26 February 2009

Office of the Company Secretary

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Australian Stock Exchange
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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Financial Results for the Half Year ended 31 December 2008

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. Half year financial report for the half year ended 31 Dec 2008; and
5. Directors' report.

Telstra's Chief Executive Officer Sol Trujillo and Telstra's Chief Financial Officer John Stanhope will present Telstra's Half Year Results to 31 December 2008 in Sydney. A webcast of the briefings will be available from 9.15 AM AEDT at http://www.telstra.com.au/abouttelstra/media/webcasts_event.cfm?ObjectID=1543 and 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 2008

Appendix 4D
Half-year report
31 December 2008
Telstra Corporation Limited
ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2008	2007	Movement	Movement
	$m	$m	$m	%
Extract from the income statement				
Revenue	**12,710**	12,372	338	3%
Other income	**90**	137	(47)	(34%)
Profit for the period	**1,921**	1,942	(21)	(1%)
Profit for the period available to Telstra Entity shareholders	**1,916**	1,926	(10)	(1%)

This report is to be read in conjunction with our Half-Year Financial Report as at 31 December 2008.

The profit for the half-year ended 31 December 2008 includes $248 million of gains in finance costs associated with the hedging of our borrowings, $103 million of accelerated depreciation recorded by our subsidiary, CSL New World Mobility Limited, and $49 million in redundancy costs associated with the simplification of our marketing and support staff.

The profit for the half-year ended 31 December 2007 included $95 million of gains in finance costs associated with the hedging of our borrowings and a $37 million profit on the sale of our investment in Telstra eBusiness Services Pty Limited.

Appendix 4D
Half-year report
31 December 2008
Telstra Corporation Limited

Results for announcement to the market (continued)

Dividends per ordinary share to be paid

	Half-year ended 31 December	
	2008	2007
	¢	¢
Dividends per ordinary share		
Interim dividend	**14.0**	14.0
Final dividends for the financial year ended 30 June provided for and paid during the interim period		
Final dividend	**14.0**	14.0

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

Our interim ordinary dividend in respect of the half-year ended 31 December 2008 will have a record date of 13 March 2009 with payment to be made on 9 April 2009. Shares will trade excluding entitlement to the dividend on 6 March 2009.

Our final ordinary dividend in respect of the financial year ended 30 June 2008 was provided for and paid during the interim period. The final ordinary dividend had a record date of 29 August 2008 and payment was made on 26 September 2008.

Appendix 4D Half-year ended 31 December 2008

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 2008 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.	Refer item 2 on page 5 of this report.
5. Details of individual and total dividends or distributions and dividend or distribution payments.	Refer to the "Results for announcement to the market" on page 2 and 3 of this report. Also refer to note 3: Dividends and note 10: Events after balance date in the 31 December 2008 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 3 on page 5 of this report.
7. Details of our joint ventures and associated entities.	Refer item 4 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 2008

1. Net tangible assets per security

	Telstra Group	
	As at	
	31 Dec 2008 ¢	30 June 2008 ¢
Net tangible assets per security	**25.8**	38.4

Net tangible assets are defined as net assets of the Telstra Group less intangible assets and minority interests. The number of Telstra shares on issue as at 31 December 2008 and 30 June 2008 was 12,443 million.

The reduction in net tangible assets per security is due to the net tangible assets of the Telstra Group decreasing from $4,772 million at 30 June 2008 to $3,206 million at 31 December 2008. The reduction of $1,566 million is mainly due to the actuarial loss recorded on our defined benefit plans ($891 million after tax) and the net revaluations of our borrowings and derivative instruments recorded directly in equity ($635 million after tax).

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

Entities where control has been gained during the period

- We did not gain control over any entities during the period.

Entities where control has been lost during the period

- We did not lose control over any entities during the period.

3. Details of dividend or distribution reinvestment plans in operation

In July 2007, the Directors of Telstra Corporation Limited offered shareholders the opportunity to participate in a Dividend Reinvestment Plan ("DRP") where Telstra expected to source the shares to be allocated under the DRP from the Future Fund. The Future Fund confirmed that they would not participate in the DRP for the 2008 final dividend and therefore the DRP was suspended during the period. The Future Fund has also declined to participate in the DRP for the 2009 interim dividend and accordingly the directors of Telstra Corporation Limited have determined the DRP continues to be suspended for the 2009 interim dividend.

Appendix 4D Half-year ended 31 December 2008

4. Details of investments in joint ventures and associated entities

		Telstra Group	
		Ownership interest As at	
		31 Dec	30 June
		2008	2008
Name of entity	**Principal activities**	**%**	%
Jointly controlled entities			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Ltd	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (a)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (b)	Toll free number portability in New Zealand	**33.3**	33.3
3GIS Pty Limited (a)	Management services	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (b)	Regional roaming provider	**10.0**	10.0
m.Net Corporation Limited	Mobile phone content provider	**25.2**	25.2
Associated entities			
Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (a)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Keycorp Limited	Electronic transactions solutions	**48.2**	48.2
Telstra Foundation Ltd	Charitable trustee organisation	**100.0**	100.0
LinkMe Pty Ltd	Internet recruitment provider	**46.7**	46.0

Unless noted, all investments have a balance date of 30 June and are incorporated in Australia.

(a) Balance date is 31 December.

(b) Balance date is 31 March.

5. Statement about the audit status

Our financial report for the half-year ended 31 December 2008 has been reviewed by Ernst & Young. It is not subject to review dispute or qualification. Refer to the 31 December 2008 half-year financial report for the independent review report provided to the members of Telstra Corporation Limited.

Telstra Corporation Limited and controlled entities
Results and operations review
Half-year ended 31 December 2008

First half outcomes as expected in tough times

Result highlights:

- **Sales revenue grew by 3.2% or $392 million to $12,644 million**
- **Total revenue grew by 2.7% or $338 million to $12,710 million**
- **Operating expenses (before depreciation and amortisation) grew by 1.7% or $121 million to $7,428 million**
- **Reported EBITDA grew by 3.1% or $162 million to $5,334 million**
- **Reported EBIT decreased by 1.3% or $41 million to $3,079 million**
- **Adjusted EBIT grew by 4.8% or $148 million to $3,231 million. The items excluded in the current period are $103 million of accelerated depreciation in CSLNW and $49 million in redundancy costs associated with the simplification of our marketing and support functions, with a $37 million gain on sale of our investment in eBusiness excluded from the prior period**

- **Profit attributable to Telstra shareholders fell by 0.5% or $10 million to $1,916 million**
- **Basic earnings per share of 15.5 cents, down 0.6% or 0.1 cents**
- **Interim ordinary dividend of 14 cents per share, fully franked**

- **Mobile services revenue grew by 12.4% or $339 million to $3,066 million**
- **Retail broadband revenue grew by 31.3% or $287 million to $1,204 million**
- **Sensis sales revenue grew by 8.4% or $80 million to $1,034 million**

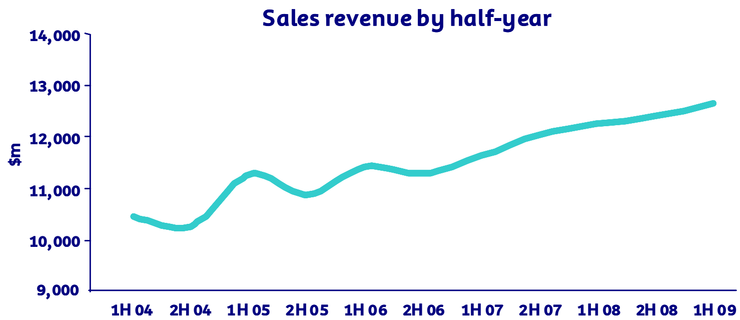
Half-year results and operations review - December 2008

Financial Highlights
Half-year ended 31 December 2008
First half outcomes as expected in tough times

- Period-on-period sales revenue growth accelerates on second half of fiscal 2008
- Mobile services revenue growth of 12.4%, slightly better than full fiscal 2008
- Costs remain under control with 3.1% EBITDA growth
- Reported EBIT decline of 1.3%, growth of 4.8% on an underlying basis
- Interim ordinary dividend of 14 cents per share, fully franked

Telstra Corporation Limited and its controlled entities (Telstra) reported another strong set of results for the half-year ended 31 December 2008.

In the first half of fiscal 2009, total income (excluding finance income) grew by 2.3% to $12,763 million. Total revenue for the six months grew by 2.7% to $12,710 million and sales revenue grew by 3.2% to $12,644 million. This is an acceleration from the 3.0% sales revenue growth reported in the second half of fiscal 2008.



Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 3.1% to $5,334 million. Reported earnings before interest and tax (EBIT) fell by 1.3% to $3,079 million. This result included further accelerated depreciation in the CSL New World Group (CSLNW) of $103 million and $49 million in redundancy costs associated with the simplification of our marketing and support functions. Adjusting for these items and the $37 million profit on sale of our investment in eBusiness in the first half of fiscal 2008, our underlying EBIT growth in the first half of fiscal 2009 was 4.8%.

Basic earnings per share for the half was 15.5 cents, compared to 15.6 cents in the first half of fiscal 2008.

On 26 February 2009, the directors resolved to pay a fully franked interim dividend of 14 cents per ordinary share, amounting to $1,737 million. The dividend will be franked at a tax rate of 30%. The record date for the dividend will be 13 March 2009 with payment to be made on 9 April 2009. Shares will trade excluding entitlement to the dividend on 6 March 2009.

In July 2007, the directors of Telstra Corporation Limited offered shareholders the opportunity to participate in a Dividend Reinvestment Plan ("DRP") where we expected to source the shares to be allocated under the DRP from the Future Fund. The Future Fund confirmed that they would not participate in the DRP for the 2008 final dividend, and therefore the DRP was suspended during the period. The Future Fund has also declined to participate in the DRP for the 2009 interim dividend and accordingly the directors of Telstra Corporation Limited have determined the DRP continues to be suspended for the 2009 interim dividend.

Outlook

Against the rapidly deteriorating economic climate, we are pleased to be able to re-iterate all of our guidance for fiscal 2010, with continued growth in the business, expanding margins and most importantly free cash flow in the range of $6-7 billion.

While we continue to expect revenue growth in the range of 3-4% this year, we now expect EBITDA growth in the range of 5-6% (previously 6-7%) and EBIT growth in the range of 3-5% (previously 6-8%).

In fiscal 2009, our results are affected by reduced calling volumes, as people manage their usage down more than expected in the deteriorating macroeconomic environment. Also, there have been one-off costs such as the Victorian bushfires and Queensland floods, costs to meet higher customer contacts into call centres and the accelerated roll-out of our T[life]™ stores.

Half-year results and operations review - December 2008

Outlook

	2009 guidance	FY10 long-term management objectives
Total revenue growth	3 - 4%	3 - 4% CAGR from FY05
Operating expense growth	-	4 - 5% CAGR from FY05
EBITDA growth	5 - 6%	3 - 3.5% CAGR from FY05
EBITDA margin	-	46 - 48% in FY10
EBIT growth	3 - 5%	-
Depreciation and amortisation	Around $4.5b	-
Capex/sales	-	Around 14% in FY10
Workforce	-	Down 10,000 - 12,000 by FY10
Accrued capex	$4.3 - 4.6b	-
Free cash flow	-	$6 - 7b in FY10

As we have said previously, we do not expect the outcome of the Government's National Broadband Network (NBN) process to impact our business within the time frames of our guidance.

Revenue

In the first half of fiscal 2009, we continued to see strong results across key segments and products.

Key segment income

	Half-year ended Dec 2008 $m	Change on pcp %
Telstra Consumer	**5,201**	**3.0%**
Telstra Business	**1,933**	**7.2%**
Telstra Enterprise and Government	**2,397**	**3.9%**
Total Retail	**9,531**	**4.1%**
Telstra Wholesale	**1,210**	**(4.2%)**
Sensis	**1,034**	**8.5%**

Key product revenue

	Half-year ended Dec 2008 $m	Change on pcp %
Mobile services (including wireless broadband and data packs)	**3,066**	**12.4%**
PSTN	**3,219**	**(5.1%)**
Retail broadband (including wireless broadband and data packs)	**1,204**	**31.3%**
IP and data access	**870**	**10.7%**
Advertising and directories	**1,028**	**8.4%**

Despite the challenges presented by the current economic conditions, we continue to pursue our customer-centric strategy that has formed the cornerstone of the transformation.

The success of this strategy is shown in the strength of our retail segments, which have grown revenue by 4.1% in the half, contrasted by the 4.2% decline in revenue in our wholesale business.

In our consumer segment there has been a slight slowdown in growth in the half to 3.0% from 3.3% in the second half of fiscal 2008. This slowdown is largely driven by a decline in PSTN call volumes and lower mobile handset revenues, with mobile services growth in this segment actually increasing to 8.5% in the half. In Telstra Business we have seen further strong growth, especially in the mobile and internet portions of that business. In our enterprise and government segment, revenue growth accelerated from 2.7% in the second half of fiscal 2008 to 3.9% in the first half of fiscal 2009 helped by more than 20% growth in mobile services revenue in this segment. Finally, in our advertising and directories business, Sensis, we continue to see resilient growth in our traditional print books complementing the growth in online products and our Chinese online businesses.

