended 31 December 2002		Reported Change %	Underlying ¹ Change %
	Reported	Underlying ¹	Reported	Underlying ¹		
(in \$ million)						
PSTN products						
Basic access	1,610	1,610	1,556	1,556	3.5	3.5
Local calls	778	778	796	796	(2.3)	(2.3)
PSTN value added services	134	134	141	141	(5.0)	(5.0)
National long distance	578	578	582	582	(0.7)	(0.7)
Fixed to mobile	808	808	753	753	7.3	7.3
International direct	139	139	161	161	(13.7)	(13.7)
Total PSTN products	4,047	4,047	3,989	3,989	1.5	1.5
Mobiles						
Mobile services	1,733	1,733	1,632	1,632	6.2	6.2
Mobile handsets	186	186	172	172	8.1	8.1
Total Mobiles	1,919	1,919	1,804	1,804	6.4	6.4
Data and Internet						
Data	509	509	526	526	(3.2)	(3.2)
ISDN (Access and Calls)	471	471	496	496	(5.0)	(5.0)
Internet and IP solutions	463	463	391	391	18.4	18.4
Total Data and Internet	1,443	1,443	1,413	1,413	2.1	2.1
Sensis (advertising and directories)	769	769	731	731	5.2	5.2
Intercarrier services	583	583	591	591	(1.4)	(1.4)
Inbound calling products	238	238	250	250	(4.8)	(4.8)
Solutions management	233	233	239	239	(2.5)	(2.5)
Other Controlled Entities (excl HK CSL and TelstraClear)	79	79	117	117	(32.5)	(32.5)
Hong Kong CSL	377	377	484	484	(22.1)	(22.1)
Telstra Clear	282	282	273	273	3.3	3.3
Customer premises equipment	92	92	100	100	(8.0)	(8.0)
Payphones	72	72	75	75	(4.0)	(4.0)
Other sales & service	322	322	402	402	(19.9)	(19.9)
Sales revenue	10,456	10,456	10,468	10,468	(0.1)	(0.1)
Other revenue	370	94	899	111	(58.8)	(15.3)
Total revenue	10,826	10,550	11,367	10,579	(4.8)	(0.3)
Domestic sales revenue		9,739		9,652		0.9
Domestic sales revenue (excl NDC & cable recovery)		9,703		9,528		1.8

Reported revenue decreased by 4.8% and was attributable to the asset and investment sales in the current year of \$276 million, as opposed to \$788 million in the prior year. The sale of seven commercial properties in the prior year for \$570 million is the main driver of the year on year decrease.

After excluding these items, underlying¹ total revenue decreased by 0.3%.

The continuing impact of rebalancing initiatives has resulted in an increase in basic access revenue, partly offset by reductions in fixed line call revenue. Growth in internet and IP products, fixed to mobile, mobiles, advertising and directories was offset by declines in ISDN, intercarrier revenues, inbound calling products and revenues from controlled entities, including Hong Kong CSL and other sales and services primarily NDC construction revenues.

PSTN Products

Explanations for the increase of 1.5% in total PSTN products are reflected in the following tables.

The continuing impact of rebalancing initiatives has resulted in an increase in basic access revenue, partly offset by reductions in local calls, international direct[®] and national long distance revenues. Fixed to mobile revenues continue strong growth as mobile services in operation continue to grow.

Basic access

Table 3 - Basic access

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			%
Basic access revenue				
Retail	1,361	1,359	2	0.1
Domestic wholesale	249	197	52	26.4
Total basic access revenue	1,610	1,556	54	3.5
Basic access lines in service (in millions)				
Residential	6.07	6.27	(0.2)	(3.2)
Business	2.51	2.66	(0.1)	(5.6)
Sub-total	8.58	8.93	(0.3)	(3.9)
Domestic wholesale	1.68	1.41	0.3	19.1
Total access lines in service (in millions)	10.26	10.34	(0.1)	(0.8)

Basic access revenue increased primarily due to rebalancing initiatives. As part of these initiatives, Telstra has introduced pricing packages where by customers are offered plans carrying higher basic access charges enabling them to take advantage of lower calling rates. Offsetting this growth is the slight decline in the number of basic access lines of 0.8% due to competition and migration to broadband.

Wholesale growth is driven mostly by an increase in the number of basic access lines .

Growth in basic access revenue is partly offset by the treatment of pensioner discounts, whereby the discount is now applied to basic access.

Local calls

Table 4 - Local calls

	Half Year Ended 31 December			
	2003	2002	Change	Change
(in \$ millions except for statistical data)				%
Local call revenue				
Retail	662	689	(27)	(3.9)
Domestic wholesale	116	107	9	8.4
Total local call revenue	778	796	(18)	(2.3)
Number of local calls (in millions)	4,831	5,019	(188)	(3.7)

Local call revenue declined, due to the 3.7% reduction in the number of local calls from product substitution to mobiles, fixed to mobile, internet, ISDN and the impact of competition. The reduction in volumes is partially offset by an increase in yield due to the removal of the five Free Call rebate in the prior year and impact of pensioner discounts no longer being applied to local calls but to basic access. Rebalancing initiatives have reduced the call rates for Homeline™ customers from 22c to 20c.

Local call volume reductions have slowed since the launch of 1# Feature Assistant™ and Telstra Home Message 101™.

PSTN value added services

Table 5 - PSTN value added services

	Half Year Ended 31 December			
	2003	2002	Change	Change
(in \$ millions)				%
PSTN value added services revenue				
Retail	114	125	(11)	(8.8)
Domestic wholesale	20	16	4	25.0
Total PSTN value added services revenue	134	141	(7)	(5.0)

Reduction in revenue for PSTN value added services particularly fixed line Messagebank® and Call Return (*10#) is attributable to new free product offerings such as call 1# Feature Assistant™ and Telstra Home Message 101™.

National long distance calls

Table 6 - National long distance calls

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			%
National long distance revenue				
Retail	573	579	(6)	(1.0)
Domestic wholesale	5	3	2	66.7
Total national long distance revenue	<u>578</u>	<u>582</u>	<u>(4)</u>	<u>(0.7)</u>
National long distance minutes (in millions)	<u>4,343</u>	<u>4,656</u>	<u>(313)</u>	<u>(6.7)</u>

The reduction in national long distance revenue was attributable to the 6.7% decline in call volumes, offset by withdrawal of 1c Saturday offered in the prior year and the impact of pensioner discounts no longer being applied to national long distance calls. This resulted in an average increase in revenue per minute of 6.6%.

Fixed to mobile calls

Table 7 - Fixed to mobile calls

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			%
Fixed to mobile revenue				
Retail	799	746	53	7.1
Domestic wholesale	9	7	2	28.6
Total fixed to mobile revenue	<u>808</u>	<u>753</u>	<u>55</u>	<u>7.3</u>
Fixed to mobile minutes (in millions)	<u>2,099</u>	<u>1,955</u>	<u>144</u>	<u>7.4</u>

Fixed to mobile revenue increased by 7.3% due to an increase in fixed to mobile minutes from continued strong growth in the number of mobile services in the Australian market.

International direct**Table 8 - International direct**

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			%
International direct revenue	<u>139</u>	161	(22)	(13.7)
International direct minutes (in millions)	<u>338</u>	387	(49)	(12.7)

International direct[®] revenue declined due to a reduction in minutes of 12.7%. This reduction is due to customers using other products such as e-mail or mobile and the impact of competitors offering aggressively priced prepaid calling cards.

This reduction was partly compensated by a flagfall increase from August 2002. In addition there has been increased use of offerings such as 0018 Free ½ hour and 10 minute capped calls under Homeline[™] rebalancing initiatives.

Mobiles

Table 9 - Mobiles

	Half Year Ended 31 December			Change %
	2003	2002	Change	
(in \$ millions except for statistical data)				
Mobiles revenue	1,919	1,804	115	6.4
<i>Comprising:</i>				
Access fees and call charges	1,339	1,315	24	1.8
Value added services				
International roaming	85	83	2	2.4
Mobile messagebank	90	82	8	9.8
Mobile data	219	152	67	44.1
Total value added services	394	317	77	24.3
Mobile services revenue	1,733	1,632	101	6.2
Mobile handset sales	186	172	14	8.1
Total mobiles goods and services revenue ⁽ⁱ⁾	1,919	1,804	115	6.4
GSM mobile SIO (in thousands)	6,139	5,421	718	13.2
CDMA mobile SIO (in thousands)	846	677	169	25.0
Total mobile SIO (in thousands)	6,985	6,098	887	14.5
Prepaid mobile SIO (in thousands)	2,574	1,963	611	31.1
Postpaid mobile SIO (in thousands)	4,411	4,135	276	6.7
Total mobile SIO (in thousands)	6,985	6,098	887	14.5
Number of SMS sent (in millions)	910	632	278	44.0
Deactivation rate ⁽ⁱⁱ⁾	9.6%	11.3%	(1.7)	-
Mobile voice telephone minutes (in millions)	3,011	2,594	417	16.1
	(in \$ per service in operation)			
Average revenue per user per month ⁽ⁱⁱⁱ⁾	42.63	45.18	(2.55)	(5.6)
Average prepaid revenue per user per month ⁽ⁱⁱⁱ⁾	14.72	13.77	0.95	6.9
Average postpaid revenue per user per month ⁽ⁱⁱⁱ⁾	58.24	59.91	(1.67)	(2.8)
Mobile data revenue per SIO per month	5.39	4.18	1.21	28.9

⁽ⁱ⁾ Excludes revenue from:
- call termination charges, including calls from our fixed network which we categorise as fixed to mobile;
- resale of GSM and CDMA services to other carriers which is recognised as intercarrier services revenue; and
- HK CSL which is recognised as various controlled entity revenue.

