10 February 2011

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

The Manager

Company Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Financial Results for the Half Year ended 31 December 2010.

In accordance with Listing Rules, I enclose the following for immediate release:

1. Appendix 4D – half yearly report;
2. Half year results and operations review – financial highlights;
3. Media release;
4. Directors' report; and
5. Half year financial report for the half year ended 31 December 2010.

Telstra's Chief Executive Officer, David Thodey and Telstra's Chief Financial Officer, John Stanhope will present Telstra's Half Year Results to 31 December 2010 at 9.30am today. The announcement may be viewed live and unmetered for BigPond customers from 9.30am (AEDT) on the Telstra Investor website http://www.telstra.com.au/abouttelstra/investor/calendar/half-year-results-announcement-4.xml.

Telstra will also broadcast its Half Year Results live on Telstra T-Box. Telstra T-Box customers can tune into the results using its Electronic Program Guide (EPG), or by directly accessing channel 409, from 9.30am AEDT today.

Transcripts will be lodged with the ASX when available.

This Announcement has been released simultaneously to the New Zealand Stock Exchange.

Yours sincerely

Carmel Mulhern
Company Secretary

Telstra Corporation Limited and controlled entities

Appendix 4D
Half-year report
For the half-year ended 31 December 2010

Appendix 4D
Half-year report
31 December 2010
Telstra Corporation Limited
ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2010	2009	Movement	Movement
	$m	$m	$m	%
Extract from the income statement				
Revenue (excluding finance income)	**12,283**	12,342	(59)	(0.5%)
Other income	**125**	47	78	166.0%
Profit for the period	**1,207**	1,886	(679)	(36.0%)
Profit for the period available to Telstra Entity shareholders	**1,194**	1,853	(659)	(35.6%)

This report is to be read in conjunction with our half-year financial report as at 31 December 2010.

There were no individual transactions that had a significant impact on our income statement that require specific disclosure, other than the following:

- $111 million worth of fair value losses (31 December 2009: $31 million loss) in finance costs;
- An impairment loss of $133 million relating to the goodwill and intangible assets in the Octave Group; and
- A gain on disposal of our controlled entity, SouFun, of $69 million (31 December 2009: $9 million loss on disposal of Universal Publishers).

Refer to note 5, note 6 and note 8 in our half-year financial statements lodged with this document for more details.

Appendix 4D
Half-year report
31 December 2010
Telstra Corporation Limited

Results for announcement to the market (continued)

	Half-year ended 31 December	
	2010	2009
Dividends per ordinary share to be paid	**cents**	cents
Interim dividend fully franked	**14.0**	14.0
Dividends paid	**$m**	$m
Previous year final dividend paid	**1,737**	1,737
Dividends paid per ordinary share	**cents**	cents
Previous year final dividend	**14.0**	14.0

Subsequent to balance date, an interim dividend for fiscal 2011 was resolved to be paid. Our interim dividend in respect of fiscal 2011 has been disclosed as an event after balance date. The interim dividend of 14 cents per ordinary share, amounting to $1,737 million, has a record date of 25 February 2011 with payment to be made on 25 March 2011. Shares will trade excluding entitlement to the dividend on 21 February 2011. As the interim dividend for fiscal 2011 was not determined or resolved to be paid by the Board as at 31 December 2010, no provision for dividend has been raised in the statement of financial position.

Our final dividend in respect of fiscal 2010 was provided for and paid during the interim period. The final dividend had a record date of 27 August 2010 and payment was made on 24 September 2010.

Our interim and previous year final dividends are fully franked at a tax rate of 30%.

Appendix 4D Half-year ended 31 December 2010

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Contents and reference page

Appendix 4D Requirements	Reference
1. Reporting period and the previous corresponding period.	Refer to the 31 December 2010 half-year financial report lodged with this document.
2. Results for announcement to the market.	Refer page 2 for "Results for announcement to the market".
3. Net tangible assets per security.	Refer item 1 on page 5 of this report.
4. Details of entities where control has been gained or lost during the period and events after balance date.	Refer item 2 on page 5 and item 4 on page 7 of this report.
5. Details of individual and total dividends or distributions and dividend or distribution payments.	Refer to the "Results for announcement to the market" on page 3 of this report. Also refer to Note 3: Dividends and Note 11: Events after balance date in the 31 December 2010 half-year financial report lodged with this document for additional information.
6. Details of dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in a dividend or distribution reinvestment plan.	Refer item 5 on page 7 of this report.
7. Details of our joint ventures and associated entities.	Refer item 3 on page 6 of this document for details on our jointly controlled and associated entities.
8. Accounting standards used in compiling reports by foreign entities (e.g. International Accounting Standards).	Not applicable.
9. If the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Not applicable.

Appendix 4D Half-year ended 31 December 2010

1. Net tangible assets per security

	Telstra Group	
	As at	
	31 Dec 2010 cents	30 June 2010 cents
Net tangible assets per security	**35.5**	37.5

Net tangible assets are defined as net assets of the Telstra Group less intangible assets and non-controlling interests. The number of Telstra shares on issue as at 31 December 2010 and 30 June 2010 was 12,443 million.

The decrease in net tangible assets per security is due to the net tangible assets of the Telstra Group decreasing from $4,668 million at 30 June 2010 to $4,414 million at 31 December 2010. The decrease of $254 million is mainly due to the increase in net debt of $469 million because of the timing of cash flows.

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

We did not gain control over any entities during the period ended 31 December 2010.

Entities where control has been lost during the period are as follows:

- On 17 September 2010, our controlled entity Telstra International Holdings sold its 50.6% shareholding in SouFun Holdings Limited for a net consideration of $288 million (net of cash balances of the disposed entity);

- On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business for a total consideration of $12 million, resulting in a loss on disposal of $18 million. The cost of the intangible assets disposed of amounted to $26 million and Telstra Limited recognised a provision for restructuring of $4 million on disposal of the business; and

- On 8 December 2010, we sold our entire ownership interest of 48.2% in Keycorp Limited for a total consideration of $23 million, resulting in a gain on sale of $8 million.

Appendix 4D Half-year ended 31 December 2010

3. Details of investments in joint ventures and associated entities

		Telstra Group	
		Ownership interest As at	
Name of entity	Principal activities	31 Dec 2010 %	30 June 2010 %
Jointly controlled entities			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Limited	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (i)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (ii)	Toll free number portability in New Zealand	**33.3**	33.3
3GIS Pty Ltd (i)	Management services	**50.0**	50.0
3GIS Partnership (i)	3G network services	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (ii)	Regional roaming provider	**10.0**	10.0
Associated entities			
Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (i)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Keycorp Limited (iii)	Electronic transactions solutions	**-**	48.2
Telstra Foundation Ltd	Charitable trustee organisation	**100.0**	100.0
Beijing Huaxin Target Information Co Ltd (incorporated in China) (i)	Wireless music services	**30.0**	30.0

(i) Balance date is 31 December.

(ii) Balance date is 31 March.

(iii) During the period, Telstra sold its 48.2% shareholding in Keycorp Limited. Refer to Item 2 on page 5 of this report for further details.

Unless noted, all investments are incorporated in Australia.

Appendix 4D Half-year ended 31 December 2010

4. Events after balance date

No significant events have occurred after balance date for the half-year ended 31 December 2010 other than:

Interim dividend

On 10 February 2011, the directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 14 cents per ordinary share, amounting to $1,737 million. The record date for the interim dividend is 25 February 2011 with payment to be made on 25 March 2011. Shares will trade excluding entitlement to the dividend on 21 February 2011.

The interim dividend will be fully franked at a tax rate of 30%. The financial effect of this interim dividend was not brought to account as at 31 December 2010.

Queensland, upper NSW, Victoria and Tasmania floods

The floods and cyclone in Queensland, and the floods in upper NSW, Victoria and Tasmania that occurred in January and February 2011 will have a significant impact on Telstra in terms of service recovery and asset replacement. At this stage an estimate of the financial impact of this disaster cannot be made until the full extent of the damage has been assessed.

Restructure of Reach Joint Venture

On 26 January 2011, Telstra and PCCW signed an agreement to restructure the assets in their 50/50 joint venture, Reach, as part of an ongoing review of the company's Asian assets to drive shareholder value.

The restructure will result in a division of the majority of Reach's international assets between Telstra and PCCW. Reach will continue to manage the remaining joint assets, which are predominantly located in Hong Kong.

The restructure will give the Telstra International Group greater control over the platform used to deliver end-to-end services, improving the quality of service offered to enterprise and global service provider customers. The structural changes to Reach are expected to be completed during the second half of fiscal 2011 by the management of the Telstra International Group, PCCW and Reach.

As a result of the restructure, Telstra anticipates recognising an accounting gain of $50 million on signing and a further $80 million to $100 million on completion.

FOXTEL distribution

On 31 January 2011, we received a $20 million distribution from our jointly controlled entity FOXTEL.

National Broadband Network

Further to the non-binding financial heads of agreement announced on 20 June 2010, Telstra announced on 10 February 2011 that we had provisionally agreed key commercial terms negotiated with NBN Co and the in-principle agreement with the Federal Government.

We are working to complete the necessary documentation. As soon as this is finalised by both NBN Co and Telstra, ACCC and Telstra shareholder approval is required. While there is still work to be done, we are on track to put the proposal to shareholders with a target date of 1 July 2011.

5. Dividend Reinvestment Plan

The Dividend Reinvestment Plan continues to be suspended.

6. Statement on audit status

Our financial report for the half-year ended 31 December 2010 has been reviewed by Ernst & Young. It is not subject to review, dispute or qualification. Refer to the 31 December 2010 half-year financial report for the independent review report provided to the members of Telstra Corporation Limited.

FINANCIAL HIGHLIGHTS
Half-Year ended 31 December 2010

OPERATING MOMENTUM CONTINUES. GUIDANCE, DIVIDEND MAINTAINED

REPORTED RESULTS

- **919 thousand mobile customers added**
- **139 thousand retail broadband customers added**
- **Revenue growth from all three major retail segments**
- **Sales revenue declined 0.5% or $60m to $12,263m**
- **EBITDA declined 13.9% or $737m to $4,580m**
- **EBITDA margins declined by 5.8 percentage points to 37.3%**
- **EBIT declined by 24.1% or $756m to $2,376m**
- **Earnings per share of 9.6 cents was down 35.6%**
- **Free cashflow declined 22.9% or $599m to $2,020m**
- **Interim dividend of 14 cents per share, fully franked**

RESULTS ON GUIDANCE BASIS

(Assumes wholesale product price stability, no fiscal 2011 impairments to investments and excludes any proceeds on the sale of businesses or any impact of network restoration work following natural disasters)

- **Sales revenue declined 0.5% or $60m to $12,263m**
- **EBITDA declined by 12.5% or $663m to $4,654m**
- **Free cashflow declined 35% or $919m to $1,700m**

SUMMARY FINANCIAL RESULTS ($m)

	Half-year Ended 31 Dec 10 $m	Half-year Ended 31 Dec 09 $m	YoY change %
Sales revenue	12,263	12,323	-0.5
Total revenue	12,283	12,342	-0.5
Operating expenses	7,829	7,072	10.7
EBITDA (reported)	4,580	5,317	-13.9
EBITDA (guidance)*	4,654	5,317	-12.5
Depreciation and Amortisation	2,204	2,185	0.9
EBIT	2,376	3,132	-24.1
Net finance costs	571	520	9.8
Tax	598	726	-17.6
Attributable NPAT	1,194	1,853	-35.6
Accrued capital expenditure	1,451	1,601	-9.4
Free cash flow	2,020	2,619	-22.9

*on guidance basis, excluding gain/loss on sale of businesses and Octave impairment

Strategy Update

In August 2010, Telstra announced a medium-term strategy to build on four key initiatives – to improve customer service, to retain and grow customers, to simplify the business and to invest in new growth businesses.

We recorded a 1.3% improvement in our customer satisfaction rating in the half and implemented a range of customer-centric measures such as 24/7 call centres. While this is good early momentum, it is a multi-year programme and remains a highest priority for the entire company.

We have a strategy to retain and grow customers and the early success of this strategy has been clear in the customer market share growth and lower churn that we have seen across major products. Of particular note are the 919 thousand new mobile customers and 139 thousand new retail broadband customers we gained in the half. We will continue to bring new products and pricing to the market in the second half.

1 million **NEW MOBILE AND BROADBAND CUSTOMERS**

We recognise the need to translate this customer momentum into revenue and profitability but with customer base a leading indicator of financial performance we believe that our strategy remains on track. Another positive trend is the revenue growth reported by all three retail segments in the half.

Our initiatives under Project New to simplify the business continue to be implemented, and we have made early progress with our new central consumer call centre in Melbourne and greatly simplified broadband plans.

The company has also highlighted that it sees growth opportunities in media, network applications and services and Asia, and we will continue to pursue these. Our focus remains on organic growth, although we would consider small acquisitions if they create clear value for our shareholders. The uptake of the T-Hub and T-Box, restructuring of our Reach assets in Asia and significantly improved performance at CSL New World are indicators of the progress we are making in these areas.

Reported Results

Telstra Corporation Limited has met its guidance for the first half of fiscal 2011 and maintained its dividend. The company has also re-affirmed guidance for the full-year and is seeing the strong customer growth through the half beginning to have a positive impact on revenue trends.

In the first half of fiscal 2011, sales revenue declined 0.5% to $12,263 million and total revenue declined by 0.5% to $12,283 million. This compares to a 2.5% decline in sales revenue in the first half of fiscal 2010.

Operating Expenses (before D&A) in the half increased by 10.7% to $7,829 million as the company invested in customer acquisition. This is consistent with our intention to invest in the business in 2011. Including depreciation and amortisation, expenses rose by 8.4%. This expense total includes an impairment in the carrying value of Octave of $133 million.

Labour expenses increased by 1.1% to $1,988 million. Salary costs declined by 3.5% in the half reflecting lower headcount, but were offset by higher redundancy charges. Directly Variable Costs (DVCs) or Goods and Services Purchased increased by

FINANCIAL HIGHLIGHTS
Half-Year ended 31 December 2010

20.4% to $3,148 million. The increase in DVCs was concentrated in our mobile business where mobile hardware cost of goods sold increased by 44.3% or $189 million to $616 million. Partially offsetting this cost was a $153 million increase in mobile hardware revenues to $566 million. Mobile subsidies increased by $140 million or 44% to $457 million with around a third of the increase incurred at CSL New World. Network payments increased 5.3% which was largely due to increased outpayments as a result of mobile traffic growth. Other expenses increased by 8.2% or $203 million to $2,693 million. The largest cost increase in this line was the investment in the early phases of Project New plus the impairment in Octave.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 13.9% to $4,580 million, with EBITDA margins declining by 5.8 percentage points to 37.3%. Earnings before interest and tax (EBIT) decreased by 24.1% to $2,376 million on a reported basis. On our guidance basis, adjusting for gain/loss on sale of assets and Octave impairment, EBITDA declined 12.5% in the half.

Reported attributable profit after tax declined 35.6% to $1,194 million and basic earnings per share (EPS) decreased by 35.6% from 15.0 cents to 9.6 cents.

Free cash flow of $2,020 million was generated in the half, in line with our expectations. This figure includes a net $288 million from the sale of Soufun. Accrued capital expenditure was $1,451 million in the half, or 11.8% of sales.

On 10 February 2011, the Directors of Telstra resolved to pay a fully franked interim dividend of 14 cents per share. The record date of the dividend will be 25 February 2011 with payment on 25 March 2011. Shares will trade excluding entitlement to the dividend on 21 February 2011.

Adjusted Results

ADJUSTED FINANCIAL RESULTS*

	H1 2011 YoY change	H2 2010 YoY change	H1 2010 YoY change
Sales revenue	0.7%	0.3%	-0.7%
Total revenue	0.2%	0.4%	-1.1%
Operating expenses	9.8%	-1.1%	-2.1%
EBITDA	-11.1%	2.4%	0.2%
EBIT	-19.6%	2.7%	2.0%
Net finance costs	-5.7%	-9.6%	-24.7%
Attributable NPAT	-24.9%	3.3%	13.0%

*Adjusted for gain on sale of businesses, Octave impairment, currency movements, Sydney Yellow Pages and fair value adjustments

There are a number of one-off factors that have impacted our results in the first half. In the above table we have adjusted the results for five factors – the gain/loss on the sale of businesses, the impairment of Octave, currency movements, the change in timing of Sydney Yellow Pages revenue recognition and the fair value adjustments to finance costs - to present a more accurate view of the real performance of the business. Given its minimal impact, we have not adjusted for the sales revenues and costs incurred at SouFun in the first three months of the year.

Adjusting for the recognition of the Sydney Yellow Pages revenues in the second half ($83 million) and currency movements ($69 million), sales revenues in the half grew by 0.7% and total revenue by 0.2%.

On an adjusted basis, EBITDA declined 11.1% in the half and attributable NPAT declined 24.9%

Segment performance

KEY SEGMENT INCOME

	H1 2011 $m	H1 2010 $m	YoY change
Telstra Consumer and Country Wide	4,833	4,740	2.0%
Telstra Business	2,429	2,379	2.1%
Telstra Enterprise and Government	2,060	2,035	1.2%
Total Retail*	9,322	9,154	1.8%
Telstra International	687	701	-2.0%
Telstra Wholesale	1,126	1,149	-2.0%
Sensis**	779	845	-7.9%

*Calculated as sum of Consumer, Business and Enterprise and Government revenues
** Adjusted for Sydney Yellow Pages

After a challenging 2010, all three of our major retail segments have returned to growth in the first half of 2011. Total retail revenue growth was $169 million or 1.8% in the half which more than offset a $23 million or 2% decline in our wholesale business.

Revenues at Sensis declined 17.8% in the half, or 7.9% adjusting for the revenue recognition of the Sydney Yellow Pages.

Product performance

KEY DOMESTIC PRODUCT REVENUE

	H1 2011 $m	H1 2010 $m	YoY change
Mobile services	3,421	3,211	6.5%
Total Mobile	3,987	3,624	10.0%
PSTN	2,743	2,996	-8.4%
Fixed retail broadband (including hardware)	794	791	0.4%
IP and data access	891	894	-0.4%
Ad. and Directories*	876	975	-10.2%

*Adjusted for the Sydney Yellow Pages

At a product level, we have seen a significant improvement in performance in the half across most major products, with only Sensis recording a significant deterioration in trends. Much of the improvement has come as a result of improved customer growth trends, and we believe that this is a leading indicator of future financial performance. Total mobile revenue growth was 10.0% in the half as customers continue to recognise the benefits of our network. Mobile services revenue growth in the half was steady at 6.5%. Growth has also continued in IP access which grew 20.1%. PSTN revenues declined by 8.4% million while retail fixed broadband revenues increased by 0.4%. Adjusting for the Sydney Yellow Pages revenue recognition, Advertising and Directories revenues declined 10.2% in the half. The major driver was an 18% decline in Yellow Print as the shift to on-line continues.

Fixed

Total PSTN revenue declined by 8.4% during the half to $2,743 million. While this is a slight improvement on the 9% decline in the second half of fiscal 2010, it still shows the structural shift away from PSTN driven by both lower usage and line loss. Usage continues to decline across all calling categories, with local calls falling 14% in the half and national long distance minutes declining 9.3% in the half. Line loss in the half was 3.3% at a retail level, equivalent to 109 thousand lines in the period, versus a 3.6% decline in the first half of fiscal 2010 and 4.2% in the second half. Growth in ULL uptake by competitors continues to be strong, although LSS growth has slowed with many competitors focussing on ULL. Line cancellations were also 44 thousand in the half.

+139k **BROADBAND CUSTOMERS**

Our new market offers have led to a significant improvement in fixed broadband customer momentum in the half with 139 thousand retail customers added, including 80 thousand in the second quarter. Lower churn has been an important driver of the improvement, with the annualised fixed broadband disconnect rate falling from 25.1% to 16.4% over the prior corresponding period.

Despite intense price competition, fixed broadband ARPUs continue to hold up well and were $56.36 in the half, down 1.7%. Fixed retail broadband revenue (including hardware) grew by 0.4% to $794 million.

New products and offers continue to stimulate demand in the fixed broadband market. As at 31 December we had sold close to 128 thousand T-Hubs and 107 thousand T-Boxes plus we had 804 thousand customers on our bundled plans.

PSTN EBITDA margins in the half were 59%, flat year on year, while fixed broadband EBITDA margins fell 7pp to 33% through higher customer acquisition costs.

Mobile

Mobile revenue growth remains strong, a testament to our network quality and attractive offers and was driven by strong customer growth and resilient ARPU. Mobile services revenue grew by 6.5% to $3,421 million in the half with growth in the second quarter accelerating as the benefits of customer growth emerged. In the half, postpaid handheld revenue grew by 2.8% to $2,214 million, prepaid handheld revenue by 9.3% to $351 million and mobile broadband revenue grew by 24.5% to $477 million.

+919k **MOBILE CUSTOMERS**

At the end of December, total mobile customers were 11.5 million, up 919 thousand in the half and 555 thousand in the second quarter. Postpaid handheld customers at the end of December were 6.1 million, up 297 thousand in the half and 181 thousand in the second quarter with ARPU in the half of $61.93, down 0.9% year on year. Mobile broadband customers (postpaid and prepaid) at the end of December were 2.2 million, up 505 thousand in the half and 254 thousand in the second quarter with ARPU of $41.53 declining 22.9% year-on-year. The major driver of the ARPU decline has been the growth of prepaid mobile broadband, with customers more than doubling in the last year. Monthly prepaid unique users averaged 1.9 million in the December quarter, an increase of 54 thousand on the June quarter and generated revenue of $351 million, up 9.0% on the prior corresponding period.

Mobile hardware revenues grew 37.0% in the half to $566 million. This is due to high volumes of smartphones being sold to postpaid customers and we believe is a leading indicator for future revenue growth given the resilience of mobile ARPU. Over the half, seven of the ten most popular postpaid handhelds sold were smartphones. While this should give long-term ARPU benefits, it has led to a short-term increase in average subscriber acquisition and retention costs. Postpaid handheld disconnect rates declined from 15.8% to 9.7% in the half on an annualised basis.

Mobile EBITDA margins in the half were 29%, down 5pp year on year reflecting the increased investment in customer growth but with our control over mobile costs we expect margins to improve again in the second half.

IP and Data

Our IP and data access business continues to focus on the migration to IP technologies with revenues declining 0.3% to $891 million. Within this category, IP Access revenue grew 20.1% in the half to $472 million. Our IP and cloud computing services continue to produce significant contract wins in the half, plus successful deployments at a large number of existing customers. We continue to see significant growth opportunities across IP Access and Network Applications and Services.

IP and data EBITDA margins in the half were 61%, flat year on year.

Sensis

Reported Sensis sales revenue decreased by 17.8% during the half. However, adjusting for the changed revenue recognition for the Sydney Yellow Pages to the second half in 2011, revenues in the half declined 7.9%. This decline was driven by a fall of 18% in Yellow Print revenues, which we believe is a result of a structural shift from advertisers away from print directories.

This is a trend seen in other markets, and Sensis has developed a digital strategy to address the decline in print revenues. While revenue recognition also impacted digital performance in the half, the Sensis digital sales order value increased by more than 20% in the half, which is an indicator for expected future revenue trends.

FINANCIAL HIGHLIGHTS
Half-Year ended 31 December 2010

Asia

In the last six months, CSL New World has seen a significant improvement in operating momentum following the launch of iPhones and its LTE network. In local currency, revenues grew 24.3% in the half, including service revenue growth of 6.7%. We have also invested in new devices and services, resulting in an EBITDA decline of 26.0% in the half in local currency but we expect to return to EBITDA growth in the second half as the benefits of our investment in customers is realised.

Our strategic review of our other Asian assets has also resulted in the restructuring of Reach, the sale of SouFun and recognition of an impairment in Octave.

Expense performance

On an adjusted basis (normalising for currency movement and the recognition of the Sydney Yellow Pages), operating expenses in the half rose by 9.8%.

Adjusted labour expenses rose by 1.6% driven by a $58 million or 56.3% increase in redundancy costs in the half. Salary and associated costs fell by $65 million in the half, reflecting a reduction of over a thousand domestic full time staff in the half.

Adjusted goods and services purchased increased by 22.2% with cost of goods sold increasing by 42.5%. This was foreshadowed last year as we announced a significant investment in customers and this is reflected in our variable costs.

Other expenses increased by 3.3% on an adjusted basis. The major driver was the investment in Project New. Our general and administration costs continue to decline and fell 5.5%.

Financial position

(a) Capital Expenditure and Cashflow

Accrued operating capital expenditure of $1,451 million was down $150 million or 9.4% on the prior corresponding period, and is consistent with our guidance for capex/sales of around 14% in the year.

Free Cashflow decreased by $599 million to $2,020 million in the half driven largely by higher operating expenses and working capital as we invested in customer growth.

(b) Debt position

The effective net debt position at 31 December 2010 was $14,395 million which represents an increase over the six months of $469 million. Our effective interest rate (or average borrowing cost) on average net debt increased from 6.05% in the first half of fiscal 2010 to 6.94% in the first half of fiscal 2011.

National Broadband Network (NBN)

On 10 February, Telstra announced it had finalised key commercial terms with NBN Co, passing an important milestone in the proposed agreement that is expected to deliver approximately $9 billion in post-tax net present value to Telstra.

In addition Telstra has reached in-principle agreement with the Federal Government over the specific measures that are expected to deliver a further approximately $2 billion in post-tax net present value.

The total post-tax net present value of the transaction is approximately $11 billion.

This important milestone represents substantial progress. During the last eight months we have negotiated constructively over a range of extremely complex matters

We are working to complete the necessary documentation. As soon as this is finalised by both NBN Co and Telstra, Telstra will be able to provide detailed information on the substance of the proposal. While there is still work to be done, we are on track to put the proposal to shareholders with a target date of 1 July 2011.

Telstra has provisionally agreed commercial terms relating to copper network decommissioning, dark fibre and duct usage, exchange usage, certain roll-out arrangements and other matters with NBN Co. The parties are working to complete the associated operational details and ensure all contingencies are addressed as part of the documentation process which is expected to be completed in the near future.

Telstra will then commission an independent expert report for shareholders so that the proposal and that report can be put to shareholders at an Extraordinary General Meeting provisionally scheduled for 1 July 2011.

Finalisation of the agreements and the target date of the EGM will continue to be subject to prior regulatory approval, price stability, confirmation of tax arrangements, and appropriate legislation setting out regulation and ownership rules for NBN Co and reform of the Universal Service Obligation.

Outlook

For 2011, we confirm the guidance issued in August 2010 and expect flattish sales revenue, a high single digit percentage decline in EBITDA, capex/sales of around 14% and $4.5 to $5.0 billion of Free Cashflow. In the first half of the year, operating expenses increased by $750 million but with a number of initiatives weighted to the first half of the year, we continue to expect the full year increase to be in line with guidance. In particular we expect our initiatives in mobile to show benefits, with continued growth and improving margins in the second half. For fiscal 2011, goods and services purchased will be a little higher than anticipated as we respond to demand in the market, but this will be offset by savings in other costs.

As announced in November, it is also the Board's intention to maintain a 28c fully-franked dividend for 2011 and 2012, subject to the Board's normal process for dividend declaration and no unexpected material events.