Half-year results and operations review - December 2008

At the product level, we are pleased by the continued strength in our mobiles business. In the first half we achieved mobile services revenue growth of 12.4% to $3,066 million, marginally better than the 12.3% growth in full fiscal 2008. We estimate that our mobile revenue market share has increased by 1% to 44%. Total mobile revenue grew by 8.4% to $3,453 million despite a 15.7% decline in mobile handset revenue to $387 million. Handset revenue was particularly strong in the first half of fiscal 2008 as we migrated customers from the old CDMA network to Next G™.

In the half, total blended mobile average revenue per user (ARPU) grew almost 10% from the prior corresponding period to $53.39 per month. We added a total of 371k new services in operation (SIOs) since 30 June 2008, of which 284k were postpaid SIOs.

Our 3GSM SIO base is now in excess of 5.2 million, with migrating customers continuing to record higher ARPU than 2GSM customers. This is testament to the success of light regulation allowing significant investment to be made to the benefit of our customers. We are now the first operator in the world to offer customers 3GSM devices running at peak network download speeds of 21Mbps (average user speeds are lower).

Wireless broadband (WBB) growth continues to be very strong and at the end of December 2008 our SIOs reached 828k. More importantly, our strategy of focussing on high-end customers continues to drive revenue, with $318 million of revenue in the first half.

The decline in PSTN revenue deteriorated in the half with revenue falling by 5.1% to $3,219 million in comparison to a 4.4% decline in the second half of fiscal 2008. The retail PSTN revenue decline was 1.8% in the half. Total line loss in PSTN remains low due to a strong retail performance with 200k lines lost in total in the half, of which 160k were in wholesale. A deterioration in call volumes in almost all categories was a key contributor to the revenue decline. We believe that the decline in calls per line is driven by substitution to other products and services including email, instant messaging, VoIP and fixed to mobile substitution rather than the economic slowdown.

Retail broadband revenue in the half was $1,204 million, up by 31.3%. Total internet revenue grew by 20.0% to $1,515 million with the slowing growth largely due to a 9.0% decline in wholesale broadband revenue to $253 million.

We are seeing a continued slowdown in fixed broadband SIO growth as the market matures, with an increase of 43k SIOs in the first half of fiscal 2009, compared with 193k in the first half of fiscal 2008 and 151k in second half of fiscal 2008. This SIO growth is also increasingly weighted to our cable network, with 15k cable broadband adds in the half. The SIO movement in the current half was also impacted by a one-off clean up of 16k inactive ADSL accounts in October 2008 as we migrated customers to new systems. Total fixed broadband revenue growth was 20.4% to $783 million. We continue to see strong ARPU growth in this product, up by 6.1% to $57.32.

As highlighted above, our WBB growth continued with revenue reaching $318 million. The superior speed and coverage of our Next G™ WBB network combined with our strategy of focussing on high-value customers is delivering results. ARPU has however declined following the launch of prepaid WBB and aggressive price-based competition in the market. Due to Telstra being an early offerer of WBB, and other competitors now entering the market, our WBB revenue market share has consequently declined.

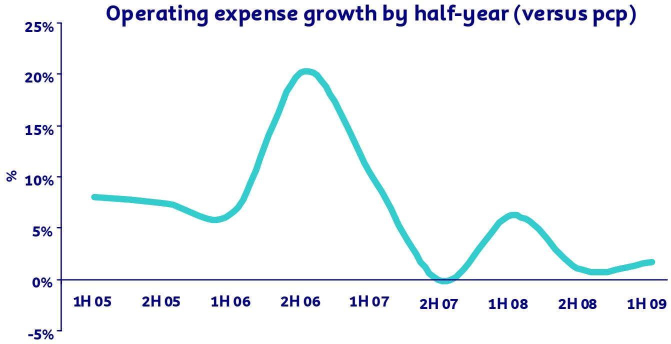
IP and data access revenue growth accelerated again in the half to 10.7%, driven by a 28.2% increase in IP access revenue to $323 million and strong growth in our IP MAN and IP WAN products which is more than offsetting the decline in legacy data products. This world class growth is also testament to our willingness to invest in cutting edge technology and our ability to execute on those investments.

Sensis continued its impressive recent performance with advertising and directories revenue increasing by 8.4% to $1,028 million. Significant growth was recorded in the online components of Yellow™ and White Pages® while revenue from our Chinese online businesses continues to grow, helped by the acquisition of majority stakes in Norstar Media and Autohome/PCPop in June 2008. Revenue from our Chinese businesses increased by 134.9% in the half and we now have an online audience of more than 60 million unique visitors.

Half-year results and operations review - December 2008

Expenses

Total operating expenses (before depreciation and amortisation) grew by 1.7% to $7,428 million. Total expenses (before interest and tax) grew by 3.5% to $9,684 million. As explained in our August results announcement, the first half of 2009 saw a further impact of $103 million owing to accelerated depreciation in CSLNW. As expected, ongoing depreciation has also increased following the successful deployment of Phase 1 of the IT Transformation.



As we near the end of our transformation, we remain focussed on reducing the operating expenses in the business. We are therefore pleased that our largest expense category, goods and services purchased fell by 1.6% to $2,632 million in the half. This was largely driven by cost of goods sold, which fell by 14.9% to $918 million as both subscriber acquisition and recontracting costs (SARCs) and handset volumes fell. Network payments increased by 4.2% to $976 million driven by domestic network payments, largely owing to the 13.2% increase in mobile minutes in the half with no commensurate reduction in mobile termination rates.

Labour expense increased by 2.9% to $2,152 million in the half. Since 2005, we have reduced our full time equivalent workforce by more than 10,000 (excluding investments and divestments) and we expect the growth rate in labour expenses to slow as we experience salary savings from recent reductions in staff levels including the simplification of our marketing and support functions.

Service contracts and other agreements rose by 6.8% to $1,170 million in the half. This increase was expected as we completed the complex task of migrating consumer customers onto the new billing systems. However, sequentially this cost category has actually reduced, and we expect that trend to continue.

Capital expenditure and cash flow

Accrued operating capital expenditure declined by $246 million or 10.6% in the half to $2,074 million. IT spend of $530 million is the largest component of the program and declined by 16.4% as the peak of the transformation capital requirements have been passed.

Free cash flow increased by $587 million or 44.3% to $1,911 million due to operating cash flow growth and lower capital expenditure.

Debt position

Our capital position continues to remain strong as we remain very comfortably within our financial parameters and have no long term debt maturing until fiscal 2010.

Our long term credit ratings at the end of the 2008 calendar year were "A" (S&P), "A2" (Moody's), and "A" (Fitch). Following our fiscal 2008 results announcement in August, S&P upgraded Telstra's outlook from negative to a stable outlook. Fitch has maintained Telstra on a "stable outlook" while Moody's continues to hold Telstra on a "negative outlook" with major factors being the uncertain regulatory environment and NBN process, technological and competitive pressures and company transformation risks.

The net debt position at 31 December 2008 was $16,388 million which represents an increase during the half of $1,146 million. The increase in net debt, which is in line with our plan and reflects the cash flow profile for the first half of fiscal 2009, has contributed to an increase in our gearing ratio from 55.5% as at 30 June 2008 to 58.3% as at 31 December 2008.

Despite the extreme volatility of the global capital markets over the past half year, we have continued to successfully execute a number of long term borrowings across a diverse range of debt markets on pricing, terms and conditions that reflect our good standing as a corporate borrower. Key debt issuances included an $846 million 3 year Australian Dollar syndicated loan facility drawn down in January 2009, a $434 million 3 year Australian Dollar syndicated loan, a $347 million 7.5 year Japanese Yen private placement under our euromarket Debt Issuance Program, a $271 million 5 year Swiss Franc bond in the Swiss domestic market and a $244 million 2 year Euro bond. Together with some other smaller New Zealand Dollar denominated bonds, these transactions provided us with around $2.2 billion of long term funding. These funds have been used for refinancing maturing long term debt, covering cash flow requirements and reducing our reliance on the commercial paper markets which had provided cost effective funding but which have become less reliable in the current volatile conditions.

Half-year results and operations review - December 2008

Transformation update

We are continuing to drive our key IT Transformation objectives. The migration of Telstra Consumer customers from our legacy systems continues and is on track. We are operating at scale and the new systems are working well. By early February we had deployed 1,900 internal and external sites with the new system and trained 17,900 users. We have migrated more than 7.1 million customers and 13.1 million services, issued 27.2 million billing invoices, received 24.6 million payments and we are processing 230 million records every day.

During the half and as the migration peaked, our processes dealing with order provisioning, customer queries and complaints have been severely tested. During this time our customer experience metrics were not where we wanted them to be. But these are now improving. Over the last 4 months, the average speed of answer improved by around two-thirds while call average handling times improved by about 10% this year. Over the next 6 months we expect significant further improvements in customer experience metrics and the associated productivity benefits from improved processes.

Significant events after balance date

During November 2008, we executed a 3 year domestic syndicated loan for $846 million. This loan was drawn down in January 2009 as mentioned above.

On 22 January 2009, we announced the resignation of the Chief Operations Officer (COO), Greg Winn, who has returned to the United States. Mr Winn's role as COO has not been filled, with the bulk of the company's senior IT, network and transformation management now reporting directly to the Chief Executive Officer.

Also on 22 January 2009, CSLNW was announced as a successful bidder in the auction of radio spectrum for the provision of wireless broadband access services in Hong Kong. The total amount payable for this spectrum is $98 million (HK$523 million), with a $28 million (HK$150 million) performance bond also required.

On 9 February 2009 we expanded our presence in China with the acquisition of controlling interests in two of the country's leading mobile content and online music businesses. In a continuation of our media-comms strategy, we acquired a 67% interest in both China M and Sharp Point. China M is a leading supplier of consumer mobile content serving 350k customers daily, while Sharp Point provides technical services for China Mobile's rapidly growing central mobile music platform. The total consideration was $302 million (excluding transaction costs) which includes an initial aggregate cash consideration of $178 million and a deferred consideration of $124 million. The deferred consideration is subject to achieving certain pre-determined targets.

For enquiries on these results contact:

John Stanhope

Chief Financial Officer

Telstra Corporation Limited

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Director, Investor Relations

Telstra Corporation Limited

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Half-year results and operations review - December 2008

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Half-year results and operations review - December 2008

Summary financial information

Results of operations

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Sales revenue	**12,644**	12,252	392	**3.2%**
Other revenue (i)	**66**	120	(54)	**(45.0%)**
Total revenue	**12,710**	12,372	338	**2.7%**
Other income (ii)	**53**	107	(54)	**(50.5%)**
Total income (excl. finance income)	**12,763**	12,479	284	**2.3%**
Labour	**2,152**	2,092	60	**2.9%**
Goods and services purchased	**2,632**	2,676	(44)	**(1.6%)**
Other expenses	**2,644**	2,539	105	**4.1%**
Operating expenses	**7,428**	7,307	121	**1.7%**
Share of net loss from jointly controlled and associated entities	**1**	-	1	**n/m**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**5,334**	5,172	162	**3.1%**
Depreciation and amortisation	**2,255**	2,052	203	**9.9%**
Earnings before interest and income tax expense (EBIT)	**3,079**	3,120	(41)	**(1.3%)**
Net finance costs	**403**	500	(97)	**(19.4%)**
Profit before income tax expense	**2,676**	2,620	56	**2.1%**
Income tax expense	**755**	678	77	**11.4%**
Profit for the period	**1,921**	1,942	(21)	**(1.1%)**
Attributable to:				
Equity holders of the Telstra Entity	**1,916**	1,926	(10)	**(0.5%)**
Minority interest	**5**	16	(11)	**(68.8%)**
	1,921	1,942	(21)	**(1.1%)**
Effective tax rate	**28.2%**	25.9%		**2.3**
EBITDA margin on sales revenue	**42.2%**	42.2%		**-**
EBIT margin on sales revenue	**24.4%**	25.5%		**(1.1)**
	cents	cents	Change cents	**Change %**
Basic earnings per share (iii)	**15.5**	15.6	(0.1)	**(0.6%)**
Diluted earnings per share (iii)	**15.5**	15.5	-	-
Dividends:				
Interim dividend	**14.0**	14.0	-	-

(i) Other revenue primarily consists of distributions from our FOXTEL partnership and 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 2008