⁽ⁱⁱ⁾ Deactivations rate now excludes transfers of: account names, services between Telstra's GSM and CDMA networks, and services between prepaid and postpaid. The prior year comparative has been restated to exclude such transfers. This rate includes deactivations of inactive prepaid services, deactivated after the 6 month recharge period.

⁽ⁱⁱⁱ⁾ Average revenue per user per month is calculated using average SIOs.

The increase in mobile services revenue was largely driven by:

- An increase in mobile data revenue of 44.1%. Driving this increase is Short Message Service (SMS) revenue growth of 43.3%, attributable to the increase in the number of messages sent which increased by 44.0% to 910 million;

- Messagebank[®] revenue increase of 9.8% driven by the 9.6% increase in Messagebank[®] minutes and a slight increase in yield. This increase is partly offset by the decline in the number and yield of memo messages of 9.0% and 3.2% respectively.
- Mobile services revenue increase of 6.2% driven by strong growth in GSM and CDMA services in operation of 14.5% and increases in voice telephone minutes of 16.1%. This growth is partially offset by loyalty bonuses. The loyalty bonus is a rebate against the access fee.

The loyalty bonus is used as a customer retention initiative in lieu of other similar cost based structures such as handset subsidies.

Mobile handset sales increased by 8.1% largely driven by the change in the mobiles business model whereby customers purchase phones outright or through the Mobile Repayment Option (MRO). The growth in volumes is offset by the reduction in the average price of CDMA and GSM handsets.

Data

Table 10 - Data

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			%
Data revenue				
Frame relay	184	170	14	8.2
ATM	29	37	(8)	(21.6)
Digital data services	130	148	(18)	(12.2)
Leased lines	133	141	(8)	(5.7)
International private lines	15	20	(5)	(25.0)
Other data	18	10	8	N/M
Total data revenue	<u>509</u>	<u>526</u>	<u>(17)</u>	<u>(3.2)</u>
Permanent Virtual Circuits (in thousands)				
Frame	29	29	0	0.0
ATM (incl Wholesale)	12	11	1	9.1

Data revenue declined by 3.2% due to product substitution to technologically advanced IP and DSL based product options.

Frame relay revenue grew due to migration from digital data services, leased lines and international private lines.

ATM revenue declined due to the loss of a significant contract and migration to newer IP and DSL based options. Despite the decrease in revenue, ATM virtual circuits grew by 9.1% due to the wholesale ATM product where revenues are recorded against the Intercarrier services product.

Digital data services and leased lines including Transend revenue fell, as they are mature products. Bank and financial institution customers are migrating to newer technologies with greater bandwidth to meet application needs such as Frame relay and Argent.

International private line revenue decreased due to competition, excess capacity in the market and the migration to Frame Relay.

The increase in other data revenue is attributable to EFTPOS product migration to Argent Dial-up from the Transend platform.

ISDN

Table 11 - ISDN

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			%
ISDN revenue				
Access	198	198	0	0.0
Calls	273	298	(25)	(8.4)
Total ISDN revenue	<u>471</u>	<u>496</u>	<u>(25)</u>	<u>(5.0)</u>
ISDN access lines (basic access line equivalents) (in thousands)	1,224	1,190	34	2.8

ISDN access revenue was flat due to the penetration into the SME and consumer markets who are typically low yield. Consequently, the numbers of ISDN access lines have grown by 2.8%. Large enterprise customers have been migrating to highly advanced products such as Frame Relay.

ISDN call revenue decreased largely driven by a decline in data call revenue of 22.6%. ISDN data corporate customers are migrating to products such as Direct Internet Access Service, ADSL and Telstra Private Internet Provider Solutions. The overall decrease in ISDN call revenue was partly offset by an increase in voice call revenue of 7.0%. This increase was driven by the introduction of charging customers for thirty minute blocks of time, rather than a per minute basis. In addition, a greater proportion of customers are using ISDN for voice instead of data as this product moves into SME and consumer segments from the corporate segment.

Internet and IP solutions

Table 12 - Internet and IP solutions

	Half Year Ended 31 December			
	2003	2002	Change	Change
(in \$ millions except for statistical data)				%
Internet & IP solutions revenue				
Online broadband	179	118	61	51.7
Online narrowband	144	148	(4)	(2.7)
Internet direct	62	59	3	5.1
IP solutions	71	56	15	26.8
Other	7	10	(3)	(30.0)
Total Internet & IP solutions revenue	<u>463</u>	<u>391</u>	<u>72</u>	<u>18.4</u>
Broadband subscribers - Wholesale (in thousands)	220	57	163	286.0
Broadband subscribers - Retail (in thousands)	<u>287</u>	<u>188</u>	<u>99</u>	<u>52.7</u>
Total Broadband subscribers (in thousands)	<u>507</u>	<u>244</u>	<u>262</u>	<u>107.8</u>
Narrowband subscribers - Retail (in thousands)	<u>1,178</u>	<u>1,103</u>	<u>75</u>	<u>6.8</u>
Total online subscribers (in thousands)	<u>1,685</u>	<u>1,347</u>	<u>338</u>	<u>25.1</u>

Internet and IP solutions revenue increased driven by:

- Continued strong growth in BigPond™ broadband subscriber revenue driven by subscriber growth of 107.8% and growth across all products as customers migrate from data and ISDN products. This increase is offset by a decline in the average revenue per user due to 2 weeks of rebates to customers as a result of network outage in October and due to the introduction of the usage toolbar in May 2003 impacting excess usage billing;
- Growth in BigPond™ narrowband subscribers of 6.8% offset by average revenue per subscriber declines due to BigPond rebates;
- Growth in IP solutions of 26.8%. These products are in the growth phase of the product life cycle with revenue increases for IP WAN and IP MAN/Ethernet. This growth is partially offset by decline in MegaPop® and IP Remote dial-up security software tools.

Sensis (advertising and directories)**Table 13 - Sensis (advertising and directories)**

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Sensis (advertising and directories)	769	731	38	5.2

Sensis® (advertising and directories) revenue increased due to the launching of the new colour print features and E-mail/URL products resulting in 15.9% growth in White Pages® revenue. In addition, online and electronic products experienced growth of 32.0%, largely due to new customer take up and attractive product enhancements. Yellow Pages® revenue represents over 80.0% of Sensis® (advertising and directories) revenue and experienced growth of 2.1%.

Intercarrier services**Table 14 - Intercarrier services**

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Intercarrier services revenue	583	591	(8)	(1.4)

The decline in intercarrier services revenue was driven by:

- Reduced volumes and terminating rates across both mobiles and PSTN/ISDN originating and terminating access. These rate reductions are consistent with the industry trend toward lower interconnect rates;
- A reduction in wholesale transmission product revenue due to continued pricing pressure from oversupply of capacity in the market, and internet call volume reduction due to increased carriage rates, partly offset by an increase in wholesale ATM;

Partly offset by:

- increased SMS interconnect revenues of 38.8%, driven by a 33.6% increase in traffic and a 4.0% increase in price.

Inbound calling products

Table 15 - Inbound calling products

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions except for statistical data)			
Inbound calling products revenue	238	250	(12)	(4.8)
B party minutes (in millions)	1,351	1,343	8	0.6
A party calls (in millions)	473	462	11	2.4

Inbound number portability has had a large impact on revenue derived from Freecall™ 1800 and the B party (called party) revenue of Priority® One3™ and Priority® 1300 products, decreasing by 15.2% and 4.3% respectively. These products have been significantly affected by competition however, the decline is considerably less than that experienced in the first half of the prior year as Telstra increases its customer base but at reduced prices.

Solutions management

Table 16 - Solutions management

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Solutions management revenue	233	239	(6)	(2.5)

Revenue from solutions management is derived from managing all or part of a customer's information technology or telecommunications services as well as providing hosting solutions to corporate enterprise and SME.

Managed solutions declined by 3.7% due to the reduction of revenue from the Department of Employment and Workplace Relations contract and the reduction of radio services revenue due to the completion of the defence satellite contract in 2002. This was partly offset by increased revenue from major contracts and growth in managed wide area networks (WAN).

Corporate and SME hosting services experienced growth of 42.5% off a low base.

Other controlled entities**Table 17 - Other controlled entities**

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Total controlled entity	738	874	(136)	(15.6)
<i>Comprising:</i>				
Hong Kong CSL	377	484	(107)	(22.1)
Telstra Clear	282	273	9	3.3
Other CE	79	117	(38)	(32.5)
	738	874	(136)	(15.6)

Revenue from controlled entities declined by 15.6 % driven by:

- Hong Kong CSL sales revenue declined due to unfavourable currency fluctuations of \$93 million and unfavourable price competition of \$14 million;
- The sale of Mobitel in October 2002, representing a decline of \$8 million; and
- Telstra Multimedia sales revenue declined by \$27 million due to the customer sales and service centres now being operated directly by Foxtel.

These decreases were partly offset by:

Growth in TelstraClear sales revenue of 3.3%, with New Zealand dollar revenue growth of 4.4%, and revenue for Telstra Europe due to the acquisition of customers & networks from Powergen in the UK.