GUIDANCE SUMMARY*

Measure	FY11 guidance
Sales revenue	Flattish
EBITDA	High single digit percentage decline
Capex/sales	14%
Free Cashflow	$4.5-5.0 billion
Dividend	28c fully-franked

* Guidance assumes wholesale product price stability, no fiscal 2011 impairments to investments and excludes any proceeds on the sale of businesses or any impact of network restoration work following natural disasters

Half-year results and operations review - December 2010

Table of contents

for the half-year ended 31 December 2010

Half-year results and operations review - December 2010

Summary financial information

Results of operations

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Sales revenue	**12,263**	12,323	(60)	**(0.5%)**
Other revenue (i)	**20**	19	1	**5.3%**
Total revenue	**12,283**	12,342	(59)	**(0.5%)**
Other income (ii)	**125**	47	78	**166.0%**
Total income (excl. finance income)	**12,408**	12,389	19	**0.2%**
Labour	**1,988**	1,967	21	**1.1%**
Goods and services purchased	**3,148**	2,615	533	**20.4%**
Other expenses	**2,693**	2,490	203	**8.2%**
Operating expenses	**7,829**	7,072	757	**10.7%**
Share of net profit from jointly controlled and associated entities	**(1)**	-	(1)	**n/m**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**4,580**	5,317	(737)	**(13.9%)**
Depreciation and amortisation	**2,204**	2,185	19	**0.9%**
Earnings before interest and income tax expense (EBIT)	**2,376**	3,132	(756)	**(24.1%)**
Net finance costs	**571**	520	51	**9.8%**
Profit before income tax expense	**1,805**	2,612	(807)	**(30.9%)**
Income tax expense	**598**	726	(128)	**(17.6%)**
Profit for the period	**1,207**	1,886	(679)	**(36.0%)**
Attributable to:				
Equity holders of the Telstra Entity	**1,194**	1,853	(659)	**(35.6%)**
Non-controlling interests	**13**	33	(20)	**(60.6%)**
	1,207	1,886	(679)	**(36.0%)**
Effective tax rate	**33.1%**	27.8%		**5.3**
EBITDA margin on sales revenue	**37.3%**	43.1%		**(5.8)**
EBIT margin on sales revenue	**19.4%**	25.4%		**(6.0)**
	cents	cents	Change cents	**Change %**
Basic earnings per share (iii)	**9.6**	15.0	(5.3)	**(35.6%)**
Diluted earnings per share (iii)	**9.6**	14.9	(5.3)	**(35.5%)**
Interim dividend	**14.0**	14.0	-	**-**

(i) Other revenue primarily consists of rental income.
(ii) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.
(iii) Basic and diluted earnings per share are impacted by the effect of shares held in trust for employee share plans and instruments held under executive remuneration plans.
n/m = not meaningful

Half-year results and operations review - December 2010

Statement of financial position

	As at			
	31 Dec 10 $m	30 Jun 10 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**2,676**	1,936	740	**38.2%**
Trade and other receivables	**4,269**	3,981	288	**7.2%**
Inventories	**355**	295	60	**20.3%**
Derivative financial assets	**159**	173	(14)	**(8.1%)**
Current tax receivables	**3**	3	-	**-**
Prepayments	**252**	218	34	**15.6%**
Assets classified as held for sale	**-**	579	(579)	**(100.0%)**
Total current assets	**7,714**	7,185	529	**7.4%**
Non current assets				
Trade and other receivables	**250**	217	33	**15.2%**
Inventories	**21**	17	4	**23.5%**
Investments - accounted for using the equity method	**2**	17	(15)	**(88.2%)**
Investments - other	**1**	1	-	**-**
Property, plant and equipment	**22,059**	22,894	(835)	**(3.6%)**
Intangible assets	**7,571**	8,028	(457)	**(5.7%)**
Derivative financial assets	**332**	592	(260)	**(43.9%)**
Non current tax receivables	**321**	321	-	**-**
Deferred tax assets	**2**	3	(1)	**(33.3%)**
Defined benefit assets	**16**	7	9	**128.6%**
Total non current assets	**30,575**	32,097	(1,522)	**(4.7%)**
Total assets	**38,289**	39,282	(993)	**(2.5%)**
Current liabilities				
Trade and other payables	**3,300**	3,843	(543)	**(14.1%)**
Provisions	**367**	389	(22)	**(5.7%)**
Borrowings	**2,847**	2,540	307	**12.1%**
Derivative financial liabilities	**610**	384	226	**58.9%**
Current tax payables	**294**	335	(41)	**(12.2%)**
Revenue received in advance	**1,246**	1,102	144	**13.1%**
Liabilities classified as held for sale	**-**	89	(89)	**(100.0%)**
Total current liabilities	**8,664**	8,682	(18)	**(0.2%)**
Non current liabilities				
Other payables	**203**	248	(45)	**(18.1%)**
Provisions	**688**	727	(39)	**(5.4%)**
Borrowings	**11,895**	12,370	(475)	**(3.8%)**
Derivative financial liabilities	**2,247**	1,518	729	**48.0%**
Deferred tax liabilities	**1,888**	1,927	(39)	**(2.0%)**
Defined benefit liability	**184**	464	(280)	**(60.3%)**
Revenue received in advance	**312**	338	(26)	**(7.7%)**
Total non current liabilities	**17,417**	17,592	(175)	**(1.0%)**
Total liabilities	**26,081**	26,274	(193)	**(0.7%)**
Net assets	**12,208**	13,008	(800)	**(6.2%)**
Equity				
Equity available to Telstra Entity shareholders	**11,985**	12,696	(711)	**(5.6%)**
Non-controlling interests	**223**	312	(89)	**(28.5%)**
Total equity	**12,208**	13,008	(800)	**(6.2%)**
Gross debt	**17,071**	16,031	1,040	**6.5%**
Net debt	**14,395**	13,926	469	**3.4%**
EBITDA interest cover (times)	**8.6**	10.8	(2.2)	**(20.4%)**
Net debt to EBITDA	**1.6**	1.3	0.3	**23.1%**
Return on average assets	**13.2%**	17.3%		**(4.1)**
Return on average equity	**19.4%**	30.9%		**(11.5)**
Return on average investment	**17.8%**	23.5%		**(5.7)**
Gearing ratio (net debt to capitalisation)	**54.1%**	51.7%		**2.4**

Half-year results and operations review - December 2010

Statement of cashflows

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Cashflows from operating activities				
Receipts from customers (inclusive of goods and services tax (GST))	**13,487**	13,662	(175)	**(1.3%)**
Payments to suppliers and to employees (inclusive of GST)	**(9,294)**	(8,458)	(836)	**9.9%**
Net cash generated by operations	**4,193**	5,204	(1,011)	**(19.4%)**
Income taxes paid	**(758)**	(595)	(163)	**27.4%**
Net cash provided by operating activities	**3,435**	4,609	(1,174)	**(25.5%)**
Cashflows from investing activities				
Payments for:				
- property, plant and equipment	**(1,385)**	(1,658)	273	**(16.5%)**
- intangible assets	**(446)**	(383)	(63)	**16.4%**
Capital expenditure (before investments)	**(1,831)**	(2,041)	210	**(10.3%)**
- shares in controlled entities (net of cash acquired)	**-**	(10)	10	**n/m**
Total capital expenditure	**(1,831)**	(2,051)	220	**(10.7%)**
Proceeds from:				
- sale of property, plant and equipment	**6**	8	(2)	**(25.0%)**
- sale of shares in controlled entities (net of cash disposed)	**288**	11	277	**n/m**
- sale of businesses	**10**	-	10	**n/m**
- sale of associates	**23**	-	23	**n/m**
Proceeds from finance lease principal amounts	**40**	27	13	**48.1%**
Repayments of loans to jointly controlled and associated entities	**3**	-	3	**n/m**
Loans to jointly controlled and associated entities	**-**	(3)	3	**n/m**
Interest received	**35**	20	15	**75.0%**
Settlement of hedges in net investments	**5**	(2)	7	**(350.0%)**
Dividends recevied from SouFun	**6**	-	6	**n/m**
Net cash used in investing activities	**(1,415)**	(1,990)	575	**(28.9%)**
Operating cashflows less investing cashflows	**2,020**	2,619	(599)	**(22.9%)**
Cashflows from financing activities				
Proceeds from borrowings	**999**	52	947	**n/m**
Repayment of borrowings	**(67)**	(98)	31	**(31.6%)**
Repayment of finance lease principal amounts	**(35)**	(34)	(1)	**2.9%**
Staff repayments of share loans	**4**	5	(1)	**(20.0%)**
Finance costs paid	**(547)**	(497)	(50)	**10.1%**
Dividends paid to equity holders of Telstra Entity	**(1,737)**	(1,737)	-	**-**
Dividends paid to non-controlling interests	**(13)**	(14)	1	**(7.1%)**
Net cash used in financing activities	**(1,396)**	(2,323)	927	**(39.9%)**
Net increase in cash and cash equivalents	**624**	296	328	**110.8%**
Cash and cash equivalents at the beginning of the period	**2,105**	1,381	724	**52.4%**
Effects of exchange rate changes on cash and cash equivalents	**(53)**	(29)	(24)	**82.8%**
Cash and cash equivalents at the end of the period	**2,676**	1,648	1,028	**62.4%**

Half-year results and operations review - December 2010

Segment information

	Total external income			EBIT contribution		
	Half-year ended 31 December			Half-year ended 31 December		
	2010 $m	2009 $m	**Change %**	**2010 $m**	2009 $m	**Change %**
Telstra Consumer and Country Wide	**4,833**	4,740	**2.0%**	**2,369**	2,763	**(14.3%)**
Telstra Business	**2,429**	2,379	**2.1%**	**1,749**	1,725	**1.4%**
Telstra Enterprise and Government	**2,060**	2,035	**1.2%**	**1,597**	1,571	**1.7%**
Telstra Wholesale	**1,126**	1,149	**(2.0%)**	**1,048**	1,072	**(2.2%)**
Telstra Operations	**40**	41	**(2.4%)**	**(1,848)**	(1,921)	**3.8%**
Sensis	**696**	845	**(17.6%)**	**229**	397	**(42.3%)**
Telstra International	**687**	701	**(2.0%)**	**42**	119	**(64.7%)**
TelstraClear	**265**	269	**(1.5%)**	**(17)**	(10)	**(70.0%)**
Other	**202**	234	**(13.7%)**	**(2,730)**	(2,581)	**(5.8%)**
Total Telstra segments (i)	**12,338**	12,393	**(0.4%)**	**2,439**	3,135	**(22.2%)**
Other items excluded from segment results	**70**	(4)	**n/m**	**(63)**	(3)	**n/m**
Total Telstra Group (reported)	**12,408**	12,389	**0.2%**	**2,376**	3,132	**(24.1%)**

(i) Internally, we monitor our segment performance excluding the impact of irregular revenue and expense items such as sales of major businesses and investments, sales of land and buildings, impairment write-offs and FOXTEL distributions.

Revenue by business segment

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Telstra Consumer and Country Wide				
PSTN products	**1,512**	1,696	(184)	**(10.8%)**
Fixed internet	**581**	600	(19)	**(3.2%)**
Mobile services revenue	**1,764**	1,692	72	**4.3%**
Telstra Business				
PSTN products	**705**	768	(63)	**(8.2%)**
Fixed internet	**195**	188	7	**3.7%**
Mobile services revenue	**1,099**	1,000	99	**9.9%**
Telstra Enterprise and Government				
Mobile services revenue	**465**	420	45	**10.7%**
IP and data access	**551**	551	-	**0.0%**
Network applications and services	**407**	410	(3)	**(0.7%)**

We report our segment information on the same basis as our internal management reporting structure at reporting date, which drives how our company is organised and managed.

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their "underlying EBIT contribution" to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. In addition, certain items are recorded within our corporate areas, rather than being allocated to each segment. Of particular note is that Telstra Operations includes the costs associated with the operation of the majority of our networks as well as IT costs associated with the supply and delivery of solutions to support our range of products and services. Depreciation and amortisation costs associated with the fixed assets of the parent entity are recorded centrally in the corporate centre (included in "Other").

Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period.

Further details about the performance of our business segments follows:

Telstra Consumer and Country Wide

Our consumer segment has been the focus of our strategic investment to retain and grow the customer numbers. As a result of this investment we have seen strong growth in our customer base across the mobile, fixed broadband and pay TV portfolios while the rate of PSTN customer loss has slowed significantly. With the improved sales momentum, our consumer segment has seen a return to top line growth with income increasing by 2.0% to $4,833 million.

Our consumer segment increased its mobile customer base by more than 650 thousand in the half driven by growth across all customer types - postpaid handheld, prepaid handheld and mobile broadband. Fixed broadband SIOs increased by more than 100 thousand,

Half-year results and operations review - December 2010

a significant improvement versus the SIO decline in the preceding 18 months. PSTN SIOs declined by 60 thousand, an improvement versus a decline of 149 thousand in the first half of last fiscal year.

Mobile revenue increased by 12.1% and mobile services revenue increased by 4.3% with the latter driven by strong handheld data and mobile broadband revenue.

Consumer PSTN revenue declined by 10.8% driven by lower calling volumes and customer numbers. Pay TV bundling revenue grew by 16.9% and remains an important product as customers reduce their propensity to churn when adding pay TV to a bundle of other services.

EBIT contribution fell by 14.3% due to increased subscriber acquisition and retention costs to support the strategic imperative to grow and retain the customer base.

Telstra Business

Telstra Business is a business partner and one-stop shop providing communications solutions to small and medium enterprises (SMEs). Income in this segment increased by 2.1% to $2,429 million while EBIT contribution increased by 1.4% to $1,749 million.

Revenue growth was achieved across all product portfolios except PSTN. Mobile services revenue growth was 9.9% driven by continued strong growth from mobile broadband revenue which grew by over 20%. Mobile broadband SIOs increased by 17.8% from June 2010 whilst postpaid handheld ARPU was resilient, with minor growth.

The revenue growth rates for fixed retail broadband, IP and data access and network applications and services all accelerated in the half versus the second half of last fiscal year.

The decline in PSTN revenue accelerated to 8.2% driven by SIO loss and usage decline. PSTN SIOs declined by 3.2%.

Expenses grew by 4.2% driven by a 4.5% increase in goods and services purchased. This increase is consistent with the company-wide focus to retain and grow the customer base.

Telstra Enterprise and Government

Telstra Enterprise and Government (TE&G) is the leading provider of network based solutions and services to enterprise and government organisations in Australia and New Zealand. Income in this segment grew by 1.2% to $2,060 million while EBIT contribution increased by 1.7% to $1,597 million.

Fixed products revenue, which includes PSTN and ISDN revenue, decreased by 3.4%. This rate of decline has slowed driven by increased internet direct and premium calling product revenue growth.

TE&G has delivered another strong mobile revenue result with mobile services revenue growing by 10.7%. Mobile broadband revenue grew by 13.7% and international roaming revenue growth was also very strong.

IP and data access revenue was flat in total with strong revenue growth from IP access which increased by 19%. Legacy data product revenue declined by 32.0% as customers continue to migrate services to more productive IP based services.

Expenses declined slightly by 0.1% to $463 million.

Telstra Wholesale

Income in our wholesale business declined by 2.0% to $1,126 million as the ULL and to a lesser extent LSS build out continued to detrimentally impact the wholesale business. As carriers continue to build their own networks, volumes and revenue growth in ULL continues to increase with ULL SIOs increasing by 83 thousand since June 2010. Growth in LSS services slowed dramatically in the half driven by carriers migrating LSS services to ULL.

As a result of declining wholesale PSTN SIOs and decline in usage, wholesale PSTN revenue declined by 1.7%. As a result of declining wholesale ADSL SIOs, wholesale fixed internet declined by 8.6%.

Expenses increased by 1.0% with the EBIT contribution declining by 2.2%.

Telstra Operations

Telstra Operations is primarily a cost centre supporting the revenue generating activities of our other segments. This half-year the negative EBIT contribution from this area improved by 3.8% with continued reductions in labour expenses, service contracts and other operating expenses. These savings mainly resulted from the continuous focus on productivity and efficiency initiatives and tight control over discretionary spending.

Sensis and TelstraClear

Refer to more detailed discussion in the major subsidiaries section beginning on page 26.

Telstra International

Telstra International is our new business unit encompassing our international assets outside Australia and New Zealand in a single portfolio. It includes CSL New World (CSLNW), all international carrier assets and Points of Presence and our 50% interest in Reach.

The majority of Telstra International's revenue and EBIT is contributed by CSLNW. For financial information about CSLNW please refer to the more detailed discussion in the major subsidiaries section beginning on page 27.

Other

Our Other segment consists primarily of our corporate centre functions where we recognise depreciation and amortisation on fixed assets and redundancy expenses for the parent entity. Refer to the detailed discussion on these expense categories within this document.

Half-year results and operations review - December 2010

Statistical data summary

Billable traffic data (i)

	Half-year ended			Dec 10 vs Dec 09		Dec 10 vs Jun 10	
	Dec 2010	Jun 2010	Dec 2009	Change	**Change**	Change	**Change**
	m	m	m	m	**%**	m	**%**
Fixed telephony							
Number of local calls	**1,872**	1,958	2,176	(304)	**(14.0%)**	(86)	**(4.4%)**
National long distance minutes . .	**2,770**	2,862	3,053	(283)	**(9.3%)**	(92)	**(3.2%)**
Fixed to mobile minutes.	**1,562**	1,522	1,611	(49)	**(3.0%)**	40	**2.6%**
International direct minutes	**260**	261	280	(20)	**(7.1%)**	(1)	**(0.4%)**
Mobiles							
Mobile voice telephone minutes . .	**6,416**	5,801	5,723	693	**12.1%**	615	**10.6%**
Number of SMS sent	**4,810**	4,611	4,783	27	**0.6%**	199	**4.3%**

Services in operation (i)

				Dec 10 vs Dec 09		Dec 10 vs Jun 10	
		As at		Change	**Change**	Change	**Change**
	Dec 2010	Jun 2010	Dec 2009		**%**		**%**
Fixed products (thousands)							
Basic access lines in service							
Retail	**7,298**	7,407	7,545	(247)	**(3.3%)**	(109)	**(1.5%)**
Wholesale	**1,235**	1,253	1,263	(28)	**(2.2%)**	(18)	**(1.4%)**
Total basic access lines in service	**8,533**	8,660	8,808	(275)	**(3.1%)**	(127)	**(1.5%)**
Fixed broadband SIOs - retail . . .	**2,394**	2,255	2,244	150	**6.7%**	139	**6.2%**
Fixed broadband SIOs - wholesale .	**919**	1,003	1,053	(134)	**(12.7%)**	(84)	**(8.4%)**
ISDN access (basic line equivalents)	**1,318**	1,308	1,305	13	**1.0%**	10	**0.8%**
T-Hub sales (life to date)	**128**	19	n/a	128	**n/a**	109	**573.7%**
T-Box sales (life to date)	**107**	2	n/a	107	**n/a**	105	**n/m**
Unbundled local loop SIOs	**914**	831	770	144	**18.7%**	83	**10.0%**
Spectrum sharing services (ii) . . .	**741**	735	672	69	**10.3%**	6	**0.8%**
Mobiles (thousands)							
Postpaid handheld retail mobile SIOs	**6,107**	5,810	5,764	343	**6.0%**	297	**5.1%**
Total mobile broadband (data card) SIOs.	**2,167**	1,662	1,325	842	**63.5%**	505	**30.4%**
Total wholesale mobile SIOs. . . .	**80**	81	76	4	**5.3%**	(1)	**(1.2%)**
Prepaid handheld unique users (iii)	**1,943**	1,889	1,921	22	**1.1%**	54	**2.9%**
Total pay TV bundling SIOs (thousands)	**513**	504	479	34	**7.1%**	9	**1.8%**
Employee data							
Domestic full time staff (iv)	**29,970**	31,157	30,924	(954)	**(3.1%)**	(1,187)	**(3.8%)**
Full time staff and equivalents (iv) .	**35,729**	41,690	39,763	(4,034)	**(10.1%)**	(5,961)	**(14.3%)**
Total workforce (iv)	**39,832**	45,220	43,332	(3,500)	**(8.1%)**	(5,388)	**(11.9%)**

Note: statistical data represents management's best estimates.

(i) Refer to each product section for more detailed data.
(ii) Excluded from wholesale broadband SIOs.
(iii) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.
(iv) Refer to the labour section on page 19 for definitions. The reductions in FTEs and total workforce include the impact of the sale of SouFun which resulted in a reduction in total workforce of 2,984 from 31 December 2009 and 4,770 from 30 June 2010.

Half-year results and operations review - December 2010

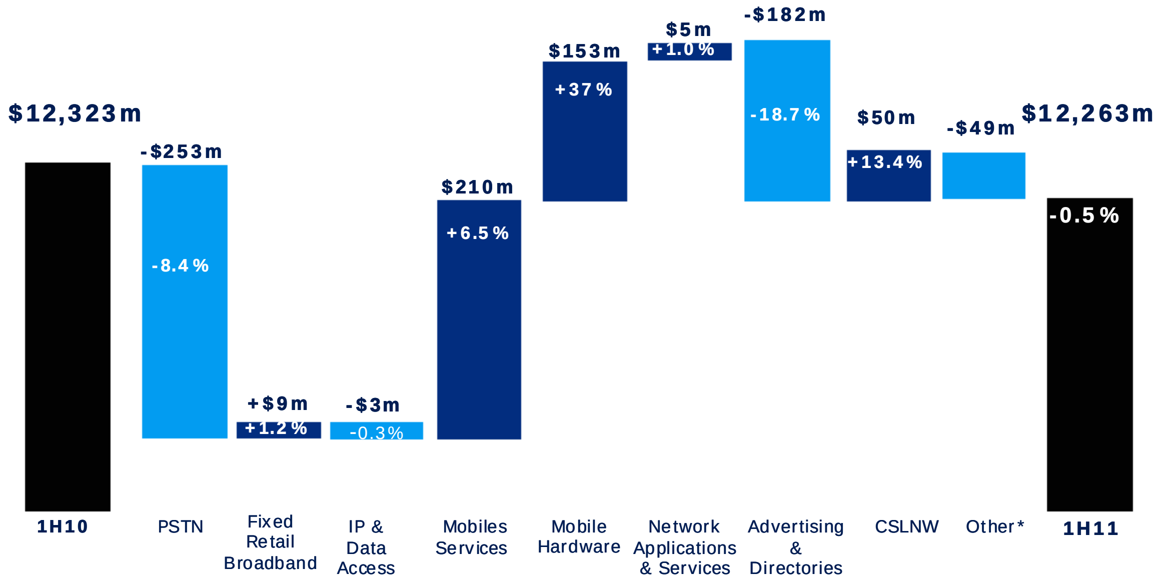
Revenue and product profitability

Revenue

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Fixed products				
PSTN products	**2,743**	2,996	(253)	**(8.4%)**
Fixed internet	**1,053**	1,083	(30)	**(2.8%)**
ISDN products	**447**	463	(16)	**(3.5%)**
Other fixed revenue	**597**	549	48	**8.7%**
Total fixed products	**4,840**	5,091	(251)	**(4.9%)**
Mobiles				
Mobile services - retail	**3,042**	2,858	184	**6.4%**
Mobile services - interconnection and wholesale	**379**	353	26	**7.4%**
Total mobile services	**3,421**	3,211	210	**6.5%**
Mobile hardware	**566**	413	153	**37.0%**
Total mobiles	**3,987**	3,624	363	**10.0%**
IP and data access				
Specialised data	**187**	269	(82)	**(30.5%)**
Global products	**58**	64	(6)	**(9.4%)**
IP access	**472**	393	79	**20.1%**
Wholesale internet and data	**174**	168	6	**3.6%**
Total IP and data access	**891**	894	(3)	**(0.3%)**
Network applications and services	**485**	480	5	**1.0%**
Offshore content and online content	**47**	89	(42)	**(47.2%)**
Advertising and directories	**793**	975	(182)	**(18.7%)**
CSL New World	**424**	374	50	**13.4%**
TelstraClear	**265**	269	(4)	**(1.5%)**
Other offshore services revenue	**130**	152	(22)	**(14.5%)**
Pay TV bundling	**286**	247	39	**15.8%**
Other sales revenue (i)	**115**	128	(13)	**(10.2%)**
Sales revenue	**12,263**	12,323	(60)	**(0.5%)**
Other revenue (ii)	**20**	19	1	**5.3%**
Total revenue	**12,283**	12,342	(59)	**(0.5%)**
Other income (iii)	**125**	47	78	**166.0%**
Total income	**12,408**	12,389	19	**0.2%**

(i) Other sales revenue includes $38 million relating to HFC cable usage (December 2009: $35 million).
(ii) Other revenue primarily consists of rental income.
(iii) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.

Sales revenue by product



** Other includes ISDN (-$16m), other fixed internet (-$39m), other fixed ($48m), offshore content and online content (-$42m), TelstraClear (-$4m), other offshore services (-$22m), pay TV ($39m) and other (-$13m).*

Half-year results and operations review - December 2010

The mix of sales revenue by product continues to change. The decline in PSTN revenue of 8.4% or $253 million to $2.7 billion was due to a decline in usage levels across all categories. This decline was more than offset by the continued strong growth in mobiles as customer usage was migrated to mobile handsets and mobile broadband. Mobiles services revenue grew by 6.5% or $210 million to $3.4 billion, which included mobile broadband revenue growth of 24.5% to $477 million. Mobile hardware revenue grew by 37.0% to $566 million. Revenue for advertising and directories fell by 18.7% or $182 million to $793 million with Sensis revenue down 18.2% or $152 million to $684 million. This was partly caused by a change in the recognition of Sydney Yellow print revenue to the second half of the financial year. IP and data access revenue was relatively flat as continued strength in IP access from customers migrating services offset the decline of legacy data products. The slight growth in fixed retail broadband revenue was offset by the decline in other fixed internet revenue.

Product profitability

As expected our strategic focus on customer acquisition has resulted in lower margins in the first half. In addition, the margin for Sensis also declined, predominantly due to a change in the timing of revenue recognition for the Sydney Yellow Pages together with a reduction in revenue from traditional Yellow Pages print products.

Product profitability - EBITDA margins

	Half-year ended		
	Dec 2010 $m	Jun 2010 $m	Dec 2009 $m
Mobile	**29%**	35%	34%
Fixed internet	**33%**	39%	40%
PSTN	**59%**	60%	59%
IP and data access	**61%**	64%	61%
Sensis	**41%**	63%	50%
Telstra Group	**37.3%**	44.3%	43.1%

Note: product margins represent management's best estimates.

Half-year results and operations review - December 2010

Fixed products

PSTN

- PSTN revenue declined by 8.4% to $2,743 million driven by lower usage revenue and continued SIO line loss, albeit a reduced rate of line loss compared with recent half-years
- PTSN ARPU declined by 5.1% to $53.18 per month
- The net decrease in PSTN SIOs of 127 thousand since 30 June 2010 was the lowest decrease for 3 years

PSTN

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
PSTN revenue (i)	**2,743**	2,996	(253)	**(8.4%)**
PSTN retail versus wholesale revenue				
Retail	**2,416**	2,664	(248)	**(9.3%)**
Wholesale	**327**	332	(5)	**(1.5%)**
Basic access lines in service (thousands)				
Retail	**7,298**	7,545	(247)	**(3.3%)**
Wholesale	**1,235**	1,263	(28)	**(2.2%)**
Total basic access lines in service	**8,533**	8,808	(275)	**(3.1%)**
Average revenue per user per month ($'s)	**53.18**	56.03	(2.85)	**(5.1%)**
Number of local calls (millions) (ii)	**1,872**	2,176	(304)	**(14.0%)**
National long distance minutes (millions) (ii)	**2,770**	3,053	(283)	**(9.3%)**
Fixed to mobile minutes (millions)	**1,562**	1,611	(49)	**(3.0%)**
International direct minutes (millions) (ii)	**260**	280	(20)	**(7.1%)**

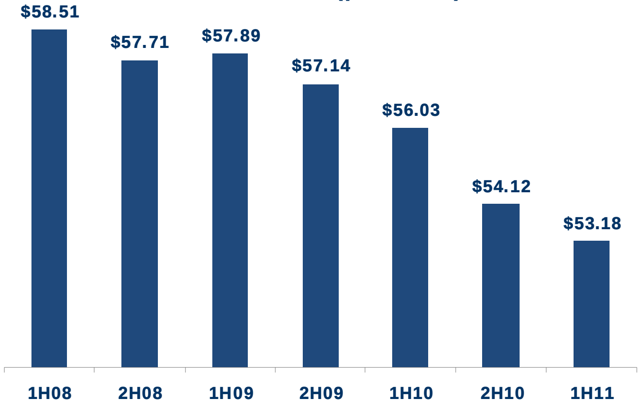
Note: statistical data represents management's best estimates.