Statement of financial position

	As at			
	31 Dec 08 $m	30 Jun 08 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**914**	899	15	**1.7%**
Trade and other receivables	**4,321**	3,952	369	**9.3%**
Inventories	**336**	309	27	**8.7%**
Derivative financial assets	**56**	54	2	**3.7%**
Prepayments	**312**	299	13	**4.3%**
Total current assets	**5,939**	5,513	426	**7.7%**
Non current assets				
Trade and other receivables	**181**	198	(17)	**(8.6%)**
Inventories	**14**	12	2	**16.7%**
Investments - accounted for using the equity method	**13**	14	(1)	**(7.1%)**
Investments - other	**1**	1	-	**-**
Property, plant and equipment	**23,961**	24,311	(350)	**(1.4%)**
Intangible assets	**8,250**	7,245	1,005	**13.9%**
Deferred tax assets	**1**	1	-	**-**
Derivative financial assets	**2,505**	444	2,061	**464.2%**
Defined benefit assets	**-**	182	(182)	**n/m**
Total non current assets	**34,926**	32,408	2,518	**7.8%**
Total assets	**40,865**	37,921	2,944	**7.8%**
Current liabilities				
Trade and other payables	**3,527**	3,930	(403)	**(10.3%)**
Provisions	**506**	535	(29)	**(5.4%)**
Borrowings	**1,271**	2,055	(784)	**(38.2%)**
Derivative financial liabilities	**113**	82	31	**37.8%**
Current tax liabilities	**243**	264	(21)	**(8.0%)**
Revenue received in advance	**1,374**	1,257	117	**9.3%**
Total current liabilities	**7,034**	8,123	(1,089)	**(13.4%)**
Non current liabilities				
Trade and other payables	**222**	181	41	**22.7%**
Provisions	**818**	776	42	**5.4%**
Borrowings	**17,559**	13,444	4,115	**30.6%**
Derivative financial liabilities	**1,070**	1,222	(152)	**(12.4%)**
Deferred tax liabilities	**855**	1,575	(720)	**(45.7%)**
Revenue received in advance	**393**	355	38	**10.7%**
Defined benefit liability	**1,169**	-	1,169	**n/m**
Total non current liabilities	**22,086**	17,553	4,533	**25.8%**
Total liabilities	**29,120**	25,676	3,444	**13.4%**
Net assets	**11,745**	12,245	(500)	**(4.1%)**
Equity				
Equity available to Telstra entity shareholders	**11,456**	12,017	(561)	**(4.7%)**
Minority interests	**289**	228	61	**26.8%**
Total equity	**11,745**	12,245	(500)	**(4.1%)**
Gross debt	**17,298**	16,141	1,157	**7.2%**
Net debt	**16,388**	15,242	1,146	**7.5%**
EBITDA interest cover (times)	**8.4**	8.9	(0.5)	**(5.6%)**
Net debt to EBITDA - annualised	**1.5**	1.5	-	-
Return on average assets	**16.0%**	16.8%		**(0.8)**
Return on average equity	**32.7%**	30.3%		**2.4**
Return on average investment	**22.4%**	22.8%		**(0.4)**
Net debt to capitalisation	**58.3%**	55.5%		**2.8**

Half-year results and operations review - December 2008

Statement of cash flows

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax (GST))	**13,942**	13,522	420	**3.1%**
Payments to suppliers and employees (inclusive of GST)	**(8,836)**	(8,474)	(362)	**4.3%**
Net cash generated by operations	**5,106**	5,048	58	**1.1%**
Income taxes paid	**(861)**	(891)	30	**(3.4%)**
Net cash provided by operating activities	**4,245**	4,157	88	**2.1%**
Cash flows from investing activities				
Payments for:				
- property, plant and equipment	**(1,756)**	(2,268)	512	**(22.6%)**
- intangible assets	**(726)**	(742)	16	**(2.2%)**
Capital expenditure (before investments)	**(2,482)**	(3,010)	528	**(17.5%)**
Payments for other investments	**(1)**	(1)	-	**-**
Total capital expenditure	**(2,483)**	(3,011)	528	**(17.5%)**
Proceeds from:				
- sale of property, plant and equipment	**16**	19	(3)	**(15.8%)**
- sale of shares in controlled entities (net of cash disposed)	**-**	1	(1)	**n/m**
Loans to jointly controlled and associated entities	**(2)**	-	(2)	**n/m**
Proceeds from finance lease principal amounts	**49**	28	21	**75.0%**
Distribution received	**50**	100	(50)	**(50.0%)**
Interest received	**36**	30	6	**20.0%**
Net cash used in investing activities	**(2,334)**	(2,833)	499	**(17.6%)**
Operating cash flows less investing cash flows	**1,911**	1,324	587	**44.3%**
Cash flows from financing activities				
Proceeds from borrowings	**2,209**	3,746	(1,537)	**(41.0%)**
Repayment of borrowings	**(1,734)**	(2,489)	755	**(30.3%)**
Repayment of finance lease principal amounts	**(19)**	(10)	(9)	**90.0%**
Staff repayments of share loans	**7**	8	(1)	**(12.5%)**
Purchase of shares for employee share plans	**-**	(129)	129	**n/m**
Finance costs paid	**(673)**	(583)	(90)	**15.4%**
Dividends paid to equity holders of Telstra Entity	**(1,737)**	(1,740)	3	**(0.2%)**
Dividends paid to minority interests	**(21)**	(18)	(3)	**16.7%**
Net cash used in financing activities	**(1,968)**	(1,215)	(753)	**62.0%**
Net increase/(decrease) in cash and cash equivalents	**(57)**	109	(166)	**(152.3%)**
Cash and cash equivalents at the beginning of the period	**899**	823	76	**9.2%**
Effects of exchange rate changes on cash and cash equivalents	**67**	(1)	68	**n/m**
Cash and cash equivalents at the end of the period	**909**	931	(22)	**(2.4%)**

Half-year results and operations review - December 2008

Segment information

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 information (i)

	Total external income Half-year ended 31 December			EBIT contribution Half-year ended 31 December		
	2008 $m	2007 $m	**Change %**	**2008 $m**	2007 $m	**Change %**
Telstra Consumer	**5,201**	5,051	**3.0%**	**3,198**	3,071	**4.1%**
Telstra Business	**1,933**	1,803	**7.2%**	**1,383**	1,283	**7.8%**
Telstra Enterprise and Government	**2,397**	2,306	**3.9%**	**1,626**	1,542	**5.4%**
Telstra Wholesale	**1,210**	1,263	**(4.2%)**	**1,122**	1,226	**(8.5%)**
Telstra Operations	**64**	73	**(12.3%)**	**(2,106)**	(2,097)	**(0.4%)**
Sensis	**1,034**	953	**8.5%**	**379**	390	**(2.8%)**
CSL New World	**495**	485	**2.1%**	**(67)**	44	**(252.3%)**
TelstraClear	**275**	287	**(4.2%)**	**(11)**	(12)	**8.3%**
Other	**103**	120	**(14.2%)**	**(2,494)**	(2,462)	**(1.3%)**
Total Telstra segments	**12,712**	12,341	**3.0%**	**3,030**	2,985	**1.5%**
Other items excluded from segment results	**51**	138	**(63.0%)**	**49**	135	**(63.7%)**
Total Telstra Group (reported)	**12,763**	12,479	**2.3%**	**3,079**	3,120	**(1.3%)**

Revenue by business segment

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Telstra Consumer				
PSTN products	**1,912**	1,947	(35)	**(1.8%)**
Mobile services revenue	**1,860**	1,715	145	**8.5%**
Total internet	**873**	697	176	**25.3%**
Telstra Business				
PSTN products	**690**	698	(8)	**(1.1%)**
Mobile services revenue	**711**	621	90	**14.5%**
Total internet	**245**	188	57	**30.3%**
Telstra Enterprise and Government				
Mobile services revenue	**400**	333	67	**20.1%**
IP and data access	**576**	527	49	**9.3%**

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

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 by 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 and 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 also recorded centrally in the corporate centre (included in the "other" category).

Segment results are reported according to the internal management reporting structure at reporting date. Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period.

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Further details about the performance of our business segments follows:

Telstra Consumer

Our consumer segment produced solid revenue growth of 3.0% whilst continuing to control variable costs, resulting in an increase of 4.1% in EBIT contribution.

Mobile services revenue (including WBB and data packs) grew strongly by 8.5% driven by the continued migration of customers to 3GSM, which now account for 52.6% of mobile SIOs in the consumer segment, an increase of 7.6 percentage points since 30 June 2008. Fixed telephony revenue declined by 2.6% driven by lower PSTN call volumes.

Internet revenue (including WBB and data packs) grew by 25.3% driven by total broadband revenue growth of 28.3%. Broadband SIOs increased by 20.4% and broadband ARPU by 4.0% on the prior corresponding half.

EBIT contribution growth of 4.1% outpaced revenue growth as consumer expenses were kept under tight control, with total external expenses increasing by only 1.2%. Cost of goods sold decreased by 15.3% driven by lower subsidy rates and volumes. Contributing to the half-on-half decline in subsidy volumes was the high level of CDMA migration activity in the prior corresponding period.

Telstra Business

Telstra Business continues to achieve impressive and cost effective growth, delivering revenue growth of 7.2% and EBIT contribution growth of 7.8%. A strong result was achieved across all major product categories with mobile services revenue (including WBB and data packs) growing by 14.5%, internet (including WBB and data packs) by 30.3%, IP and data access by 27.1% and fixed telephony by 0.7%.

More than 72% of the mobile SIO base are now on the 3GSM network, up from 64.1% at 30 June 2008. Mobile ARPU increased by 1.9% on the prior corresponding half driven by continued growth in data products.

Internet revenue (including WBB and data packs) growth of 30.3% was driven by a 38.5% increase in total broadband SIOs which includes an increase of 95k SIOs since 30 June 2008.

Despite a small decline of 1.1% in PSTN revenue, total fixed telephony revenue grew by 0.7% helped by a strong performance in customer premises equipment (CPE) sales where targeted campaigns resulted in growth of 27.3%.

Total external expenses grew by 5.8% which was below the revenue growth rate. Usage commissions increased by 46.2% as a result of the improved revenue result (particularly within CPE sales) while impairment expenses were also up due to an increase in bad debt write-offs.

Telstra Enterprise and Government

Strong and profitable growth has again been delivered by Telstra Enterprise and Government (E&G). Revenue growth was 3.9% and EBIT contribution growth was 5.4%.

In delivering another excellent result a number of key milestones were achieved during the half including:

- over 40% of mobile SIOs and over 50% of mobile services revenue are now on the 3GSM network; and
- IP access revenue exceeded specialised data revenue for the first time in August.

Mobile services revenue (including WBB and data packs) grew by 20.1% with data revenue now accounting for 46.1% of mobiles services revenue, an increase of 7.9 percentage points from the prior corresponding half.

The Next IP™ network continues to offer our corporate and government customers a premium solution and is the cornerstone behind accelerating IP and data access revenue growth of 9.3%.

Expenses in E&G were contained at a growth rate of just 1.0% assisted by a lower variable cost base as increases in labour and other expenses were mostly offset by a decline in goods and services purchased due to lower volumes within cost of goods sold.

Telstra Wholesale

Our wholesale business continues to suffer from ULL migration while the change to a lower mobile terminating access (MTA) rate in the prior corresponding period significantly contributed to the decline in EBIT contribution.

While ULL uptake is beginning to slow following the peaks experienced in the 2008 financial year, it is still driving the decline in revenue (sales revenue declined by 4.1% and total revenue fell by 4.2%) as the decreases in PSTN and internet revenues are not being fully compensated for by increases in ULL and intercarrier services revenue. Partially offsetting this negative impact on revenue was an increase of $46 million or 153.0% in mobiles interconnection revenue due to the change in MTA rates as discussed below.

Half-year results and operations review - December 2008

Total wholesale external expenses grew by 139.8% driven by the impact of the MTA rate adjustment in the prior period which resulted in an increase of $63 million or 170.3% in carrier network outpayments. On a segment basis, termination costs for certain call types are allocated to the retail segments at an agreed rate meaning that Telstra Wholesale holds the impact of any unexpected changes in the MTA rate. The determination from the Australian Competition and Consumer Commission (ACCC) in the prior corresponding period lead to a difference between the agreed rate (12 cents per minute) and the actual rate (9 cents per minute) which distorted the wholesale segment results in the first half of fiscal 2008.

Telstra Operations

Telstra Operations is primarily a cost centre supporting the revenue generating activities of our other segments. This segment holds the biggest cost base in the company and its negative EBIT contribution has remained flat half-on-half as operational efficiencies continue to be achieved. Reductions in labour, goods and services purchased and impairment expenses were offset by increases in service contracts and other agreements and accommodation.

We continue to streamline our field workforce and call centres as part of our transformation which has contributed to a 3.4% decrease in labour expenses and a significant reduction in staff numbers. In total, Telstra Operations has reduced its workforce by 1,248 full time equivalents (FTE) during the current half and by 1,692 FTE since 31 December 2007. Goods and services purchased fell by 14.4% mainly due to the sale in the prior period of previously leased equipment.

Service contracts and other agreements increased by 5.2% driven by the outsourcing of Telstra Integrated Logistics and additional costs associated with the continuation of the IT transformation as we progress through the migration of customers to our new billing platform. These increases were partially offset by lower installation and maintenance volumes and improvements in productivity. Accommodation costs were up 6.5% due to rent and other rate increases.

Sensis, CSL New World and TelstraClear

Refer to more detailed discussion in the major subsidiaries section beginning on page 36.

Other

Our other segment consists primarily of the corporate centre functions of our business where we recognise the 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.