Customer premises equipment

Table 18 - Customer premises equipment

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			
Customer premises equipment revenue	92	100	(8)	(8.0)

Revenue from customer premises equipment has declined by 8.0% due to the continued competition in the market for fixed line handsets.

Payphones

Table 19 - Payphones

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			
Payphones revenue	72	75	(3)	(4.0)
Payphones (in thousands)	66	69	(3)	(4.3)

Payphones revenue decreased driven by:

- a reduction in the number of Telstra operated payphones of 3.1% due to increased competition and the gradual removal of coin only and credit card payphones;
- a reduction in the number of privately operated payphone services of 10.9%; and
- substitution to other products, in particular mobiles.

Other sales and services

Table 20 - Other sales and services

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Total other sales and services				
Telstra information and connection services	57	67	(10)	(14.9)
Customnet and spectrum	54	59	(5)	(8.5)
Virtual private network	11	15	(4)	(26.7)
Card services	36	48	(12)	(25.0)
Security Products	25	24	1	4.2
Conferlink	23	23	0	0.0
Commercial works	15	16	(1)	(6.3)
Cable Recovery	2	27	(25)	(92.6)
Bundling Pay TV	65	0	65	N/M
External Construction	34	97	(63)	(64.9)
Other	0	26	(26)	(100.0)
Total other sales and services	322	402	(80)	(19.9)

Telstra information and connection services are traditional voice services and the product group has shown declining revenue, as customers move to online directory services rather than using the traditional operator assisted and directory services.

Virtual private network (VPN) products declined due to the migration to ISDN and IP based products.

Card services declined primarily due to a reduction in Phoneaway[®] revenue from international calls, as customers migrate to cheaper calling cards. Nevertheless, Phoneaway[®] continues to be the preferred calling card for travellers within Australia, but generates a lower yield, as call minutes are mainly domestic as opposed to international minutes.

The reduction in cable recovery revenue is due to the planned completion of the cable recovery and recycling project.

External construction revenue declined 64.9% due to lower industry construction activity levels and the integration of the network, design and construction (NDC) business.

Revenue also increased \$65 million following the introduction of Foxtel Pay TV bundling by Telstra.

Other represents miscellaneous products and the decline includes a prior period accounting adjustment.

Other Revenue

Table 21 - Other revenue

	Half Year Ended 31 December			
	2003	2002	Change	Change %
	(in \$ millions)			
Total other revenue - reported	370	899	(529)	(58.8)
<i>Less adjustments</i>	276	788	(512)	(65.0)
Total other revenue - underlying	94	111	(17)	(15.3)
<i>Comprising:</i>				
Dividends received/receivable	0	1	(1)	N/M
USO Levy Receipts	55	33	22	66.7
Rental/Leases	13	18	(5)	(27.8)
Miscellaneous revenue	26	59	(33)	(55.9)
	94	111	(17)	(15.3)
<i>Where adjustments comprise:</i>				
Revenue from sale of:				
Property, plant and equipment	98	757	(659)	(87.1)
Controlled Entities	0	17	(17)	N/M
Listed securities and other corporations	23	7	16	N/M
Joint Ventures	0	3	(3)	N/M
Associates	155	0	155	N/M
Business	0	4	(4)	N/M
Total adjustments	276	788	(512)	(65.0)

The reported other revenue reduction is primarily due to the sale of seven commercial properties for \$570 million in the prior year.

Excluding this revenue and other revenue generated from sales of assets and investments including IBMGSA investment sale of \$153m, other revenue declined 15.3%.

Miscellaneous revenue declined by 55.9% due to a reduction in contracted government tender revenue due to milestone achievements for the untimed local call and rural telecommunications infrastructure fund projects in the prior year.

USO Levy receipts revenue grew due to increases in government sponsored projects including Networking the Nation, Internet Assistance Program, Wireless South West and Island Watch projects.

Operating expenses

The following table illustrates reported and underlying¹ expenses for the half years ended 31 December 2003 and 2002.

Table 22 - Operating expenses

	2003		Half Year Ended 31 December 2002		Reported Change %	Underlying ¹ Change %
	Reported	Underlying ¹	Reported	Underlying ¹		
(in \$ million)						
Expenses						
Labour	1,635	1,635	1,624	1,624	0.7	0.7
Goods and services purchased	1,690	1,690	2,011	1,946	(16.0)	(13.2)
Other expenses	2,148	1,930	2,510	1,914	(14.4)	0.8
Expenses before equity acc/depn/amort	5,473	5,255	6,145	5,484	(10.9)	(4.2)
Share of net loss from associates and joint venture entities	29	29	969	28	(97.0)	3.6
Total expenses before depn/amort/interest	5,502	5,284	7,114	5,512	(22.7)	(4.1)
Total depreciation/amortisation	1,802	1,802	1,703	1,703	5.8	5.8
Total expenses	7,304	7,086	8,817	7,215	(17.2)	(1.8)

Reported operating expenses decreased by 17.2%, driven by the inclusion of the following items in the half year ended 31 December 2002:

- \$965 million non cash write down of the investment in Reach Ltd;
- \$41 million Reach contract exit costs;
- \$3 million for the write down of other investments; and
- \$593 million of costs relating to asset and investment sales.

In comparison, the half year ended 31 December 2003 included:

- \$218 million of costs relating to asset and investment sales.

After excluding these items in the half years ended 31 December 2003 and 2002, operating expenses decreased by 1.8%. Excluding depreciation and amortisation, operating expenses decreased by 4.1%.

The decline in other operating expenses includes the benefits of recent cost reduction programs, such as service delivery, IT transformation, six sigma, the corporate centre review and other commercial initiatives.

Labour expense**Table 23 - Labour expense**

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions except for statistical data)			%
Labour expense	1,635	1,624	11	0.7
Full time staff & equivalents ⁽ⁱ⁾	40,080	43,038	(2,958)	(6.9)

⁽ⁱ⁾ Includes NDC full time & equivalents. Corresponding labour expense for NDC were recorded in costs of external contracting and cost of sales prior to integration back into Telstra in August 2003.

Reported labour expenses increased by 0.7% driven by:

- Salary increases of \$58 million or 4% due to enterprise agreements and annual reviews;
- Increases in the use of part time and casual staff and overtime;
- A change in the accounting treatment of NDC labour, from service contracts and cost of sales to labour expense; and
- An increase in provisions due to assumptions reviews and changes.

These increases were partly offset by:

- A decline in full time staff and equivalents of 6.9% to 40,080, which includes NDC staff reductions;
- A reduction of annual leave and superannuation charges following adoption of AGAAP by Hong Kong CSL;
- A reduction in Hong Kong CSL labour expense due to exchange rate movements; and
- A reduction in redundancy expense of \$8 million.

While Telstra has continued on a superannuation employer contribution holiday during the year based on recommendations of the last actuarial review (as at 30 June 2000), the continuation of this is dependent upon the performance of the fund. An actuarial review is presently being prepared by the actuary, based on the fund's position as at 30 June 2003. It is possible that this will recommend re-commencement of employer contributions at some point during 2004-05, albeit at a reasonably low level.

Goods and services purchased

Table 24 - Goods and services purchased

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			%
Total goods and services purchased - reported	1,690	2,011	(321)	(16.0)
Less adjustments	0	65	(65)	N/M
Total goods and services purchased - underlying	1,690	1,946	(256)	(13.2)
<i>Comprising:</i>				
Goods and services purchased - underlying				
Cost of goods sold	288	336	(48)	(14.3)
Usage commissions	133	121	12	9.9
Handset subsidies	125	163	(38)	(23.3)
Network payments	871	1,037	(166)	(16.0)
Commercial Project Payments	66	133	(67)	(50.4)
Other	207	156	51	32.7
	1,690	1,946	(256)	(13.2)

Reported goods and services purchased decreased, partly attributable to the costs relating to the exit of the old Reach contract in the half year ended 31 December 2002. After excluding these costs, goods and services purchased declined by 13.2%.

Decreases in cost of goods sold were due to:

- Foxtel customer sales and service centre now operated directly by Foxtel;
- Exchange rate movements impacting our Hong Kong CSL business partly offset by higher costs associated with higher handset sales;
- the reclassification of network payments associated with international PoPs to network payments;

This was partly offset by an increase in handsets sales following more aggressive selling campaigns and the change in the business model, whereby customers purchase a phone outright or through Mobile Repayment Option (MRO).

Growth in usage commissions is driven by the increased popularity of the prepaid product and CDMA services with growth of 31.1% and 25% respectively.

Handset subsidies have declined primarily due to the reduced offerings and focus on selected special offerings. There is a significant decrease in amortisation from previously deferred handset subsidies from prior financial years partly offset by an increase in amortisation relating to current years deferred handset subsidies.

Network payments decreased due to reductions in international call volumes equating to \$48 million and charges from Reach for international network connections of \$109 million, following the commencement of a new pricing structure from January 2003. Additional benefit of \$37 million came from the more favourable \$US exchange rate in the current year. The decrease in network payments was partly offset by increased domestic network payments of \$38 million from higher volumes across mobiles and SMS terminating, coupled with the reclassification of costs associated with international PoPs from cost of goods sold of \$29 million. In addition Hong Kong CSL network payments declined \$28 million comprising an exchange rate impact of \$19 million and price reductions of \$9 million.