(i) Refer to page 36 for a more detailed breakdown of PSTN revenue.
(ii) Includes local calls, national long distance and international direct minutes from our public switched telephone network (PSTN) and independently operated payphones. Excludes minutes related to calls from non-PSTN networks, such as mobiles, ISDN and virtual private networks.

Total PSTN revenue declined by 8.4% to $2,743 million. While this is a slight improvement on the 9.0% decline in the second half of fiscal 2010, it still shows the structural shift away from PSTN driven by both lower usage and line loss. Usage continues to decline across all calling categories, with local calls falling by 14.0% and national long distance minutes declining by 9.3% in the half.

With the fall in call usage, PSTN ARPU continues to be under pressure, falling by 5.1% to $53.18.

PSTN ARPU (per month)



The rate of line loss has improved with the current half being the lowest for 3 years as more customers move on to our bundle plans which now serve 804 thousand customers. This represents growth of 420 thousand bundled plans in the half. Basic access line loss in the half was 127 thousand with 109 thousand retail line losses and 18 thousand wholesale line losses. Some of this decline continues to represent a change in technology usage rather than a loss of customers. Retail lines were also negatively impacted by continued competitor take-up of ULL lines.

The rate of wholesale line loss has also slowed.

Half-year results and operations review - December 2010

PSTN revenue - year-on-year change %

	Half-year ended						
	Dec 2010	Jun 2010	Dec 2009	Jun 2009	Dec 2008	Jun 2008	Dec 2007
Total PSTN	**(8.4%)**	(9.0%)	(6.9%)	(4.8%)	(5.1%)	(4.4%)	(2.1%)
Retail	**(9.3%)**	(9.0%)	(5.9%)	(3.2%)	(1.8%)	(0.6%)	0.3%
Wholesale	**(1.5%)**	(9.1%)	(14.1%)	(15.5%)	(24.0%)	(23.3%)	(13.7%)
Wholesale as a percentage of total PSTN revenue	**11.9%**	11.7%	11.1%	11.7%	12.1%	13.2%	15.0%

PSTN basic access services in operation

	Half-year ended						
	Dec 2010 '000s	Jun 2010 '000s	Dec 2009 '000s	Jun 2009 '000s	Dec 2008 '000s	Jun 2008 '000s	Dec 2007 '000s
Retail	**7,298**	7,407	7,545	7,733	7,829	7,865	7,824
Wholesale	**1,235**	1,253	1,263	1,285	1,341	1,496	1,730

Half-year results and operations review - December 2010

Fixed internet

- Retail fixed broadband revenue (including hardware) grew by 0.4% to $794 million driven by strong customer growth
- Retail fixed broadband SIOs increased by 139 thousand in the current half, our largest increase in SIOs for 3 years

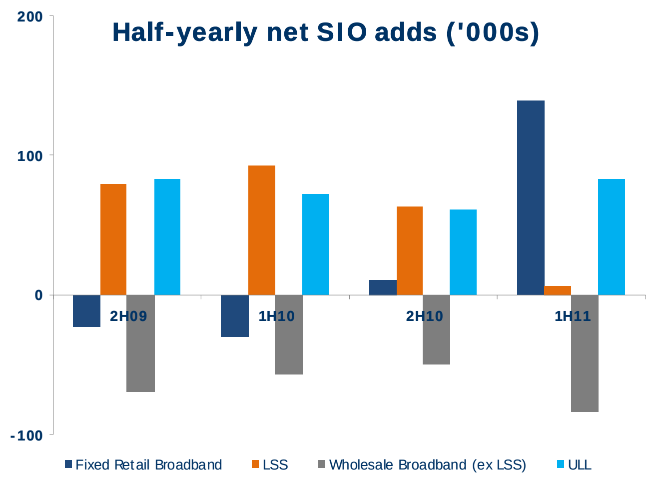
Fixed internet

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
- Fixed broadband - retail	**786**	777	9	**1.2%**
- Fixed broadband - hardware	**8**	14	(6)	**(42.9%)**
Total retail fixed broadband	**794**	791	3	**0.4%**
Wholesale broadband	**208**	226	(18)	**(8.0%)**
Spectrum sharing services	**17**	20	(3)	**(15.0%)**
Narrowband	**12**	20	(8)	**(40.0%)**
Internet VAS	**22**	26	(4)	**(15.4%)**
Total fixed internet revenue	**1,053**	1,083	(30)	**(2.8%)**
Total fixed broadband SIOs - retail (thousands)	**2,394**	2,244	150	**6.7%**
Average fixed broadband retail revenue per SIO per month (excl hardware) ($'s)	**56.36**	57.33	(0.97)	**(1.7%)**
Broadband SIOs - wholesale (thousands)	**919**	1,053	(134)	**(12.7%)**
Average broadband wholesale revenue per SIO per month ($'s)	**36.08**	34.91	1.17	**3.4%**
Spectrum sharing services (thousands) (excluded from wholesale SIOs)	**741**	672	69	**10.3%**

Note: statistical data represents management's best estimates.

Total fixed internet revenue declined by $30 million or 2.8% to $1,053 million. The decrease was driven by lower wholesale and hardware revenue partly offset by retail fixed broadband growth.

Retail fixed broadband revenue grew by 1.2% aided by strong growth in retail broadband customers. SIOs increased by 139 thousand in the six month period and are up by 6.7% on a year ago, a significant acceleration from the net additions seen in recent periods as illustrated in the following graph. The significantly improved rate of retail broadband SIO growth demonstrates successful execution of the strategic focus to retain and grow the customer base. Stimulating increased customer interest were a number of initiatives launched in the second half of last fiscal year including increased data allowances in existing plans, attractive bundled offers, unique content and the launch of Telstra T-Hub and Telstra T-Box. In total, 214 thousand customers purchased our T-Box and T-Hub products in the half.

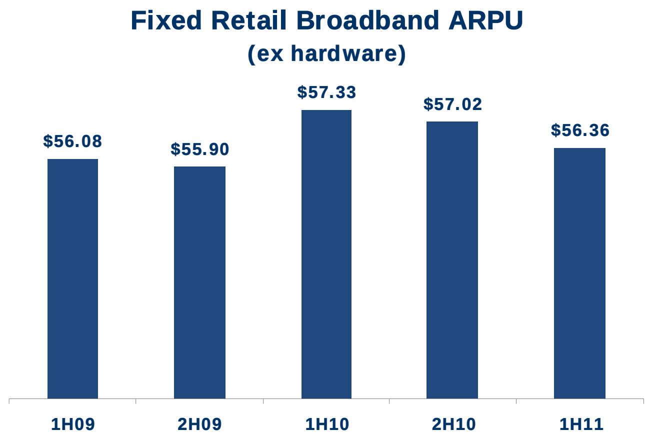


Customer demand for increased data allowances and faster speeds continues and there has been a significant shift in our customer base to high megabyte/gigabyte and high speed plans. This occurred as we offered higher speed and download limits without increasing the prices of the plans. With regards to data allowances only 1% of BigPond® ADSL customers were on plans including more than 25GB of metered usage data at December 2009, now 32% of the BigPond ADSL customer base has this data capacity included. In respect of downlink speeds, 74% of BigPond ADSL customers are now on Elite plans (nominal speed 8Mbps or higher), up from 13% in December 2009.

The shifts in customer preferences balanced with increased data allowances are contributing to a relatively stable retail fixed broadband ARPU of $56.36

Half-year results and operations review - December 2010

(excluding hardware revenue). The improved plans enable customers to utilise premium products such as T-Box and T-Hub, and as such the flow on effect from the high end plan take up is seen in these products.



Wholesale DSL customers continue to migrate to ULL, with wholesale broadband revenue falling by 8.0% to $208 million. As carriers continue to build their own networks, volumes and revenue growth in ULL continues to increase (ULL revenues are recorded in the other fixed revenue category). Growth in LSS services has however slowed dramatically in the half driven by carriers migrating LSS services to ULL as they continue to establish their own infrastructure and subsequently provide customers with both voice and data services.

ISDN and other fixed revenue

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
ISDN revenue	**447**	463	(16)	**(3.5%)**
Other fixed revenue	**597**	549	48	**8.7%**
ISDN average revenue per user per month ($'s)	**56.76**	59.46	(2.70)	**(4.5%)**
ISDN access lines (basic access line equivalents) (thousands)	**1,318**	1,305	13	**1.0%**
Unbundled local loop SIOs (thousands)	**914**	770	144	**18.7%**

Note: statistical data represents management's best estimates.

ISDN revenue declined by 3.5% to $447 million. This was caused by reductions in call revenue resulting from product substitution, migration to other services including IP voice and data alternatives and competitive pressures. The number of ISDN SIOs increased marginally due to take up by business and enterprise and government customers of ISDN 10/20/30 primary rate services.

Other fixed revenue increased by 8.7% to $597 million with customer premises equipment revenue increasing by 77.4% or $41 million driven by new T-Box and T-Hub product sales. Intercarrier services revenue has also continued to grow, increasing by 15.0% or $29 million with higher ULL SIOs and increased demand for mobile tower and exchange access and equipment. Partially offsetting these increases were decreases in premium calling products and customnet as customers migrate their services to other offerings.

Half-year results and operations review - December 2010

Mobiles

- Mobile revenue grew strongly by 10.0% in the half, the highest mobile revenue growth rate reported for 3 years
- Mobile services revenue grew by 6.5%, an improvement from the 4.7% growth reported in the first half of last fiscal year
- Mobile hardware revenue grew by 37.0% driven by a net increase of almost 300 thousand postpaid handheld customers
- Mobile broadband revenue grew by 24.5% with SIOs growing by 505 thousand in the half

Mobiles

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
- Postpaid handheld	**2,214**	2,154	60	**2.8%**
- Prepaid handheld	**351**	321	30	**9.3%**
Total handheld	**2,565**	2,475	90	**3.6%**
Mobile broadband	**477**	383	94	**24.5%**
Mobile services revenue - retail	**3,042**	2,858	184	**6.4%**
Mobiles interconnection	**306**	263	43	**16.3%**
Mobile services revenue - wholesale resale	**73**	90	(17)	**(18.9%)**
Total mobile services revenue	**3,421**	3,211	210	**6.5%**
Mobile hardware	**566**	413	153	**37.0%**
Total mobile revenue	**3,987**	3,624	363	**10.0%**
SIOs (at end of period) (thousands)				
Postpaid handheld retail mobile SIOs	**6,107**	5,764	343	**6.0%**
Prepaid handheld retail mobile SIOs	**3,207**	3,298	(91)	**(2.8%)**
Mobile broadband SIOs	**2,167**	1,325	842	**63.5%**
Total retail mobile SIOs	**11,481**	10,387	1,094	**10.5%**
Wholesale SIOs	**80**	76	4	**5.3%**
Prepaid handheld unique users (3 month average of monthly users)	**1,943**	1,921	22	**1.1%**
ARPUs ($'s)				
Blended average revenue per user (incl interconnection)	**50.63**	50.55	0.08	**0.2%**
Postpaid handheld average revenue per user	**61.93**	62.49	(0.56)	**(0.9%)**
Prepaid handheld average revenue per user	**18.58**	15.93	2.65	**16.6%**
Mobile broadband average revenue per user	**41.53**	53.85	(12.32)	**(22.9%)**
Number of SMS sent (millions)	**4,810**	4,783	27	**0.6%**
Number of MMS sent (millions)	**66**	42	24	**57.1%**
Mobile voice telephone minutes (millions)	**6,416**	5,723	693	**12.1%**
Postpaid handheld deactivation rate (annualised)	**9.7%**	15.8%		**(6.1)**

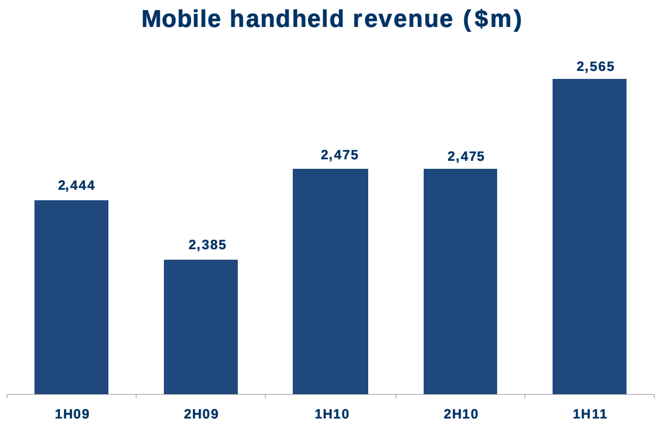
Note: statistical data represents management's best estimates.

To improve disclosure on the drivers of mobile service revenue we have aligned reporting of mobile revenue with how we sell mobile products to customers. We now report revenue by our mobile postpaid handheld, prepaid handheld and broadband businesses and no longer split mobile services revenue by separate voice and data products. We believe the separation of voice and data product revenue is no longer instructive and is driven more by the allocation of discounts than by underlying trends, although we will continue to report usage volumes.

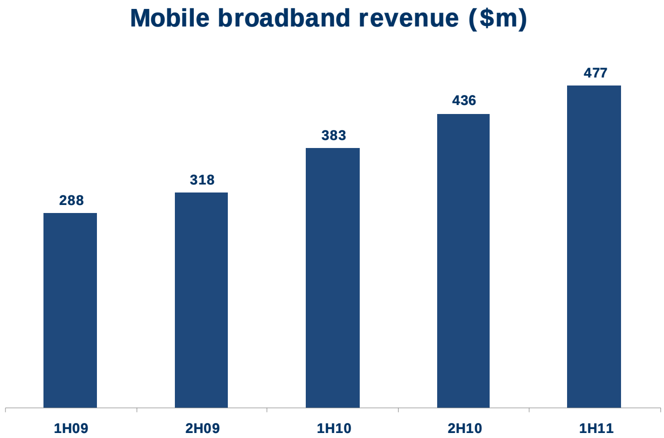
Total mobile revenue grew by 10.0% to $3,987 million. This included a 6.5% growth in mobile services revenue to $3,421 million and a 37.0% growth in mobile hardware revenue to $566 million. Mobile services growth was driven by handheld services revenue which grew by 3.6% to $2,565 million and mobile broadband revenue which grew by 24.5% to $477 million.

Postpaid handheld revenue increased by 2.8% and prepaid handheld revenue increased by 9.3%. Postpaid handheld ARPU was flattish at $61.93 driven by growth in data usage and international roaming.

Half-year results and operations review - December 2010



We now have 2.167 million mobile broadband customers and continue to report high rates of revenue and customer growth. Mobile broadband revenue grew by 24.5% to $477 million with SIOs growing by a record 505 thousand in the half. Mobile broadband ARPU continued to decline as the customer base includes a greater proportion of prepaid customers and many new postpaid customers took lower priced plans but the customer growth has more than compensated this.



Mobile hardware revenue and customer growth was very strong in the half demonstrating successful execution of the strategic focus to retain and grow the customer base - we believe mobile hardware growth is a lead indicator of improved mobile services revenue growth. Hardware revenue grew by 37.0%, its highest rate of growth in 4 years. The growth was largely driven by smartphone sales.

The annualised postpaid handheld deactivation rate declined to 9.7% from 15.8% a year ago with the absolute number of deactivations declining.

Managing mobile subscriber acquisition and recontracting costs (SARCs) continues to be a focus for each of the retail business segments. Our blended SARC rate increased by 8.7% to $162 driven by the increasing popularity of smartphones which accounted for 7 of our top 10 subsidised handset volumes in the half. Smartphone penetration of handset devices on the Next G™ network is now 35%.

Half-year results and operations review - December 2010

IP and data access

- IP access revenue grew by 20.1% to $472 million and legacy specialised data product revenue declined by 30.5% to $187 million
- IP MAN SIOs increased by 21.1% and IP WAN SIOs increased by 7.5% as customers continue to migrate services to IP based products

IP and data access

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Specialised data	**187**	269	(82)	**(30.5%)**
Global products	**58**	64	(6)	**(9.4%)**
IP access	**472**	393	79	**20.1%**
Wholesale internet and data	**174**	168	6	**3.6%**
Total IP and data access revenue	**891**	894	(3)	**(0.3%)**
Domestic frame access ports (thousands)	**17**	21	(4)	**(19.0%)**
Hyperconnect retail services in operation (thousands)	**39**	32	7	**21.9%**
Ethernet lite services in operation (thousands)	**28**	25	3	**12.0%**
IP MAN services in operation (thousands)	**23**	19	4	**21.1%**
IP WAN services in operation (thousands)	**100**	93	7	**7.5%**

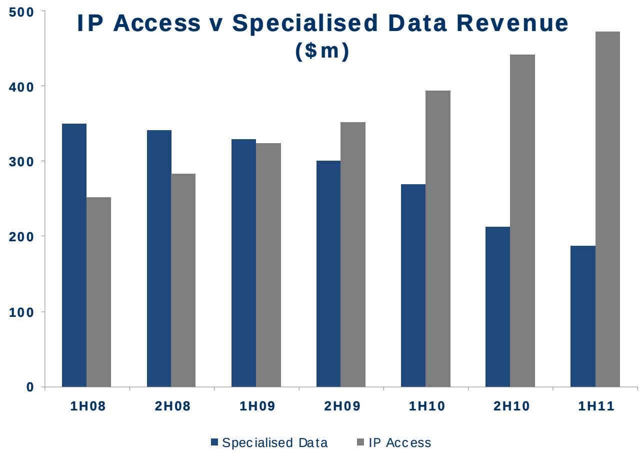
Note: statistical data represents management's best estimates.

The IP and data access portfolio continues its transition to IP based products and away from mature legacy data products. This transition is evident in the revenue results with IP access revenue growing by 20.1% to $472 million and legacy specialised data product revenue declining by 30.5% to $187 million. The IP and data access product portfolio slightly declined overall with revenue down 0.3% to $891 million.

Driving strong IP access revenue growth was IP MAN/ Ethernet SIO and ARPU growth. This product is in the growth phase of its lifecycle and is popular with customers from the government and education sectors seeking high-speed IP access solutions with dedicated bandwidth. IP MAN/Ethernet revenue grew by 32.3% to $266 million with IP MAN SIOs increasing by 21.1%.

IP WAN revenue increased by 12.8% to $123 million propelled by an increase in corporate customers needing corporate virtual private networks to combine communications between multiple sites. IP WAN ARPU was stable whilst IP WAN SIOs increased by 7.5%.

As customers migrate from legacy data products to IP solutions there has been an accelerated rate of revenue decline across legacy products including frame relay, digital data services and leased lines. This has driven the decline in specialised data revenue.



Half-year results and operations review - December 2010

Network applications and services (previously business services and applications)

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Network applications and services revenue	**485**	480	5	**1.0%**

Network applications and services revenue grew by 1.0% or $5 million primarily due to strong growth in managed networks services revenue driven by increased customer premises equipment sales for managed WAN and Telstra IP telephony, as well as the continued roll out of communications infrastructure for several key customers. Combined with this was strong growth across a number of contact solutions products.

Partly offsetting the growth has been a decline in IT services revenue and a reduction in revenue from managed voice products. In addition there was a decline in revenue from relocation and infrastructure works due to several large projects that were undertaken in the prior corresponding period.

Advertising and directories

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Sensis advertising and directories revenue	**684**	836	(152)	**(18.2%)**
Other advertising revenue	**109**	139	(30)	**(21.6%)**
Total advertising and directories revenue	**793**	975	(182)	**(18.7%)**

Our advertising and directories revenue is predominantly derived from our wholly owned company Sensis (Australia's leading information resource) and its controlled entities. For a detailed description of the performance of Sensis please refer to the financial summary on page 26.

Other advertising revenue mainly consists of revenue from our Chinese advertising businesses and Trading Post[1]. China advertising revenue declined by $15 million from the prior corresponding period mainly due to the sale of SouFun in September 2010. Revenue in our Sequel business grew by $6 million mainly driven by the demand for car advertising.

Trading Post published final print editions in October 2009 and is now exclusively an online and mobile classified service. As a result, Trading Post revenue declined by $15 million.

1. *Trade mark of Research Resources Pty Ltd*

Half-year results and operations review - December 2010

Offshore controlled entities

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
CSL New World	**424**	374	50	**13.4%**
TelstraClear	**265**	269	(4)	**(1.5%)**
Other offshore controlled entities revenue	**130**	152	(22)	**(14.5%)**
Total offshore controlled entities revenue	**819**	795	24	**3.0%**

For further details regarding the performance of CSL New World (CSLNW) and TelstraClear, please refer to their respective business summaries commencing on page 27. Revenue from total offshore controlled entities increased by $24 million in the half including a $59 million decline driven by foreign currency movements.

The decline in other offshore controlled entities revenue of $22 million includes $12 million attributable to foreign currency translation. Excluding this impact, Europe has recorded an $8 million reduction due mainly to unfavourable churn in data and voice products. In September 2010, Telstra Ltd sold its non-core business in the UK. Telstra UK, however, was still providing underlying carriage for the disposed customers as at 31 December 2010.

Pay TV bundling

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
Pay TV bundling revenue	**286**	247	39	**15.8%**
Total pay TV bundling SIOs (thousands)	**513**	479	34	**7.1%**

Note: statistical data represents management's best estimates.

Total pay TV bundling revenue increased by 15.8% to $286 million. Contributing to the increase was a 7.1% or 34 thousand SIO increase in FOXTEL bundling SIOs. Customer growth is largely driven by new and existing FOXTEL customers converting their service to a FOXTEL from Telstra service in order to receive the entertainment bundling benefits. FOXTEL bundling ARPU increased by 6.0% resulting from strong sales of Platinum and Platinum HD packages in our new entertainment bundling offers.

Other income

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
Proceeds from asset and investment sales	**510**	16	494	**n/m**
Cost of asset and investment sales	**440**	20	420	**n/m**
Net gain on assets/investment sales	**70**	(4)	74	**n/m**
USO levy receipts and subsidies	**39**	35	4	**11.4%**
Miscellaneous income	**16**	16	-	**-**
Other income	**55**	51	4	**7.8%**
Total other income	**125**	47	78	**166.0%**

The proceeds from sale of investment and cost of investments sold relate to the sale of SouFun, a leading Chinese real estate website ($69 million profit), Keycorp Ltd, a leading Australian provider of secure electronic transaction solutions ($8 million profit) and Telstra Ltd's non-core voice business in the UK ($18 million loss). The total net gain received from the sale of investments amounted to $59 million.

A further net gain on the sale of property, plant and equipment was recorded for the current half amounting to $11 million.

Half-year results and operations review - December 2010

Expenses

Labour

- Total labour expenses grew by 1.1%
- Labour expenses (excluding redundancy) declined by 2.0% due to lower salary and associated costs arising from lower overall workforce full time equivalents (FTEs)
- Redundancy expenses increased by 56.3% or $58 million driven by Project New initiatives across the business and increased productivity in our Operations area

Labour

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Salary and associated costs	**1,640**	1,705	(65)	**(3.8%)**
Redundancy	**161**	103	58	**56.3%**
Other labour expenses	**187**	159	28	**17.6%**
Total labour	**1,988**	1,967	21	**1.1%**
Domestic full time employees (whole numbers) (i)	**29,970**	30,924	(954)	**(3.1%)**
Full time employees and employed equivalents (whole numbers) (ii)	**35,729**	39,763	(4,034)	**(10.1%)**
Total workforce, including contractors and agency staff (whole numbers) (iii)	**39,832**	43,332	(3,500)	**(8.1%)**

Note: statistical data represents management's best estimates.

(i) Our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities.
(ii) Our full time employees and equivalents include domestic full time employees plus casual and part time employees and employees in our offshore subsidiary entities.
(iii) Our total workforce includes full time employees and equivalents plus contractors and staff employed through agency arrangements measured on an equivalent basis.

Reported labour expenses increased by 1.1% or $21 million driven by increased redundancy costs.

Redundancy expenses increased by 56.3% to $161 million mainly due to initiatives to improve productivity. These included the reduction of approximately 300 senior managers early in the half to simplify our organisation and reduce management layers. We also announced changes across a number of business areas in October to support a simpler operating model which has also contributed to an increase in first half redundancy expenses. In addition, our Operations business unit saw a number of exits predominantly driven by improved efficiencies within the service delivery area.

Salary and associated costs decreased by 3.8% due to lower domestic headcount and an increase in capitalised labour. These declines were partially offset by annual pay rises.

Also contributing to the overall increase in labour expenses were overtime, contractor and agency payments partly due to additional agency staff required to handle increased call volumes supporting new product sales, as well as an increase in external commissions and sales retainers. Sensis also required additional resources as part of the finalisation of their IT transformation.

In terms of staff numbers, our total workforce has declined by 3,500 since 31 December 2009 and by 5,388 since 30 June 2010 mainly due to the sale of SouFun which reduced workforce FTEs by 2,984 compared with 31 December 2009 and by 4,770 compared with 30 June 2010. In the second half of fiscal 2010 FTEs in SouFun had increased by 1,786 as that business continued to expand. The implementation of productivity initiatives including those mentioned above have also driven the workforce reductions in the current half as we drive towards a simplified operating model.

Half-year results and operations review - December 2010

Goods and services purchased

- Total goods and services purchased increased by 20.4% or $533 million from the prior corresponding period in line with our strategy to invest in customer growth

Goods and services purchased

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Cost of goods sold - subsidies (postpaid)	**457**	317	140	**44.2%**
Cost of goods sold - other	**953**	683	270	**39.5%**
Usage commissions	**142**	178	(36)	**(20.2%)**
Network payments	**946**	898	48	**5.3%**
Service fees	**333**	268	65	**24.3%**
Managed services	**74**	69	5	**7.2%**
Dealer performance commissions	**53**	50	3	**6.0%**
Paper purchases and printing	**39**	54	(15)	**(27.8%)**
Other	**151**	98	53	**54.1%**
Total goods and services purchased	**3,148**	2,615	533	**20.4%**
Retail domestic subscriber acquisition and recontracting costs (SARC) (i)	**509**	368	141	**38.3%**

(i) Domestic subscriber acquisition and recontract costs include $403 million of domestic handset subsidy costs (Dec 2009: $306 million) and other go to market costs included within cost of goods sold-other and other goods and services purchased.

As we foreshadowed last year, our variable costs have increased significantly in the current half in line with our strategy of investing in customer acquisition through improved offers in the market. This is highlighted by the growth in cost of goods sold supporting increased sales volumes and improved net customer acquisitions. The popularity of smartphones has also driven increased subsidy rates and average costs per handset.