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Statistical data summary

Billable traffic data (i)

	Half-year ended			Dec 08 vs Dec 07		Dec 08 vs Jun 08	
	Dec 2008	Jun 2008	Dec 2007	Change	**Change**	Change	**Change**
	m	m	m		**%**		**%**
Fixed telephony							
Number of local calls	**2,501**	2,689	2,991	(490)	**(16.4%)**	(188)	**(7.0%)**
National long distance minutes	**3,278**	3,417	3,530	(252)	**(7.1%)**	(139)	**(4.1%)**
Fixed to mobile minutes	**1,675**	1,696	1,714	(39)	**(2.3%)**	(21)	**(1.2%)**
International direct minutes	**278**	275	273	5	**1.8%**	3	**1.1%**
Mobiles							
Mobile voice telephone minutes	**5,570**	5,177	4,919	651	**13.2%**	393	**7.6%**
Number of short messaging service (SMS) sent	**4,353**	3,749	3,224	1,129	**35.0%**	604	**16.1%**

Services in operation (i)

		As at		Dec 08 vs Dec 07		Dec 08 vs Jun 08	
				Change	**Change**	Change	**Change**
	Dec 2008	Jun 2008	Dec 2007		**%**		**%**
Fixed telephony							
Basic access lines in service (in millions)							
Residential	**5.53**	5.56	5.53	-	-	(0.03)	**(0.5%)**
Business	**2.30**	2.31	2.29	0.01	**0.4%**	(0.01)	**(0.4%)**
Total retail customers	**7.83**	7.87	7.82	0.01	**0.1%**	(0.04)	**(0.5%)**
Domestic wholesale	**1.34**	1.50	1.73	(0.39)	**(22.5%)**	(0.16)	**(10.7%)**
Total basic access lines in services (in millions)	**9.17**	9.37	9.55	(0.38)	**(4.0%)**	(0.20)	**(2.1%)**
ISDN access (basic lines equivalents) (in thousands)	**1,284**	1,298	1,288	(4)	**(0.3%)**	(14)	**(1.1%)**
Unbundled local loop SIOs (in thousands)	**615**	527	391	224	**57.3%**	88	**16.7%**
Spectrum sharing services (in thousands)	**501**	436	377	124	**32.9%**	65	**14.9%**
Mobiles							
Mobile services in operation (in thousands)	**9,706**	9,335	9,319	387	**4.2%**	371	**4.0%**
3GSM mobile SIOs (in thousands)	**5,246**	4,352	3,295	1,951	**59.2%**	894	**20.5%**
Total wholesale mobile SIOs (in thousands)	**75**	74	71	4	**5.6%**	1	**1.4%**
Internet							
Broadband SIOs - retail (ii)	**3,737**	3,331	2,916	821	**28.2%**	406	**12.2%**
Broadband SIOs - wholesale	**1,680**	1,708	1,753	(73)	**(4.2%)**	(28)	**(1.6%)**
Total broadband SIOs	**5,417**	5,039	4,669	748	**16.0%**	378	**7.5%**
Narrowband SIOs	**435**	530	595	(160)	**(26.9%)**	(95)	**(17.9%)**
Total online SIOs (in thousands)	**5,852**	5,569	5,264	588	**11.2%**	283	**5.1%**
Total pay TV bundling SIOs (thousands)	**460**	450	426	34	**8.0%**	10	**2.2%**
Employee data							
Domestic full time staff (iii)	**33,191**	33,982	34,236	(1,045)	**(3.1%)**	(791)	**(2.3%)**
Full time staff and equivalents (iii)	**41,540**	42,784	42,308	(768)	**(1.8%)**	(1,244)	**(2.9%)**
Total workforce (iii)	**45,309**	46,649	46,561	(1,252)	**(2.7%)**	(1,340)	**(2.9%)**

(i) Refer to detailed data included in each product section.
(ii) Telstra Internet Direct is now included in retail broadband SIOs.
(iii) Refer to the labour section on page 28 for definitions.

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Revenue

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Fixed telephony				
Basic access	**1,592**	1,657	(65)	**(3.9%)**
Local calls	**328**	388	(60)	**(15.5%)**
PSTN value added services	**135**	134	1	**0.7%**
National long distance calls	**349**	385	(36)	**(9.4%)**
Fixed to mobile	**615**	615	-	**-**
International direct	**90**	92	(2)	**(2.2%)**
Fixed interconnection	**110**	120	(10)	**(8.3%)**
Total PSTN products	**3,219**	3,391	(172)	**(5.1%)**
ISDN products	**483**	495	(12)	**(2.4%)**
Premium calling products	**217**	223	(6)	**(2.7%)**
Payphones	**30**	36	(6)	**(16.7%)**
Customer premises equipment	**161**	162	(1)	**(0.6%)**
Intercarrier access services	**173**	114	59	**51.8%**
Other fixed telephony	**88**	91	(3)	**(3.3%)**
Total fixed telephony	**4,371**	4,512	(141)	**(3.1%)**
Mobiles				
Mobile services - retail and interconnection	**3,050**	2,701	349	**12.9%**
Mobile services - wholesale	**16**	26	(10)	**(38.5%)**
Total mobile services	**3,066**	2,727	339	**12.4%**
Mobile handsets	**387**	459	(72)	**(15.7%)**
Total mobiles	**3,453**	3,186	267	**8.4%**
Internet				
Narrowband	**35**	52	(17)	**(32.7%)**
Retail broadband	**1,204**	917	287	**31.3%**
Wholesale broadband	**253**	278	(25)	**(9.0%)**
VAS and content	**23**	16	7	**43.8%**
Total internet	**1,515**	1,263	252	**20.0%**
IP and data access				
Specialised data	**328**	350	(22)	**(6.3%)**
Global products	**63**	47	16	**34.0%**
IP access	**323**	252	71	**28.2%**
Wholesale internet and data	**156**	137	19	**13.9%**
Total IP and data access	**870**	786	84	**10.7%**
Business services and applications	**490**	519	(29)	**(5.6%)**
Advertising and directories	**1,028**	948	80	**8.4%**
CSL New World	**495**	485	10	**2.1%**
TelstraClear	**275**	287	(12)	**(4.2%)**
Offshore services revenue	**195**	174	21	**12.1%**
Pay TV bundling	**233**	204	29	**14.2%**
Other minor items	**131**	137	(6)	**(4.4%)**
Elimination for wireless broadband	**(412)**	(249)	(163)	**65.5%**
Sales revenue	**12,644**	12,252	392	**3.2%**
Other revenue (i)	**66**	120	(54)	**(45.0%)**
Total revenue	**12,710**	12,372	338	**2.7%**
Other income (ii)	**53**	107	(54)	**(50.5%)**
Total income	**12,763**	12,479	284	**2.3%**

(i) Other revenue primarily consists of distributions from our FOXTEL partnership and rental income.
(ii) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.

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Fixed telephony

- PSTN revenue declined by 5.1% to $3,219 million following on from a decline in the second half of fiscal 2008 of 4.4%
- Retail PSTN revenue declined by 1.8% while wholesale PSTN revenue declined sharply by 23.8% due to losses to ULL
- Total PSTN SIOs declined by 4.0% from the prior corresponding period although retail basic access lines increased by 10k
- PSTN average revenue per user (ARPU) remained relatively stable, declining by only 1.0% to $57.90 per month

Fixed telephony

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
PSTN products	**3,219**	3,391	(172)	**(5.1%)**
ISDN products	**483**	495	(12)	**(2.4%)**
Premium calling products	**217**	223	(6)	**(2.7%)**
Payphones	**30**	36	(6)	**(16.7%)**
Customer premises equipment	**161**	162	(1)	**(0.6%)**
Intercarrier access services	**173**	114	59	**51.8%**
Other fixed telephony	**88**	91	(3)	**(3.3%)**
Total fixed telephony revenue	**4,371**	4,512	(141)	**(3.1%)**

PSTN products

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Basic access:				
- Retail	**1,340**	1,331	9	**0.7%**
- Domestic wholesale	**252**	326	(74)	**(22.7%)**
Total basic access revenue	**1,592**	1,657	(65)	**(3.9%)**
Local calls	**328**	388	(60)	**(15.5%)**
PSTN value added services	**135**	134	1	**0.7%**
National long distance calls	**349**	385	(36)	**(9.4%)**
Fixed to mobile	**615**	615	-	**-**
International direct	**90**	92	(2)	**(2.2%)**
Fixed interconnection	**110**	120	(10)	**(8.3%)**
Total PSTN products revenue	**3,219**	3,391	(172)	**(5.1%)**
PSTN retail versus wholesale revenue				
Retail	**2,831**	2,882	(51)	**(1.8%)**
Wholesale	**388**	509	(121)	**(23.8%)**
Basic access lines in service (in millions)				
Residential	**5.53**	5.53	-	**-**
Business	**2.30**	2.29	0.01	**0.4%**
Total retail	**7.83**	7.82	0.01	**0.1%**
Domestic wholesale	**1.34**	1.73	(0.39)	**(22.5%)**
Total access lines in service	**9.17**	9.55	(0.38)	**(4.0%)**
Average revenue per user per month ($'s)	**57.90**	58.51	(0.61)	**(1.0%)**
Number of local calls (in millions) (i)	**2,501**	2,991	(490)	**(16.4%)**
National long distance minutes (in millions) (i)	**3,278**	3,530	(252)	**(7.1%)**
Fixed to mobile minutes (in millions)	**1,675**	1,714	(39)	**(2.3%)**
International direct minutes (in millions) (i)	**278**	273	5	**1.8%**

Note: statistical data represents management's best estimates.

(i) 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.

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Total PSTN revenue continued to decline during the first half of fiscal 2009, declining by 5.1% on the prior corresponding period to $3,219 million. As seen in the table below, this compares to a 2.1% and a 5.8% decline for the half years ending 31 December 2007 and 31 December 2006 respectively. The decline continues to be driven by the wholesale business (23.8% decline) with only a 1.8% decline in retail revenue in the half, still significantly below the level of retail decline in the December 2006 half. Our PSTN revenues have declined through a combination of lower SIOs and lower usage. However, our PSTN revenue results remain strong relative to our global peer group.

PSTN revenue - % change from the prior corresponding period

	Half-year ended				
	Dec 2008	Jun 2008	Dec 2007	Jun 2007	Dec 2006
Total PSTN	**(5.1%)**	(4.3%)	(2.1%)	(2.9%)	(5.8%)
Retail	**(1.8%)**	(0.6%)	0.3%	(1.7%)	(6.5%)
Wholesale	**(23.8%)**	(23.3%)	(13.7%)	(8.4%)	(2.5%)
Wholesale as a percentage of total PSTN revenue	**12.1%**	13.2%	15.0%	16.5%	17.0%

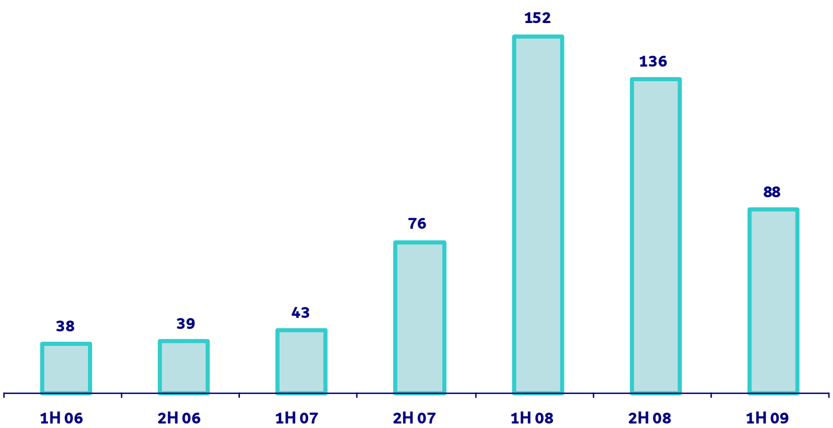
Total PSTN SIOs were down 4.0% against the prior corresponding period or 2.1% since 30 June 2008 (down 200k to 9.17 million lines). However, the decline continues to be driven almost entirely by a reduction in wholesale lines. Of the 200k access lines lost in the first half of fiscal 2009, 160k lines were from the wholesale segment. During this period, wholesale lines declined by 10.7% while retail lines fell by only 0.5%. Similar to the overall revenue performance, total line loss in PSTN remains low compared to our global peer group, which can be attributed to our strong retail performance.

PSTN basic access services in operation

	Half-year ended				
	Dec 2008	Jun 2008	Dec 2007	Jun 2007	Dec 2006
	m	m	m	m	m
Retail	**7.83**	7.87	7.82	7.78	7.74
Wholesale	**1.34**	1.50	1.73	1.98	2.12

The decline in Wholesale SIOs was driven by wholesale customers continuing to migrate their customer bases to their own infrastructure. We have seen a significant increase in ULL SIOs, up by 88k during the first half of fiscal 2009. There has however been a noted slow down in the uptake of ULL, as illustrated in the following graph, despite the low prices in metro Australia.

ULL net additions by half-year ('000s)



The decline in wholesale SIOs was directly reflected in lower period-on-period wholesale basic access revenues.

Overall, we have seen a decline in revenues across all usage categories driven by a combination of lower overall SIOs, but also a declining trend in fixed usage as customers move to other calling options. The most significant declines were revenue reductions in national long distance and local calls of 9.4% and 15.5% respectively. National long distance was driven by a 7.1% reduction in total call minutes whilst local call revenue performance was driven by a 16.4% reduction in calls made from the prior corresponding period. International direct minutes have gone against the trend of lower usage by increasing 1.8% as customers continue to take advantage of cheaper calls and bill certainty offered by subscription plans. This revenue stream does, however, face ongoing competitive pressure from calling cards and growth in the use of email, instant messaging, VoIP and fixed to mobile substitution.