Commercial project payments largely comprise costs of construction activities provided by NDC to external parties. This has declined primarily due to closure of the international business and the downturn in the domestic construction industry, in addition to the integration of NDC into Telstra activities which has resulted in savings which are partially offset in labour and other expenses.

Other goods and services have increased primarily due to the introduction of Foxtel bundling in January 2003 equating to \$65 million. Payments are made to Foxtel for the services Telstra bundle and sell. This was partly offset by dealer incentives and fees that have declined slightly, with the deferment of incentives and fees to be amortised over the average life of a contract partly offset by increased volumes and higher incentive payments. In addition, paper purchasing and printing costs have declined due to favourable contract negotiation outcomes and lower commodity prices. Other goods and services also comprise information service provider payments and dealer commissions.

Other expenses

Table 25 - Other expenses

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			%
Total other expenses - reported	2,148	2,510	(362)	(14.4)
Less adjustments	218	596	(378)	(63.4)
Total other expenses - underlying	1,930	1,914	16	0.8
Comprising:				
Rental expense on operating leases	265	296	(31)	(10.5)
Bad/doubtful debts	95	79	16	20.3
Reduction in value of inventories	1	3	(2)	(66.7)
Net foreign currency conversion losses/(gains)	4	15	(11)	(73.3)
Auditors fees	3	4	(1)	(25.0)
Service contracts and other agreements	742	847	(105)	(12.4)
Marketing	172	148	24	16.2
General administration	427	383	44	11.5
Other operating expense	221	139	82	59.0
Total other expenses - underlying	1,930	1,914	16	0.8
Where adjustments comprise:				
Net book value of assets sold:				
Property, plant and equipment	67	578	(511)	(88.4)
Investments in controlled entities	0	12	(12)	N/M
Investments in joint associated entities	5	0	5	N/M
Investments in listed entities and other corporations	16	9	7	77.8
Businesses	(0)	(6)	6	N/M
Net book value of assets sold:	88	593	(505)	(85.2)
Reduction in value of investments	0	3	(3)	N/M
Other adjustments (IBMGSA Exit Costs)	130	0	130	N/M
Total Adjustment	218	596	(378)	(63.4)

The decrease in reported other expenses was driven by the cost of asset and investment sales, with the half year December 2002 including the sale of seven commercial properties. After excluding the cost of asset and investment sales other expenses increased 0.8% explained by:

- An increase in other operating expenses primarily due to:
 - the integration of NDC into Telstra activities and the removal of the inter-company profit adjustment offset in service contracts and other agreements;
 - increases across repairs and maintenance, materials usage and vehicle operating costs, also impacted by the NDC integration; and
 - a reduction in overhead costs capitalised due to a change to the IT overhead capitalisation methodology and reduction of support costs subject to capitalisation.
- An increase in general and administration costs, which has eventuated from the reclassification of some Telstra Enterprise Services IT costs on integration into Telstra activities, and is offset in rental expenses on operating leases. Increases across training/seminars, postage/freight/courier, and entertainment have also contributed to the increase.
- An increase in bad and doubtful debts due to higher provisions and write off's including mobile repayment option and the cessation of the customer billing arrangement with Commander Communications, at 30 June 2003. Combined with the absence of any sale of debt recoveries in the half year ended 31 December 2003.

- Marketing costs increased primarily due to new initiatives and sponsorships. With the Corporate focus on the broadband product set as a major growth opportunity for Telstra, considerable resources have been devoted to the promotion of broadband, through various media advertising outlets, relative to the corresponding period.

The increases were partly offset by the following declines:

- Service contracts and other agreements declined largely due to:
 - one off impacts in the half year ended 31 December 2002, such as; the reclassification of Wideband and associated recovery costs capitalised in prior periods equating to \$46 million. Service contracts and other agreements also decreased due to the cessation of the cable recovery and recycling project;
 - the removal of the inter-company profit adjustment offset in other operating expenses, in addition to the integration of NDC into Telstra activities, with these savings offset across various expense categories; and
 - cost reduction initiatives in the IT services area.
- A decline in auditor fees, impacted by timing issues.
- A decline in rental expenses on operating leases, which has eventuated from the reclassification of some Telstra Enterprise Services IT costs on integration into Telstra activities, and is offset in general and administration costs.
- Currency conversion costs decreased primarily due to the currency losses in the half year ended 31 December 2002 from the revaluation of borrowings to reflect the fluctuation in exchange rates, with no such exposure in the half year ended 31 December 2003.

Share of net loss from associates and joint venture entities**Table 26 - Share of net loss from associates and joint venture entities**

	Half Year Ended 31 December			
	2003 (in \$ millions)	2002	Change	Change %
Share of net loss from associates and joint venture entities - reported	29	969	(940)	(97.0)
Less adjustments	0	941	(941)	(100.0)
Share of net loss from associates and joint venture entities - underlying	29	28	1	3.6

Reported net equity accounted losses decreased primarily due to the non cash write down of the investment in Reach Ltd and the Reach contract exit benefit for the half year ended 31 December 2002.

After excluding these items, equity accounted losses remained relatively flat and comprised;

- Decreased losses of Reach, E-Card and increased profits from PT Mitra Global Telekomunikasi Indonesia.
- Offset by increased losses in Foxtel, Xantic and reduced profit from IBMGSA and Australian Japan Cable (AJC).

Depreciation and Amortisation

Table 27 - Depreciation and amortisation

	Half Year Ended 31 December			
	2003 (in \$ millions)	2002	Change	Change %
Total depreciation and amortisation	1,802	1,703	99	5.8
<i>Comprising:</i>				
Depreciation	1,412	1,346	66	4.9
Amortisation (excl goodwill)	330	300	30	10.0
Amortisation (goodwill)	60	57	3	5.3
	1,802	1,703	99	5.8

Depreciation and amortisation increased due to the communications plant and software development asset additions, which is consistent with the level of capital expenditure over recent years. This was partially offset by a decline in other plant and equipment from the full depreciation of certain assets following the change to asset service lives in the half year ended 31 December 2002.

International

Hong Kong CSL Financial Summary

The following table shows information about Hong Kong CSL.

Table 28 - Hong Kong CSL Financial Summary

	Half Year Ended 31 December			
	2003 (in A\$ millions)	2002	2003 (in HK\$ millions)	2002
Total revenue	377	507	2014	2191
Total opex	253	354	1356	1528
EBITDA	124	153	658	663
EBIT	8	28	248	242
CAPEX	27	27	150	119
EBITDA margin	32.9%	30.2%	32.7%	30.3%

Amounts presented in HK\$ have been prepared in accordance with AGAAP.
Amounts presented represent amounts included in Telstra's consolidated result.

Hong Kong CSL continues to perform in a challenging market. Hong Kong CSL is currently experiencing one of its worst economic climates in decades. Along with this, market conditions have been adversely affected by SARS and an ongoing price war.

Voice revenue has declined as a result of price competition, however this has been partially offset by strong growth in handset sales which has been mainly attributable to the introduction of new handset models. There has also been gradual and steady growth in data revenue through the launch of new MMS handsets and innovative contents and applications.

The decline in total revenue has been offset by cost reductions, resulting in EBITDA remaining relatively flat for the half year.

The revenue decline in A\$ has been exaggerated by the depreciating HK\$ against A\$.

Closer Economic Partnership Agreements (CEPA) with the Chinese government has been made and is expected to bring new business opportunities in the future. Along with this Hong Kong CSL has been certified as a Hong Kong Service Provider.

Reach Financial Summary

The following table shows information about Reach.

Table 29 - Reach Financial Summary

	Half Year Ended 31 December	
	2003	2002
(In US\$ millions)		
Total revenue	450	622
EBITDA	54	209
EBIT	(74)	124
Net Profit	(113)	61
(in A\$ millions)		
Telstra 50% Share	N/A	57
Less Amortisation of Goodwill	N/A	(60)
Add Amortisation of Unrealised Profit	N/A	22
Equity accounted profit (Excl Investment Write off)	N/A	19
Net write down of investment in reach	N/A	(965)
Equity accounted profit/(loss)	N/A	(946)
Less Adjustments		
Net write off of investment in reach	N/A	965
Reach contract exit	N/A	(24)
Equity Accounted profit/(loss) - underlying	N/A	(5)

Amounts presented in US\$ have been prepared in accordance with USGAAP.
 Amounts presented in A\$ represent amounts included in Telstra's consolidated result.
 Equity accounting of Reach ceased as at 31 December 2002.
 2003 figures are yet to receive audit approval

REACH has been operating in a difficult environment for a sustained period of time and the industry is expected to remain challenging for a period of time. This has been mainly due to aggressive pricing and over supply of capacity.

To achieve the best results possible in the current market conditions REACH has focused on improving efficiency through effective IT systems integration as well as a continuous focus to reshape into a customer-centric organisation. In addition, there has also been good progress with the containment of costs for key expense drivers.

Cash management is a key financial focus.

To ensure the long term success of REACH, there will be a continued focus on improvements in customer service and productivity, along with the continued pursuit of growth in non-parent sales and to compete on the core competencies of the business.

REACH has been ranked among the top carriers of international voice traffic in the world as well as Asia Pacific's top IP backbone operator for the 3rd consecutive year.

The outlook for the Reach businesses has not improved, with continuing heavy price competition for global bandwidth and international voice. As disclosed in contingent liabilities note 8 to the half year financial statements, we have become aware of a potential requirement to support Reach in meeting its financial commitments. Reach's 2004 business plan is currently being finalised.