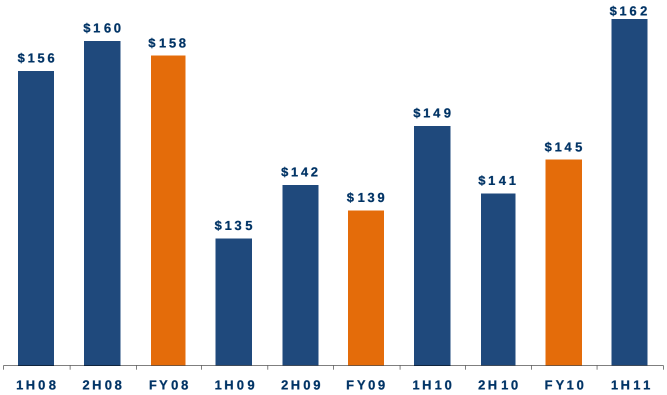
Cost of goods sold - other (which includes mobile handsets, wireless devices and fixed/digital products) increased by 39.5% or $270 million mostly due to:

- growth in mobile hardware COGS of 48.0% driven by higher sales volumes which was mostly offset by a corresponding increase in mobile hardware revenue, with costs also driven by increased smartphone penetration at a higher average cost across all segments;
- growth in other COGS driven by the successful release of the T-Hub and T-Box and improved fixed broadband acquisitions; and
- an increase in managed WAN cost of goods sold driven by growth in managed WAN revenue in our enterprise and government segment.

Cost of goods sold - subsidies (postpaid) increased by 44.2% or $140 million due to a combination of increased volumes and rates within the domestic market and also CSLNW, mostly driven by the popularity of smartphones.

Retail domestic SARCs increased by 38.3% or $141 million whilst the SARC rate per phone increased by 8.7% to $162 driven by increased demand for more expensive smartphones and improved offerings. Retail SARC volumes increased by 6.2 percentage points and now represent 59.5% of total handset volumes which grew by 27.2%.

Blended average SARC rate



Fiscal 2010 rates have been restated due to a revision to the volumes included in the SARC calculations.

Other goods and services purchased increased by 54.1% or $53 million predominantly driven by dealer program incentives due to a change in dealer remuneration plans (offsetting the decrease in postpaid usage commissions) and higher commercial projects payments in line with revenue increases.

Service fees increased by 24.3% or $65 million from the prior corresponding period mainly supporting strong growth in FOXTEL pay TV bundled sales volumes and pay TV revenue.

Network payments increased by 5.3% or $48 million driven by the growth in domestic carrier network outpayments resulting from higher SMS and MMS offnet volumes as well as increases in mobile terminating offnet volumes.

The above increases in goods and services costs were partly offset by a $36 million decrease in usage commissions primarily due to the transition to upfront incentives as part of the new dealer plans, as well as

Half-year results and operations review - December 2010

changes in the channel mix. In addition, there was a $15 million decrease in paper purchases and printing largely as a result of the Sydney Metro Yellow Pages not being recognised this half.

Half-year results and operations review - December 2010

Other expenses

- Impairment and diminution expenses increased by $146 million due to an impairment charge of $133 million on our Octave investment
- Service contracts and other agreements increased by 6.7% or $75 million as we invested in early phases of Project New

Other expenses

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Property, motor vehicle and IT rental expense	**276**	287	(11)	**(3.8%)**
Net foreign currency conversion losses / (gains)	**2**	(5)	7	**140.0%**
Service contracts and other agreements	**1,200**	1,125	75	**6.7%**
Promotion and advertising	**198**	183	15	**8.2%**
General and administration	**450**	476	(26)	**(5.5%)**
Other operating expenses	**215**	218	(3)	**(1.4%)**
Impairment and diminution expenses	**352**	206	146	**70.9%**
Total other expenses	**2,693**	2,490	203	**8.2%**

Total other expenses increased by 8.2% or $203 million driven by an impairment charge on our Octave investment.

Our impairment expenses increased primarily due to a $133 million impairment charge against the carrying value of our Octave business in China following recent regulatory rulings that constrain the Wireless Application Protocol (WAP) market in China. Inventory impairments also increased by a further $10 million partly due to the provision for certain slow moving smartphone stock.

Service contracts and other agreements increased by 6.7% due to a combination of increased consultancy and increased service costs as our productivity initiatives commenced. These increases were partly offset by savings achieved in network site maintenance and support due to improved service levels provided by external suppliers.

Promotion and advertising increased by 8.2% from the prior corresponding period. During the half, we have consolidated all marketing activity into the one business unit called Telstra Innovation, Products and Marketing. This area will manage both products and marketing to provide a simple and more efficient operating model.

Partly offsetting the above increases were general and administration expenses declining by 5.5% to $450 million which is the lowest half-year result since the second half of fiscal 2006. This was driven by a decline of $43 million in IT costs driven by productivity improvements as well as improved software lease terms.

Half-year results and operations review - December 2010

Share of net profit from jointly controlled and associated entities

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
Share of net profit from jointly controlled and associated entities	**(1)**	-	(1)	**n/m**

Our share of net profit from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments.

In respect to FOXTEL, REACH and Australia-Japan Cable, as the carrying value of our investments in each has been previously written down to nil, any share of loss/(gain) from these entities is not currently recognised. These entities will resume equity accounting once the accumulated losses have been fully offset by our share of profits derived from these entities.

As at 31 December 2010, our carried forward losses from our share of FOXTEL amounted to $113 million compared to $152 million at 30 June 2010. The decrease of $39 million in the current half-year is mainly due to our share of FOXTEL's profit for the period of $51 million and the $12 million movement in FOXTEL's valuation of financial instruments including interest rate swaps, cross currency swaps and FX hedges.

Our share of carried forward losses in REACH and Australia-Japan Cable as at 31 December 2010 is $597 million and $154 million respectively. The restructure of REACH as announced on 26 January 2011 will result in an accounting gain for Telstra. This gain will have no direct impact on our share of carried forward losses from our 50% investment in REACH. We will continue to account for our share of REACH's operating results and our carried forward losses will reduce to the extent of any net profit reported by REACH. REACH's net operating results will be impacted by any profit on sale of assets arising from the restructure.

Depreciation and amortisation

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
Depreciation	**1,708**	1,735	(27)	**(1.6%)**
Amortisation	**496**	450	46	**10.2%**
Total depreciation and amortisation	**2,204**	2,185	19	**0.9%**

Reported depreciation and amortisation has increased by 0.9% from the prior corresponding period.

Depreciation decreased by $27 million due to the retirement of communications plant and land and building assets which more than offset new additions. Capital spend on our asset base in the current half focused primarily on communications plant, core data network, network support infrastructure, mobile access and fixed access assets. This decline was offset by an increase in other plant and equipment depreciation which grew due to information technology equipment additions during the period.

Amortisation expense increased by $46 million due to additions and improvements to our software asset base mainly comprising of customer relationship management applications, network operations management, product application areas and billing systems.

Half-year results and operations review - December 2010

Net finance costs

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
Interest on borrowings	**571**	508	63	**12.4%**
Interest on finance leases	**6**	5	1	**20.0%**
Unwinding of discount on liabilities recognised at present value	**11**	8	3	**37.5%**
Loss on fair value hedges - effective	**32**	28	4	**14.3%**
Loss/(gain) on cashflow hedges - ineffective	**4**	(1)	5	**500.0%**
Loss on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships	**75**	4	71	**n/m**
Other	**8**	8	-	**-**
	707	560	147	**26.3%**
Less: borrowing costs capitalised	**(90)**	(18)	(72)	**(400.0%)**
Finance costs	**617**	542	75	**13.8%**
Finance income	**(46)**	(22)	(24)	**(109.1%)**
Net finance costs	**571**	520	51	**9.8%**

Net finance costs increased by 9.8% or $51 million from the prior corresponding period.

The increase in net interest on borrowings of $39 million (borrowing costs increase of $63 million less finance income of $24 million) during the period principally arises from an increase in the average yield on debt from higher refinancing yields on new term debt, increases in short-term market interest rates flowing through to the floating rate component of our debt portfolio and our decision to hold higher levels of liquidity funded by term debt. The average yield on average net debt during the 6 months to 31 December 2010 was 6.94% (31 December 2009: 6.05%). The increase from higher interest rates has been partly offset by a reduction in the average volume of net debt over the period.

The movement in loss on transactions not in or de-designated from fair value hedge relationships (increase of $71 million) and loss on fair value hedges (increase of $4 million) reflects valuation impacts. These principally arise from movement in interest rates, a contraction in borrowing margins and the different measurement of transactions not in or designated from hedge relationships (borrowings measured at amortised cost and associated derivatives measured at fair value).

Although a number of borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction. As it is generally our intention to hold our borrowings and associated derivative instruments to maturity, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and for each transaction will progressively unwind out to nil at maturity.

Our level of capitalised interest has increased in the half to $90 million due to the application of revised accounting standards.

Half-year results and operations review - December 2010

Income tax expense and franking account

- The reduction in income tax expense from the prior corresponding period is primarily driven by a reduction in profit

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
Income tax expense	**598**	726	(128)	**(17.6%)**
Effective tax rate	**33.1%**	27.8%		**5.3**

Income tax expense has decreased by $128 million in comparison to the prior corresponding half. This is largely due to the decline in profit during the period with the notional income tax expense on profit decreasing by $242 million as a consequence.

The impact on income tax expense due to the decline in profit has been partially offset by a $94 million increase due to adjustments to provision for tax made in the prior corresponding period.

During the first half of fiscal 2011, we have paid a total of $781 million of tax instalments for the Telstra tax consolidated group relating to the last quarter of fiscal 2010 and the first quarter of fiscal 2011 as well as $138 million of franking deficits tax. Franking credits of $746 million were used when we paid our final 2010 dividend. In addition, the 2010 income tax return refund has resulted in a further reduction of $176 million (including the refund of the $138 million franking deficits tax paid) in our franking credits.

Following the above movements, our franking account balance was $141 million in deficit at the end of December 2010. We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our dividends going forward.

Half-year results and operations review - December 2010

Major subsidiaries - financial summaries

Below is a financial summary of our three largest subsidiaries: Sensis, CSL New World and TelstraClear. This information is complementary to the product analysis previously provided in the document and is intended to show these businesses as stand alone entities.

Sensis financial summary(i)

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Total income	**696**	836	(140)	**(16.7%)**
Operating expenses (excl. depreciation and amortisation)	**407**	412	(5)	**(1.2%)**
EBITDA contribution	**288**	424	(136)	**(32.1%)**
Depreciation and amortisation	**60**	36	24	**66.7%**
EBIT contribution	**229**	388	(159)	**(41.0%)**
Capital expenditure	**55**	43	12	**27.9%**
EBITDA margin on sales revenue	**41.4%**	50.2%		**(8.8)**

Amounts included for Sensis represent the contribution to Telstra's consolidated result.
(i) The above results differ from the segment results reported on page 5 as for segment reporting purposes we monitor our results excluding the impact of investment sales. In the prior corresponding period Sensis disposed of Universal Publishers which resulted in a net loss of $9 million.

Sensis total income(ii) is split into the following categories:

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
- Yellow revenue	**383**	540	(157)	**(29.1%)**
- White Pages revenue	**189**	184	5	**2.7%**
- Digital marketing services	**112**	110	2	**1.8%**
- Other revenue	**-**	2	(2)	**(100.0%)**
Total Sensis advertising and directories	**684**	836	(152)	**(18.2%)**
Other sales revenue	**11**	9	2	**22.2%**
Total Sensis sales revenue	**695**	845	(150)	**(17.8%)**
Other income	**1**	(9)	10	**111.1%**
Sensis total income	**696**	836	(140)	**(16.7%)**

(ii) Chinese online businesses are no longer reported within Sensis (Sequel is now in Telstra International and SouFun was in the Other segment until its sale) so all current and prior period amounts have been removed from the Sensis financial results.

Sensis is our advertising subsidiary. Sensis helps you find, buy and sell through service offerings including Yellow Pages®, White Pages®, 1234, Citysearch[1], Whereis® and our MediaSmart digital display advertising business.

On a reported basis, Sensis' total income declined by 16.7% to $696 million and EBITDA declined by 32.1% to $288 million. The reported financials were impacted by the timing of revenue recognition for the Sydney Yellow Pages book which was previously recognised in the first half of the prior fiscal year and this year will be recognised in January. Adjusting for this timing difference, Sensis total income declined by 6.8% and EBITDA declined by 15.1%. The decline in performance on an adjusted basis is mainly due to the reduction in the revenue from traditional Yellow Pages print products.

On an adjusted basis, total Yellow Pages revenue declined by 13.7% from the prior corresponding period driven by a decline in Yellow print directories revenue of 18.0% and growth in Yellow Pages digital revenue of 0.2%. The decline in Yellow Pages print revenue was caused by a decrease in new business, higher cancellations and declining yields. The flattish Yellow Pages digital revenue is largely a timing issue and we expect to return to double-digit growth in the second half.

Total White Pages revenue increased by 2.7% from the prior period to $189 million. This was driven by a slight increase in yield within White Pages print and an increase of 30.4% in White Pages online revenue due to growth in the number of customers taking the online package product.

Sensis operating expenses declined by 1.2% on a reported basis. After adjusting for the timing of the Sydney Yellow Pages book, operating expenses increased by 1.7%. Operating expenses were impacted by investments in new initiatives.

1. Trade mark of CitySearch Australia Pty Limited

Half-year results and operations review - December 2010

CSL New World financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2010	2009	**Change**	**2010**	2009	**Change**
	A$m	A$m	**%**	**HK$m**	HK$m	**%**
Total income	**424**	375	**13.1%**	**3,124**	2,514	**24.3%**
Operating expenses (excl. depreciation & amortisation)	**349**	263	**32.7%**	**2,568**	1,763	**45.7%**
EBITDA	**75**	112	**(33.0%)**	**556**	751	**(26.0%)**
Depreciation and amortisation	**45**	48	**(6.3%)**	**307**	298	**3.0%**
EBIT	**30**	64	**(53.1%)**	**249**	453	**(45.0%)**
Capital expenditure	**20**	39	**(48.7%)**	**155**	268	**(42.2%)**
EBITDA margin on sales revenue	**17.7%**	29.9%	**(12.2)**	**17.8%**	29.9%	**(12.1)**
Mobile SIOs (thousands)	n/a	n/a	**n/a**	**2,619**	2,571	**1.9%**

Amounts presented in HK$ have been prepared in accordance with A-IFRS. Amounts presented in A$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from the consolidation of fair value adjustments. EBITDA margin differences arise mainly from monthly average rates used for conversion from HK$ to A$.

Note: Statistical data represents management's best estimates.

CSL New World is our Hong Kong based wireless business and operates in an intensely competitive market.

Revenue performance in local currency has been solid, growing by 24.3% compared to the prior corresponding half. This includes 7% growth in service revenue and 110% growth in hardware revenue. Strong handset growth has been achieved due to the continued customer demand for smartphones. Service revenue is also gaining progressive momentum with total data revenues up by 23.4% as customers utilise their smartphone functionality. Whilst we have seen a reduction in prepaid customer numbers, the associated revenues have grown by 19.9% due to enhancements to our prepaid platform and diversification of our sales channels.

Operating expenses excluding depreciation and amortisation grew by 45.7% in HK$ as a result of higher handset related costs associated with increased smartphone penetration and the expansion of our customer base, and a one off adjustment due to a favourable dispute settlement included in the prior corresponding half that resulted in a lower expense base.

In local currency, EBITDA declined by 26.0% due to the one off adjustment in the first half of the prior year mentioned above. We expect EBITDA to return to growth in the second half of this financial year as the benefits from our investment in customers is realised.

Capital expenditure decreased by 42.2% in HK$ as a result of the completion of the network improvement project.

The period on period change in the HK$/AUD$ exchange rate resulted in a decrease in consolidated total income of A$39 million which was partially offset by a corresponding decrease in expenses (including depreciation and amortisation) of $A36 million.

Half-year results and operations review - December 2010

TelstraClear financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2010	2009	**Change**	**2010**	2009	**Change**
	A$m	A$m	**%**	**NZ$m**	NZ$m	**%**
Total income	**265**	269	**(1.5%)**	**340**	334	**1.8%**
Operating expenses (excl. depreciation & amortisation)	**225**	220	**2.3%**	**289**	273	**5.9%**
EBITDA contribution	**40**	49	**(18.4%)**	**51**	61	**(16.4%)**
Depreciation and amortisation	**57**	59	**(3.4%)**	**70**	70	**0.0%**
EBIT contribution	**(17)**	(10)	**(70.0%)**	**(19)**	(9)	**(111.1%)**
Capital expenditure	**27**	32	**(15.6%)**	**36**	40	**(10.0%)**
EBITDA margin on sales revenue	**15.0%**	18.2%	**(3.2)**	**15.0%**	18.3%	**(3.3)**

Amounts presented in NZ$ represent the New Zealand business excluding intercompany transactions and have been prepared in accordance with A-IFRS. Amounts presented in A$ represent amounts included in Telstra's consolidated result and include the Australian dollar value of adjustments to consolidate TelstraClear into the Group result.

For the half-year ended 31 December 2010, revenue (excluding trans Tasman intercompany revenue) has increased by 1.8% in local currency, despite a challenging economic environment and highly competitive market.

Consumer revenues continued to grow with a 1% increase from the prior corresponding period. Revenue grew in both on-net and off-net areas despite increased competition. Business revenues also showed growth, arresting the decline experienced over prior periods.

Operating expenses (excluding depreciation and amortisation) increased by 5.9%. An increase in labour costs were driven by one-off project costs associated with outsourcing a number of call centre activities which will provide financial benefits in future periods. Additionally, increased sales resources and increased promotion and advertising expenses were partially offset by a reduction in bad and doubtful debts of 7%, as a result of tighter financial controls.

Capex spend is lower by 10.0% with investment focussed on a product set with ubiquitous access and increasing access reach.

In A$, we saw a 1.5% decline in total income to $265 million including adjustments on consolidation with reported EBITDA declining by 18.4%.

The period on period change in exchange rates resulted in a decrease in consolidated total income of A$8 million which was offset by a decrease in expenses (including depreciation and amortisation) of $9 million.

On a standalone basis as shown below, including intercompany revenues, total income increased by 1.4% and EBITDA declined by 16.2%.

TelstraClear standalone financial results

	Half-year ended 31 December		
	2010	2009	**Change**
	NZ$m	NZ$m	**%**
Total income	**353**	348	**1.4%**
Operating expenses (excl. depreciation & amortisation)	**291**	274	**6.2%**
EBITDA	**62**	74	**(16.2%)**
Depreciation and amortisation	**70**	70	**0.0%**
EBIT	**(8)**	4	**(300.0%)**
Capital expenditure	**36**	40	**(10.0%)**
EBITDA margin on sales revenue	**17.6%**	21.3%	**(3.7)**

Half-year results and operations review - December 2010

Statement of financial position

- Given the strength of our balance sheet and debt maturity profile we continue to be able to refinance borrowings on competitive terms
- Net assets have decreased reflecting our investment in the half in executing our strategy around customer acquisition and business simplification

Statement of financial position

	As at			
	31 Dec 10 $m	30 Jun 10 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**2,676**	1,936	740	**38.2%**
Other current assets	**5,038**	5,249	(211)	**(4.0%)**
Total current assets	**7,714**	7,185	529	**7.4%**
Non current assets				
Property, plant and equipment	**22,059**	22,894	(835)	**(3.6%)**
Intangible assets	**7,571**	8,028	(457)	**(5.7%)**
Other non current assets	**945**	1,175	(230)	**(19.6%)**
Total non current assets	**30,575**	32,097	(1,522)	**(4.7%)**
Total assets	**38,289**	39,282	(993)	**(2.5%)**
Current liabilities				
Borrowings	**2,847**	2,540	307	**12.1%**
Other current liabilities	**5,817**	6,142	(325)	**(5.3%)**
Total current liabilities	**8,664**	8,682	(18)	**(0.2%)**
Non current liabilities				
Borrowings	**11,895**	12,370	(475)	**(3.8%)**
Other non current liabilities	**5,522**	5,222	300	**5.7%**
Total non current liabilities	**17,417**	17,592	(175)	**(1.0%)**
Total liabilities	**26,081**	26,274	(193)	**(0.7%)**
Net assets	**12,208**	13,008	(800)	**(6.2%)**
Equity				
Equity available to Telstra entity shareholders	**11,985**	12,696	(711)	**(5.6%)**
Non-controlling interests	**223**	312	(89)	**(28.5%)**
Total equity	**12,208**	13,008	(800)	**(6.2%)**

Our balance sheet remains in a healthy state with net assets of $12,208 million. During the period we have conducted a number of capital raisings in debt markets including executing a €500 million 10 year benchmark bond issue in October 2010 with a maturity of March 2021.

Major balance sheet movements included:

- other current assets decreased by 4.0% mainly due to the sell down of our shareholding in SouFun for which the carrying value of assets and goodwill had been reclassified as held for sale. This was partly offset by an increase in trade debtors and inventories associated with increased customer acquisition activity;
- property, plant and equipment has declined mainly due to a reduction in capital program expenditure following the peaks of our transformation program in recent years. Reductions include communication plant assets for our core, fixed and mobile access networks as ongoing depreciation and retirements exceed the level of additions;
- intangible assets decreased by 5.7% mainly due to foreign exchange movements and the impairment of the Octave Group goodwill and customer base as a result of clarification of regulatory rulings in the China market;
- other non current assets decreased as a result of a reduction in the value of derivative assets predominantly from a strengthening of the Australian dollar, partly offset by an increase in trade and other receivables due to mobile and fixed repayment option debt;
- total current and non current borrowings decreased by $168 million due to a combination of net non cash gains of $1,081 million, primarily due to revaluation gains arising from the strengthening of the Australian dollar, offset by progressive pre-funding for re-financing of our Euro bond of $2.5 billion maturing in June 2011 with borrowings and maturities of $913 million principally comprising new offshore and domestic term debt entered into during the period;
- other current liabilities decreased due to lower trade creditors and accruals mainly as a result of a reduction in capital program expenditure and timing of annual spend, partly offset by an increase in derivative liabilities; and

Half-year results and operations review - December 2010

- other non current liabilities increased due to an increase in derivative liabilities predominantly from a strengthening of the Australian dollar, partly offset by lower defined benefit pension and tax liabilities.

Our gross debt position at 31 December 2010 was $17,071 million, an increase of $1,040 million from 30 June 2010. The increase is due to a net increase in borrowings of $897 million representing progressive pre-funding for re-financing of our Euro bond maturing in June 2011, a net non-cash revaluation loss of $114 million and $29 million of finance lease additions.

The increase in cash and cash equivalents of $740 million excludes $169 million for the net cash portion of SouFun assets sold which was reclassified to current assets as held for sale. Adjusting for this there was a net increase in cash and cash equivalents of $571 million, including a net loss of $53 million for the effect of exchange rate movements. Our net debt at 31 December 2010 was $14,395 million compared to $15,240 million at 31 December 2009. Net debt in the current half increased by $469 million from 30 June 2010 which is consistent with our annual profiling where second half cash flows are typically stronger than the first half. The increase of $469 million comprises a non-cash increase of $196 million and a cash increase of $273 million. Our net debt gearing ratio (net debt to capitalisation) increased from 51.7% as at 30 June 2010 to 54.1% as at 31 December 2010 which is largely due to the reduction in equity (lower retained earnings) over the period as we have executed on our strategy to invest in customer acquisition and simplify our business.

Half-year results and operations review - December 2010

Capital expenditure

- Accrued capex declined by 9.4% to $1,451 million
- The decline was driven by the completion of major transformation projects and transmission upgrade programs

Operating capex by investment driver on an accruals basis

	Half-year ended 31 December			
	2010	2009	Change	**Change**
	$m	$m	$m	**%**
New revenue/growth	**126**	126	-	**-**
Business improvement	**237**	344	(107)	**(31.1%)**
Customer demand and experience	**746**	759	(13)	**(1.7%)**
Lifecycle maintenance	**187**	197	(10)	**(5.1%)**
Legal and regulatory compliance	**4**	3	1	**33.3%**
Sensis	**55**	43	12	**27.9%**
International	**96**	129	(33)	**(25.6%)**
Operating capital expenditure	**1,451**	1,601	(150)	**(9.4%)**

Our operating capital expenditure declined by 9.4% to $1,451 million as at 31 December 2010 mainly due to the following:

- business improvement spend decreased by $107 million this year reflecting the completion of the IT transformation program last fiscal year. There was a continued focus on system enhancement involving the completion and delivery of remaining functionality in fiscal 2011 following the major IT program releases in the previous year;
- international decreased by $33 million following significant capacity acquisitions in fiscal 2010 and reduced spend in CSL New World due to completion of a major network build program;
- customer demand and experience reduced by $13 million due principally to a combined reduction across several demand driven programs including new estates and redevelopment and the early completion of the network transport capacity program to proactively address capacity demands. This is offset by increased spend relating to the success of Telstra bundles and new product offerings such as T-Box and T-Hub; and
- lifecycle maintenance expenditure decreased by $10 million as the first half of fiscal 2010 included key infrastructure purchases to address data centre capacity growth.

Partly offsetting the above are the following categories:

- Sensis domestic spend increased by $12 million following the requirement to support new licensing agreements and management of the new system that supports the print and online businesses; and
- new revenue / growth spend level has been maintained and includes continued spend on operational improvement and customer satisfaction initiatives and new content and online initiatives.

Half-year results and operations review - December 2010

Cashflow summary

- Investment in our customer base through our directly variable costs and the commencement of our Project New programs were key drivers of the lower cash from operating activities in the first half
- Free cashflow from operating and investing activities was $2,020 million for the half and on a guidance basis was $1,700 million after net proceeds from sale of investments of $320 million
- Second half cash flow is expected to increase relative to the first half due to improved EBITDA performance and working capital improvements

Cashflow summary

	Half-year ended 31 December			
	2010 $m	2009 $m	Change $m	**Change %**
Cashflows from operating activities				
Receipts from customers (inclusive of GST)	**13,487**	13,662	(175)	**(1.3%)**
Payments to suppliers and to employees (inclusive of GST)	**(9,294)**	(8,458)	(836)	**9.9%**
Net cash generated by operations	**4,193**	5,204	(1,011)	**(19.4%)**
Income taxes paid	**(758)**	(595)	(163)	**27.4%**
Net cash provided by operating activities	**3,435**	4,609	(1,174)	**(25.5%)**
Cashflows from investing activities				
Payments for property, plant and equipment	**(1,385)**	(1,658)	273	**(16.5%)**
Payments for intangible assets	**(446)**	(383)	(63)	**16.4%**
Capital expenditure (before investments)	**(1,831)**	(2,041)	210	**(10.3%)**
Payments for shares in controlled entities (net of cash acquired)	**-**	(10)	10	**n/m**
Total capital expenditure	**(1,831)**	(2,051)	220	**(10.7%)**
Proceeds from asset sales and finance leases	**79**	35	44	**125.7%**
Proceeds from sale of shares in controlled entities	**288**	11	277	**n/m**
Repayments/loans to jointly controlled and associated entities	**3**	(3)	6	**(200.0%)**
Interest received	**35**	20	15	**75.0%**
Settlement of hedges in net investments	**5**	(2)	7	**(350.0%)**
Dividends received from SouFun	**6**	-	6	**n/m**
Net cash used in investing activities	**(1,415)**	(1,990)	575	**(28.9%)**
Operating cashflows less investing cashflows	**2,020**	2,619	(599)	**(22.9%)**
Cashflows from financing activities				
Movements in borrowings	**932**	(46)	978	**n/m**
Repayment of finance lease principal amounts	**(35)**	(34)	(1)	**2.9%**
Staff repayments of share loans	**4**	5	(1)	**(20.0%)**
Finance costs paid	**(547)**	(497)	(50)	**10.1%**
Dividends paid to equity holders of Telstra Entity	**(1,737)**	(1,737)	-	**-**
Dividends paid to non-controlling interests	**(13)**	(14)	1	**(7.1%)**
Net cash used in financing activities	**(1,396)**	(2,323)	927	**(39.9%)**
Net increase in cash and cash equivalents	**624**	296	328	**110.8%**

Net cash provided by operating activities

Cash receipts from customers was lower this half by 1.3% partially due to flattish sales revenue together with an increase in debtors which was influenced by the high take up of our repayment option plans for mobile, T-Hub and T-Box compared to the prior corresponding period.