Although total PSTN revenue fell by 5.1%, PSTN ARPU only declined marginally by 1.0% to $57.90 per month.

PSTN revenue is expected to continue to decline going forward, including in the second half of fiscal 2009, with the migration to substitute products such as mobiles and broadband and lower wholesale revenue as competitors continue to migrate to ULL. PSTN revenue, which accounted for 32.2% of total sales revenue in the half-year ended December 2005, has fallen over the last three years to be 25.5% of total sales revenue in the current half.

Half-year results and operations review - December 2008

Other fixed telephony

	Half-year ended 31 December			
	2008 **$m**	2007 $m	Change $m	**Change %**
ISDN products				
Access revenue	**209**	210	(1)	**(0.5%)**
Calls revenue				
- Data calls	**32**	40	(8)	**(20.0%)**
- Voice calls	**104**	113	(9)	**(8.0%)**
- Fixed to mobile	**138**	132	6	**4.5%**
Total calls revenue	**274**	285	(11)	**(3.9%)**
Total ISDN products revenue	**483**	495	(12)	**(2.4%)**
Premium calling products	**217**	223	(6)	**(2.7%)**
Payphones	**30**	36	(6)	**(16.7%)**
Customer premises equipment	**161**	162	(1)	**(0.6%)**
Intercarrier access services (includes ULL)	**173**	114	59	**51.8%**
Other fixed telephony	**88**	91	(3)	**(3.3%)**
Total other fixed telephony revenue	**1,152**	1,121	31	**2.8%**
ISDN average revenue per user per month ($'s)	**62.39**	67.02	(4.63)	**(6.9%)**
ISDN access lines (basic access line equivalents) (in thousands)	**1,284**	1,288	(4)	**(0.3%)**
Unbundled local loop SIOs (in thousands)	**615**	391	224	**57.3%**

Note: statistical data represents management's best estimates.

Despite a decline in ISDN product revenue, continued growth in ULL SIOs and consequently intercarrier access revenue has resulted in a 2.8% increase in other fixed telephony revenue.

Intercarrier access services revenue increased mainly as a result of growth in ULL revenue of $43 million. This is driven by the strong SIO growth from December 2007 with ULL SIOs increasing by 224k to 615k as wholesale customers continue to migrate their customer base to their own infrastructure. The monthly rental price increased in this half by $1.70 from $14.30 to $16.00 following a determination from the ACCC, whilst the prior corresponding period was impacted by a number of regulatory decisions altering pricing and impacting the period-on-period growth rates. Regulated pricing outcomes have seen our ULL rates brought down from $30.00 in 2006 to $14.30 before the increase to $16.00 in 2008. Also contributing to the overall increment in intercarrier access services revenue was facility access revenue, driven by strong demand for TEBA (Telstra Equipment Building Access) and mobile tower access as these other carrier/service providers expand their infrastructure.

ISDN voice and data calls revenue have driven the period-on-period decline in ISDN products revenue mainly due to lower minutes of use and calls made as customers migrate to alternative products and calling methods, which also impacts ARPU. However, the 2.4% decline in ISDN products revenue has slowed from the decline of 4.3% in the half-year ending 31 December 2007 and ISDN basic access lines have only marginally decreased by 0.3% compared with a 1.8% decline in the prior corresponding period.

Premium calling products, payphones and other fixed telephony continue to decline as more customers substitute from mature products such as card services and customnet to cheaper and more convenient products such as mobiles.

Half-year results and operations review - December 2008

Mobiles[1]

- Mobile services revenue growth of 12.4%, an improvement from the full fiscal 2008 growth rate
- Blended ARPU increased 9.9% including a 33.1% growth in total data ARPU
- Wireless broadband customer base now 828k, with continuing strong growth
- Wireless broadband revenue growth continues to be strong, increasing to $318 million
- Prepaid mobile services revenue returned to double digit growth for the first time since the second half of fiscal 2007

Mobiles

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Access fees and call charges	**1,398**	1,364	34	**2.5%**
International roaming	**215**	197	18	**9.1%**
Mobile messagebank	**140**	132	8	**6.1%**
Mobile data				
- Messaging	**437**	356	81	**22.8%**
- Non-messaging	**542**	360	182	**50.6%**
Total mobile data	**979**	716	263	**36.7%**
Total mobile services revenue - retail	**2,732**	2,409	323	**13.4%**
Mobiles interconnection	**318**	292	26	**8.9%**
	3,050	2,701	349	**12.9%**
Mobile services revenue - wholesale resale	**16**	26	(10)	**(38.5%)**
Total mobile services revenue	**3,066**	2,727	339	**12.4%**
Mobile handset sales	**387**	459	(72)	**(15.7%)**
Total mobile revenue	**3,453**	3,186	267	**8.4%**
Mobile services retail postpaid and prepaid revenue				
Postpaid	**2,434**	2,140	294	**13.7%**
Prepaid	**298**	269	29	**10.8%**
Total mobiles retail and wholesale revenue				
Retail	**3,361**	3,130	231	**7.4%**
Wholesale	**92**	56	36	**64.3%**
Postpaid mobile SIOs (thousands)	**6,371**	5,830	541	**9.3%**
Prepaid mobile SIOs (thousands)	**3,335**	3,489	(154)	**(4.4%)**
Total mobile SIOs (thousands)	**9,706**	9,319	387	**4.2%**
3GSM postpaid mobile SIOs (thousands)	**4,362**	3,075	1,287	**41.9%**
3GSM prepaid mobile SIOs (thousands)	**884**	220	664	**301.8%**
3GSM total mobile SIOs (thousands)	**5,246**	3,295	1,951	**59.2%**
Wholesale SIOs (thousands) (included in total SIOs above)	**75**	71	4	**5.6%**
Blended average revenue per user per month (including interconnection) ($'s)	**53.39**	48.59	4.80	**9.9%**
Prepaid average revenue per user per month ($'s)	**15.08**	12.46	2.62	**21.0%**
Postpaid average revenue per user per month ($'s)	**65.12**	62.88	2.24	**3.6%**
3GSM average revenue per user per month ($'s)	**68.64**	74.49	(5.85)	**(7.9%)**
3GSM postpaid average revenue per user per month ($'s)	**76.20**	76.36	(0.16)	**(0.2%)**
2GSM average revenue per user per month ($'s)	**26.65**	30.93	(4.28)	**(13.8%)**
Data average revenue per user per month ($'s)	**17.14**	12.88	4.26	**33.1%**
Number of SMS sent (in millions)	**4,353**	3,224	1,129	**35.0%**
Mobile voice telephone minutes (in millions)	**5,570**	4,919	651	**13.2%**
Deactivation rate	**12.7%**	13.9%		**(1.2)**

Note: statistical data represents management's best estimates.

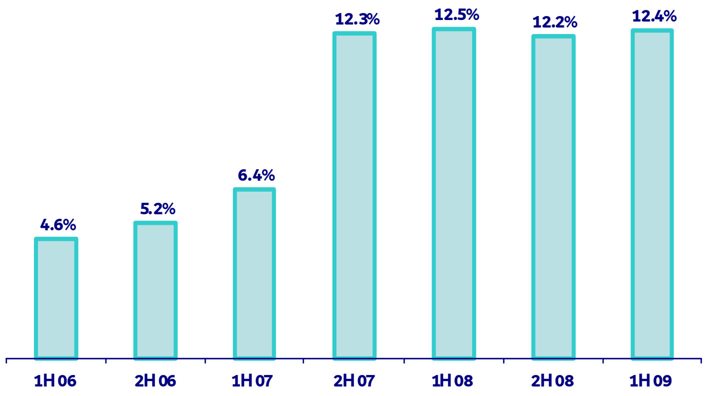
1. *Mobiles revenue includes total revenue from wireless broadband and data packs.*

Half-year results and operations review - December 2008

Our Next G™ 3GSM network continues to set the global standard for both speed and coverage. We now have in excess of 5.2 million 3GSM SIOs and have grown total mobile services revenue by $641 million or 26.4% in the two years since the Next G™ network was launched.

The strength in our mobile business seen in 2008 has continued in the first half of fiscal 2009. In the first half we have achieved mobile services revenue growth of 12.4% to $3,066 million, marginally better than the growth seen in the 2008 year. Growth continues to be seen at increased rates since the introduction of Next G™ services. We estimate that our mobile revenue market share has increased by 1% to 44%. Prepaid mobile services revenue returned to double digit growth for the first time since the second half of fiscal 2007, driven by a 21.0% increase in prepaid ARPU and a 17.6% increase in activations, combined with the introduction of our new prepaid wireless broadband offering this half. Total mobile revenue grew 8.4% to $3,453 million with the lower growth rate due to a 15.7% decline in mobile handset revenue to $387 million. It is important to remember that handset revenue was particularly strong in the first half of fiscal 2008 as we migrated customers from the old CDMA network to Next G™.

Mobile services revenue growth by half-year (versus pcp)

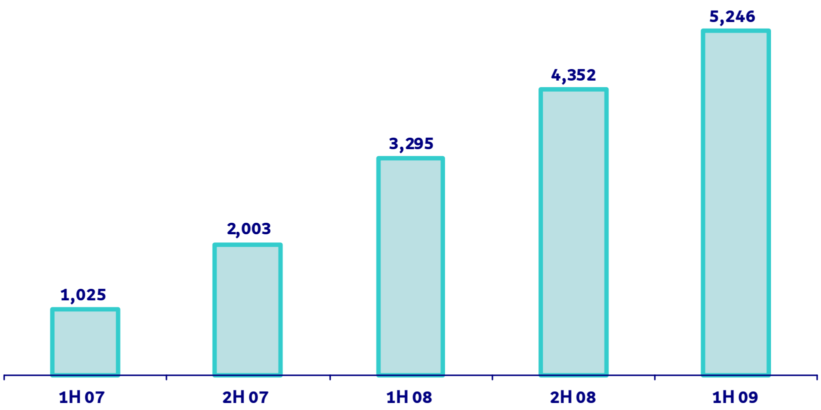


The strength of our mobile business continues to be driven by strong usage. In the first half, outbound mobile voice revenues rose 2.5% to $1,398 million. Despite lower yields, outbound voice ARPU fell just 0.3% in the half which ensured that the strong growth seen in data services is reflected in the overall mobile top line. Data messaging revenue increased by 22.8% in the half to $437 million, with continued growth in SMS usage and penetration. We now have more than five million active SMS users. We continue to experience strong growth in wireless broadband, but are also seeing growth in other handset data usage. Total mobile data ARPU has increased by 33.1% since the prior corresponding period.

In the half, blended mobile ARPU grew almost 10% to $53.39 per month and our total mobile customer base has increased by 4.2% since the same time last year to 9.7 million. Since 30 June 2008 we have added a total of 371k new SIOs, of which 284k were postpaid services.

Our 3GSM SIO base is now in excess of 5.2 million or 54.0% of our total mobile base; with migrating customers continuing to record higher ARPU than 2GSM customers. The 3GSM/2GSM postpaid ARPU premium continues to be in excess of $20. We are now the first operator in the world offering customers 3GSM devices running at peak network download speeds of 21Mbps (average user speeds are lower).

3GSM SIO base (000's)



Wireless broadband (WBB) (defined as data usage equal to and in excess of 300MB) growth continues to be very strong and at the end of December 2008 our WBB SIOs reached 828k. More importantly, our strategy of focussing on high-end customers continues to drive growth, with $318 million of revenue in the first half. Following the launch of prepaid wireless broadband and aggressive price-based competition in the market, we are seeing some dilution of wireless broadband ARPU. However, it remains well above industry average at around $80 per month.

Half-year results and operations review - December 2008

We continue to see strong growth in usage volumes in the half. Voice minutes increased by 13.2% to more than 5.5 billion. Total SMS messages sent increased by 35.0% in the half to 4.4 billion and MMS messages sent increased by 49.0% to 33 million.

We continue to focus on managing the costs in delivering mobile services. In the half, total mobile subscriber acquisition and recontracting costs (SARCs) decreased by 17.3% to $305 million. SARCs as a proportion of mobile services retail revenue continues to fall and were 11.2% this half, a decline of 4.1 percentage points from the prior corresponding half. This is partly due to a change in the mix of our mobile plans which has seen an increase in the proportion of customers on cap plans and mobile repayment options which results in lower handset subsidy expenses.

Across all our retail segments mobile performance continues to be strong. In our consumer segment, mobile services growth actually accelerated in the half to 8.5%, from 5.0% in the second half of fiscal 2008. In our business segment we believe we are continuing to take market share with mobile services growth of 14.5% and in our enterprise and government segment, we have maintained mobile services growth of 20.1% as customers recognise the unique combination of network and services that we offer.