TelstraClear Financial Summary

The following table shows information about TelstraClear.

Table 30 - TelstraClear Financial Summary

	Half Year Ended 31 December			
	2003 (in A\$ millions)	2002	2003 (in NZ\$ millions)	2002
Total revenue	283	273	321	311
Total opex	300	235	339	349
EBITDA	57	38	65	43
EBIT	(17)	(32)	(18)	(38)
CAPEX	52	47	59	55
EBITDA margin	20.1%	13.9%	20.1%	13.8%

Amounts presented in NZ\$ have been prepared in accordance with AGAAP.
Amounts presented represent amounts included in Telstra's consolidated result.

TelstraClear is the second largest full service carrier in New Zealand with approximately 12% revenue market share.

Revenue growth of 3.2% has been achieved from solid retail growth of 6.2%, offset by rate reductions in the wholesale international market.

Continuing operational efficiencies and improved cash management have reduced opex by 2.9%.

Leadership in Internet Protocol has led to significant corporate customer wins and Wireless Local Loop roll out in Auckland, Rotorua, Napier and Dunedin has increased the ability to reach both the small business and corporate markets.

TelstraClear has achieved and continues to seek improved regulatory and commercial outcomes.

Net borrowing costs

Table 31 - Net borrowing costs

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			
				%
Gross borrowing costs	419	523	(104)	(19.9)
less capitalised interest	(37)	(52)	15	(28.8)
Borrowing Costs	382	471	(89)	(18.9)
Interest received/receivable	27	39	(12)	(30.8)
Net borrowing costs	355	432	(77)	(17.8)

Net borrowing costs declined for the half year ended 31 December 2003 primarily due to:

- costs incurred in the prior year from closeout of interest rate swaps
- maturity of :
 - JPY5 billion in May 2003;
 - USD\$300 unsecured notes in July 2003; and
 - AUD\$204m bonds of which \$192m matured in July and August 2003.
- reduced interest received on the PCCW converting note following the reduction to USD \$53 million in April 2003 from USD \$190 million.

Income Tax Expense

Table 32 - Income Tax Expense

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			
				%
Income Tax Expense - Reported	874	968	(94)	(9.7)
Less adjustments	97	(25)	122	288.0
Income Tax Expense - underlying	971	943	28	3.0

Reported income tax expense declined by 9.7% due to:

- the consolidation of Telstra Multimedia Ltd into the Telstra tax group resulting in an additional \$58 million reduction to income tax expense following Telstra's adoption of the tax consolidation legislation from July 1 2002 and the resetting of taxable asset values; and
- fewer asset and investment sales in the current year.

The reduction in the reported effective tax rate from 45.7% to 27.6% is due to the above mentioned factors and the prior year write down of the investment carrying value in Reach.

Underlying profit before tax increased by 6.0% with underlying income tax expense only increasing by 3.0%. This is mainly due to higher non-deductible expenses in the prior year.

Cash flow

Table 33 - Cash flow data

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			
				%
Net cash provided by operating activities	2,925	2,951	(26)	(0.9)
Net cash used in investing activities	(1,098)	(835)	263	31.5
Free Cash Flow	1,827	2,116	(289)	(13.7)
Net cash used in financing activities	(2,562)	(1,818)	744	40.9
Net increase/(decrease) in cash	(735)	298	(1,033)	(346.6)
Free Cash Flow	1,827	2,116	(289)	(13.7)
Adjustment: Large, one off asset or investment sales	-	570	(570)	(100.0)
Free Cash Flow (excl large, one off asset or investment sales)	1,827	1,546	281	18.2

Free cashflow for the period declined primarily due to the impact of the sale of seven commercial properties in the prior year. After removing the impact of this sale, free cashflow growth is 18.2%, primarily driven by reduced capital expenditure.

Operating cashflow declined primarily due to the increase in company tax paid attributable to increases in the instalment rate and higher taxable income driven by lower tax depreciation deductions.

Reduction in interest paid is due to lower debt levels and prior year closure of interest rate swaps as well as a reduction in GST payments due to lower level of capital expenditure.

Net cash used in financing activities increased due to the share buy back of 238,241,174 million ordinary shares in November 2003.

Table 34 - Net cash used in investing activities

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			
				%
Switching	137	230	(93)	(40.4)
Transmission	199	195	4	2.1
Customer access	453	430	23	5.3
Mobile telecommunications networks	143	161	(18)	(11.2)
International telecommunications infrastructure	80	74	6	8.1
Capitalised software	174	311	(137)	(44.1)
Other	225	179	46	25.7
Operating capital expenditure	1,411	1,580	(169)	(10.7)
Capitalised interest included in above	(37)	(52)	15	(28.8)
Capital expenditure excluding capitalised interest	1,374	1,528	(154)	(10.1)
Add: patents, trademarks and licences (including 3G spectrum)	2	2	0	0.0
Add: investments	(1)	16	(17)	(93.8)
Capitalised expenditure (excl. int.) and investments	1,375	1,546	(171)	(11.1)
Sale of capital equipment, investments and other	(277)	(711)	434	(61.0)
Net cash used in investing activities	1,098	835	263	31.5
Capital expenditures (including interest) and investments	1,412	1,598	(186)	(11.6)
Domestic core operating capital expenditure⁽ⁱ⁾	1,295	1,452	(157)	(10.8)

(i) Domestic core operating capital expenditure is operating capital expenditure excluding HKCSL & TelstraClear operating capital expenditure.

Operational capital expenditure for the half year ending December 2003, excluding any investments, declined by 10.7% to \$1.4 billion. The reduction in capital expenditure is due to tighter control over the

capital expenditure program as a result of improved processes. The key areas of movement on capital expenditure for the half year include:

- increased expenditure on the customer access network (CAN) expenditure due to the continuing increase in demand for ADSL Broadband technology. The Narrowband program has remained relatively consistent;
- decreased expenditure in mobile technologies as the current CDMA 1xRTT deployment program and government sponsored works near completion. Expenditure on GPRS technology has also reduced because the core network expansion has been completed. This is offset in part by an increased spend in expanding CDMA coverage;
- lower domestic switching expenditure due to lower demand for specialised services. Also more efficient utilisation of existing infrastructure to support high speed products and efficient utilisation of existing headroom to meet customer demand. The lower spend was also due to some major software upgrade programs completed in 02/03; and
- reduced expenditure on software development due to improvement in productivity, reduced cycle times and lower overhead capitalisation as the IT transformation begins to take effect.

Reduction of investing capital expenditure is due to the absence and need for a Foxtel equity injection in the first half of the year.

Sale of capital equipment, investments and other reduction includes the sale of IBMGSA, Commander, IT Servers and minor property sales.

Corporate Governance and Board Practices

The Telstra board aims for best practice in the area of corporate governance. This section describes the main corporate governance practices in place during the first half of fiscal 2004. Further information regarding our corporate governance and board practices can be found on our website, [http://www.telstra.com.au/communications/corporate information](http://www.telstra.com.au/communications/corporate%20information).

The board

Telstra directors are accountable to shareholders for the proper management of Telstra's business and affairs and delegate responsibility for day-to-day management to the Chief Executive Officer (CEO). The board's key responsibilities are to:

- establish, monitor and modify Telstra's corporate strategies;
- ensure best practice corporate governance;
- appoint the CEO and approve succession plans;
- monitor the performance of Telstra management;
- ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- monitor financial results;
- approve decisions concerning Telstra's capital, including capital restructures and dividend policy; and
- comply with the reporting and other requirements of the Telstra Corporation Act.

The board has adopted a formal charter and separate operating principles that detail the role and responsibilities of the board and its members. The Board regularly reviews its performance and the performance of its committees.

Structure of the board

The maximum number of directors provided for by our constitution is 13 and we currently have 12 directors on the board. A casual vacancy to the board may be filled or an additional director appointed, up to the maximum number of directors, by either:

- the directors after consulting with the Communications Minister; or
- an ordinary resolution of shareholders.

The CEO is an executive director. The chairman, the deputy chairman and other members of the board are all non-executive directors and are independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.

The tenure of the CEO is linked to his executive office, while one third of all other directors are subject to retirement by rotation each year. Directors who retire by rotation may be re-elected. A director appointed by the directors is subject to re-election at the next Annual General Meeting. The board's general policy on board membership for non-executive directors is:

- the maximum retirement age is 72 years; and
- the maximum tenure is 12 years (ie. usually four terms of three years).

Directors and board committees are able to obtain professional advice independent of management or Telstra's advisers, at Telstra's cost.

A brief biography for each director can be found on our website, www.telstra.com.au/communications/corp/executives.cfm.

Meetings of the board

The board meets for both scheduled meetings and on other occasions to deal with specific matters that require attention between scheduled meetings.

The regular business of the board includes business investments and strategic matters, governance and compliance, CEO's report, financial reports and, on a rotational basis, business unit reviews. The board also liaises with senior management as required and may consult with other Telstra employees and advisers and seek additional information.

Committees of the board

The board also operates through committees that hold responsibility for particular areas. The two main committees are the Audit Committee and the Appointments and Compensations Committee. Each committee operates in accordance with a written charter, operating principles and Telstra's constitution.