Cash payments to suppliers has been higher this half by 9.9% impacted by our significant investment in directly variable costs as we implement our strategy to gain market share in mobiles. Additionally, we have invested in our Project New programs in the current half-year which we believe will begin to deliver savings to the business from the second half. Our creditors have also reduced in the current period following high balances held at June 2010.

Income taxes paid increased by 27.4% this half primarily due to lower tax refunds and prior year amended assessments in the current half-year compared to the prior corresponding period as well as higher pay as you go instalments.

Net cash used in investing activities

Capital expenditure reduced by 10.7% from the prior half driven by the completion of major transformation projects and transmission upgrade programs. A number of capital programs that are in progress or development will be weighted towards the second half of the year including such projects as our network and technology programs, various Project New initiatives, and IT and Inter Exchange Network projects.

Half-year results and operations review - December 2010

Our proceeds from sale of controlled entities represent $288 million of net cash proceeds from the sale of our Chinese SouFun investment after the return of cash held on sale of $169 million. Additionally we received $23 million from our sale of associate Keycorp and $10 million from the sale of our UK voice business.

Net cash used in financing activities

Our net cash used in financing activities decreased by $927 million this half, which included movements in borrowings in the current six months of $932 million representing progressive pre-funding for re-financing of our Euro bond maturing in June 2011 and included a $708 million inflow from a Euro denominated borrowing and $201 million from a domestic borrowing. This reflects our general strategy to diversify debt issuance across a broad range of markets, segments, and investors to enhance funding access and resilience combined with the objective of holding higher levels of liquidity.

Finance costs paid increased by $50 million or 10.1% mainly due to an increase in the base interest rates payable on our floating rate borrowings.

In addition to the net movement in cash for the half of $624 million was a net loss of $53 million for the effect of exchange rate movements due to the appreciation in the Australian dollar.

This schedule details the adjustments made to the reported results for the current half-year to present a more accurate view of the real performance of the business
(Adjusting for currency movements, Yellow Pages, asset acquisitions, disposals and write-downs and fair value adjustments included in net finance costs)

	REPORTED			ADJUSTMENTS							ADJUSTED		
				Dec-10					Dec-09				
	Dec-10	Dec-09	Growth	FX (i)	Yellow (ii)	Octave (iii)	Bus sales (iv)	FVA (v)	Bus sales (iv)	FVA (v)	Dec-10	Dec-09	Growth
	$m	$m	%	$m	$m	$m	$m	$m	$m	$m	$m	$m	%
Sales revenue	**12,263**	12,323	**(0.5%)**	69	83						**12,415**	12,323	**0.7%**
Total revenue	**12,283**	12,342	**(0.5%)**	69	83		(59)		9		**12,376**	12,351	**0.2%**
Total income (excl. finance income)	**12,408**	12,389	**0.2%**	69	83		(59)		9		**12,501**	12,398	**0.8%**
Labour	**1,988**	1,967	**1.1%**	11							**1,999**	1,967	**1.6%**
Goods and services purchased	**3,148**	2,615	**20.4%**	36	12						**3,196**	2,615	**22.2%**
Other expenses	**2,693**	2,490	**8.2%**	12		(133)					**2,572**	2,490	**3.3%**
Operating expenses	**7,829**	7,072	**10.7%**	59	12	(133)					**7,767**	7,072	**9.8%**
Share of net profit from jointly controlled and associated entities	**(1)**	0	**n/m**								**(1)**	0	**n/m**
EBITDA	**4,580**	5,317	**(13.9%)**	10	71	133	(59)		9		**4,735**	5,326	**(11.1%)**
Depreciation and amortisation	**2,204**	2,185	**0.9%**	7							**2,211**	2,185	**1.2%**
EBIT	**2,376**	3,132	**(24.1%)**	3	71	133	(59)		9		**2,524**	3,141	**(19.6%)**
Net finance costs	**571**	520	**9.8%**	1				(111)		(31)	**461**	489	**(5.7%)**
Profit before income tax expense	**1,805**	2,612	**(30.9%)**	2	71	133	(59)	111	9	31	**2,063**	2,652	**(22.2%)**
Income tax expense	**598**	726	**(17.6%)**	1	21	10	(29)	33		9	**634**	735	**(13.7%)**
Profit for the year	**1,207**	1,886	**(36.0%)**	1	50	123	(30)	78	9	22	**1,429**	1,917	**(25.5%)**
Attributable to:													
Non controlling interests	**13**	33	**(60.6%)**	1							**14**	33	**(57.6%)**
Equity holders of the Telstra Entity	**1,194**	1,853	**(35.6%)**	0	50	123	(30)	78	9	22	**1,415**	1,884	**(24.9%)**

Note:
There are a number of factors that have impacted our results this half. In the table above, we have adjusted the results for:
(i) the significant strengthening of the Australian dollar:
The fx adjustments reflect the impact of exchange rate movements on the AUD performance of our offshore subsidiaries based on fiscal 2010 exchange rates.
(ii) Sydney Yellow Pages:
Adjustment due to the timing of revenue recognition for the Sydney metro Yellow Pages book which was recognised in H1 in the prior fiscal year.
(iii) Octave impairment:
Adjustment for impairment on our Octave business in China.
(iv) Profits and losses on the sales of businesses:
Adjustment to exclude accounting profits and losses on the sale of businesses. In the current half we sold SouFun ($69m profit), Keycorp ($8m profit) and our UK voice business ($18m loss). In the prior period we sold Universal Publishers ($9m loss).
(v) the IFRS fair value adjustments in net finance costs:
Unrealised revaluation gains and losses will be recognised in net finance costs over the life of our financial instruments and will progressively unwind out to nil at maturity.
In general, it is our intention to hold our borrowings and associated derivative instruments to maturity. This adjustment reflects the significant revaluation of the AUD on our interest expense.

Telstra Corporation Limited

Product reconciliation to align previously released comparative figures with the current reported position

Half-year ended 31 December 2010

Product hierarchy at Dec 09 as previously released	Previously released Dec 09 $m	New product hierarchy based on Dec 10 structure	Based on new hierarchy Dec 09 $m	Movement since Dec 09 release $m	Description of movement since Dec 09 release
Fixed products		Fixed products			
PSTN products	2,997	PSTN products	2,996	(1)	($1m) international SMS transit moved to global products
Fixed internet	1,083	Fixed internet	1,083	-	
ISDN products	463	ISDN products	463	-	
Other fixed revenue	602	Other fixed revenue	549	(53)	($51m) Telstra Business SME (PABX Equipment and services) moved to network applications and services; ($2m) Global Operations Centre moved to global products
Total fixed products	5,145	Total fixed products	5,091	(54)	
Mobiles		Mobiles		-	
Mobile services - retail and interconnection	3,121	Mobile services - retail	2,858	(263)	New subtotal
Mobile services - wholesale	90	Mobile services - interconnection & wholesale	353	263	New subtotal
Total mobile services	3,211	Total mobile services	3,211	-	
Mobile hardware	413	Mobile hardware	413	-	
Total mobiles	3,624	Total mobiles	3,624	-	
IP and data access		IP and data access		-	
Specialised data	269	Specialised data	269	-	
Global products	61	Global products	64	3	$2m Global Operations Centre moved from other fixed revenue; $1m international SMS transit moved from PSTN products
IP access	393	IP access	393	-	
Wholesale internet and data	168	Wholesale internet and data	168	-	
Total IP and data access	891	Total IP and data access	894	3	
Business services and applications	429	Network applications and services	480	51	$51m Telstra Business SME (PABX equipment and services) moved from other fixed revenue.
Offshore content and online content	89	Offshore content and online content	89	-	
Advertising and directories	975	Advertising and directories	975	-	
CSL New World	374	CSL New World	374	-	
TelstraClear	269	TelstraClear	269	-	
Other offshore services revenue	152	Other offshore services revenue	152	-	
Pay TV bundling	247	Pay TV bundling	247	-	
Other sales revenue	128	Other sales revenue	128	-	
Sales revenue	**12,323**	**Sales revenue**	**12,323**	**-**	

Summary Reported Half-Yearly Data ($ millions)	Half 1 Dec-06	PCP Growth	Half 2 Jun-07	PCP Growth	Full year Jun-07	PCP Growth	Half 1 Dec-07	PCP Growth	Half 2 Jun-08	PCP Growth	Full year Jun-08	PCP Growth	Half 1 Dec-08	PCP Growth	Half 2 Jun-09	PCP Growth	Full year Jun-09	PCP Growth	Half 1 Dec-09	PCP Growth	Half 2 Jun-10	PCP Growth	Full year Jun-10	PCP Growth	Half 1 Dec-10	PCP Growth
Revenue																										
Fixed products																										
PSTN products																										
Basic access	1,663	0.3%	1,670	0.7%	3,333	0.5%	1,657	(0.4%)	1,621	(2.9%)	3,278	(1.7%)	1,592	(3.9%)	1,565	(3.5%)	3,157	(3.7%)	1,508	(5.3%)	1,470	(6.1%)	2,978	(5.7%)	**1,441**	(4.4%)
Local calls	432	(21.9%)	413	(12.1%)	845	(17.4%)	388	(10.2%)	348	(15.7%)	736	(12.9%)	328	(15.5%)	305	(12.4%)	633	(14.0%)	286	(12.8%)	252	(17.4%)	538	(15.0%)	**228**	(20.3%)
PSTN value added services	125	1.6%	132	7.3%	257	4.5%	134	7.2%	135	2.3%	269	4.7%	135	0.7%	132	(2.2%)	267	(0.7%)	128	(5.2%)	128	(3.0%)	256	(4.1%)	**131**	2.3%
National long distance calls	408	(13.2%)	400	(9.5%)	808	(11.5%)	385	(5.6%)	364	(9.0%)	749	(7.3%)	349	(9.4%)	331	(9.1%)	680	(9.2%)	315	(9.7%)	288	(13.0%)	603	(11.3%)	**274**	(13.0%)
Fixed to mobile calls	608	(2.1%)	600	0.8%	1,208	(0.6%)	615	1.2%	607	1.2%	1,222	1.2%	615	0.0%	599	(1.3%)	1,214	(0.7%)	580	(5.7%)	539	(10.0%)	1,119	(7.8%)	**516**	(11.0%)
International direct	94	(11.3%)	90	(6.3%)	184	(8.5%)	92	(2.1%)	89	(1.1%)	181	(1.6%)	90	(2.2%)	85	(4.5%)	175	(3.3%)	82	(8.9%)	70	(17.6%)	152	(13.1%)	**67**	(18.3%)
Fixed interconnection	133	(8.9%)	119	(15.0%)	252	(11.9%)	120	(9.8%)	111	(6.7%)	231	(8.3%)	109	(9.2%)	101	(9.0%)	210	(9.1%)	97	(11.0%)	89	(11.9%)	186	(11.4%)	**86**	(11.3%)
Total PSTN products	**3,463**	**(5.8%)**	**3,424**	**(2.9%)**	**6,887**	**(4.4%)**	**3,391**	**(2.1%)**	**3,275**	**(4.4%)**	**6,666**	**(3.2%)**	**3,218**	**(5.1%)**	**3,118**	**(4.8%)**	**6,336**	**(5.0%)**	**2,996**	**(6.9%)**	**2,836**	**(9.0%)**	**5,832**	**(8.0%)**	**2,743**	**(8.4%)**
Fixed internet																										
Fixed broadband retail and hardware	491	37.5%	560	35.6%	1,051	36.5%	650	32.4%	703	25.5%	1,353	28.7%	783	20.5%	785	11.7%	1,568	15.9%	791	1.0%	781	(0.5%)	1,572	0.3%	**794**	0.4%
Wholesale broadband	267	32.2%	275	11.3%	542	20.7%	272	1.9%	259	(5.8%)	531	(2.0%)	239	(12.1%)	230	(11.2%)	469	(11.7%)	226	(5.4%)	223	(3.0%)	449	(4.3%)	**208**	(8.0%)
Spectrum sharing services	11	83.3%	12	(7.7%)	23	21.1%	6	(45.5%)	17	41.7%	23	0.0%	14	133.3%	15	(11.8%)	29	26.1%	20	42.9%	20	33.3%	40	37.9%	**17**	(15.0%)
Narrowband	79	(32.5%)	65	(36.3%)	144	(34.5%)	52	(34.2%)	41	(36.9%)	93	(35.4%)	35	(32.7%)	24	(41.5%)	59	(36.6%)	20	(42.9%)	14	(41.7%)	34	(42.4%)	**12**	(40.0%)
Internet VAS	3	0.0%	4	33.3%	7	40.0%	9	200.0%	11	175.0%	20	185.7%	13	44.4%	22	100.0%	35	75.0%	26	100.0%	23	4.5%	49	40.0%	**22**	(15.4%)
Total fixed internet	**851**	**24.2%**	**916**	**17.7%**	**1,767**	**20.8%**	**989**	**16.2%**	**1,031**	**12.6%**	**2,020**	**14.3%**	**1,084**	**9.6%**	**1,076**	**4.4%**	**2,160**	**6.9%**	**1,083**	**(0.1%)**	**1,061**	**(1.4%)**	**2,144**	**(0.7%)**	**1,053**	**(2.8%)**
ISDN products	517	(6.5%)	497	(3.1%)	1,014	(4.9%)	495	(4.3%)	483	(2.8%)	978	(3.6%)	483	(2.4%)	459	(5.0%)	942	(3.7%)	463	(4.1%)	442	(3.7%)	905	(3.9%)	**447**	(3.5%)
Premium calling products	223	(0.4%)	229	4.6%	452	2.0%	223	0.0%	224	(2.2%)	447	(1.1%)	217	(2.7%)	212	(5.4%)	429	(4.0%)	204	(6.0%)	200	(5.7%)	404	(5.8%)	**198**	(2.9%)
Payphones	44	(12.0%)	41	(10.9%)	85	(11.5%)	36	(18.2%)	34	(17.1%)	70	(17.6%)	30	(16.7%)	29	(14.7%)	59	(15.7%)	26	(13.3%)	23	(20.7%)	49	(16.9%)	**22**	(15.4%)
Customer premises equipment	78	(3.7%)	81	5.2%	159	0.6%	74	(5.1%)	64	(21.0%)	138	(13.2%)	67	(9.5%)	65	1.6%	132	(4.3%)	53	(20.9%)	57	(12.3%)	110	(16.7%)	**94**	77.4%
Intercarrier access services (includes ULL)	89	8.5%	96	10.3%	185	9.5%	112	25.8%	149	55.2%	261	41.1%	171	52.7%	182	22.1%	353	35.2%	193	12.9%	206	13.2%	399	13.0%	**222**	15.0%
Other fixed revenue	100	(7.4%)	96	(5.0%)	196	(6.7%)	89	(11.0%)	84	(12.5%)	173	(11.7%)	84	(5.6%)	73	(13.1%)	157	(9.2%)	73	(13.1%)	66	(9.6%)	139	(11.5%)	**61**	(16.4%)
Total fixed products	**5,365**	**(1.8%)**	**5,380**	**0.7%**	**10,745**	**(0.6%)**	**5,409**	**0.8%**	**5,344**	**(0.7%)**	**10,753**	**0.1%**	**5,354**	**(1.0%)**	**5,214**	**(2.4%)**	**10,568**	**(1.7%)**	**5,091**	**(4.9%)**	**4,891**	**(6.2%)**	**9,982**	**(5.5%)**	**4,840**	**(4.9%)**
Mobiles																										
Postpaid handheld	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,150	n/a	2,073	n/a	4,223	n/a	2,154	0.2%	2,171	4.7%	4,325	2.4%	**2,214**	2.8%
Prepaid handheld	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	294	n/a	312	n/a	606	n/a	321	9.2%	304	(2.6%)	625	3.1%	**351**	9.3%
Total handheld	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,444	n/a	2,385	n/a	4,829	n/a	2,475	1.3%	2,475	3.8%	4,950	2.5%	**2,565**	3.6%
Mobile broadband	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	288	n/a	318	n/a	606	n/a	383	33.0%	436	37.1%	819	35.1%	**477**	24.5%
Mobile services revenue - retail	2,103	8.1%	2,192	14.6%	4,295	11.3%	2,409	14.6%	2,507	14.4%	4,916	14.5%	2,732	13.4%	2,703	7.8%	5,435	10.6%	2,858	4.6%	2,911	7.7%	5,769	6.1%	**3,042**	6.4%
Mobile interconnection	256	(12.6%)	243	(11.6%)	499	(12.1%)	220	(14.1%)	222	(8.6%)	442	(11.4%)	245	11.4%	246	10.8%	491	11.1%	263	7.3%	270	9.8%	533	8.6%	**306**	16.3%
Mobile services - wholesale resale	66	61.0%	79	58.0%	145	59.3%	98	48.5%	92	16.5%	190	31.0%	89	(9.2%)	86	(6.5%)	175	(7.9%)	90	1.1%	69	(19.8%)	159	(9.1%)	**73**	(18.9%)
Total mobile services	**2,425**	**6.4%**	**2,514**	**12.3%**	**4,939**	**9.3%**	**2,727**	**12.5%**	**2,821**	**12.2%**	**5,548**	**12.3%**	**3,066**	**12.4%**	**3,035**	**7.6%**	**6,101**	**10.0%**	**3,211**	**4.7%**	**3,250**	**7.1%**	**6,461**	**5.9%**	**3,421**	**6.5%**
Mobile hardware	364	70.9%	380	48.4%	744	58.6%	477	31.0%	384	1.1%	861	15.7%	396	(17.0%)	381	(0.8%)	777	(9.8%)	413	4.3%	443	16.3%	856	10.2%	**566**	37.0%
Total mobiles	**2,789**	**11.9%**	**2,894**	**16.0%**	**5,683**	**14.0%**	**3,204**	**14.9%**	**3,205**	**10.7%**	**6,409**	**12.8%**	**3,462**	**8.1%**	**3,416**	**6.6%**	**6,878**	**7.3%**	**3,624**	**4.7%**	**3,693**	**8.1%**	**7,317**	**6.4%**	**3,987**	**10.0%**
IP and data access																										
Specialised data	377	(11.1%)	368	(7.3%)	745	(9.3%)	350	(7.2%)	340	(7.6%)	690	(7.4%)	328	(6.3%)	300	(11.8%)	628	(9.0%)	269	(18.0%)	213	(29.0%)	482	(23.2%)	**187**	(30.5%)
Global products	47	(2.1%)	49	(5.8%)	96	(4.0%)	49	4.3%	56	14.3%	105	9.4%	66	34.7%	69	23.2%	135	28.6%	64	(3.0%)	58	(15.9%)	122	(9.6%)	**58**	(9.4%)
IP access	180	21.6%	236	37.2%	416	30.0%	252	40.0%	283	19.9%	535	28.6%	324	28.6%	352	24.4%	676	26.4%	393	21.3%	442	25.6%	835	23.5%	**472**	20.1%
Wholesale internet and data	127	17.6%	131	4.0%	258	10.3%	137	7.9%	141	7.6%	278	7.8%	156	13.9%	152	7.8%	308	10.8%	168	7.7%	170	11.8%	338	9.7%	**174**	3.6%
Total IP and data access	**731**	**0.4%**	**784**	**4.8%**	**1,515**	**2.6%**	**788**	**7.8%**	**820**	**4.6%**	**1,608**	**6.1%**	**874**	**10.9%**	**873**	**6.5%**	**1,747**	**8.6%**	**894**	**2.3%**	**883**	**1.1%**	**1,777**	**1.7%**	**891**	**(0.3%)**
Network applications and services (i)	575	0.7%	647	4.9%	1,222	2.9%	611	6.3%	627	(3.1%)	1,238	1.3%	590	(3.4%)	612	(2.4%)	1,202	(2.9%)	480	(18.6%)	553	(9.6%)	1,033	(14.1%)	**485**	1.0%
Offshore content and online content (ii)	7	16.7%	6	0.0%	13	8.3%	7	0.0%	8	33.3%	15	15.4%	10	42.9%	60	650.0%	70	366.7%	89	790.0%	55	(8.3%)	144	105.7%	**47**	(47.2%)
Advertising and directories (iii)	879	(11.7%)	1,075	31.4%	1,954	7.7%	948	7.8%	1,168	8.7%	2,116	8.3%	1,028	8.4%	1,231	5.4%	2,259	6.8%	975	(5.2%)	1,190	(3.3%)	2,165	(4.2%)	**793**	(18.7%)
CSL New World (iv)	519	39.1%	481	5.3%	1,000	20.5%	485	(6.6%)	432	(10.2%)	917	(8.3%)	495	2.1%	494	14.4%	989	7.9%	374	(24.4%)	396	(19.8%)	770	(22.1%)	**424**	13.4%
TelstraClear	286	(10.9%)	287	(3.7%)	573	(7.6%)	287	0.3%	275	(4.2%)	562	(1.9%)	275	(4.2%)	272	(1.1%)	547	(2.7%)	269	(2.2%)	260	(4.4%)	529	(3.3%)	**265**	(1.5%)
Other offshore services revenue	173	24.5%	175	12.2%	348	18.0%	174	0.6%	172	(1.7%)	346	(0.6%)	195	12.1%	195	13.4%	390	12.7%	152	(22.1%)	141	(27.7%)	293	(24.9%)	**130**	(14.5%)
Pay TV bundling	164	5.1%	180	9.8%	344	7.5%	204	24.4%	222	23.3%	426	23.8%	233	14.2%	234	5.4%	467	9.6%	247	6.0%	264	12.8%	511	9.4%	**286**	15.8%
Other sales revenue	142	(20.7%)	134	(28.3%)	276	(24.4%)	135	(4.9%)	132	(1.5%)	267	(3.3%)	128	(5.2%)	126	(4.5%)	254	(4.9%)	128	0.0%	164	30.2%	292	15.0%	**115**	(10.2%)
Total sales revenue	**11,630**	**1.8%**	**12,043**	**6.7%**	**23,673**	**4.2%**	**12,252**	**5.3%**	**12,405**	**3.0%**	**24,657**	**4.2%**	**12,644**	**3.2%**	**12,727**	**2.6%**	**25,371**	**2.9%**	**12,323**	**(2.5%)**	**12,490**	**(1.9%)**	**24,813**	**(2.2%)**	**12,263**	**(0.5%)**
Other revenue	15	50.0%	21	75.0%	36	63.6%	120	700.0%	51	142.9%	171	375.0%	66	(45.0%)	70	37.3%	136	(20.5%)	19	(71.2%)	85	21.4%	104	(23.5%)	**20**	5.3%
Total revenue	**11,645**	**1.9%**	**12,064**	**6.7%**	**23,709**	**4.3%**	**12,372**	**6.2%**	**12,456**	**3.2%**	**24,828**	**4.7%**	**12,710**	**2.7%**	**12,797**	**2.7%**	**25,507**	**2.7%**	**12,342**	**(2.9%)**	**12,575**	**(1.7%)**	**24,917**	**(2.3%)**	**12,283**	**(0.5%)**
Other income	152	18.8%	99	(50.5%)	251	(23.5%)	107	(29.6%)	67	(32.3%)	174	(30.7%)	53	(50.5%)	54	(19.4%)	107	(38.5%)	47	(11.3%)	65	20.4%	112	4.7%	**125**	166.0%
Total income	**11,797**	**2.1%**	**12,163**	**5.7%**	**23,960**	**3.9%**	**12,479**	**5.8%**	**12,523**	**3.0%**	**25,002**	**4.3%**	**12,763**	**2.3%**	**12,851**	**2.6%**	**25,614**	**2.4%**	**12,389**	**(2.9%)**	**12,640**	**(1.6%)**	**25,029**	**(2.3%)**	**12,408**	**0.2%**
Expenses																										
Labour	1,996	(2.8%)	2,021	(12.5%)	4,017	(8.0%)	2,092	4.8%	2,066	2.2%	4,158	3.5%	2,152	2.9%	1,979	(4.2%)	4,131	(0.6%)	1,967	(8.6%)	1,740	(12.1%)	3,707	(10.3%)	**1,988**	1.1%
Goods and services purchased	2,566	16.6%	2,585	3.3%	5,151	9.6%	2,676	4.3%	2,505	(3.1%)	5,181	0.6%	2,632	(1.6%)	2,681	7.0%	5,313	2.5%	2,615	(0.6%)	2,745	2.4%	5,360	0.9%	**3,148**	20.4%
Other expenses	2,318	15.3%	2,606	7.9%	4,924	11.2%	2,539	9.5%	2,707	3.9%	5,246	6.5%	2,644	4.1%	2,581	(4.7%)	5,225	(0.4%)	2,490	(5.8%)	2,627	1.8%	5,117	(2.1%)	**2,693**	8.2%
Operating expense (before interest)	6,880	9.8%	7,212	(0.2%)	14,092	4.4%	7,307	6.2%	7,278	0.9%	14,585	3.5%	7,428	1.7%	7,241	(0.5%)	14,669	0.6%	7,072	(4.8%)	7,112	(1.8%)	14,184	(3.3%)	**7,829**	10.7%
Share of net (profit)/loss from jointly controlled and associated entities	1	0.0%	6	(200.0%)	7	(240.0%)	0	(100.0%)	1	(83.3%)	1	(85.7%)	1	n/m	(4)	(500.0%)	(3)	(400.0%)	0	(100.0%)	(2)	(50.0%)	(2)	(33.3%)	**(1)**	n/m
EBITDA	**4,916**	**(7.1%)**	**4,945**	**15.5%**	**9,861**	**3.0%**	**5,172**	**5.2%**	**5,244**	**6.0%**	**10,416**	**5.6%**	**5,334**	**3.1%**	**5,614**	**7.1%**	**10,948**	**5.1%**	**5,317**	**(0.3%)**	**5,530**	**(1.5%)**	**10,847**	**(0.9%)**	**4,580**	**(13.9%)**
Depreciation and amortisation	1,978	9.6%	2,104	(7.4%)	4,082	0.1%	2,052	3.7%	2,138	1.6%	4,190	2.6%	2,255	9.9%	2,135	(0.1%)	4,390	4.8%	2,185	(3.1%)	2,161	1.2%	4,346	(1.0%)	**2,204**	0.9%
EBIT	**2,938**	**(15.8%)**	**2,841**	**41.5%**	**5,779**	**5.1%**	**3,120**	**6.2%**	**3,106**	**9.3%**	**6,226**	**7.7%**	**3,079**	**(1.3%)**	**3,479**	**12.0%**	**6,558**	**5.3%**	**3,132**	**1.7%**	**3,369**	**(3.2%)**	**6,501**	**(0.9%)**	**2,376**	**(24.1%)**
Net finance costs	520	17.9%	567	15.2%	1,087	16.5%	500	(3.8%)	586	3.4%	1,086	(0.1%)	403	(19.4%)	497	(15.2%)	900	(17.1%)	520	29.0%	443	(10.9%)	963	7.0%	**571**	9.8%
Profit before income tax expense	2,418	(20.7%)	2,274	50.0%	4,692	2.8%	2,620	8.4%	2,520	10.8%	5,140	9.5%	2,676	2.1%	2,982	18.3%	5,658	10.1%	2,612	(2.4%)	2,926	(1.9%)	5,538	(2.1%)	**1,805**	(30.9%)
Income tax expense	706	(21.9%)	711	49.1%	1,417	2.6%	678	(4.0%)	751	5.6%	1,429	0.8%	755	11.4%	827	10.1%	1,582	10.7%	726	(3.8%)	872	5.4%	1,598	1.0%	**598**	(17.6%)
Profit for the period	**1,712**	**(20.1%)**	**1,563**	**50.4%**	**3,275**	**2.9%**	**1,942**	**13.4%**	**1,769**	**13.2%**	**3,711**	**13.3%**	**1,921**	**(1.1%)**	**2,155**	**21.8%**	**4,076**	**9.8%**	**1,886**	**(1.8%)**	**2,054**	**(4.7%)**	**3,940**	**(3.3%)**	**1,207**	**(36.0%)**

(i) The growth rates relating to network applications and services have been impacted by the sale of KAZ in April 2009.
(iii) The growth rates relating to offshore content and online content have been impacted by the acquisition of China M and Sharp Point in February 2009 and the change in the regulatory environment for Octave services in 2010.
(iii) The growth rates relating to advertising and directories have been impacted by the acquisition of SouFun in August 2006 and subsequent sale in September 2010.
(iv) The growth rates in CSL New World revenue have been impacted by the merger of Hong Kong CSL Limited and New World PCS Limited in March 2006.