Half-year results and operations review - December 2008

Internet[1]

- Retail broadband revenue grew by 31.3% to $1.2 billion driven by the continued growth in fixed and wireless broadband
- Fixed broadband ARPU grew by 6.1% as customers continue to migrate to higher speed plans
- Wireless broadband revenue continues to grow reaching $318 million as we continue to see strong SIO growth

Internet

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Narrowband	**35**	52	(17)	**(32.7%)**
Retail broadband (i)	**1,204**	917	287	**31.3%**
Wholesale broadband	**253**	278	(25)	**(9.0%)**
VAS and content	**23**	16	7	**43.8%**
Total internet revenue	**1,515**	1,263	252	**20.0%**
Internet retail and wholesale revenue				
Retail	**1,262**	985	277	**28.1%**
Wholesale	**253**	278	(25)	**(9.0%)**
Total broadband SIOs - retail (in thousands) (i)	**3,737**	2,916	821	**28.2%**
Average broadband retail revenue per SIO per month ($'s)	**56.76**	57.03	(0.27)	**(0.5%)**
Average fixed broadband retail revenue per SIO per month ($'s)	**57.32**	54.00	3.32	**6.1%**
Broadband SIOs - wholesale (in thousands)	**1,680**	1,753	(73)	**(4.2%)**
Average broadband wholesale revenue per SIO per month ($'s)	**24.88**	26.33	(1.45)	**(5.5%)**
Spectrum sharing services (in thousands)	**501**	377	124	**32.9%**
Narrowband SIOs - retail (in thousands)	**435**	595	(160)	**(26.9%)**
Average revenue per narrowband SIO per month ($'s)	**12.17**	14.01	(1.84)	**(13.1%)**

Note: statistical data represents management's best estimates.

(i) Telstra Internet Direct (Retail ADSL) revenue and SIOs have been reclassified in both periods from IP and data to retail broadband. Hyperconnect and Symmetrical HDSL are not included in the above.

Despite intense competition our broadband business, BigPond®, continues to be Australia's leading internet service provider. Retail broadband revenue grew by 31.3% to $1,204 million with fixed broadband SIOs increasing by 9.3% to 2.3 million and wireless broadband SIOs (those using laptop cards and data packs with a data allowance of 300MB or more, equivalent to a $29 price point) increasing to 828k.

Fixed broadband revenue grew by 20.4% to $783 million driven by a 195k increase in SIOs from the prior corresponding period and a 43k increase this half. This SIO growth is increasingly weighted to our cable network, with 15k cable broadband net additions in the half. The SIO movement in the current half was also impacted by a one-off clean up of 16k inactive ADSL accounts in October 2008 as we migrated customers to new systems. As the fixed broadband market matures we are beginning to see a slowing in the growth of fixed broadband revenue and SIOs but importantly we continue to grow fixed ARPU.

Our fixed broadband ARPU was up 6.1% on the prior corresponding period to $57.32 as customers continue to migrate across to higher speed broadband plans. The number of fixed high-speed SIOs (20Mbps or greater) has now reached 210k, an increase of 114.6% on the prior corresponding period.

Wireless broadband growth continued with revenue reaching $318 million. The superior speed and coverage of our Next G™ wireless broadband network combined with our strategy of focussing on high-value customers is delivering results. ARPU has however declined following the launch of prepaid wireless broadband and aggressive price-based competition in the market. It is important to remember that retail broadband revenue includes total wireless revenues of $412 million, with the remaining $94 million of revenue relating to browser packs and data usage with a data allowance of less than 300MB. Growth in these low volume data packs continues to be strong.

1. Internet revenue includes total revenue from wireless broadband and data packs.

Half-year results and operations review - December 2008

Internet direct revenue, which is now included in retail broadband, increased by 18.3% due to growth in SIOs as a result of repricing and simplification of the business broadband bundled packages in February 2008.

Wholesale broadband revenue fell by 9.0% to $253 million as wholesale customers continue to migrate their services to ULL offerings.

Our VAS and content revenues continued to grow strongly, up 43.8% to $23 million. Although still only a relatively small revenue stream, this is a major growth area as we continue to evolve into an integrated media communications company. The number of downloads from BigPond® music has increased by 18.2% while the number of customers for BigPond® movies and BigPond® games has increased by 21.0% and 123.6% respectively.

Half-year results and operations review - December 2008

IP and data access

- Growth in IP access continues to greatly exceed declines in specialised data
- Total IP and data access revenue growth accelerated in the half principally due to the increase in IP access revenues, while there were also increases in global products revenue and wholesale revenue

IP and data access

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Specialised data:				
- Frame relay	**98**	110	(12)	**(10.9%)**
- ATM	**34**	35	(1)	**(2.9%)**
- Digital data services	**63**	74	(11)	**(14.9%)**
- Leased lines	**109**	108	1	**0.9%**
- Other specialised data	**24**	23	1	**4.3%**
Total specialised data	**328**	350	(22)	**(6.3%)**
Global products	**63**	47	16	**34.0%**
IP access:				
- IP MAN	**152**	106	46	**43.4%**
- IP WAN	**107**	88	19	**21.6%**
- Symmetrical HDSL	**50**	43	7	**16.3%**
- Other IP access	**14**	15	(1)	**(6.7%)**
Total IP access	**323**	252	71	**28.2%**
Wholesale internet and data	**156**	137	19	**13.9%**
Total IP and data access revenue	**870**	786	84	**10.7%**
Domestic frame access ports (in thousands)	**24**	27	(3)	**(11.1%)**
Hyperconnect retail services in operation (in thousands)	**24**	21	3	**14.3%**
Symmetrical HDSL services in operation (in thousands)	**22**	19	3	**15.8%**
IP MAN services in operation (in thousands)	**15**	12	3	**25.0%**
IP WAN services in operation (in thousands)	**69**	62	7	**11.3%**

Note: statistical data represents management's best estimates.

IP access revenue grew by 28.2% to $323 million, highlighting the success of the Telstra Next IP® network. IP access growth was strong in both the Telstra Enterprise and Government and Telstra Business segments.

IP metro area network (IP MAN) is the largest contributor to the growth of the IP access portfolio with revenues up 43.4% to $152 million. IP MAN takes advantage of the Telstra Next IP® network and together with our Next G™ network, allows us to offer a range of new and integrated solutions to support our converging voice, data and IT infrastructure regardless of what device the customer has or where they are located across our extensive network footprint. Increased demand and bandwidth upgrades from the Government sector have driven growth with both SIOs and ARPU increasing. IP wide area network (IP WAN) revenues increased by 21.6% to $107 million, where bundled services including access and managed routers have grown very strongly, particularly in the small and medium enterprise market space.

Specialised data revenues continue to decline as customers migrate to IP based products. Frame relay and digital data services being the source of much of the migration activity with revenues declining by 10.9% and 14.9% respectively.

Wholesale internet and data grew 13.9% to $156 million. This increase was mainly driven by leased transmission products which increased by 10.2% to $119 million from a continuing demand for backhaul from wholesale customers.

Global products grew by 34.0% to $63 million due to growth in international private lines for both our wholesale and enterprise customers.

Half-year results and operations review - December 2008

Business services and applications

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Managed network services	**199**	190	9	**4.7%**
IT services	**170**	213	(43)	**(20.2%)**
Business applications	**60**	61	(1)	**(1.6%)**
Commercial recoverable and industrial works	**61**	55	6	**10.9%**
Total business services and applications revenue	**490**	519	(29)	**(5.6%)**

The decrease in business services and applications revenue was predominantly as a result of the decline of project related work due to the challenging economic environment, as well as the sale of the eBusiness solutions business in December 2007. These declines were partially offset by an increase of revenue in managed radio and managed WAN.

IT services revenue has declined due to lower desktop management and associated IT project work, delays in product sales until the second half and one off sales recognised in the prior corresponding period.

The growth in managed network services revenues was due to additional project work being undertaken for managed radio infrastructure. In addition, managed WAN revenues also increased, driven by an increase in the number of SIOs. Partially offsetting this growth was a decline in managed voice revenue due to a one off CPE purchase in the prior corresponding period.

Business applications revenue remained steady for the half-year ended 31 December 2008. The sale of the eBusiness solutions business in December 2007 resulted in revenue decreasing by $8 million. Offsetting this was contact solutions increasing by 77.7% to $16 million as a result of major customer acquisitions.

The increase in commercial recoverable and industrial works revenue is primarily due to asset relocations at the request of customers as well as the commencement of new infrastructure projects.

Advertising and directories

Our advertising and directories revenue is predominantly derived from our wholly owned company, Sensis, and its controlled entities. Sensis is Australia's leading information resource. Our information services help Australians find, buy and sell through service offerings including Yellow™, White Pages®, Trading Post[1], Citysearch[2], UBD[3], Gregory's[3] and Whereis®.

Advertising and directories revenue

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Advertising and directories revenue	**1,028**	948	80	**8.4%**

For a detailed description of the performance in this area, please refer to the Sensis financial summary on page 36.

1. *Trade mark of Research Resources Pty Ltd*
2. *Trade mark of Citysearch Australia Pty Ltd*
3. *Trade mark of Publishers Pty Ltd*

Half-year results and operations review - December 2008

Offshore controlled entities

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
CSL New World	**495**	485	10	**2.1%**
TelstraClear	**275**	287	(12)	**(4.2%)**
Other offshore controlled entities	**195**	174	21	**12.1%**
Total offshore controlled entities revenue	**965**	946	19	**2.0%**

For further details regarding the performance in CSL New World (CSLNW) and TelstraClear, please refer to their respective business summaries commencing on page 37.

The increase in revenue in other offshore controlled entities was due to growth in Asia, the USA and Europe. The Asian business continued its sales growth with revenues increasing by $9 million due to strong performances in our Singapore, Hong Kong and Japanese businesses. Revenue in the USA increased by $7 million in the half, driven by a decline in the AUD/USD exchange rate together with exponential growth of the service provider channel and an increase in data revenues. We also experienced growth of $5 million in Europe due to an increase in data and hosting revenues despite the AUD strengthening against the GBP.

Pay TV bundling

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Pay TV bundling revenue	**233**	204	29	**14.2%**
FOXTEL Pay TV bundling SIOs (thousands)	**433**	394	39	**9.9%**
AUSTAR Pay TV bundling SIOs (thousands)	**27**	32	(5)	**(15.6%)**
Total Pay TV bundling SIOs (thousands)	**460**	426	34	**8.0%**
Total FOXTEL Pay TV SIOs (excl wholesale) (thousands)	**1,424**	1,331	93	**7.0%**

Note: statistical data represents management's best estimates.

Successful marketing campaigns have driven the continued growth in FOXTEL pay TV bundling SIOs which increased by 9.9% to 433k. The launch of FOXTEL HD+[1] and FOXTEL iQ2[1] also helped to stimulate interest in pay TV. Revenue grew by 14.2% to $233 million, with FOXTEL bundled revenue growing 16.1% to $220 million. FOXTEL bundled ARPU increased by 2.3% for the half driven by price increases in entry packages, increased penetration of FOXTEL iQ[1] and uptake of higher value platinum packages.

Other revenue

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Distributions received	**50**	100	(50)	**(50.0%)**
Rental income	**16**	20	(4)	**(20.0%)**
Total other revenue	**66**	120	(54)	**(45.0%)**

Distributions received relates to capital distributions from our FOXTEL partnership as the FOXTEL Board operates to a debt to EBITDA ratio.

1. *Trade mark of Twentieth Century Fox Film Corporation*

Half-year results and operations review - December 2008

Other income

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Proceeds from sale of property, plant and equipment	**11**	5	6	**120.0%**
Proceeds from sale of intangibles	**-**	-	-	**-**
Proceeds from sale of businesses	**-**	1	(1)	**n/m**
Proceeds from sale of investments	**-**	55	(55)	**n/m**
Asset and investment sales	**11**	61	(50)	**(82.0%)**
Cost of property, plant & equipment	**9**	7	2	**28.6%**
Cost of investments	**-**	18	(18)	**n/m**
Cost of asset and investment sales	**9**	25	(16)	**(64.0%)**
Net gain on assets/investment sales	**2**	36	(34)	**(94.4%)**
USO levy receipts and subsidies	**33**	33	-	**-**
Miscellaneous income	**18**	38	(20)	**(52.6%)**
Other income	**51**	71	(20)	**(28.2%)**
Total other income	**53**	107	(54)	**(50.5%)**

Our total other income decreased by 50.5% driven by the sale of Telstra eBusiness in December 2007 when we recognised proceeds of $55 million and a net gain on sale of $37 million.

Miscellaneous income has declined primarily due to the receipt of $14 million in the prior corresponding period relating to recovery of costs associated with C7 litigation.

Half-year results and operations review - December 2008

Expenses

Labour

- Achieved our 5 year target of 10,000 to 12,000 FTE reductions ahead of schedule with 10,143 completed since 1 July 2005 (excluding investments and divestments)
- Completed a major simplification of our marketing and management support processes resulting in over 800 staff reductions
- Salary savings expected in the second half following staff reductions in our operations and retail segments

Labour

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Labour	**2,152**	2,092	60	**2.9%**
Domestic full time employees (whole numbers) (i)	**33,191**	34,236	(1,045)	**(3.1%)**
Full time employees and employed equivalents (whole numbers) (ii)	**41,540**	42,308	(768)	**(1.8%)**
Total workforce, including contractors and agency staff (whole numbers) (iii)	**45,309**	46,561	(1,252)	**(2.7%)**
Current half-year reduction in total workforce excluding acquisition/divestment activity (iv)	**(1,359)**			
Reduction in total workforce to June 2008 excluding acquisition/divestment activity against November 2005 announcement (iv)	**(8,784)**			
Total reduction in workforce	**(10,143)**			

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.
(iv) The reduction in total workforce against our 10,000 to 12,000 FTE (full time equivalent) 5 year reduction target excludes the ongoing impacts of SouFun Holdings Ltd and the Chinese entities Norstar Media and Autohome/PCPop, our divestment of Telstra eBusiness Group, our divestment in Australian Administration Services Pty Ltd and the impact of CSL's merger with NewWorld PCS Mobility.