Audit Committee

The Audit Committee is a committee of the board of directors whose primary functions are to:

- assist the board in its oversight of the reliability and integrity of accounting policies and financial reporting and disclosure practices;
- provide advice to the board on financial statements, due diligence, financial systems integrity and business risks to enable the board to fulfil its fiduciary and stewardship obligations; and
- assist the board in establishing and maintaining processes to ensure that there is:
 - compliance with all applicable laws, regulations and company policies; and
 - an adequate system of internal control, management of business risks and safeguard of assets.

Subject to the role of the Auditor-General (as explained below), the Audit Committee (not management) is also responsible for approving all audit engagement fees and programs, as well as all non-audit engagements by Telstra's external auditors.

Membership of the Audit Committee

The Audit Committee is comprised of at least three members who must be non-executive directors who are independent of Telstra management and free from any relationship that, in the business judgment of the board, would interfere with the exercise of their independent judgment as a member of the committee. Each member must also have a working familiarity with basic finance and accounting practices.

In addition, the chairman of the Audit Committee must not be the chairman of the board of directors and no director may serve as a member of the committee if such director serves on the audit committees of more than two other public companies.

The members of the Audit Committee during the first half of fiscal 2004 were:

- John Stocker (Chairman);
- John Ralph;
- Charles Macek;
- Anthony Clark; and
- Catherine Livingstone.

Meetings of the Audit Committee

The Audit Committee meets at least four times per year or more frequently as circumstances require. Board members are entitled to attend Audit Committee meetings and the committee may ask management, the external auditors and/or others to attend meetings and provide such input and advice as required. The committee may also meet separately with the CEO, management, the internal auditor and the external auditors in relation to matters that it wishes to discuss privately.

Relationship with the external auditor

In accordance with section 36 of the Telstra Act, it is a legislative requirement that the Auditor-General of Australia is the auditor of Telstra Corporation Limited for Australian Corporations Act purposes. The Auditor-General has appointed an agent, Ernst & Young, to assist in performing independent external audit duties at Telstra (Ernst & Young has performed this function since fiscal 2000).

The Audit Committee has the authority and responsibility to select, evaluate and, where appropriate, replace the external auditor for filings outside of Australia. Telstra, through the Audit Committee, has appointed Ernst & Young as its external auditor for filings outside of Australia and in this respect and for the purposes of these audits, Ernst & Young is responsible for financial reporting purposes rather than the Auditor-General.

The Auditor-General, as auditor of Telstra, owes duties to Telstra and its shareholders as a whole. The Auditor-General also owes statutory duties as an independent officer of the Commonwealth. Ernst & Young, as the external auditor appointed by Telstra for filings outside Australia, is accountable to the board of directors, Audit Committee and shareholders.

The Auditor-General and Ernst & Young are authorised to perform all “audit services”, being an examination or review of the financial statements of the Company in accordance with the laws and rules of each jurisdiction in which filings are made for the purpose of expressing an opinion on such statements. The Audit Committee approves the provision of audit services as part of the annual approval of the audit plan.

The Auditor-General does not provide non-audit services. Telstra does not engage Ernst & Young to perform any of the following non-audit services:

- bookkeeping services and other services related to preparing Telstra’s accounting records or financial statements;
- financial information system design and implementation services;
- appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- actuarial services;
- internal audit services;
- management functions or human resources;
- broker or dealer, investment adviser, or investment banking services; and
- legal services or expert services unrelated to the audit.

In addition, Ernst & Young does not provide taxation advice of a strategic or tax planning nature.

All other non-audit services may only be provided by Ernst & Young if the Audit Committee and the Auditor-General have expressly approved the provision of the non-audit service and the performance of the non-audit service will not cause the total annual revenue to Ernst & Young from non-audit work to exceed the aggregate annual amount of Ernst & Young's audit fees. The Audit Committee must not approve the provision of a non-audit service by Ernst & Young if the provision of the service would compromise Ernst & Young's independence.

The Audit Committee expects the Auditor-General and requires Ernst & Young to submit annually to the Audit Committee a formal written statement delineating all relationships between the Auditor-General, Ernst & Young and Telstra or any of its controlled entities. The statement includes a report of all audit and non-audit fees billed by the Auditor-General and Ernst & Young during the most recent fiscal year, a statement of whether the Auditor-General and Ernst & Young are satisfied that the provision of the audit and any non-audit services is compatible with auditor independence and a statement regarding the Auditor-General's and Ernst & Young's internal quality control procedures.

The Audit Committee considers whether Ernst & Young's provision of non-audit services to the Company is compatible with maintaining the independence of Ernst & Young. The Audit Committee also submits annually to the board a formal written report describing any non-audit services rendered by Ernst & Young during the most recent fiscal year, the fees paid for those non-audit services and explaining why the provision of those non-audit services is compatible with auditor independence. If applicable, the Audit Committee recommends that the board take appropriate action in response to the Audit Committee's report to satisfy itself of Ernst & Young's independence.

Subject to the role of the Auditor-General, the Audit Committee will discuss with management the timing and process for implementing a five yearly rotation of the lead audit partner and review partner of Ernst & Young and will consider whether there should be a rotation of the audit firm itself.

Recurring processes

The Audit Committee, on an annual basis:

- reviews its charter and operating principles to determine their adequacy for current circumstances and recommends to the board the formal adoption of the revised charter and operating principles for future operations of the Audit Committee;
- meets separately with the internal auditor, the Auditor-General and Ernst & Young, with and without management, to discuss the results of their audits;
- considers any report or other disclosures to be included in the Company's annual report or other communications to shareholders on the relationships between the Auditor-General, Ernst & Young and the Company; and
- reviews with management, the Auditor-General and Ernst & Young, the financial report to be included in the annual report, including the Auditor-General's and Ernst & Young's responsibilities under generally accepted auditing standards, significant accounting policies, management judgments and accounting estimates and adjustments arising from the audit, and discusses the Auditor General's and Ernst & Young's judgments about the quality, not just the acceptability, of accounting principles as applied in the financial report.

Appointments and Compensation Committee

The Appointments and Compensation Committee (A&CC) is a committee of the board of directors whose primary functions include advising the board on matters regarding the composition and remuneration of the board, remuneration and appointment of the CEO and senior management, Telstra remuneration strategies and practices generally and the performance of the CEO. The A&CC

performs the functions of, and is equivalent to, a nomination committee and a remuneration committee.

Membership of the A&CC

The A&CC is comprised of at least three members and all members must be independent non-executive directors, as determined by the board. The members of the A&CC during the first half of fiscal 2004 were:

- Robert Mansfield;
- John Ralph; and
- Donald McGauchie.

In December 2003, Charles Macek was also appointed a member of the A&CC.

Meetings of the A&CC

The A&CC meets at least two times a year or more frequently as required. The A&CC may request any Telstra employee to attend any meeting as it considers appropriate. However, if an employee has a material personal interest in a matter that is being considered at a meeting, he/she must not be present for consideration of that matter.

Business values, code of conduct and other company policies

Telstra has a number of internal operating policies and principles which promote ethical and responsible decision making and timely and balanced disclosure. The board is ultimately responsible for ensuring compliance by Telstra officers and employees with these policies and principles.

Telstra Values and Code of Conduct

We provide guidance to our directors, senior management and employees on the standards of personal and corporate behaviour required of all Telstra officers and employees and how to deal with business issues through our company values and code of conduct policies. Through these policies we reinforce the standards of ethical behaviour we expect from all employees, which are aimed at understanding and complying with the spirit and letter of legal and regulatory standards. We have a mandatory ethics training program for all employees to reinforce these standards. We also provide assistance to employees on the application and interpretation of the Telstra Values and code of conduct policies through employee help lines.

Whistleblowers

We have in place a Telstra Whistleblowing Service and whistleblowing policy which deal with illegal, unethical or improper business behaviour within Telstra. This service and policy provide protection for people who make disclosures, as well as the rights of anyone who may be named or affected by a report. They are also designed to complement existing policies and procedures such as the Telstra code of conduct policy and the fair treatment and equal employment opportunity procedures.

Share Trading Policy

We have in place a share trading policy that prohibits directors, senior management and certain other employees (and their associates) from engaging in short-term trading of our securities (including the acquisition of derivatives and financial and other products issued or created over Telstra's shares by Telstra or any third party). This policy also restricts the buying or selling of our securities to three "window" periods (between 24 hours and 1 month following the release of our annual results, the

release of our half-yearly results and the close of our AGM) and at such other times as the board permits. In addition, directors, senior management and relevant employees must notify the Company Secretary before they or their close relatives buy or sell our securities. Changes to the interests of directors in our securities are, as required by law, notified to the Australian Stock Exchange.

Furthermore, as required by law, buying or selling of our securities is not permitted at any time by any person who possesses price-sensitive information which is not generally available in relation to those securities.

Conflicts of Interest

The Corporations Act and our constitution require directors to disclose any conflicts of interest and to generally abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the board has developed procedures to be followed by a director who believes he or she may have a conflict of interest or material personal interest in a matter.