Summary Reported Half-Yearly Data	Half 1 Dec-06	PCP Growth	Half 2 Jun-07	PCP Growth	Full year Jun-07	PCP Growth	Half 1 Dec-07	PCP Growth	Half 2 Jun-08	PCP Growth	Full year Jun-08	PCP Growth	Half 1 Dec-08	PCP Growth	Half 2 Jun-09	PCP Growth	Full year Jun-09	PCP Growth	Half 1 Dec-09	PCP Growth	Half 2 Jun-10	PCP Growth	Full year Jun-10	PCP Growth	Half 1 Dec-10	PCP Growth
Selected statistical data																										
PSTN																										
Retail basic access lines in service (thousands)	7,739	(1.9%)	7,777	(0.0%)	7,777	(0.0%)	7,826	1.1%	7,865	1.1%	7,865	1.1%	7,829	0.0%	7,733	(1.7%)	7,733	(1.7%)	7,545	(3.6%)	7,407	(4.2%)	7,407	(4.2%)	**7,298**	(3.3%)
Wholesale basic access lines in service (thousands)	2,118	(1.2%)	1,981	(8.3%)	1,981	(8.3%)	1,730	(18.3%)	1,496	(24.5%)	1,496	(24.5%)	1,341	(22.5%)	1,285	(14.1%)	1,285	(14.1%)	1,263	(5.8%)	1,253	(2.5%)	1,253	(2.5%)	**1,235**	(2.2%)
Total basic access lines in service (thousands)	**9,857**	**(1.7%)**	**9,758**	**(1.8%)**	**9,758**	**(1.8%)**	**9,556**	**(3.1%)**	**9,361**	**(4.1%)**	**9,361**	**(4.1%)**	**9,170**	**(4.0%)**	**9,018**	**(3.7%)**	**9,018**	**(3.7%)**	**8,808**	**(3.9%)**	**8,660**	**(4.0%)**	**8,660**	**(4.0%)**	**8,533**	**(3.1%)**
Unbundled local loop services in operation (thousands)	163	100.0%	239	99.2%	239	98.9%	391	139.4%	527	120.1%	527	120.5%	615	57.3%	698	32.4%	698	32.4%	770	25.2%	831	19.1%	831	19.1%	**914**	18.7%
Number of local calls (millions)	3,390	(12.7%)	3,138	(11.6%)	6,528	(12.2%)	2,991	(11.8%)	2,689	(14.3%)	5,680	(13.0%)	2,501	(16.4%)	2,343	(12.9%)	4,844	(14.7%)	2,176	(13.0%)	1,958	(16.4%)	4,134	(14.7%)	**1,872**	(14.0%)
National long distance minutes (millions)	3,594	(2.0%)	3,536	(0.4%)	7,130	(1.2%)	3,530	(1.8%)	3,417	(3.4%)	6,947	(2.6%)	3,278	(7.1%)	3,277	(4.1%)	6,555	(5.6%)	3,053	(6.9%)	2,862	(12.7%)	5,915	(9.8%)	**2,770**	(9.3%)
Fixed to mobile minutes (millions)	1,696	2.0%	1,693	1.6%	3,389	1.8%	1,714	1.1%	1,696	0.1%	3,410	0.6%	1,675	(2.3%)	1,657	(2.3%)	3,332	(2.3%)	1,611	(3.8%)	1,522	(8.1%)	3,133	(6.0%)	**1,562**	(3.0%)
International direct minutes (millions)	264	(3.3%)	264	1.1%	528	(1.1%)	273	3.4%	275	4.2%	548	3.8%	278	1.8%	282	2.5%	560	2.2%	280	0.7%	261	(7.4%)	541	(3.4%)	**260**	(7.1%)
Average PSTN revenue per user per month ($'s)	58.29	(4.2%)	58.18	(1.1%)	58.26	(2.6%)	58.51	0.4%	57.71	(0.8%)	58.11	(0.3%)	57.89	(1.1%)	57.14	(1.0%)	57.46	(1.1%)	56.03	(3.2%)	54.12	(5.3%)	54.99	(4.3%)	**53.18**	(5.1%)
Fixed internet																										
Fixed retail broadband SIOs (thousands)	**1,668**	**42.7%**	**1,910**	**32.5%**	**1,910**	**32.5%**	**2,103**	**26.1%**	**2,254**	**18.0%**	**2,254**	**18.0%**	**2,297**	**9.2%**	**2,274**	**0.9%**	**2,274**	**0.9%**	**2,244**	**(2.3%)**	**2,255**	**(0.8%)**	**2,255**	**(0.8%)**	**2,394**	**6.7%**
Broadband wholesale SIOs (thousands)	1,391	29.5%	1,458	14.4%	1,458	14.4%	1,376	(1.1%)	1,272	(12.8%)	1,272	(12.8%)	1,179	(14.3%)	1,110	(12.7%)	1,110	(12.7%)	1,053	(10.7%)	1,003	(9.6%)	1,003	(9.6%)	**919**	(12.7%)
Wholesale spectrum site sharing SIOs (thousands)	230	155.2%	304	99.6%	304	99.6%	377	63.6%	436	43.3%	436	43.3%	501	32.9%	580	33.0%	580	33.0%	672	34.1%	735	26.7%	735	26.7%	**741**	10.3%
Narrowband SIOs (thousands)	819	(28.3%)	654	(36.3%)	654	(36.3%)	595	(27.3%)	530	(19.0%)	530	(19.0%)	435	(26.9%)	363	(31.5%)	363	(31.5%)	308	(29.2%)	264	(27.3%)	264	(27.3%)	**238**	(22.7%)
Average fixed retail BB revenue per SIO per month (incl h/ware) ($'s)	52.62	(10.4%)	52.16	(1.1%)	52.27	(6.2%)	54.00	2.6%	53.82	3.2%	54.18	3.7%	57.32	6.1%	57.24	6.4%	57.70	6.5%	58.40	1.9%	57.85	1.1%	57.86	0.3%	**56.93**	(2.5%)
Average fixed retail BB revenue per SIO per month (excl h/ware) ($'s)	52.66	(12.7%)	50.90	(6.6%)	51.61	(10.1%)	52.90	0.5%	52.52	3.2%	52.97	2.6%	56.08	6.0%	55.90	6.4%	56.41	6.5%	57.33	2.2%	57.02	2.0%	56.92	0.9%	**56.36**	(1.7%)
ISDN																										
ISDN access (basic access line equivalents) (thousands)	1,283	3.9%	1,229	(3.2%)	1,229	(3.2%)	1,288	0.3%	1,298	5.6%	1,298	5.6%	1,284	(0.3%)	1,291	(0.5%)	1,291	(0.5%)	1,305	1.6%	1,308	1.3%	1,308	1.3%	**1,318**	1.0%
ISDN average revenue per user per month ($'s)	67.55	(9.5%)	65.94	(3.4%)	70.76	(0.2%)	67.02	(0.8%)	62.12	(5.8%)	66.02	(6.7%)	62.39	(6.9%)	59.37	(4.4%)	60.64	(8.1%)	59.46	(4.7%)	56.40	(5.0%)	58.05	(4.3%)	**56.76**	(4.5%)
Mobiles																										
Total retail mobile SIOs (thousands)	**8,892**	**3.6%**	**9,212**	**8.0%**	**9,212**	**8.0%**	**9,319**	**4.8%**	**9,335**	**1.3%**	**9,335**	**1.3%**	**9,706**	**4.2%**	**10,191**	**9.2%**	**10,191**	**9.2%**	**10,387**	**7.0%**	**10,562**	**3.6%**	**10,562**	**3.6%**	**11,481**	**10.5%**
Postpaid handheld mobile SIOs (in thousands) (i)	n/a	n/a	n/a	n/a	n/a	n/a	5,438	n/a	5,562	n/a	5,562	n/a	5,673	4.3%	5,727	3.0%	5,727	3.0%	5,764	1.6%	5,810	1.4%	5,810	1.4%	**6,107**	6.0%
Mobile broadband (data cards) SIOs (in thousands) (i)	95	n/m	178	351.7%	178	351.7%	392	312.6%	526	195.5%	526	195.5%	765	95.2%	1,046	98.9%	1,046	98.9%	1,325	73.2%	1,662	58.9%	1,662	58.9%	**2,167**	63.5%
Prepaid mobile handheld unique users (thousands) (ii)	n/a	n/a	n/a	n/a	n/a	n/a	1,800	n/a	1,801	n/a	1,801	n/a	1,915	6.4%	1,951	8.4%	1,951	8.4%	1,921	0.3%	1,889	(3.2%)	1,889	(3.2%)	**1,943**	1.1%
Total wholesale SIOs (thousands)	129	27.5%	131	10.4%	131	10.3%	71	(44.9%)	74	(43.6%)	74	(43.5%)	75	5.6%	72	(2.7%)	72	(2.7%)	76	1.3%	81	12.5%	81	12.5%	**80**	5.3%
Mobile voice telephone minutes (millions)	4,147	14.8%	4,445	20.1%	8,591	17.5%	4,919	18.6%	5,177	16.5%	10,096	17.5%	5,570	13.2%	5,435	5.0%	11,005	9.0%	5,723	2.7%	5,801	6.7%	11,524	4.7%	**6,416**	12.1%
Number of SMS sent (millions)	2,227	68.9%	2,675	57.3%	4,902	62.4%	3,224	44.8%	3,749	40.1%	6,973	42.2%	4,353	35.0%	4,590	22.4%	8,943	28.3%	4,783	9.9%	4,611	0.5%	9,394	5.0%	**4,810**	0.6%
Blended average revenue per user (incl interconnection) ($'s)	45.14	1.8%	44.84	5.2%	45.04	2.4%	47.28	4.7%	48.78	8.8%	48.15	6.9%	52.11	10.2%	49.41	1.3%	50.58	5.0%	50.55	(3.0%)	50.62	2.4%	50.61	0.1%	**50.63**	0.2%
Average postpaid handheld revenue per user ($'s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	63.77	n/a	60.64	n/a	62.35	n/a	62.49	(2.0%)	62.53	3.1%	62.48	0.2%	**61.93**	(0.9%)
Average prepaid handheld revenue per user ($'s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	15.04	n/a	15.53	n/a	15.14	n/a	15.93	5.9%	15.83	1.9%	16.00	5.7%	**18.58**	16.6%
Average mobile broadband revenue per user per month ($'s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	74.48	n/a	58.50	n/a	64.29	n/a	53.85	(27.7%)	48.73	(16.7%)	50.43	(21.6%)	**41.53**	(22.9%)
Pay TV bundling																										
Total pay TV bundling SIOs (thousands)	347	1.9%	390	13.5%	390	13.5%	426	22.8%	450	15.4%	450	15.4%	460	8.0%	450	0.0%	450	0.0%	479	4.1%	504	12.0%	504	12.0%	**513**	7.1%
Labour																										
Domestic full time employees	36,184	(7.5%)	35,706	(5.0%)	35,706	(5.0%)	34,236	(5.4%)	33,982	(4.8%)	33,982	(4.8%)	33,191	(3.1%)	31,662	(6.8%)	31,662	(6.8%)	30,924	(6.8%)	31,157	(1.6%)	31,157	(1.6%)	**29,970**	(3.1%)
Full time employees and employed equivalents	43,989	(3.2%)	43,411	(2.3%)	43,411	(2.3%)	42,308	(3.8%)	42,784	(1.4%)	42,784	(1.4%)	41,540	(1.8%)	39,464	(7.8%)	39,464	(7.8%)	39,763	(4.3%)	41,690	5.6%	41,690	5.6%	**35,729**	(10.1%)
Total workforce, including contractors and agency staff	**48,991**	**(4.0%)**	**47,840**	**(3.2%)**	**47,840**	**(3.2%)**	**46,561**	**(5.0%)**	**46,649**	**(2.5%)**	**46,649**	**(2.5%)**	**45,309**	**(2.7%)**	**43,181**	**(7.4%)**	**43,181**	**(7.4%)**	**43,332**	**(4.4%)**	**45,220**	**4.7%**	**45,220**	**4.7%**	**39,832**	**(8.1%)**

Note: statistical data represents management's best estimates.

(i) Included in total retail mobile SIOs.
(ii) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.

MEDIA RELEASE

Telstra reports encouraging sales momentum, confirms guidance, maintains dividend, reaches NBN milestone

10 February 2011 – Telstra today reported encouraging sales momentum for the six months to 31 December 2010, confirmed guidance for the full-year to 30 June 2011, and announced a fully-franked interim dividend of 14 cents per share for the half-year.

"Last August we announced a strategy to improve customer service, to increase our customer numbers, to simplify the business and to invest in new growth businesses," Chief Executive Officer David Thodey said today.

"Our strategy is now bearing fruit with the encouraging sales momentum reported in the first quarter of 2010/11 continuing for the half-year. We are also enjoying the strongest customer momentum in over a decade, and revenue growth across our three retail segments with costs in line with our expectations.

"Telstra's initiatives to improve customer satisfaction, reduce churn and simplify the company are on track. Customer satisfaction scores have improved over the half year and we are on track to achieve savings of $250 million in 2010/11. These savings will increase substantially over time," Mr Thodey said.

The **reported results** for the December 2010 half year are:

Sales revenue declined 0.5% or $60 million to $12,263 million

- **EBITDA** declined by 13.9% or $737 million to $4,580 million
- **EBIT** declined by 24.1% or $756 million to $2,376 million
- **Net Profit After Tax** declined by 36.0% to $1,207 million
- **A capex to sales ratio** of 11.8%, with $1,451 million invested in the half

On a **guidance basis** -

- **Sales revenue** declined 0.5% in-line with guidance of a flattish result
- **EBITDA** declined by 12.5% in-line with guidance of a low double-digit decline (excluding a $59 million net gain on the sale of SouFun, KeyCorp and Telstra UK and $133 million impairment in Octave investments)

Telstra's initiatives to attract new customers resulted in:

- 919,000 additional mobile customers, including 297,000 additional postpaid handheld and 505,000 additional wireless broadband subscribers
- 139,000 additional fixed broadband customers, compared with a decline of 30,000 in the first half of 2010
- 214,000 additional T-Box™ and T-Hub™ services
- 420,000 more customers on bundled multi-product plans.

Mr Thodey said that strong growth in customer numbers had been achieved without a significant average revenue per customer impact, and puts the company on track to regain share in key product markets.

"Customers are now choosing Telstra in greater numbers thanks to our innovative products and our investments over time in network coverage, security, speeds, reliability and value for money offers. Importantly, this encouraging growth in customer numbers is a leading indicator of our future performance," Mr Thodey said.

Total mobile revenue grew by 10%, reflecting the company's investments in network coverage capacity and a broad range of handsets. Mobile services revenue growth was steady at 6.5%. IP access revenues grew by 20.1%. Public Switched Telephone Network (PSTN) revenues declined by 8.4% to $2,743 million, while retail fixed broadband revenues increased by 0.4% to $794 million.

Adjusted for timing differences in the recognition of revenue from the Sydney Yellow Pages[1], Sensis revenues declined 7.8% in the half. The major driver was an 18% decline in underlying Yellow Pages print revenues as the shift to on-line accelerated. However, the usage of Sensis' digital products continues to increase with a 20% increase in digital sales order value seen in the half.

Telstra has also undertaken a review of its Asian assets. Over recent months the company has conducted a successful IPO of SouFun, reached agreement to restructure Reach, and announced an impairment of Octave. CSL New World is also performing strongly and saw 24% revenue growth in local currency in the half.

Impact of natural disasters

Telstra's network has proved very resilient during recent natural disasters in Queensland and elsewhere. However, as the clean-up continues, the company will experience higher than average fault volumes for some time. Telstra will continue to focus on minimising the impact on customers, and will not be in a position to quantify the financial impact for some time.

National Broadband Network (NBN)

Mr Thodey also announced that Telstra had finalised key commercial terms with NBN Co, passing an important milestone in the proposed agreement that is expected to deliver approximately $9 billion in post-tax net present value to Telstra.

In addition, he said that Telstra had reached in-principle agreement with the Federal Government over the specific measures that are expected to deliver a further approximately $2 billion in post-tax net present value.

The total post-tax net present value of the transaction is approximately $11 billion.

"This important milestone represents substantial progress. During the last eight months we have negotiated constructively over a range of extremely complex matters," Mr Thodey said.

"We are working to complete the necessary documentation. As soon as this is finalised by both NBN Co and Telstra, Telstra will be able to provide detailed information on the substance of the proposal. While there is still work to be done, we are on track to put the proposal to shareholders with a target date of 1 July 2011," he said.

Mr Thodey said that Telstra has provisionally agreed commercial terms relating to copper network decommissioning, dark fibre and duct usage, exchange usage, certain roll-out

[1] In first half fiscal 2010, $112m of revenue from the Sydney Yellow Pages was booked. In 2011, the comparable revenue of around $83m will be booked in the second half.

arrangements and other matters with NBN Co. The parties are working to complete the associated operational details and ensure all contingencies are addressed as part of the documentation process which is expected to be completed in the near future.

Telstra will then commission an independent expert report for shareholders so that the proposal and that report can be put to shareholders at an Extraordinary General Meeting provisionally scheduled for 1 July 2011.

Finalisation of the agreements and the target date of the EGM will continue to be subject to prior regulatory approval, price stability, confirmation of tax arrangements, and appropriate legislation setting out regulation and ownership rules for NBN Co and reform of the Universal Service Obligation.

Outlook

Over the past six months Telstra has achieved customer growth and lower churn, providing early evidence that the company's strategy is succeeding.

The company's initiatives in mobiles are delivering immediate benefits, with continued strong growth and improving margins expected in the second half.

"We recognise the need to translate customer growth into revenue and profitability, but as customer numbers are a leading indicator of financial performance, we believe that Telstra's strategy remains on track," Mr Thodey said.

The guidance issued in August 2010 for Fiscal 2011 is confirmed: flattish sales revenue, a high single-digit percentage decline in EBITDA, a capex-to-sales ratio of around 14%, and $4.5 to $5.0 billion of Free Cashflow.

As announced in November, it is also the company's intention to maintain a 28c fully-franked dividend for 2011 and 2012, subject to the Board's normal process for dividend declaration and no unexpected material events.

Media contact: Andrew Maiden (0458 487 754)
www.telstra.com.au/abouttelstra/media-centre/
Reference: 42/2011

Telstra Corporation Limited and controlled entities

Directors’ Report

For the half-year ended 31 December 2010

Directors' Report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity (Telstra Group), consisting of Telstra Corporation Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2010. Financial comparisons used in this report are of results for the half-year ended 31 December 2010 compared with the half-year ended 31 December 2009 for income statement analysis, and 31 December 2010 compared to 30 June 2010 for balance sheet analysis.

Strategy update

In August 2010, Telstra announced a medium-term strategy to build on four key initiatives – to improve customer service, to increase our customer base, to simplify the business and to invest in new growth businesses.

We recorded a 1.3% improvement in our customer satisfaction rating in the half. While this is good early momentum, it is a multi-year programme and remains the highest priority for the entire company. Customer service measures launched in the past half-year include:

- Introduction of free extra mailboxes and transferable email addresses for BigPond® customers;
- Improved online and mobile account self-serve options for bills and payments;
- Increased data allowances on BigPond broadband plans;
- Increased data allowances and value in our prepaid and postpaid mobile broadband plans; and
- Launched 24/7 call centres to ensure that our customers can reach us whenever they need to.

We have a strategy to retain and grow customers and the early success of this strategy has been clear in the customer market share growth and lower churn that we have seen across major products. Of particular note are the 919,000 new mobile customers, 139,000 new retail broadband customers and 420,000 new bundled customers we gained in the half. We will continue to bring new products and pricing to the market in the second half.

We recognise the need to translate this customer growth into revenue and profitability. With customer growth a leading indicator of financial performance, we believe that our strategy remains on track. Another positive trend is the revenue growth reported by all three retail segments in the half.

Our initiatives to simplify the business continue to be implemented, and we have made early progress with our new central consumer call centre in Melbourne and greatly simplified broadband plans.

The company has also highlighted that it sees growth opportunities in media, network applications and services, and Asia, and we will continue to pursue these. Our focus remains on organic growth, although we would consider small acquisitions if they create clear value for our shareholders. The uptake of the T-Hub® and T-Box®, restructuring of our Reach assets in Asia and significantly improved performance at CSL New World are indicators of the progress we are making in these areas.

Other business highlights over the six months include:

- Opening 11 new Telstra branded stores, bringing the total to 284 Telstra branded stores for consumer customers;
- Opening 10 new Telstra Business Centres, bringing the total to 65 dedicated centres for small and medium sized business customers;
- Introducing the Telstra T-Touch® Tab, a light-weight tablet that combines mobile internet, online content, entertainment and voice services;
- Providing Australians with access to the world's fastest national mobile broadband service by launching the Telstra Ultimate USB Modem, which operates on typical downlink speeds of between 1.1Mbps to 20Mbps in capital CBDs and selected areas;
- Obtained licenses to use 2100MHz spectrum in approximately 1,400 regional and rural Next G™ sites for capacity and performance management as demand for data services grows;
- Launching the Telstra Wireless machine to machine (M2M) Control Centre, a platform providing Telstra Business and Enterprise and Government customers with a powerful solution to self-manage a range of M2M based products;
- Forming an alliance with Accenture to deliver a range of cloud computing services called Network Computing Services; and
- Reducing our postpaid handheld deactivation rate to 4.7% from 7.6% a year ago, with the absolute number of deactivations declining.

National Broadband Network ('NBN')

On 10 February, Telstra announced it had finalised key commercial terms with NBN Co, passing an important milestone in the proposed agreement that is expected to deliver approximately $9 billion in post-tax net present value to Telstra.

In addition Telstra has reached in-principle agreement with the Federal Government over the specific measures that are expected to deliver a further approximately $2 billion in post-tax net present value.

The total post-tax net present value of the transaction is approximately $11 billion.

This important milestone represents substantial progress. During the last eight months we have negotiated constructively over a range of extremely complex matters

We are working to complete the necessary documentation. As soon as this is finalised by both NBN Co and Telstra, Telstra will be able to provide detailed information on the substance of the proposal. While there is still work to be done, we are on track to put the

Directors' Report

proposal to shareholders with a target date of 1 July 2011.

Telstra has provisionally agreed commercial terms relating to copper network decommissioning, dark fibre and duct usage, exchange usage, certain roll-out arrangements and other matters with NBN Co. The parties are working to complete the associated operational details and ensure all contingencies are addressed as part of the documentation process which is expected to be completed in the near future.

Telstra will then commission an independent expert report for shareholders so that the proposal and that report can be put to shareholders at an Extraordinary General Meeting provisionally scheduled for 1 July 2011.

Finalisation of the agreements and the target date of the EGM will continue to be subject to prior regulatory approval, price stability, confirmation of tax arrangements, and appropriate legislation setting out regulation and ownership rules for NBN Co and reform of the Universal Service Obligation.

Review and results of operations

Our strategy and necessary investments are reflected in our results for the half.

Our share of net profit for the half-year was $1,194 million (2009: $1,853 million). This result was after deducting:

- Net finance costs of $571 million (2009: $520 million); and
- Income tax expense of $598 million (2009: $726 million).

Earnings before interest and income tax expense was $2,376 million, representing a 24% or $756 million decrease on the prior corresponding period result of $3,132 million.

This decrease was due to higher operating expenses associated with investment in customer retention and acquisition, and is consistent with our strategic initiatives. Earnings before interest, income tax expense, depreciation and amortisation decreased by $737 million or 13.9% to $4,580 million.

Our basic earnings per share is down significantly on the prior period at 9.6 cents (2009: 15.0 cents). Our interim dividend per ordinary share remains at the recent level of 14 cents per share fully franked.

Financial performance (reported)

Our total reported revenue for the half-year (excluding finance income) decreased by 0.5% or $59 million to $12,283 million (2009: $12,342 million).

The small decline in total revenue was mainly attributable to the PSTN revenue decline of 8.4% and a 17.8% decline in Sensis revenue which was not fully offset by growth in other businesses.

There remains a structural shift away from PSTN driven by both lower usage and line loss. Usage continues to decline across all calling categories, with local calls falling 14% and national long distance declining 9.3% in the half. Line loss in the half was 1.5%, equivalent to 109,000 lines in the period. Line cancellations were 44,000 in the half as the number of mobile-only customers increases.

Fixed retail broadband revenue (including hardware) increased by 0.4% to $794 million. There was strong growth in retail broadband customers with net customer growth increasing by 139,000 in the six months. The significantly improved rate of retail broadband customer growth demonstrates successful execution of the strategic focus to retain and grow the customer base. Stimulating increased customer interest were a number of initiatives including the launch of Telstra T-Hub® and Telstra T-Box®. In total, more than 200,000 T-Box and T-Hub products were sold in the half.

Mobile revenue growth remains strong, a testament to our network quality and attractive plan offers. Customer growth has been strong and ARPU (average revenue per user) resilient. Mobile services revenue grew by 6.5% to $3,421 million in the half. Postpaid handheld revenue grew by 2.8% to $2,214 million, prepaid handheld revenue grew by 9.3% to $351 million and mobile broadband revenue grew by 24.5% to $477 million.

At the end of December 2010, total mobile customers were 11,481,000, up 919,000 in the half. Postpaid handheld customers at the end of December 2010 were 6,107,000, up 297,000 in the half. Mobile broadband customers (postpaid and prepaid) at the end of December 2010 were 2,167,000, up 505,000 in the half.

The IP and Data Access business continues to feel the impact of the migration to IP from legacy technologies with revenues declining 0.3% to $891 million. Within this category, IP Access revenue grew 20.1% in the half to $472 million. Our IP and cloud computing services portfolio continues to produce significant contract wins, plus successful deployments at a large number of existing customers.

Reported Sensis sales revenue decreased by 17.8% during the half. However, adjusting for the delay in revenue recognition for the Sydney Yellow Pages to the second half in 2011, sales revenues in the half declined 7.9%. This decline was driven by a decline in Yellow Pages print revenues, which we believe is a result of a structural shift of advertisers from print directories. Sensis continues to develop a suite of digital products to address the declining print business.

Total reported operating expenses (before depreciation and amortisation), increased by 10.7% to $7,829 million as the company invested in customer acquisition. This expense includes an impairment loss associated with the carrying value of the Octave Group's goodwill and intangible assets of $133 million.

Labour expenses increased by 1.1% to $1,988 million. Salary costs declined in the half, but were offset by higher redundancy charges. We reduced domestic full-time staff by more than 1,000 in the half.

Directly Variable Costs (DVCs) or Goods and Services Purchased increased by 20.4% to $3,148 million. The increase in DVCs was concentrated in our mobile

Directors' Report

business where mobile hardware cost of goods sold increased by 44.3% or $189 million to $616 million. Mobile subsidies increased by $140 million or 44.2% to $457 million with around a third of the increase incurred at CSL New World. Network payments increased 5.3% which was largely due to increased outpayments as a result of mobile traffic growth.