We continue to simplify our business and processes which has driven a decrease in total workforce of 1,252 full time equivalent staff and contractors since December 2007 and a reduction of 1,340 from June 2008. These reductions were primarily within two key areas:

- our Operations segment has reduced its total workforce by 1,248 since June 2008 and by 1,692 since December 2007 as we continue to streamline our field workforce and call centres as part of our transformation together with lower recruitment activity than last half, particularly in our network and service departments.
- as announced in September 2008, we have removed approximately 800 marketing and management support roles across our consumer and small business units as part of our transformation strategy to reduce duplication and improve co-operation between our divisions by utilising our new systems.

Offsetting these reductions were:

- growth in Sensis of 589 domestic staff from December 2007 as part of our increased customer focus on our core Yellow™ and White Pages® sales division which has helped drive up revenue growth in these businesses.
- Sensis has also grown following the acquisition of two new Chinese online businesses at the end of fiscal 2008, namely Norstar Media and Autohome/PCPop. Combined with an expanding footprint in our SouFun business, FTE grew by 1,059 since December 2007, with the vast majority in the second half of fiscal 2008.

Redundancy costs declined by 21.1% to $131 million as a result of the large amount of redundancy activity which took place in the prior corresponding period. This is reflected in the fact that we have successfully achieved, ahead of schedule, our 5 year / 10,000 to 12,000 staff reduction target, with 10,143 reductions since fiscal 2005. The redundancy costs associated with the marketing and

Half-year results and operations review - December 2008

management support simplification program have contributed to the current period labour costs but will be offset by salary savings in the second half of fiscal 2009.

Excluding redundancy costs, our labour costs have increased by 4.9% in the half. Approximately 3% of this growth ($67 million) was driven by the decline in the 10 year government bond rate, which required a revaluation of our long service leave balances and a subsequent increase in labour costs. Offsetting this were lower standard salary costs for domestic full time staff in the parent entity of approximately 2%, driven by the lower staff levels particularly in the operations group. We expect to again see salary savings materialise in the second half following on from the lower operations, marketing and marketing support staff base.

Also contributing to the increase in labour costs were higher costs associated with staff growth in Sensis and higher pension costs driven by curtailment costs due to more employees leaving the defined benefit scheme in the first half of 2009 than expected. Curtailment costs represent the difference between actual vested benefits paid to defined benefit members and the Defined Benefit Obligation (DBO). We are beginning to see savings in other areas, with agency and overtime costs down 24.9% and 9.6% respectively due to call centre rationalisation and IT enhancements improving productivity.

During the half-year ended 31 December 2008 we recommenced making cash contributions to the Telstra Superannuation Scheme (Telstra Super) as the funding deed specifies that contributions must be made if the average vested benefits index (VBI) falls below 103% in any calendar quarter. Contributions of $43 million were paid to Telstra Super up to 31 December 2008. The average VBI for the December quarter was 91%. At this level we expect to make a further $239 million of contributions in the second half of fiscal 2009, taking the total amount of contributions for the full year to $282 million. It should be noted that the cash contributions paid do not impact the defined benefit expense recognised and only impact the asset or liability recognised in the statement of financial position and the company's free cash flow.

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Goods and services purchased

- Overall decline of 1.6% despite a 3.2% growth in sales revenue
- The blended average SARC rate decreased by $21 (or 13.5%) during the half-year to $135
- 22.0% increase in service fees supporting growth in Pay TV bundling revenue

Goods and services purchased

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Cost of goods sold - handset subsidies (postpaid)	**269**	334	(65)	**(19.5%)**
Cost of goods sold - other	**649**	745	(96)	**(12.9%)**
Usage commissions	**165**	140	25	**17.9%**
Network payments	**976**	937	39	**4.2%**
Service fees	**255**	209	46	**22.0%**
Managed services	**101**	95	6	**6.3%**
Dealer performance commissions	**63**	65	(2)	**(3.1%)**
Paper purchases and printing	**63**	63	-	**-**
Other	**91**	88	3	**3.4%**
Total goods and services purchased	**2,632**	2,676	(44)	**(1.6%)**
Retail domestic subscriber acquisition and recontracting costs (SARC) (i)	**305**	369	(64)	**(17.3%)**

(i) Domestic subscriber acquisition and recontract costs include $241 million of domestic handset subsidy costs (Dec 2007: $302 million) and other go to market costs included within cost of goods sold-other and other goods and services purchased.

The current half-year saw a decline in the overall goods and services purchased by 1.6% to $2,632 million. Significantly driving the expenses down this half was total cost of goods sold, which declined by 14.9% to $918 million. This was, however, offset by higher costs totalling $110 million in service fees, network payments and usage commissions.

Cost of goods sold - handset subsidies declined by 19.5% to $269 million almost entirely driven by a decline in retail handset subsidies. This was partly offset by a 7.0% increase in CSLNW handset subsidies to $54 million.

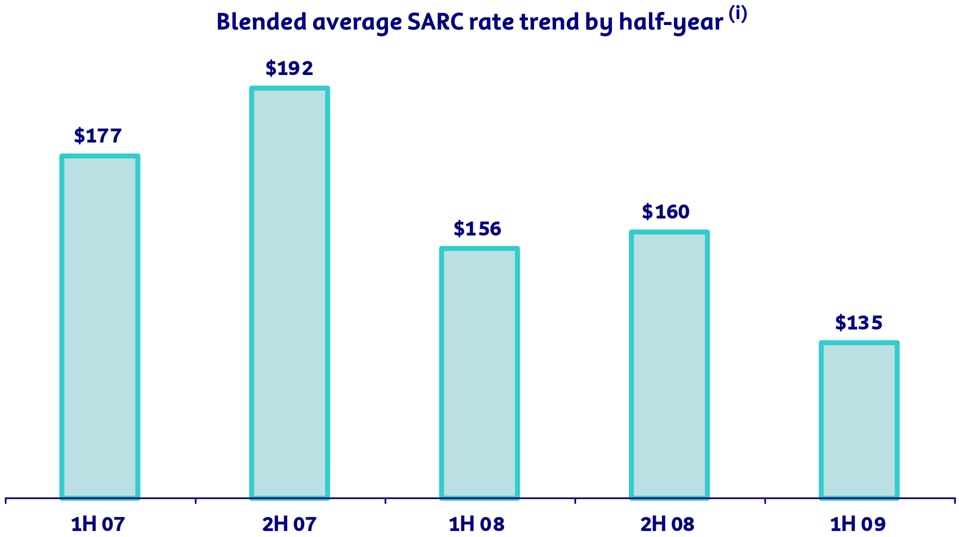
The decline in our domestic postpaid handset subsidies was driven by lower subsidised volumes. 713k handsets were subsidised in the first half of fiscal 2008 (due to increased CDMA migration activity) compared with 538k this half-year, a 24.5% reduction. Partially offsetting this was the increase in the average handset rate by 2.1% to $393 per unit. The increased rate reflects the impacts of recently introduced PDAs including the iPhone[1], HTC Diamond and Blackberry Bold[2] which have higher costs per unit.

The other cost of goods sold category declined by 12.9% mainly driven by lower handset volumes compared to the prior corresponding period when handset volumes were elevated by the closure of the CDMA networks. Also contributing to this decline were one-off activities that took place in the previous half-year that did not occur in the current half-year (including costs related to the sale of lease assets and sales to KAZ's major customers).

Retail domestic SARC, represented by our handset subsidy expenses and other go to market costs, decreased by 17.3% to $305 million. The average blended SARC rate decreased by $21 (or 13.5%) from $156 in December 2007 to $135 in December 2008 (as shown in the following chart) reflecting lower subsidised volumes with a change in the mix of mobile plans with a higher proportion of customers on cap plans and mobile repayment options.

1. *Trade mark of Apple Inc.*
2. *Trade mark of Research in Motion Limited*

Half-year results and operations review - December 2008



(i) Prior period SARC rates have been restated due to a change in the definition of SARC volumes.

Network payments increased by 4.2% to $976 million largely due to:

- terminal outpayments to REACH for international capacity and termination costs increased by $29 million to $122 million as a result of unfavourable exchange rate movements and minor increases in underlying charges; and
- carrier network payments have grown by $24 million to $385 million mainly as a result of an increase in mobile voice terminating minutes and SMS volumes terminating on other carrier's networks. Average MTA rates in the current half have remained stable; offset by
- a reduction in offshore outpayments of $19 million in the half-year ending 31 December 2008 mainly due to the termination of a mobile agency agreement previously in place for TelstraClear in addition to favourable foreign exchange rate movements.

The strong revenue performance of our subscription television services is reflected in higher services fees increasing by 22.0% to $255 million from the prior corresponding period. The service fees consist of payments made to FOXTEL and AUSTAR[1] for the bundling and sale of pay TV services but we have also seen increased payments to other vendors for supplying content such as news, sports and maps to be used on mobile phones, which are also reflected in service fees. Pay TV service fees increased by $29 million due to an increase in bundled pay TV SIOs of 34k together with general price increases. Payments to vendors for mobile content supply went up by $11 million.

Usage commissions have increased by 17.9% to $165 million predominately due to higher commissions on fixed line services including ADSL, ISDN and broadband, higher postpaid mobile usage commissions, and commissions associated with the sale, maintenance and installation of CPE in the Telstra Business Systems business.

1. Trade mark of Austar Entertainment Pty Ltd

Half-year results and operations review - December 2008

Other expenses

- Service contracts and other agreements rose by 6.8% but have reduced in comparison with the second half of fiscal 2008
- Service contracts in particular grew by 7.9% as we completed migrating our consumer customers onto the new billing systems

Other expenses

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Property, motor vehicle and IT rental expense	**311**	309	2	**0.6%**
Net foreign currency conversion losses / (gains)	**18**	(8)	26	**n/m**
Service contracts and other agreements	**1,170**	1,095	75	**6.8%**
Promotion and advertising	**219**	224	(5)	**(2.2%)**
General and administration	**530**	506	24	**4.7%**
Other operating expenses	**236**	245	(9)	**(3.7%)**
Impairment and diminution expenses	**160**	168	(8)	**(4.8%)**
Total other expenses	**2,644**	2,539	105	**4.1%**

Other expenses increased mainly due to service contracts and other agreements, net foreign currency conversion losses and general and administration costs.

Service contracts and other agreements were driven higher as service contracts grew by 7.9% to $833 million. This is mainly due to increased volumes of inbound call traffic associated with customer migration activity to new billing platforms and additional costs associated with the outsourcing of our logistics activities. Labour substitution costs in service contracts are expected to slow in the next half of fiscal 2009 as the impacts from customer migration ease. In addition, IT professional services increased by 4.1% to $265 million with most of the increase driven by production support and maintenance costs as further releases have been deployed within our customer care and billing, and operating support systems program of work.

Net foreign currency conversion losses increased as a result of the significant fall in the Australian Dollar in the half-year ended 31 December 2008 which impacted the unhedged exposure associated with the timing of invoice receipts and payments.

General and administration expenses increased by 4.7% to $530 million primarily due to:

- higher accommodation costs due to mobile site certification activities beginning in the second half of fiscal 2008 and continuing into the current half, as well as additional property remediation costs in the half; and
- higher IT costs due to additional software maintenance to support the new systems as part of the IT Transformation; partly offset by
- lower legal costs following the settlement of a number of significant cases including finalisation of a shareholder class action in the half-year ended 31 December 2007.

Also contributing to the total increase in other expenses are higher rental charges on our properties due to rate increases, however this is mostly offset by lower IT rental expense as we purchased, rather than leased, a number of new servers.

Decreases in other operating expenses include the impact of a fringe benefit tax refund for the 2008 return, lower repairs and maintenance relating to the CSLNW mobile network as we focus on construction of new network assets, and lower motor vehicle costs due to a fewer number of motor vehicles as a result of improved fleet efficiency.

Impairment and diminution expenses also decreased, driven by:

- lower inventory write downs relating to fewer handsets returned by customers, lower surplus handset stock resulting from improved forecasting of demand and mix of handsets purchased; partly offset by
- increased other impairment due to higher retirements of DC power equipment from our communication asset base and general purpose buildings resulting from early termination of leases; and
- bad and doubtful debts were up 5.5% to $124 million due to a deterioration in the overall debt portfolio influenced by declining economic conditions. Provisions and write offs increased as a result of higher insolvency, ageing debt and delinquency levels.

Promotion and advertising expenditure also decreased mainly due to lower spend in broadband ADSL and wireless in addition to delays in various campaigns which are now expected to occur in the second half. However, promotion and advertising expenditure increased in areas such as customer segments, pre-paid products and Yellow™ and White Pages®.