Continuous disclosure

We have in place a comprehensive continuous disclosure procedure which is reviewed and updated on a regular basis. The aim of the procedure is to ensure that we release price-sensitive information in a timely fashion to the various stock exchanges on which our shares and debt securities are listed. Our procedure runs as follows:

- ultimate management responsibility for continuous disclosure rests with the CEO and the Chief Financial Officer (CFO);
- our Continuous Disclosure Committee (Committee), chaired by the Group General Counsel, advises the CFO and the CEO on disclosure matters. The Committee is responsible for an internal disclosure system which ensures that information that might be disclosable is identified and reviewed quickly. The Committee's membership includes the Group General Counsel, the Managing Director - Corporate Relations, the General Counsel - Finance & Administration, the Director - Business and Finance Services, the General Manager - Investor Relations and the Company Secretary;
- senior management (including the CEO, the CFO, all other Group Managing Directors and their direct reports, all group financial controllers and all legal and regulatory counsel) must immediately inform the Committee of any potentially price-sensitive information or proposal as soon as they become aware of it;
- a collective recommendation regarding disclosure is then made to the CFO and the CEO. If the matter is disclosable, an announcement is prepared and immediately sent via the Company Secretary's office electronically to all relevant stock exchanges.

We implement several practices internally to reinforce the importance of Telstra's continuous disclosure obligations and the need to keep the Committee informed about potentially disclosable matters. These practices are reviewed regularly and include the following:

- every director is made aware of our continuous disclosure obligations upon taking office and each member of senior management undertakes training with the General Counsel - Finance and Administration, in relation to Telstra's continuous disclosure obligations;
- a weekly e-mail is sent to all senior management reminding them to notify the Committee immediately if they become aware of any potentially price-sensitive information or proposals;
- the Committee maintains a list of issues which, although not yet disclosable, are monitored in case they become disclosable;

- all proposed media releases and external speeches and presentations to be made by senior management are reviewed by internal legal counsel to determine whether they should be disclosed;
- an internal policy is in place governing communications with and provision of information to shareholders, brokers, analysts and financial media;
- the Legal and Regulatory Compliance and Risk Report prepared for the Audit Committee every quarter includes reporting on continuous disclosure; and
- the Office of the Company Secretary maintains a record of all market announcements made. The announcements are also posted on our website after market release is confirmed.

Legal and Regulatory Compliance

We are committed to conducting our business in compliance with all of our legal and regulatory obligations. Compliance with these obligations is not just a legal requirement but is integral to our commitment to our customers, employees, shareholders and the community.

Whilst we have always had in place systems to ensure compliance with our legal and regulatory obligations, we have a more formal compliance program in place. Under this compliance program, each business unit has a plan setting out how they intend to achieve legal and regulatory compliance in their operations through initiatives such as training, dissemination of information and monitoring of compliance outcomes. A Legal and Regulatory Compliance and Risk Report is also prepared for the Audit Committee every quarter. This report provides the Audit Committee with an oversight of the initiatives being taken to achieve legal and regulatory compliance and information on the significant legal cases in which Telstra is currently involved.

Business risk management

Through our policies on risk oversight and management, we are committed to the management of risks throughout our operations to protect our employees, the environment, assets, markets, earnings, reputation and shareholder value. The Audit Committee provides advice to the board on the status of business risks to Telstra through an integrated risk management and assurance function.

The risk management and assurance function has promoted a common language and approach used by business units in identifying, measuring and prioritising business risks. The Audit Committee receives reports independently prepared by the Risk Management and Assurance Group, on significant business risks and the strategies to manage these risks.

In addition, we use risk financing techniques including insurance to reduce the financial impact of uncontrollable and catastrophic risks. A central treasury function manages the financial exposures to reduce the volatility of cash flows and asset values arising from interest rate and exchange rate movements in accordance with board approved limits.

Shareholder Communications Strategy

We have implemented a number of initiatives to promote effective communication with our shareholders. These include the following:

- maintaining an investor relations website;
- placing all relevant announcements made to the market and related information on our website;
- webcasting certain events such as financial market briefings and our Annual General Meeting; and
- using electronic communications to advise certain investors of significant matters that may be of interest to them.

Other Considerations

While the Commonwealth owns more than 50% of the shares in Telstra, we will remain subject to various ministerial and other controls to which other publicly listed companies are not subject. This includes a ministerial power to give us written directions that the Communications Minister believes are in the public interest (section 9 of the Telstra Corporation Act). Within these constraints, the board continues to strive to achieve best corporate governance practice.

Review of Corporate Governance and Board Practices

Telstra is committed to continually reviewing and updating its practices. Whenever any new corporate governance requirements and guidance notes are issued by the New York Stock Exchange, the US Securities and Exchange Commission or the ASX, the board evaluates and, where appropriate, implements the relevant proposals to ensure that we continue to aim to achieve best practice in corporate governance.

Adoption of International Financial Reporting Accounting Standards

The Australian Financial Reporting Council (FRC) has determined that Australian entities reporting under the Corporations Act 2001 must prepare their financial statements under International Financial Reporting Standards (IFRS) as adopted by the Australian Accounting Standards Board from 1 January 2005. This will involve completing a first time set of financial statements under IFRS for the half-year ended 31 December 2005 and for the financial year ended 30 June 2006. Comparatives will also be remeasured under IFRS and restated for the half-year ending 31 December 2004 and the financial years ending 30 June 2005 and 30 June 2004.

The Company has established a project team, monitored by a governance committee, to manage the convergence to IFRS and ensure we are prepared to report for the first time under IFRS in accordance with the timetable outlined above. Adoption of IFRS may result in changes to our accounting policies, procedures and financial reporting systems. We are currently evaluating the potential impact of applying IFRS on our statement of financial position and performance. At this stage of the project, it is not possible to quantify the potential impact of convergence to IFRS.

Application of critical accounting policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Australia. The preparation of our financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. We continually evaluate our estimates and judgements including those related to customer incentives, bad debts, inventories, investments, intangible assets, income taxes, financing activities, restructuring costs, retirement benefits, contingencies and litigation. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. This forms the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates in the event that our assumptions prove to be incorrect.

Our accounting policies have been developed over many years as the telecommunications industry and Generally Accepted Accounting Principles or "GAAP" have evolved. As our financial statements are prepared under Australian GAAP ("AGAAP") our accounting policies are necessarily compliant with all aspects of AGAAP.

In developing accounting policies, in addition to AGAAP requirements, we also consider telecommunications industry practice in other countries. Further to this, where there is no conflict with AGAAP we also align our accounting policies with USGAAP. This reduces the number of AGAAP/USGAAP reconciliation differences required to be adjusted in note 11 to our half year financial statements.

In all material respects our accounting policies are applied consistently across the Telstra group of companies. To the extent that the accounting policies of entities we account for under the equity accounting method differ materially from ours, adjustments are made to the results of those entities to align them with our accounting policies. The critical accounting policies discussed below generally apply to all segments of the company.

The following are the critical accounting policies we apply in producing our AGAAP financial statements.

Carrying value of investments, goodwill and other intangible assets

We assess the carrying value of our investments in controlled entities, associates, partnerships and other investments, including acquired goodwill and other intangible assets, for impairment at least bi-annually based on their recoverable amount. Our assessments vary depending on the nature of the particular investment concerned and generally include methodologies such as discounted cash flow analysis, review of comparable entities' revenue or earnings multiples, or in the case of listed investees, monitoring of share prices. These methodologies sometimes rely on factors such as forecasts of future performance and long-term growth rates of the investee, selection of discount rates and appropriate risk weightings, and determination of appropriate comparable entities and multiples. If these forecasts and assumptions prove to be incorrect or circumstances change, we may be required to write down our investments.

As a result of these assessments, we have written down the carrying value of our investment in Reach which gave rise to a charge of \$965 million for the half year ended 31 December 2002. No such write downs occurred during the half year ended 31 December 2003.

Based on our most recent assessment of recoverable amount we believe that as at 31 December 2003 our investments, goodwill and other intangible assets are recoverable at the amounts at which they are stated in our half year financial statements.

Capitalisation of costs

When we incur costs, we classify them as either operating expenses or capital costs. We expense operating expenses to the statement of financial performance as they are incurred. We only capitalise costs where we consider that they will generate future economic benefits. Capital costs are recorded as assets and shown in our statement of financial position based on the asset class considered most appropriate to those costs. Management judgement is used in determining costs to be capitalised in relation to the following major asset categories:

- **Deferred expenditure**

We defer significant items of expenditure to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Expenditure is not deferred if it only relates to revenue that has already been recorded. We amortise this deferred expenditure over the average period in which the related benefits are expected to be realised (generally 5 years). Each year we also review expenditure deferred in previous periods to determine the amount, if any, that is no longer recoverable. The amount of deferred expenditure that is no longer recoverable is written off as an expense in the statement of financial performance. Our deferred expenditure after amortisation, including deferred mobile handset subsidies, was A\$906 million at 31 December 2003 and A\$719 million at 31 December 2002.

- **Capitalisation of software assets developed for internal use**

We capitalise direct costs associated with the development of network and business software for internal use where we regard the success of a project to be probable. Management applies judgement to assess this probability.

We capitalise costs such as external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees and contractors directly associated with a project and borrowing costs incurred while developing the software.

At 31 December 2003 our capitalised software assets for internal use, after amortisation, were A\$1,923 million and A\$1,974 million at 31 December 2002. If management has incorrectly assessed the probability of the success of a project we may be required to write down the value of the software assets we have recorded.

- **Constructed property, plant and equipment**

The cost of our constructed property, plant and equipment includes purchased materials, direct labour, direct and indirect overheads, and borrowing costs. Under AGAAP, indirect overheads and borrowing costs cannot be directly attributed to constructed assets. As a result of this, the allocation of these costs between capital assets and operating expenses involves a degree of management judgement.