Other expenses increased by 8.2% or $203 million to $2,693 million. The largest cost increase in this expense line was in consultancy as we invested in the early phases of simplifying our business. Most of our discretionary costs declined in the half.

Depreciation and amortisation expenses increased by $19 million or 0.9% to $2,204 million.

Financial performance (adjusted)

There are a number of one-off factors that have impacted our results in the first half. We have adjusted the results for five factors – the net gain on the sale of SouFun, the impairment of Octave Group goodwill and intangibles, foreign currency movements, the change in timing of Sydney Yellow Pages revenue recognition and the fair value adjustments to finance costs - to present a more accurate view of the real performance of the business. Given its minimal impact, we have not adjusted for the revenues earned and costs incurred by SouFun in the first three months of the year (before its sale).

Adjusting for the recognition of the Sydney Yellow Pages revenues in the second half ($83 million) and foreign currency movements ($69 million), sales revenue in the half grew by 0.7% and total revenue by 0.2%.

The adjustments also reduce reported operating costs. On an adjusted basis, operating expenses increased by 9.8%, with adjusted EBITDA decreasing 11.1% and EBIT decreasing 19.6%. Finally, it is important to adjust for fair value adjustments at the finance cost line ($111 million loss in H1 2011 versus $31 million loss in H1 2010). On this adjusted basis, net profit after tax and non-controlling interests decreased by 24.9% as did basic earnings per share.

Financial position

Our financial position remains in a healthy state with net assets of $12,208 million, down from $13,008 million at 30 June 2010. The decrease in net assets of $800 million is largely a result of an increase in net debt and the sale of SouFun and other assets.

Cash flow and financial condition

Our cash flow before financing activities (Free Cashflow) has decreased by $599 million to $2,020 million in the current half-year. This position, combined with our borrowing program, will continue to support our ongoing operating and investing activities within our target financial parameters of gearing between 50 and 70 per cent; interest cover of more than seven times and debt servicing of 1.5-1.9 times.

Cash used in financing activities was $1,396 million for the half-year, which represents a decrease of $927 million over the prior corresponding period. The decrease is due to a higher level of net borrowing undertaken in the half.

During the half-year we accessed long term debt markets which included borrowings of $708 million from a Euro denominated borrowing, a $60 million Japanese borrowing and $201 million from a domestic borrowing, for progressively pre-funding the re-financing of our Euro bond of $2.5 billion maturing in June 2011. This reflects our general strategy to diversify debt issuance across a broad range of markets, segments, and investors to enhance funding access and resilience, it also meets our objective of holding higher levels of liquidity.

Our net debt at 31 December 2010 was $14,395 million compared to $15,240 million at 31 December 2009. Net debt in the current half from 30 June 2010 increased by $469 million which is consistent with our annual profiling where second half cash flows are typically stronger than the first half. The increase of $469 million comprises a non-cash increase of $196 million and a cash increase of $273 million.

During the half-year ended 31 December 2010, we reduced our target range for the net debt gearing ratio from 55 to 75 per cent to 50 to 70 per cent in light of market and business considerations.

The gearing ratio, along with other relevant measures of our liquidity position, were as follows:

	Telstra Group	
	As at	
	31 Dec 2010	30 June 2010
Net debt ($m)	**14,395**	13,926
Total equity ($m)	**12,208**	13,008
Gearing ratio (%)	**54.1**	51.7
EBITDA interest cover (times) (i)	**8.6**	10.8
Net debt to EBITDA (annualised)	**1.6**	1.3

(i) Interest cover is based on net interest costs and therefore excludes the impact of IFRS adjustments.

Dividends

The directors have resolved to pay an interim dividend of 14 cents per ordinary share. The dividend will be fully franked at a tax rate of 30%. The record date for the interim dividend will be 25 February 2011, with payment to be made on 25 March 2011.

Our final dividend for the financial year ended 30 June 2010 of 14 cents per ordinary share ($1,737 million) was provided for and paid during the half-year ended 31 December 2010. This dividend was fully franked at a tax rate of 30%. The final dividend paid had a record date of 27 August 2010 and payment was made on 24 September 2010.

It is also the Board's intention to maintain a 28 cent fully franked dividend for fiscal 2011 and fiscal 2012, subject to the Board's normal process for dividend declaration and no unexpected material events.

The Dividend Reinvestment Plan continues to be suspended.

Directors' Report

Corporate citizenship

Over the last six months, we have continued to demonstrate our leadership, not only in technological innovation, but also corporate citizenship. The company continues to play a unique role supporting Australia and Australian's through good and bad times.

Our major achievements in the past half-year up until the date of this report include:

- Launching Telstra's fifth Disability Action Plan (2010-2012) to better serve our customers with a disability and address accessibility issues, including for our employees;
- Telstra Foundation Community Development Fund committing just under $3 million over the next three years to eight new Social Innovation projects. These projects invest in big ideas that use technology to promote social connection for children and young people facing social or geographical isolation;
- More than 400 Telstra's Kids Fund grants of $1,200 being made to local sport and community groups, schools, kindergartens and special needs organisations where the child in the family of a Telstra employee is involved;
- Establishing a volunteer program for Telstra employees with charity partner Australian Red Cross. Telecross provides a daily telephone call to check on the wellbeing of people who are home-bound and at risk of an accident or illness;
- Providing thousands of Australian's affected by floodwaters and storms through Queensland, NSW and Victoria with Telstra assistance packages;
- Enabling improved health-care delivery for children by installing a Next G network macro-cell on the roof of the Children's Hospital at Westmead permitting smart phones to be used for medical applications in and around the hospital; and
- Supporting the AIDS Trust of Australia by making virtual Red Ribbons available for purchase on mobile phones.

Outlook

For 2011, we confirm the guidance issued in August 2010 and expect flattish sales revenue, a high single digit percentage decline in EBITDA, capex/sales of around 14% and $4.5 to $5.0 billion of Free Cashflow. In the first half of the year, operating expenses increased by $750 million but with a number of initiatives weighted to the first half of the year, we continue to expect the full year increase to be in line with guidance. In particular we expect our initiatives in mobile to show benefits, with continued growth and improving margins in the second half. For fiscal 2011, goods and services purchased will be a little higher than anticipated as we respond to demand in the market, but this will be offset by savings in other costs.

Guidance Summary (*)

Measure	Fiscal 2011 guidance
Sales revenue	**Flattish**
EBITDA	**High single digit percentage decline**
Capex/sales	**14%**
Free Cashflow	**$4.5-$5.0 billion**
Dividend.	**28 cents fully-franked**

**Guidance assumes wholesale product price stability, no fiscal 2011 impairments to investments and excludes any proceeds on the sale of businesses or any impact of network restoration work following natural disasters.*

Directors' Report

Directors

Directors who held office during the half-year and until the date of this report were:

Catherine B Livingstone AO	- chairman since 2009, director since 2000
David I Thodey	- chief executive officer and executive director since 2009
Geoffrey A Cousins	- a director since 2006
Russell A Higgins AO	- a director since 2009
John P Mullen	- a director since 2008
Nora L Scheinkestel	- appointed non-executive director on 12 August 2010
John V Stanhope	- an executive director since 2009
John M Stewart	- a director since 2008
John W Stocker AO	- a director since 1996
Steven M Vamos	- a director since 2009
John D Zeglis	- a director since 2006

Auditor's independence declaration

The independence declaration of our auditors is on page 7 and forms part of this report.

Rounding of amounts

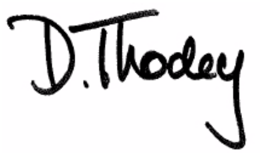
The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998 and issued pursuant to section 341(1) of the Corporations Act 2001. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars, except where otherwise indicated.

This report is made in accordance with a resolution of the directors.

Catherine B Livingstone AO

Chairman

10 February 2011



David I Thodey

Chief Executive Officer and Executive Director

10 February 2011

™ Trade mark of Telstra Corporation Limited

® Registered trade mark of Telstra Corporation Limited

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Auditor's Independence Declaration to the Directors of Telstra Corporation Limited

In relation to our review of the financial report of Telstra Corporation Limited for the half-year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Sean C Van Gorp
Partner
Melbourne, Australia
10 February 2011

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Half-Year Financial Report

for the half-year ended 31 December 2010

Page Number

Half-Year Financial Statements

Notes to the Half-Year Financial Statements

Income Statement

for the half-year ended 31 December 2010

	Note	Telstra Group Half-year ended 31 December 2010 $m	2009 $m
Income			
Revenue (excluding finance income)		**12,283**	12,342
Other income		**125**	47
		12,408	12,389
Expenses			
Labour		**1,988**	1,967
Goods and services purchased		**3,148**	2,615
Other expenses		**2,693**	2,490
		7,829	7,072
Share of net profit from jointly controlled and associated entities		**(1)**	-
		7,828	7,072
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**4,580**	5,317
Depreciation and amortisation		**2,204**	2,185
Earnings before interest and income tax expense (EBIT)		**2,376**	3,132
Finance income		**46**	22
Finance costs	6	**617**	542
Net finance costs		**571**	520
Profit before income tax expense		**1,805**	2,612
Income tax expense		**598**	726
Profit for the period		**1,207**	1,886
Attributable to:			
Equity holders of Telstra Entity		**1,194**	1,853
Non-controlling interests		**13**	33
		1,207	1,886
Earnings per share (cents per share)		**cents**	cents
Basic		**9.6**	15.0
Diluted		**9.6**	14.9

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

Statement of Comprehensive Income

for the half-year ended 31 December 2010

		Telstra Group	
		Half-year ended 31 December	
		2010	2009
	Note	$m	$m
Profit for the period			
Attributable to equity holders of Telstra Entity		**1,194**	1,853
Attributable to non-controlling interests		**13**	33
		1,207	1,886
Foreign currency translation reserve			
Translation of financial statements of non-Australian controlled entities		**(281)**	(186)
Income tax on movements in the foreign currency translation reserve		**(39)**	(19)
Transfer of foreign currency balances to income statement on disposal of SouFun		**11**	-
Transfer of income tax on foreign currency balances to income statement on disposal of SouFun		**4**	-
		(305)	(205)
Cash flow hedging reserve			
Changes in fair value of cash flow hedges	6	**(792)**	(481)
Changes in fair value transferred to other expenses		**543**	421
Changes in fair value transferred to goods and services purchased		**37**	61
Changes in fair value transferred to finance costs		**139**	80
Changes in fair value transferred to property, plant and equipment	6	**-**	7
Income tax on movements in the cash flow hedging reserve	6	**21**	(27)
		(52)	61
Retained profits			
Actuarial gain on defined benefit plans		**244**	104
Income tax on actuarial gain on defined benefit plans		**(71)**	(32)
		173	72
Non-controlling interests			
Translation of financial statements of non-Australian controlled entities		**(40)**	(25)
Actuarial gain on defined benefit plans		**2**	-
		(38)	(25)
Total other comprehensive income		**(222)**	(97)
Total comprehensive income for the period		**985**	1,789
Total comprehensive income attributable to equity holders of Telstra Entity		**1,010**	1,781
Total comprehensive income attributable to non-controlling interests		**(25)**	8

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

Statement of Financial Position
as at 31 December 2010

		Telstra Group as at	
	Note	**31 Dec 2010 $m**	30 June 2010 $m
Current assets			
Cash and cash equivalents		**2,676**	1,936
Trade and other receivables		**4,269**	3,981
Inventories		**355**	295
Derivative financial assets		**159**	173
Current tax receivables		**3**	3
Prepayments		**252**	218
Assets classified as held for sale	9	**-**	579
Total current assets		**7,714**	7,185
Non current assets			
Trade and other receivables		**250**	217
Inventories		**21**	17
Investments - accounted for using the equity method		**2**	17
Investments - other		**1**	1
Property, plant and equipment		**22,059**	22,894
Intangible assets		**7,571**	8,028
Derivative financial assets		**332**	592
Non-current tax receivables		**321**	321
Deferred tax assets		**2**	3
Defined benefit assets	7	**16**	7
Total non current assets		**30,575**	32,097
Total assets		**38,289**	39,282
Current liabilities			
Trade and other payables		**3,300**	3,843
Provisions		**367**	389
Borrowings		**2,847**	2,540
Derivative financial liabilities		**610**	384
Current tax payables		**294**	335
Revenue received in advance		**1,246**	1,102
Liabilities classified as held for sale	9	**-**	89
Total current liabilities		**8,664**	8,682
Non current liabilities			
Other payables		**203**	248
Provisions		**688**	727
Borrowings		**11,895**	12,370
Derivative financial liabilities		**2,247**	1,518
Deferred tax liabilities		**1,888**	1,927
Defined benefit liability	7	**184**	464
Revenue received in advance		**312**	338
Total non current liabilities		**17,417**	17,592
Total liabilities		**26,081**	26,274
Net assets		**12,208**	13,008
Equity			
Share capital		**5,606**	5,590
Reserves		**(672)**	(312)
Retained profits		**7,051**	7,418
Equity available to Telstra Entity shareholders		**11,985**	12,696
Non-controlling interests		**223**	312
Total equity		**12,208**	13,008

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

Statement of Cash Flows

for the half-year ended 31 December 2010

		Telstra Group	
		Half-year ended 31 December	
		2010	2009
	Note	**$m**	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**13,487**	13,662
Payments to suppliers and to employees (inclusive of GST)		**(9,294)**	(8,458)
Net cash generated by operations		**4,193**	5,204
Income taxes paid		**(758)**	(595)
Net cash provided by operating activities		**3,435**	4,609
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(1,385)**	(1,658)
- intangible assets		**(446)**	(383)
Capital expenditure (before investments)		**(1,831)**	(2,041)
- shares in controlled entities (net of cash acquired)		**-**	(10)
Total capital expenditure		**(1,831)**	(2,051)
Proceeds from:			
- sale of property, plant and equipment		**6**	8
- sale of shares in controlled entities (net of cash disposed)	5	**288**	11
- sale of businesses	5	**10**	-
- sale of associates	5	**23**	-
Proceeds from finance lease principal amounts		**40**	27
Repayment of loans to jointly controlled and associated entities		**3**	-
Loans to jointly controlled and associated entities		**-**	(3)
Interest received		**35**	20
Settlement of hedges in net investments		**5**	(2)
Dividends received from SouFun		**6**	-
Net cash used in investing activities		**(1,415)**	(1,990)
Operating cash flows less investing cash flows		**2,020**	2,619
Cash flows from financing activities			
Proceeds from borrowings		**999**	52
Repayment of borrowings		**(67)**	(98)
Repayment of finance lease principal amounts		**(35)**	(34)
Staff repayments of share loans		**4**	5
Finance costs paid		**(547)**	(497)
Dividends paid to equity holders of Telstra Entity	3	**(1,737)**	(1,737)
Dividends paid to non-controlling interests		**(13)**	(14)
Net cash used in financing activities		**(1,396)**	(2,323)
Net increase in cash and cash equivalents		**624**	296
Cash and cash equivalents at the beginning of the period		**2,105**	1,381
Effects of exchange rate changes on cash and cash equivalents		**(53)**	(29)
Cash and cash equivalents at the end of the period	5	**2,676**	1,648

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

Statement of Changes in Equity

for the half-year ended 31 December 2010

Telstra Group

		Reserves						
	Share capital $m	Foreign currency translation (i) $m	Cash flow hedging (ii) $m	Consolidation fair value (iii) $m	General reserve (iv) $m	Retained profits $m	Non-controlling interests $m	Total $m
Balance at 1 July 2010	5,590	(482)	157	9	4	7,418	312	13,008
Profit for the period	**-**	**-**	**-**	**-**	**-**	**1,194**	**13**	**1,207**
Other comprehensive income	**-**	**(305)**	**(52)**	**-**	**-**	**173**	**(38)**	**(222)**
Total comprehensive income for the period	**-**	**(305)**	**(52)**	**-**	**-**	**1,367**	**(25)**	**985**
Dividends	**-**	**-**	**-**	**-**	**-**	**(1,737)**	**(13)**	**(1,750)**
Non-controlling interests on disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(51)**	**(51)**
Transfers to retained profits	**-**	**-**	**-**	**(3)**	**-**	**3**	**-**	**-**
Amounts repaid on share loans provided to employees	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**4**
Share-based payments	**12**	**-**	**-**	**-**	**-**	**-**	**-**	**12**
Balance at 31 December 2010	**5,606**	**(787)**	**105**	**6**	**4**	**7,051**	**223**	**12,208**
Balance at 1 July 2009	5,576	(384)	93	14	4	7,115	263	12,681
Profit for the period	-	-	-	-	-	1,853	33	1,886
Other comprehensive income	-	(205)	61	-	-	72	(25)	(97)
Total comprehensive income for the period	-	(205)	61	-	-	1,925	8	1,789
Dividends	-	-	-	-	-	(1,737)	(9)	(1,746)
Transfers to retained profits	-	-	-	(3)	-	3	-	-
Amounts repaid on share loans provided to employees	5	-	-	-	-	-	-	5
Share-based payments	16	-	-	-	-	-	-	16
Balance at 31 December 2009	5,597	(589)	154	11	4	7,306	262	12,745

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

(i) The foreign currency translation reserve is used to record exchange differences arising from the conversion of the non-Australian controlled entities' financial statements into Australian dollars. This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in jointly controlled and associated entities.

(ii) The cash flow hedging reserve represents, where a hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedge instrument. These gains or losses are transferred to the income statement when the hedged item affects income, or in the case of forecast transactions, are included in the measurement of the initial cost of property, plant and equipment or inventory.

(iii) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets.

(iv) The general reserve represents other items we have taken directly to equity.

Notes to the Half-Year Financial Statements

1. Basis of preparation

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited.

Our half-year financial report is a condensed general purpose financial report and is to be read in conjunction with our Annual Financial Report as at 30 June 2010. This should also be read together with any public announcements made by us in accordance with the continuous disclosure obligations arising under Australian Securities Exchange listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

1.1 Basis of preparation of the half-year financial report

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

Our half-year financial report does not include all notes normally included in the Annual Financial Report. Therefore, it cannot be expected to provide as full an understanding of the income statement, financial position and cash flows of the Telstra Group as the full financial report.

Both the functional and presentation currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non Australian controlled entities is not Australian dollars. As such, the results of these entities are translated to Australian dollars for presentation in the Telstra Group financial report.

This half-year financial report is prepared in accordance with historical cost, except for some categories of investments and some financial instruments which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this half-year financial report, we are required to make judgements and estimates that impact:

- income and expenses for the half-year;
- the reported amounts of assets and liabilities; and
- the disclosure of off balance sheet arrangements, including contingent assets and contingent liabilities.

We continually evaluate our judgements and estimates. We base our judgements and estimates on historical experience, various other assumptions we believe to be reasonable under the circumstances and, where appropriate, practices adopted by international telecommunications companies. Actual results may differ from our estimates.

For the purpose of preparing this half-year financial report, each half-year has been treated as a discrete reporting period.

1.2 Clarification of terminology used in our income statement

Under the requirements of AASB 101: "Presentation of Financial Statements", we must classify all of our expenses (apart from any finance costs and our share of net profit/loss from jointly controlled and associated entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the period prior to including the effect of net finance costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure our operating performance.

Our management uses EBITDA and earnings before interest and income tax expense (EBIT), in combination with other financial measures, primarily to evaluate our operating performance before financing costs, income tax and non-cash capital related expenses.

In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net profit in understanding cash flows generated from operations and available for payment of income taxes, debt service and capital expenditure. In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

EBIT is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

1.3 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars ($m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998, issued under section 341(1) of the Corporations Act 2001. Telstra is an entity to which this class order applies.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies

2.1 Accounting policies

Our accounting policies are consistent with those disclosed in the Annual Financial Report as at 30 June 2010, with the exception of the following:

Impairment - Non financial assets

AASB 2009-5: "Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project" became applicable from 1 July 2010. Except for the following amendment, there is no impact as a result of AASB 2009-5.

AASB 136: "Impairment of Assets" has been amended so that the allocation of goodwill to a cash generating unit (CGU) for the purposes of impairment testing can no longer be allocated to a CGU that is larger than an operating segment. As such, goodwill previously allocated to our Telstra Entity (ubiquitous network) CGU, is now allocated and tested at the lower operating segment level. There has been no impairment identified for this goodwill for the half-year ended 31 December 2010, as disclosed in note 8 to our half-year financial statements.

2.2 Property, plant and equipment

Depreciation

The service lives and residual values of our assets are reviewed each year. We apply management judgement in determining the service lives of our assets.

The net effect of the reassessment of service lives for the half-year ended 31 December 2010 was an increase in our depreciation expense of $15 million for the Telstra Group.

2.3 Software assets

Amortisation

The service lives of our identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense through to the end of the reassessed useful life for both that current year and future years.

The net effect of the reassessment for half-year ended 31 December 2010 was a decrease in our amortisation expense of $57 million for the Telstra Group.

2.4 Recently issued accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted during the half-year ended 31 December 2010, but will be applicable to the Telstra Group in future reporting periods, apart from those already disclosed in our 30 June 2010 Annual Financial Report, are detailed below.

(i) Financial Instrument disclosures

AASB 2010-6: "Amendments to Australian Accounting Standards Disclosures on Transfers of Financial Assets" was issued in November 2010 and is applicable to annual reporting periods beginning on or after 1 July 2011, with early adoption permitted.

AASB 2010-6 requires additional disclosures about financial assets that either have been legally transferred but not derecognised or derecognised but where Telstra has continuing involvement. It is anticipated this amendment will have no impact on Telstra.

(ii) Financial Instruments - Classification and Measurement

AASB 9: "Financial Instruments" was reissued in December 2010 to include the accounting requirements for classifying and measuring financial liabilities. AASB 2010-7: "Amendments to Australian Accounting Standards arising from AASB 9" was also issued by the AASB to update the requirements in other Australian accounting standards for the requirements in the revised AASB 9.

Most of the added requirements on classification and measurement of financial liabilities have been carried forward unchanged from the existing standard AASB 139: "Financial Instruments - Classification and Measurement", however the requirements related to the fair value option for financial liabilities have been changed to address the issue of own credit risk. For financial liabilities designated at fair value, the portion of the change in fair value due to changes in own credit risk now generally must be presented in other comprehensive income, rather than within profit or loss.

The amendments to AASB 9 are applicable to annual reporting periods beginning on or after 1 January 2013, with early adoption permitted. It is anticipated that these changes will have a minimal impact on Telstra as all of our financial liabilities are either classified at amortised cost, or in a hedge relationship.

Apart from these standards, we have considered other accounting standards that will be applicable in future periods, however they have been considered to have an immaterial impact on Telstra.

Notes to the Half-Year Financial Statements (continued)

3. Dividends

Our dividends provided for and paid during the half-year are listed below:

	Telstra Entity	
	Half-year ended 31 December	
	2010	2009
	$m	$m
Dividends paid		
Previous year final dividend paid	**1,737**	1,737
Dividends paid per ordinary share	**cents**	cents
Previous year final dividend paid	**14.0**	14.0

Dividends paid were fully franked at a tax rate of 30%.

Dividends per share to be paid in respect of the half-year are detailed below:

	Telstra Entity	
	Half-year ended 31 December	
	2010	2009
	cents	cents
Dividends per ordinary share to be paid		
Interim dividend fully franked	**14.0**	14.0

As the interim dividend for the half-year ended 31 December 2010 was not determined or resolved to be paid by the Board as at 31 December 2010, no provision for dividend has been raised in the statement of financial position. The decision to pay an interim dividend is reported as an event after balance date (refer to note 11 for further information).

Notes to the Half-Year Financial Statements (continued)

4. Segment information

Operating segments

We report our segment information on the same basis as our internal management reporting structure, which drives how our company is organised and managed. Segment comparatives are restated to reflect any changes in our reporting structure which have occurred since the prior reporting period to present a like-for-like view.

For a description of our reportable segments and other business units, refer to note 5 of the 30 June 2010 Annual Financial Report.

During the half-year ended 31 December 2010, the following changes were made to our operating segments:

- Telstra Consumer and Telstra Country Wide, formerly two segments, merged and became one reportable segment, Telstra Consumer and Country Wide (TC&CW);
- The business unit "Telstra International" was created in fiscal 2010 and takes the geographic and operational responsibility for CSL New World (CSL NW), our mainland China businesses and international managed network and hosting operations under the International brand with points of presence around the world. Previously, CSL NW was a separately reportable segment and the rest of the International Group was combined under the segment called "Other International Unit". CSL NW, Other International Unit and our China businesses (previously in the Sensis segment and excluding SouFun) now form part of one reportable segment, Telstra International (TI);
- Soufun, which previously formed part of the Sensis segment, was disposed of on 17 September 2010. Its results up to the date of sale have been reported under the "All Other" category; and
- Our Chief Marketing Office segment has been renamed as Telstra Innovation, Products and Marketing (TIPM).

In our segment financial results, the "All Other" category consists of various business units that do not qualify as reportable segments in their own right. These include:

- TIPM;
- Telstra Cable;
- SouFun; and
- our Corporate areas.

Segment results

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on its "underlying EBIT contribution" to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. As such, only transactions external to the Telstra Group are reported. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBIT and profit before income tax expense in the financial statements.

Certain items of income and expense are recorded by our corporate areas, rather than being allocated to each segment. These items include the following:

- the Telstra Entity fixed assets (including network assets) are managed centrally. The resulting depreciation and amortisation is also recorded centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- rental costs associated with personal computers, laptops, printers and other related equipment for the Telstra Entity.

In addition, the following narrative further explains how some items are allocated and managed, and as a result how they are reflected in our segment results:

- sales revenue associated with mobile handsets for TC&CW, Telstra Business (TB) and Telstra Enterprise & Government (TE&G) are mainly allocated to the TC&CW segment along with the associated costs of goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&CW, TB and TE&G depending on the type of customer serviced;
- Telstra Operations (TOps) recognise certain expenses in relation to the installation and running of the broadband cable network; and
- the domestic promotion and advertising expense for Telstra Entity is recorded centrally in TIPM.