Indirect overheads are generally attributable to the construction of assets and do not usually vary with construction activity volumes. Examples of indirect costs include planning and design of construction projects and the management of construction contracts. Where the role of a part of the work force is predominantly management, design and construction of communication assets, we allocate all indirect overheads associated with the operations and management of that work force to the projects undertaken by them. Where some projects undertaken by an organisational area do not relate to capital projects, indirect overheads are only allocated to capital projects based on the proportion that capital projects make up of the total costs of that organisational area. The remaining costs of that work force are expensed as incurred.

Borrowing costs are capitalised on all assets constructed. We do not specifically borrow to fund

construction of assets due to the constant nature of our construction process. As a result the allocation of borrowing costs to these assets is general and does not reflect funds specifically borrowed for each asset.

Carrying value and depreciation of property, plant and equipment assets and software assets developed for internal use

Property, plant and equipment assets made up 66.5% of our total assets at 31 December 2003 and 62.7% at 31 December 2002. We therefore consider our accounting policies around the carrying value and depreciation of these assets to be critical. We have adopted the cost basis of recording our property, plant and equipment, rather than the fair value basis. We assess the recoverable amounts of our fixed assets bi-annually, based on expected future net cash flows discounted to their net present value.

Where a group of assets can be shown to be working together to generate net cash flows, this assessment is performed over the group of assets, rather than individually. If our estimates of future cash flows prove to be incorrect we may be required to write down assets in the future. In applying this policy we have not written down significant amounts of property, plant and equipment assets during the past three years.

In addition, we assess the appropriateness of the service lives of our property, plant and equipment assets on an annual basis. This includes a comparison against our service life estimates and international trends for other telecommunications companies. In relation to communications assets this assessment includes a determination of when the asset may be superseded technologically. If our assessments of useful life prove to be incorrect we may incur either higher or lower depreciation charges in the future, or in certain circumstances, be required to write down these assets.

Software developed for internal use is an exception to the above annual revision of service lives. With reference to global industry practice it was judged that for administrative simplicity, internally developed software would, on average, have a useful life of 6 years (5 years in 2002 and 2001).

Doubtful debts

We maintain provisions for doubtful debts based on an estimate of the inability of our customers to pay amounts due to us for services rendered to them. These provisions are based on historical trends and management's assessment of general economic conditions. If the financial condition of our customers deteriorates these provisions may not be sufficient and may lead to an increase in bad and doubtful debt expenses. We have no reason to believe that the provisions we have raised will not sufficiently cover bad debts arising out of the receivables we currently have on hand.

Our provision for doubtful debts was A\$202 million at 31 December 2003 and A\$201 million at 31 December 2002. Trade debtors before any provision for doubtful debts were A\$2,379 million at 31 December 2003 A\$2,389 million at 31 December 2002.

Adjustments to derive Underlying results

	31 December 2003					31 December 2002					
(A) Asset Sales (\$m)	Proceeds	NBV	Profit	Tax Effect @30% if applicable	Profit after tax	(A) Asset Sales (\$m)	Proceeds	NBV	Profit	Tax Effect @30% if applicable	Profit after tax
Investments						Investments					
Commander Communications Ltd	24	16	8	2	6	Mobitel	17	12	5	0	5
IBMGSA	154	5	149	-	149	DataOne	3	0	3	0	3
IBMGSA exit costs		130	(130)	(39)	(91)	New Skies - partial sale	6	10	(4)	0	(4)
						Various	1	(1)	2	0	2
Sale of listed & other invest.	178	151	27	(37)	64	Sale of listed & other invest.	27	21	6	0	6
Other	1		1	-	1	Sale of PABX business	2	(6)	8	0	8
						Sale of Cambodian Internet Business	2	0	2	0	2
Total Investment sales	179	151	28	(37)	65	Total Investment sales	31	15	16	0	16
Property sales	42	6	36	-	36	Property sales	680	510	170	11	159
Fleet	13	17	(4)	-	(4)	Fleet	20	22	(2)	(1)	(1)
Other Plant & Equipment	42	44	(2)	(2)	-	Other Plant & Equipment	57	46	11	25	(14)
Total Asset sales	97	67	30	(2)	32	Total Asset sales	757	578	179	35	144
Total Asset/Investment Sales	276	218	58	(39)	97	Total Asset/Investment Sales	788	593	195	35	160

(B) Tax Consolidation Benefit

Income tax expense for half year ended 31 December 2003 includes a benefit of \$58 million relating to our election to form a tax consolidation group from 1 July 2002. Under this legislation, certain tax values of a subsidiary's (Telstra Multimedia Pty Ltd) assets are reset according to set allocation rules. The benefit reflects the increase in the future income tax benefit arising from these reset tax values.

(C) Diminution (\$m)	Diminution	Associates	Total
PT Mitra	3		3
Reach		965	965
Total	3	965	968

(D) Reach contract exit (\$m)

Contract exit payments made to Reach Ltd	(65)
Reach equity accounted losses reflecting the exit payments	24
Total	(41)

Telstra Corporation Limited (ABN 033 051 775 556)

Half Year Ended 31 December 2003

Product reconciliation to align comparative figures with the reported format for year ended 31 December 2003

	Underlying ⁱ previously released Dec-02 \$m	Underlying ⁱ New Hierarchy Dec-02 \$m	Movement \$m	Included	Amount \$m	Excluded	Amount \$m
PSTN products							
Basic access	1,559	1,556	(3)			Fax Duet	3
Local calls	796	796	-				
PSTN value added services	138	141	3	Fax Duet	3		
National long distance calls	582	582	-				
Fixed to mobile	753	753	-				
International direct	162	161	(1)			Miscellaneous	1
Total PSTN products	3,990	3,989	(1)				
Mobiles	1,802	1,804	2	Mobile satellite equipment	2		
Data and Internet							
Data	525	526	1	Miscellaneous	1		
ISDN (Access and Calls)	496	496	-				
Internet and IP solutions	389	391	2	DSL Layer 2 and 3S	2		
Total Data and Internet	1,410	1,413	3				
Sensis (advertising and directories)	731	731	-				
Intercarrier services	593	591	(2)			DSL Layer 2 and 3S	2
Inbound calling products	250	250	-				
Solutions management	239	239	-				
Various controlled entities	698	874	176	TelstraClear now included in underlying ¹ results	273	NDC	97
Customer premises equipment	105	100	(5)			Mobile satellite equipment PABX	2 3
Payphones	75	75	-				
Other sales & service	302	402	100	NDC PABX	97 3		
Sales revenue	10,195	10,468	273	TelstraClear now included in underlying ¹ results	273		
Other revenue	111	111	-				
Total revenue	10,306	10,579	273	TelstraClear now included in underlying ¹ results	273		

ⁱ Underlying numbers exclude Asset and Investment sales

Statement of Financial Position - detail

	Half Year Ended 31 December			
	2003	2002	Change	Change
	(in \$ millions)			
				%
Current Assets				
Cash Assets	559	1,365	(806)	(59.0)
Receivables	3,656	3,875	(219)	(5.7)
Inventories	239	252	(13)	(5.2)
Other Assets	674	553	121	21.9
Total Current Assets	5,128	6,045	(917)	(15.2)
Non-Current Assets				
Receivables	596	1,274	(678)	(53.2)
Inventories	14	6	8	133.3
Investments - accounted for using the equity method	113	240	(127)	(52.9)
Investments - other	80	97	(17)	(17.5)
Property, Plant and Equipment	22,666	23,068	(402)	(1.7)
Future Income Tax Benefit	0	60	(60)	(100.0)
Intangibles - goodwill	1,958	2,006	(48)	(2.4)
Intangibles - other	1,050	1,298	(248)	(19.1)
Other Assets	2,428	2,719	(291)	(10.7)
Total Non-Current Assets	28,905	30,768	(1,863)	(6.1)
Total Assets	34,033	36,813	(2,780)	(7.6)
Current Liabilities				
Payables	1,944	2,377	(433)	(18.2)
Interest-bearing liabilities (borrowings)	1,488	2,080	(591)	(28.5)
Income Tax Payable	356	599	(243)	(40.6)
Provisions	371	381	(10)	(2.6)
Revenue Received in Advance	864	840	24	2.9
Total Current Liabilities	5,023	6,277	(1,254)	(20.0)
Non-Current Liabilities				
Payables	42	91	(49)	(53.8)
Interest-bearing liabilities (borrowings)	10,796	11,857	(1,061)	(8.9)
Provisions	762	843	(81)	(9.6)
Provision for Deferred Tax	1,895	2,077	(182)	(8.8)
Revenue Received in Advance	405	433	(28)	(6.5)
Total Non-Current Liabilities	13,900	15,301	(1,401)	(9.2)
Total Liabilities	18,923	21,578	(2,655)	(12.3)
Net Assets	15,110	15,235	(125)	(0.8)
Shareholders Equity				
Contributed Equity	6,073	6,433	(360)	(5.6)
Reserves	(205)	7	(212)	N/M
Retained Profits	9,240	8,846	394	4.5
Shareholders' equity available to Telstra Entity Shareholders	15,108	15,286	(178)	(1.2)
Outside Equity Interest				
Contributed Equity	1	206	(204)	N/M
Reserves	(0)	28	(29)	N/M
Retained Profits	1	(285)	286	N/M
Total Outside Equity Interest	2	(51)	53	N/M
Total Shareholders Equity	15,110	15,235	(125)	(0.8)