Notes to the Half-Year Financial Statements (continued)

4. Segment information (continued)

The following tables detail the underlying results of our business segments, based on the reporting structure as at 31 December 2010:

Telstra Group

Half-year ended 31 December 2010	**TC&CW $m**	**TB $m**	**TE&G $m**	**TW $m**	**TOps $m**	**Sensis $m**	**TI $m**	**TClear $m**	**All Other $m**	**Total $m**
Revenue from external customers for operating segments	**4,800**	**2,425**	**2,061**	**1,126**	**37**	**696**	**687**	**265**	**109**	**12,206**
Other non-operating segment revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**78**	**78**
Other income	**33**	**4**	**(1)**	**-**	**3**	**-**	**-**	**-**	**15**	**54**
Total income	**4,833**	**2,429**	**2,060**	**1,126**	**40**	**696**	**687**	**265**	**202**	**12,338**
Labour expenses	**250**	**109**	**149**	**33**	**652**	**219**	**89**	**50**	**437**	**1,988**
Goods and services purchased	**1,657**	**498**	**267**	**38**	**119**	**48**	**373**	**131**	**17**	**3,148**
Other expenses	**557**	**73**	**40**	**7**	**1,079**	**140**	**118**	**44**	**502**	**2,560**
Share of equity accounted profits	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Depreciation and amortisation	**-**	**-**	**8**	**-**	**38**	**60**	**65**	**57**	**1,976**	**2,204**
EBIT contribution	**2,369**	**1,749**	**1,597**	**1,048**	**(1,848)**	**229**	**42**	**(17)**	**(2,730)**	**2,439**

Telstra Group

Half-year ended 31 December 2009	**TC&CW $m**	**TB $m**	**TE&G $m**	**TW $m**	**TOps $m**	**Sensis $m**	**TI $m**	**TClear $m**	**All Other $m**	**Total $m**
Revenue from external customers for operating segments	4,708	2,373	2,034	1,149	38	845	700	269	143	12,259
Other non-operating segment revenue	-	-	-	-	-	-	-	-	83	83
Other income	32	6	1	-	3	-	1	-	8	51
Total income	4,740	2,379	2,035	1,149	41	845	701	269	234	12,393
Labour expenses	234	107	162	35	682	194	93	48	412	1,967
Goods and services purchased	1,225	477	251	33	112	67	300	132	18	2,615
Other expenses	518	70	42	9	1,131	151	121	40	409	2,491
Depreciation and amortisation	-	-	9	-	37	36	68	59	1,976	2,185
EBIT contribution	2,763	1,725	1,571	1,072	(1,921)	397	119	(10)	(2,581)	3,135

Notes to the Half-Year Financial Statements (continued)

4. Segment information (continued)

A reconciliation of EBIT contribution for reportable segments to Telstra Group EBIT and profit before income tax expense is provided below:

		Telstra Group	
		Half-year ended 31 December	
		2010	2009
	Note	**$m**	$m
EBIT contribution for reportable segments		**5,169**	5,716
All other		**(2,730)**	(2,581)
Total all segments		**2,439**	3,135
Amounts excluded from underlying results:			
- net gain on disposal of non current assets		**11**	5
- net gain/(loss) on disposal of controlled entities (a)	5	**69**	(9)
- net gain on disposal of associated entities (b)	5	**8**	-
- net loss on disposal of businesses (c)	5	**(18)**	-
- impairment in value of goodwill and intangible assets (d)	8	**(133)**	-
- reversal of impairment in value of investments		**-**	1
Telstra Group EBIT (reported)		**2,376**	3,132
- Net finance costs		**(571)**	(520)
Telstra Group profit before income tax expense (reported)		**1,805**	2,612

(a) On 17 September 2010, our controlled entity Telstra International Holdings sold its 50.6% shareholding in SouFun resulting a net gain of $69 million. On 9 September 2009, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Universal Publishers resulting in a net loss of $9 million.

(b) We sold our 48.2% holding in Keycorp Limited on 8 December 2010 for a total consideration of $23 million, resulting in a gain on sale of $8 million.

(c) On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business for a total consideration of $12 million resulting in a loss on disposal of $18 million.

(d) The impairment of goodwill and customer bases of $133 million relates to the Octave Group.

Notes to the Half-Year Financial Statements (continued)

5. Notes to the statement of cash flows

Reconciliation of cash and cash equivalents

	Telstra Group	
	Half-year ended 31 December	
	2010 $m	2009 $m
Cash at bank and on hand	**256**	305
Bank deposits, bills of exchange and promissory notes	**2,420**	1,245
Total cash and cash equivalents	**2,676**	1,550
Reconciliation to the statement of cash flows		
Bank overdraft	**-**	(17)
Cash and cash equivalents included in assets held for sale (refer note 9)	**-**	115
Cash and cash equivalents in the statement of cash flows	**2,676**	1,648

Acquisitions

Current period acquisitions

There were no acquisitions made during the half-year ended 31 December 2010.

Prior year acquisitions

LMobile (formerly Dotad Group)

On 23 February 2010, our controlled entity Telstra Robin Holdings Limited acquired 67% of the issued capital of Dotad Media Holdings Limited (Dotad), a company registered in British Virgin Islands, for a total consideration of $105 million, with $67 million of this consideration contingent upon the entity achieving certain pre-determined revenue and EBITDA targets over the next three fiscal years and $6 million deferred until February 2012. Total contingent consideration has been stated at its fair value and hedged to eliminate foreign exchange impacts. Costs of $2 million associated with the acquisition have been expensed.

At 30 June 2010, we estimated the fair value of the deferred consideration to be $67 million, which will become payable and is recorded as a liability within trade and other payables. The total contingent consideration is based on the assumption that all predetermined revenue and EBITDA targets are achieved and represents the maximum amount payable under the terms of the acquisition. We have identified and measured any significant intangible assets separately from goodwill on acquisition of Dotad.

Disposals

Current period disposals

SouFun

On 17 September 2010, our controlled entity Telstra International Holdings sold its 50.6% shareholding in SouFun Holdings Limited (SouFun) for a net consideration of $288 million (net of cash balances of the disposed entity).

The effect of the disposal is detailed below:

	SouFun
	Half-year ended 31 December
	2010 $m
Consideration for disposal	
Cash consideration for disposal	**458**
Realised net investment hedge gain	**12**
Interest on net investment hedge	**2**
Underwriting fees	**(15)**
Cash and cash equivalents disposed	**(169)**
Inflow of cash on disposal	**288**
Assets/(liabilities) at disposal date	
Cash and cash equivalents	**169**
Trade and other receivables	**9**
Inventories	**8**
Other assets	**4**
Property, plant and equipment	**8**
Intangibles	**316**
Trade and other payables	**(35)**
Current tax liabilities	**(18)**
Provisions	**(1)**
Deferred tax liabilities	**(12)**
Other liabilities	**(36)**
Net assets	**412**
Adjustment for non-controlling interests	**(51)**
Foreign currency translation reserve disposed	**23**
Deferred tax on net investment hedge gain	**4**
Gain on disposal	**69**

Telstra International Holdings has an entitlement to receive $37 million from SouFun for dividends declared in prior years. This amount is included in current other receivables as at 31 December 2010.

Notes to the Half-Year Financial Statements (continued)

5. Notes to the statement of cash flows (continued)

Other current period disposals

On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business for a total consideration of $12 million, with $10 million received in cash, and a $2 million receivable, resulting in a loss on disposal of $18 million. The cost of the intangible assets disposed amounted to $26 million and Telstra Limited recognised a provision for restructuring of $4 million on disposal of the business.

We also sold our entire ownership interest of 48.2% in Keycorp Limited for a total consideration of $23 million, resulting in a gain on sale of $8 million.

Prior year disposals

On 9 September 2009, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Universal Publishers Pty Ltd for a net consideration of $3 million (net of cash balances of the disposed entity).

In addition, in fiscal 2010 there was a receipt of $8 million deferred consideration for the KAZ Group disposal.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management

Finance costs

Our finance costs for the half-year ended 31 December 2010 are detailed below:

TABLE A

	Telstra Group	
	Half-year ended 31 December	
	2010 $m	2009 $m
Finance costs		
Interest on borrowings (i)	**571**	508
Interest on finance leases	**6**	5
Unwinding of discount on liabilities recognised at present value	**11**	8
Loss on fair value hedges - effective (ii)	**32**	28
Loss/(gain) on cash flow hedges - ineffective	**4**	(1)
Loss on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (iii)	**75**	4
Other	**8**	8
	707	560
Less: borrowing costs capitalised (iv)	**(90)**	(18)
	617	542

(i) The period-on-period net increase in interest on borrowings arises from a combination of the following factors:

- an increase in the average yield on debt principally due to:
  - increases in short-term market base interest rates compared to the prior period which resulted in higher costs on the floating rate debt component of our debt portfolio; and
  - higher refinancing yields on term debt; offset by
- a reduction in the average volume of net debt period on period.

The average yield on average net debt during the 6 months to 31 December 2010 was 6.94% (31 December 2009: 6.05%).

The effective yield (effective interest rate) on our net debt at 31 December 2010 was 7.52% (30 June 2010: 6.90%) for the Telstra Group. This yield is a weighted average yield calculated based on the interest rates and net debt as at reporting date.

(ii) We use our cross currency and interest rate swaps as fair value hedges to convert our foreign currency borrowings into Australian dollar floating rate borrowings.

In the current period, we have seen our borrowing margins contract, resulting in a partial reversal of previously recognised unrealised gains represented by the $32 million unrealised loss for the current period. In addition to the contraction in Telstra's borrowing margins, the following factors have also contributed to the net revaluation loss of $32 million:

- increase in Australian market rates as at valuation date;
- a reduction in the number of future interest flows as we approach maturity of the financial instrument; and
- discount factor unwinding as the time to maturity shortens.

It is important to note that in general it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and for each transaction will progressively unwind to nil at maturity.

(iii) A combination of the following factors has resulted in a net unrealised loss of $75 million in the current period associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described at (ii) above for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of $11 million for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

Although these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

(iv) We applied the revised accounting standard AASB 123: "Borrowing Costs" prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009. The $72 million increase in capitalised interest over the prior period (reduction in finance costs) is due to this change.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management (continued)

Gearing and net debt

We monitor capital using a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets (excluding finance lease receivables) and financial liabilities (including derivative financial instruments) less cash and cash equivalents. Total capital is calculated as equity (as shown in the statement of financial position) plus net debt.

During the half-year ended 31 December 2010, we reduced our target range for the net debt gearing ratio from 55 to 75 per cent to 50 to 70 per cent in light of market and business considerations. The gearing ratios and carrying value of our net debt were as follows:

TABLE B	Telstra Group	
	As at	
	31 Dec 2010 $m	30 June 2010 $m
Net debt	**14,395**	13,926
Net equity	**12,208**	13,008
Total capital	**26,603**	26,934
Gearing ratio	**54.1%**	51.7%

Net debt included in the table above is based on the carrying values of our financial instruments. For interest bearing financial instruments we adopt a 'clean price' whereby the reported balance of our derivative instruments and borrowings excludes accrued interest. Accrued interest is recorded in current 'trade and other receivables' and current 'trade and other payables' in the statement of financial position.

Our borrowings are unsecured, except for finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us. We have no assets pledged as security for our borrowings.

We are not subject to any externally imposed capital requirements.

Our next long term debt maturity to refinance is a Euro bond of $2.5 billion in June 2011 which at inception was swapped into Australian dollars. Our short term borrowings comprise unsecured promissory notes principally to support working capital and short term liquidity, as well as hedging offshore investments. These unsecured promissory notes continue to be supported by liquid financial assets and ongoing committed standby lines.

The increase in the carrying amount of our net debt during the six months to 31 December 2010 of $469 million (31 December 2009: reduction of $415 million) is represented by the movements shown in Table C below:

TABLE C	Telstra Group	
	Half-year ended 31 December	
	2010 $m	2009 $m
Offshore and domestic loans	**969**	-
Bank deposits greater than 90 days and short term borrowings	**10**	(46)
Repayment of offshore loans	**(47)**	-
Finance lease repayments	**(35)**	(34)
Net cash inflow/(outflow)	**897**	(80)
Revaluation losses/(gains) affecting cash flow hedging reserve	**73**	(95)
Revaluation gains affecting foreign currency translation reserve	**(109)**	(63)
Revaluation losses affecting other expenses in income statement	**34**	4
Revaluation losses affecting finance costs in income statement (i)	**116**	46
Finance lease additions	**29**	40
	143	(68)
Total increase/(reduction) in gross debt	**1,040**	(148)
Net movement in cash, cash equivalents and overdraft	**(571)**	(267)
Total increase/(reduction) in net debt	**469**	(415)

(i) The net revaluation loss of $116 million affecting finance costs includes a loss of $32 million from fair value hedges (2009: $28 million) and a loss of $75 million (2009: $4 million) from transactions either not designated or de-designated from hedge relationships. Also included in this net loss is $9 million (2009: $14 million) comprising amortisation of discounts (recorded in interest on borrowings) and other adjustments.

We have entered into the following long term debt funding during the period, for progressively pre-funding the re-financing of our Euro bond of $2.5 billion maturing in June 2011:

- $708 million Euro bond in October 2010, matures 15 March 2021;
- $60 million Japanese Yen bond in December 2010, matures 9 December 2020; and
- $201 million domestic bond in November 2010, matures 15 July 2020.

We repaid the following long term debt funding during the period:

- $47 million Japanese Yen bond which matured in September 2010.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management (continued)

Cash flow hedging reserve

TABLE D	Telstra Group	
	Half-year ended 31 December	
	2010	2009
	$m	$m
Opening balance	**157**	93
Changes in fair value of cash flow hedges	**(792)**	(481)
Changes in fair value transferred to the income statement for the period	**719**	562
Changes in fair value transferred to property, plant and equipment	**-**	7
	(73)	88
Income tax on movements in the cash flow hedging reserve	**21**	(27)
Closing balance	**105**	154

The net decrease in our cash flow hedge reserve (before tax) of $73 million comprises:

- Revaluation losses of $792 million before tax on our cross currency and interest rate swaps hedging future payments on our offshore borrowings in cash flow hedges, and revaluation losses on our forward foreign currency contracts hedging forecast purchases denominated in foreign currency. These revaluation losses represent the effective portion on remeasuring the fair value of these hedging instruments; and

- Transfer to the income statement of $719 million before tax representing hedging losses previously recognised in the cash flow hedge reserve which offset gains on translation of the underlying hedged borrowings and purchases at the applicable spot exchange rate and also includes a transfer to finance costs for interest incurred.

The before tax net movement in the cash flow hedge reserve of $73 million represents a net increase in gross debt (2009: net reduction in gross debt of $95 million) offset by $7 million realised foreign exchange losses on forward foreign currency contracts allocated against purchases in the subsequent period (refer Table C).

The net revaluation loss of $792 million in cash flow hedges comprises valuation impacts from:

- Decreases in our borrowing margins;
- Movement in market interest rates;
- A strengthening of the Australian dollar against foreign currencies, primarily Euro and United States Dollar;
- Reduction in the number of future interest flows which progressively reduce as we approach maturity of the financial instrument; and
- Discount factor unwinding as the time to maturity shortens.

Notes to the Half-Year Financial Statements (continued)

7. Post employment benefits

The employee superannuation schemes in which we participate or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

Details of the defined benefit plans in which we participate are set out in Note 24 of the 30 June 2010 Annual Financial Report.

(a) Net defined benefit plan (liability)/asset

Our net defined benefit plan (liability)/asset recognised in the statement of financial position for the current and previous periods is determined as follows:

	Telstra Group		
	As at		
	31 Dec 2010 $m	30 June 2010 $m	31 Dec 2009 $m
Fair value of defined benefit plan assets	**2,564**	2,546	2,557
Present value of the defined benefit obligation	**2,705**	2,934	2,769
Net defined benefit liability before adjustment for contributions tax	**(141)**	(388)	(212)
Adjustment for contributions tax	**(27)**	(69)	(38)
Net defined benefit liability	**(168)**	(457)	(250)
Comprising:			
Defined benefit asset	**16**	7	9
Defined benefit liability	**(184)**	(464)	(259)
Net defined benefit liability	**(168)**	(457)	(250)

(b) Principal actuarial assumptions

We used the following major assumptions to determine our defined benefit expense for the half-year ended:

	Telstra Super		HK CSL Retirement Scheme	
	Half-year ended 31 December		Half-year ended 31 December	
	2010 %	2009 %	**2010 %**	2009 %
Discount rate	**5.1**	5.5	**2.4**	3.0
Expected rate of return on plan assets (i)	**8.0**	8.0	**6.4**	6.3
Expected rate of increase in future salaries (iii)	**4.0**	2.9 - 4.0	**2.5 - 4.0**	2.0 - 4.0

Notes to the Half-Year Financial Statements (continued)

7. Post employment benefits (continued)

We used the following major assumptions to determine our defined benefit plan obligations at 31 December:

	Telstra Super As at 31 December		HK CSL Retirement Scheme As at 31 December	
	2010 %	2009 %	**2010 %**	2009 %
Discount rate (ii)	**5.5**	5.7	**3.1**	2.4
Expected rate of increase in future salaries (iii)	**4.0**	2.9 - 4.0	**2.5 - 4.0**	2.0 - 4.0

(i) The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes over the subsequent 10 year period, or longer. Estimates are based on a combination of factors including the current market outlook for interest rates, inflation, earnings growth and currency strength. To determine the aggregate return, the expected future return of each plan asset class is weighted according to the strategic asset allocation of total plan assets.

(ii) The present value of our defined benefit obligations is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

(iii) Our assumption for the salary inflation rate for Telstra Super is 4% which is reflective of our long term expectation for salary increases. The salary inflation rate for HK CSL Retirement Scheme is 2.5% in fiscal 2011, 2.75% in fiscal 2012 and 3.25% in fiscal 2013 and 4.0% thereafter which reflects the long term expectations for salary increases.

(c) Employer contributions

For the six months to 31 December 2010, the total cash payments made by us in relation to contributions to the Telstra Superannuation Scheme was $240 million (2009: $245 million). This consists of the following:

- Employer cash contributions of $177 million (2009: $179 million)
- Employees pre and post-tax salary sacrifice contributions of $51 million (2009: $51 million); and
- Payroll tax of $12 million (2009: $15 million).

The vested benefits, which forms the basis for determining our contribution levels under the funding deed, represents the total amount that Telstra Super would be required to pay if all defined benefit members were to voluntarily leave the fund on the valuation date. The VBI provides a short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

The average VBI for the quarter ended 31 December 2010 was 89.0% (2009: 84.28%). As per the funding deed we are required to make contributions when the VBI falls to 103% or below in a calendar quarter. We expect to make total cash payments for the year ending 30 June 2011 of $480 million. This consists of the following:

- Employer cash contributions of $367 million;
- Employees pre and post-tax salary sacrifice contributions of $88 million; and
- Payroll tax of $25 million.

Notes to the Half-Year Financial Statements (continued)

8. Impairment

Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The carrying amount of our goodwill and intangible assets with an indefinite useful life are detailed below:

	Goodwill		Intangible assets with indefinite useful lives	
	As at		As at	
	31 Dec 2010 $m	30 June 2010 $m	**31 Dec 2010 $m**	30 June 2010 $m
CGUs				
CSL New World Group	**782**	932	**-**	-
TelstraClear Group	**126**	136	**-**	-
Telstra Europe Group (a)	**55**	80	**-**	-
Sensis Group (b)	**215**	215	**-**	-
Location Navigation	**14**	14	**8**	8
Adstream Group	**24**	24	**-**	-
1300 Australia Pty Ltd	**16**	16	**12**	12
Sequel Group	**103**	119	**-**	-
Octave Group (c)	**-**	116	**-**	-
LMobile Group (formerly Dotad Group)	**75**	87	**-**	-
Other	**63**	63	**-**	-
	1,473	1,802	**20**	20

(a) On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business resulting in a decrease of $15 million in goodwill. Refer note 5 for further details.

(b) Our assessment of the Sensis Group CGU excludes the Location Navigation Group and the Adstream Group that form part of the Sensis reportable segment. These CGUs are assessed separately.

(c) As at 31 December 2010, the carrying value of our assets in the Octave Group CGU were tested for impairment based on value in use. This resulted in an impairment charge of $133 million against goodwill ($94 million) and other intangible assets ($39 million) being recognised in the Telstra Group financial statements. The impairment arose as a result of significant changes in the regulatory environment in China in which the Octave Group operates. These changes were disclosed in our Annual Financial Report as at 30 June 2010 and there have been no improvements in the regulatory position in China since then. These regulatory changes have required us to significantly reduce the estimated future cash flows from the Octave Group, resulting in the impairment charge. The carrying amount of the Octave Group goodwill has been reduced to nil.

Ubiquitous Telecommunications Network and Hybrid Fibre Coaxial (HFC) Cable Network

In addition to the above CGUs, we have two further significant CGUs that are reviewed for impairment. These two CGUs are:

- the Telstra Entity CGU, excluding the HFC network; and
- the CGU comprising the HFC network.

The Telstra Entity CGU consists of our ubiquitous telecommunications network in Australia, excluding the HFC cable network as we consider it not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network, comprising the customer access network and the core network, are considered to be working together to generate our net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

Notes to the Half-Year Financial Statements (continued)

8. Impairment (continued)

Ubiquitous Telecommunications Network and Hybrid Fibre Coaxial (HFC) Cable Network (continued)

The ubiquitous telecommunications network and the HFC cable network are only reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The results of our impairment assessment for both networks for the half-year ended 31 December 2010 identified no present indicators of impairment.

Our impairment assessment of the ubiquitous telecommunications network and the HFC network for the half-year ended 31 December 2010 is based on Telstra's current operating model. A non-binding Financial Heads of Agreement (FHoA) was entered into on 20 June 2010 with NBN Co and on 10 February 2011 we announced that we had provisionally agreed key commercial terms negotiated with NBN Co and the in-principle agreement with the Federal Government. We are working to complete the necessary documentation. As soon as this is finalised by both NBN Co and Telstra, ACCC and Telstra shareholder approval is required. Given this, a significant level of uncertainty still currently exists. We expect the trigger point for factoring in NBN related cash flows into any impairment assessment would be once final shareholder approval has been obtained, as prior to this there is not sufficient certainty that the proposed transaction in relation to the NBN, resulting from the FHoA and commercial terms, will go ahead or be in its current form. As at 31 December 2010, preliminary testing based on this FHoA in its current form indicates no impairment.

Impairment testing

Our impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on a maximum five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite life intangible assets has been allocated:

	Discount rate (d)		Terminal value growth rate (e)	
	As at		As at	
	31 Dec 2010 %	30 June 2010 %	**31 Dec 2010 %**	30 June 2010 %
CSL New World Group	**11.5**	10.5	**2.0**	2.0
TelstraClear Group	**11.9**	11.0	**3.0**	3.0
Telstra Europe Group (a)	**9.6**	9.1	**3.0**	3.0
Sensis Group	**13.6**	12.8	**3.0**	3.0
Location Navigation	**13.1**	12.9	**3.0**	3.0
Adstream Group	**13.4**	13.0	**3.0**	3.0
1300 Australia Group	**13.5**	13.0	**3.0**	3.0
Sequel Group	**17.6**	16.8	**5.0**	5.0
Octave Group (c)	**20.3**	17.0	**5.0**	5.0
LMobile Group	**20.2**	19.4	**5.0**	5.0

(d) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate which is adjusted for specific risks relating to the CGU and the countries in which they operate.

(e) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their respective markets. The terminal growth rates for the Australian CGUs are aligned at three per cent.

Notes to the Half-Year Financial Statements (continued)

9. Non current assets held for sale

On 1 December 2009, the shareholders of SouFun decided to commence a process to prepare SouFun for an offer of the shares in that company to the public. At that time, we announced that we intended to sell down our shareholding as part of the process. On 17 September 2010, we sold our shareholding in SouFun. Refer to note 5 for further details on this disposal.

In accordance with AASB 5 "Non-current Assets Held for Sale and Discontinued Operations" the carrying value of assets and liabilities of SouFun were classified as held for sale up to the day of sale. SouFun is included in the "All Other" segment category in our segment information disclosures in note 4.

10. Contingent liabilities, contingent assets and expenditure commitments

Contingent liabilities and contingent assets

We have no significant contingent assets as at 31 December 2010.

Common law claims

There have been no significant changes from 30 June 2010 to our contingent liabilities arising from our common law claims other than:

Optus Confidential Information

Optus commenced proceedings in the Federal Court of Australia in December 1997 alleging that Telstra breached the Trade Practices Act and misused Optus' confidential information. All the claims were subsequently settled or withdrawn other than a confidential information claim (relating to the preparation and use of STD and IDD market share reports). It relates to historical events in the period from 1993-2003.

In April 2009, the Federal Court held that Telstra breached the terms of its Access Agreement with Optus by preparing STD and IDD market share reports but that Telstra had not also breached an equitable duty of confidence. Optus successfully appealed the equity finding to the Full Federal Court in early 2010. Telstra filed a special leave application on this issue to the High Court. On 30 July 2010, the High Court dismissed Telstra's application as premature but made it clear that Telstra's right to seek leave to appeal on this issue was preserved until after the final judgment in these proceedings. Optus has not yet quantified its claim and no trial date has been set. Hence, it is not yet possible to estimate Telstra's actual liability to Optus, if any.

Indemnities, performance guarantees and financial support

There have been no significant changes from 30 June 2010 to our indemnities, performance guarantees and financial support other than:

- Guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by the third parties over the remaining terms of the finance leases, have decreased by $108 million (US$58 million). In December 2010, we exercised our early buyout option to terminate a portion of the remaining leases that commenced in 1999. We still hold an early buyout option for the remaining leases; and
- Indemnities to financial institutions in respect of the obligations of our controlled entities have decreased by $67 million predominantly due to a strengthening of the Australian dollar against foreign currencies.

Expenditure commitments

There have been no significant changes to our expenditure commitments from 30 June 2010.

Notes to the Half-Year Financial Statements (continued)

11. Events after balance date

We are not aware of any matter or circumstance that has occurred since 31 December 2010 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

Interim dividend

On 10 February 2011, the directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 14 cents per ordinary share, amounting to $1,737 million. The record date for the interim dividend is 25 February 2011 with payment to be made on 25 March 2011. Shares will trade excluding entitlement to the dividend on 21 February 2011.

The interim dividend will be fully franked at a tax rate of 30%. The financial effect of this interim dividend was not brought to account as at 31 December 2010.

Queensland, upper NSW, Victoria and Tasmania floods

The floods and cyclone in Queensland, and the floods in upper NSW, Victoria and Tasmania that occurred in January and February 2011 will have a significant impact on Telstra in terms of service recovery and asset replacement. At this stage an estimate of the financial impact of this disaster cannot be made until the full extent of the damage has been assessed.

Restructure of Reach Joint Venture

On 26 January 2011, Telstra and PCCW signed an agreement to restructure the assets in their 50/50 joint venture, Reach, as part of an ongoing review of the company's Asian assets to drive shareholder value.

The restructure will result in a division of the majority of Reach's international assets between Telstra and PCCW. Reach will continue to manage the remaining joint assets, which are predominantly located in Hong Kong.

The restructure will give the Telstra International Group greater control over the platform used to deliver end-to-end services, improving the quality of service offered to enterprise and global service provider customers. The structural changes to Reach are expected to be completed during the second half of fiscal 2011 by the management of the Telstra International Group, PCCW and Reach.

As a result of the restructure, Telstra anticipates recognising an accounting gain of $50 million on signing and a further $80 million to $100 million on completion.

FOXTEL distribution

On 31 January 2011, we received a $20 million distribution from our jointly controlled entity FOXTEL.

National Broadband Network

Further to the non-binding financial heads of agreement announced on 20 June 2010, Telstra announced on 10 February 2011 that we had provisionally agreed key commercial terms negotiated with NBN Co and the in-principle agreement with the Federal Government.

We are working to complete the necessary documentation. As soon as this is finalised by both NBN Co and Telstra, ACCC and Telstra shareholder approval is required. While there is still work to be done, we are on track to put the proposal to shareholders with a target date of 1 July 2011.

Director's Declaration

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the financial statements and notes of the Telstra Group for the half-year ended 31 December 2010, as set out on pages 2 to 23, are in accordance with the Corporations Act 2001 including that:

(i) the financial report complies with Accounting Standard AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001; and

(ii) the financial statements and notes give a true and fair view of the Telstra Group's financial position and performance for the half-year ended 31 December 2010.

For and behalf of the Board

C B Livingstone D. Thodey

Catherine B Livingstone AO
Chairman

David I Thodey
Chief Executive Officer and Executive Director

10 February 2011
Melbourne, Australia

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Report on the Half-Year Financial Report

To the members of Telstra Corporation Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited, which comprises the statement of financial position as at 31 December 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other selected explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year (the Telstra Group).

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.* The directors are also responsible for establishing and maintaining internal controls as the directors determine are relevant to enable the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Telstra Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Telstra Corporation Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the Annual Financial Report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Telstra Corporation Limited is not in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Telstra Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Sean C Van Gorp
Partner

10 February 2011
Melbourne, Australia