Half-year results and operations review - December 2008

Share of net loss from jointly controlled and associated entities

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Share of net loss from jointly controlled and associated entities	**1**	-	1	**n/m**

Our share of net loss from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments. We have not had any significant losses/(gains) during the reported period.

In respect to FOXTEL, REACH and Australia-Japan Cable, as the carrying value of our investments in each has been written down to nil, any share of losses/(gains) 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. At 31 December 2008, the FOXTEL carried forward losses amounted to $145 million compared to $135 million at June 2008. The increase in the half-year is mainly due to a $50 million distribution received, partially offset by our share of FOXTEL's profit which amounted to $37 million.

Depreciation and amortisation

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Depreciation	**1,837**	1,698	139	**8.2%**
Amortisation	**418**	354	64	**18.1%**
Total depreciation and amortisation	**2,255**	2,052	203	**9.9%**

Depreciation expense increased by 8.2% to $1,837 million driven mainly by higher depreciation on communications assets and other plant and equipment.

Depreciation on communications assets increased by $95 million as accelerated depreciation on CSLNW's existing 3GSM and 2GSM networks continued in the half-year ending 31 December 2008 with $103 million recognised in the period as a result of investment in new network technologies. The accelerated depreciation is expected to continue into the second half of fiscal 2009.

Depreciation on other plant and equipment increased by $28 million mainly due to higher asset additions including new servers and data storage units to support growth in our BigPond® business.

The 18.1% increase in amortisation is mainly due to an increase in software amortisation driven by the IT transformation roll out and higher capitalised software in Sensis due to increased transformation and project related activity in recent years.

Half-year results and operations review - December 2008

Net finance costs

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Borrowing costs	**664**	601	63	**10.5%**
Finance leases	**5**	6	(1)	**(16.7%)**
Unwinding of discount on liabilities recognised at present value	**12**	12	-	**-**
Gain on fair value hedges - effective	**(146)**	(80)	(66)	**82.5%**
Gain on cash flow hedges - ineffective	**(6)**	(5)	(1)	**20.0%**
Gain on transactions not in a designated hedge relationship	**(63)**	-	(63)	**n/m**
Gain on transactions de-designated from fair value hedge relationships	**(33)**	(10)	(23)	**230.0%**
Other	**7**	6	1	**16.7%**
Finance costs	**440**	530	(90)	**(17.0%)**
Finance income	**(37)**	(30)	(7)	**23.3%**
Net finance costs	**403**	500	(97)	**(19.4%)**

Market conditions over the past 12 months increased our net interest expense on interest bearing debt by $55 million, due to an increase in our net interest bearing debt levels and higher re-financing yields driven by increasing credit margins. We have completed a number of long term borrowings during the period which contributed to the increase in the amount of debt over the period. The term borrowings have enabled our refinancing situation to be sound and our net unsecured promissory notes to be contained principally to support working capital and short term liquidity, as well as hedging offshore investments. We have no further long term debt maturities to finance until March 2010.

Whilst market base interest rates have fallen, increasing credit margins have resulted in higher absolute interest yields on new debt raisings undertaken during the period. The significant deterioration in global economic conditions in the first half of fiscal 2009 has resulted in the de-leveraging of financial institutions and, as a consequence, market borrowing margins have significantly increased during the period. The increase in yields has been constrained to some extent from lower costs on the floating rate debt component of our debt portfolio. However, the full impact of reductions in market base interest rates has not been fully reflected during the period but will flow through as the remaining rate resets occur in the second half of fiscal 2009.

The increase in borrowing costs was more than offset by net unrealised gains on hedge accounting and on financial instruments either not designated in or de-designated from a hedge relationship as explained below.

We use cross currency interest rate swaps as fair value hedges to convert our foreign currency borrowings into Australian dollar floating rate borrowings. The $146 million gain represents the fair value movements of the Australian dollar floating rate position and is due to the following factors:

- an increase in long term borrowing margins;
- a reduction in the number of future interest payments as we approach maturity of the financial instrument;
- a reduction in base market rates; and
- discount factor unwinding as the time to maturity shortens.

It should be noted that this gain will not be realised as we hold our borrowings and associated derivatives to maturity and the gain will wind out over time to nil on maturity, when the fair value of the borrowing will equal the face value.

There is also $96 million in gains recorded in the current half 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. Offshore loans denominated in Euro were de-designated during the second half of fiscal 2008 and a Euro borrowing was issued during the same period which is not in a designated hedge relationship for hedge accounting purposes. The net $96 million gain recorded is mainly attributed to the following factors:

- valuation impacts described above for fair value hedges; and
- the different measurement bases of the borrowings that are not in a hedge relationship or have been de-designated from a hedge relationship (amortised cost) and the associated derivatives (fair value), resulting in some disparity attributable to the discounting impact of future cash flows in the derivatives.

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Income tax expense and franking account

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Income tax expense	**755**	678	77	**11.4%**
Effective tax rate	**28.2%**	**25.9%**		**2.3**

Income tax expense increased by 11.4% to $755 million while profit before income tax increased by 2.1% to $2,676 million.

The effective tax rate in the current half-year is 28.2% which is 1.8% lower than the Australian company tax rate of 30.0%, largely as a result of the following tax effect adjustments:

- correction of prior period income tax expense with an income tax reduction of $29 million;
- a non assessable capital distribution from our FOXTEL partnership, resulting in a tax reduction of $15 million;
- a research and development 25% uplift deduction, amounting to a tax benefit of $8 million;
- utilisation of carry forward tax losses (unbooked), amounting to a tax benefit of $5 million;
- effect of different tax rates on overseas income, amounting to a tax benefit of $5 million;
- our estimated share of the taxable income from our FOXTEL partnership, increasing tax expense by $11 million; and
- non deductible accounting amortisation of Employee Share Plan expense, increasing tax expense by $5 million.

During the current half-year, we have paid a total of $871 million of tax instalments relating to the last quarter of fiscal 2008 and the first quarter of fiscal 2009. $834 million in franking credits are attached to the tax instalments and franking credits of $747 million were used when we paid our final 2008 ordinary dividend during the current half-year. At the end of December 2008 our franking account balance was $157 million. In addition, our exempting account balance was $24 million, however there are statutory restrictions placed on the distribution of credits from this account. Consequently, it is unlikely that we will be able to distribute our exempting credits. There will be sufficient franking credits to fully frank the interim dividend of 14 cents per share.

Half-year results and operations review - December 2008

Major subsidiaries - financial summaries

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

Sensis financial summary

Sensis is Telstra's advertising subsidiary and Australia's leading information resource. Our information services help Australians find, buy and sell through service offerings including Yellow™, White Pages®, Trading Post, Citysearch, UBD, Gregory's and Whereis®. Sensis also manages the group's advertising assets in China through our interests in SouFun and the two Chinese internet businesses purchased in June 2008, Norstar Media and Autohome/PCPop. These acquisitions give Sensis leading positions in the fast-growing online auto and digital device advertising sectors.

Sensis financial summary

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Total income	**1,034**	953	81	**8.5%**
Operating expenses (excl. depreciation and amortisation)	**569**	492	77	**15.7%**
EBITDA contribution	**465**	461	4	**0.9%**
Depreciation and amortisation	**86**	71	15	**21.1%**
EBIT contribution	**379**	390	(11)	**(2.8%)**
Capital expenditure	**113**	97	16	**16.5%**
EBITDA margin on sales revenue	**45.0%**	48.3%		(3.3)

Amounts included for Sensis represent the contribution included in Telstra's consolidated result.

Sensis total income is split into the following categories:

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
- Yellow™ revenue	**560**	543	17	**3.1%**
- White Pages® revenue	**184**	161	23	**14.3%**
- Classified revenue	**47**	56	(9)	**(16.1%)**
- Emerging business	**71**	80	(9)	**(11.3%)**
- Chinese online businesses (i)	**101**	43	58	**134.9%**
- Voice	**65**	65	-	**0.0%**
Total advertising and directories	**1,028**	948	80	**8.4%**
Other	**6**	6	-	**0.0%**
Total Sensis sales revenue	**1,034**	954	80	**8.4%**
Other income	**-**	(1)	1	**n/m**
Sensis total income	**1,034**	953	81	**8.5%**

(i) The Chinese online business results are from unaudited management accounts converted from local currency into Australian Dollars. The half-year ended 31 December 2008 includes 6 months of revenue for Norstar Media and Autohome/PCPop which were acquired in June 2008, with no corresponding revenue in the half-year ended 31 December 2007. SouFun is included in both periods.

The success of our unique value proposition and continued investment in usage and advertiser ROI has been demonstrated in the half-year ending 31 December 2008 with 8.5% total income growth. Included in our above sales revenue numbers are 5.9% directories growth including 11.6% growth in White Pages® print directories and the continued growth in our Yellow™ print directories of 0.4%. Both sites have experienced growth with Yellow™ online achieving strong yield growth as well.

Our Chinese online businesses are maximising China's strong economic performance leveraging an online audience of more than 60 million unique visitors undertaking an average of 1.4 billion page views each month. SouFun has expanded its operations to 100 cities in China, cementing its leading market position resulting in revenue growth in USD of 53.7% and EBITDA growth of 74.4%. The remaining half-on-half growth is related to Norstar Media and Autohome/PCPop.

Classifieds revenue has declined by 16.1% for the half-year largely as a result of tough economic conditions particularly impacting auto classifieds, together with continuing competitive factors in the market.

Half-year results and operations review - December 2008

Sensis operating expenses (before depreciation and amortisation) grew by 15.7% to $569 million due to the following:

- the acquisition in June 2008 of the Norstar Media and Autohome/PCPop contributed $20 million in the 2008 half-year with no expenses in the prior year;
- growth in labour expenses of 26.1% (including the 2 new Chinese businesses staff), due to an increase in wages and salaries from additional staff as part of the core business investment strategy; and
- an increase in Information technology costs due to investment in IT transformation projects and maintaining the expanding domestic business IT infrastructure;

In the half-year ending 31 December 2008, depreciation and amortisation also grew by $15 million to $86 million in line with increased capital expenditure associated with the rebuilding of IT systems as part of the transformation strategy in recent years.

Capex has increased by $16 million due to investments in systems and process transformation.

CSL New World financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2008	2007	**Change**	**2008**	2007	**Change**
	A$m	A$m	%	**HK$m**	HK$m	%
Total income	**495**	485	**2.1%**	**2,976**	3,280	**(9.3%)**
Operating expenses (excl. depreciation & amortisation)	**367**	354	**3.7%**	**2,187**	2,396	**(8.7%)**
EBITDA contribution	**128**	131	**(2.3%)**	**789**	884	**(10.7%)**
Depreciation and amortisation	**195**	87	**124.1%**	**1,034**	486	**112.8%**
EBIT contribution	**(67)**	44	**(252.3%)**	**(245)**	398	**(161.6%)**
Capital expenditure	**64**	23	**178.3%**	**348**	159	**118.9%**
EBITDA margin on sales revenue	**25.9%**	27.0%	**(1.1)**	**26.5%**	27.0%	**(0.5)**

Note: 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 consolidation fair value adjustments and an alignment of accounting policy for pension assets from a corridor approach to a full recognition approach to be consistent with Telstra policy. EBITDA margin differences arise from monthly average rates used for conversion from HK$ to A$.

EBITDA has declined by 10.7% in HK$ for the half-year ending 31 December 2008 compared to the half-year ended 31 December 2007. This was predominantly driven by a decline in handset sales and lower voice revenues. The EBIT decline was driven by accelerated depreciation on the existing networks, following the company's decision to invest in new network technologies. This resulted in an increase to depreciation and amortisation expenses of HK$548 million.

The revenue decline has predominantly been affected by lower handset sales volumes following a significant slow down in consumer spending in the 1st half of the year. Additionally, CSLNW has experienced lower local voice revenue, lower outbound roaming voice revenue and prepaid revenue. Outbound roaming voice revenue has been impacted particularly by the global economic climate and the reduction in travel out of Hong Kong.

Partially offsetting these declines has been rising data revenues and mobile virtual network operator (MVNO) revenue for the current half compared to the half-year ending 31 December 2007.

Operating expenses excluding depreciation and amortisation declined mainly due to lower cost of handsets sold in line with declining sales revenue as well as lower international disbursements due to lower traffic volumes. This has been partially offset by higher data disbursement and MVNO-related disbursement in line with the revenue in those categories. Other expenses declined due to lower repairs and maintenance on the old network whilst the new network is being built and lower labour costs through improving staff productivity, which consequently facilitated a reduction to head count.

Depreciation and amortisation has increased, as explained above, due to an acceleration in the phasing out of the old network and the build out of a new network. This acceleration is expected to continue into the second half of fiscal 2009.

The half-on-half change in the HK$/AU$ exchange rate resulted in an increase in consolidated revenue of A$55 million which was offset by an increase in expenses (including depreciation and amortisation) of A$58 million.

The increase in capital expenditure was predominantly driven by the investment in new network technologies.

Half-year results and operations review - December 2008

TelstraClear financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2008	2007	**Change**	**2008**	2007	**Change**
	A$m	A$m	%	**NZ$m**	NZ$m	%
Total income	**275**	287	**(4.2%)**	**331**	331	**0.0%**
Operating expenses (excl. depreciation & amortisation)	**225**	233	**(3.4%)**	**270**	269	**0.4%**
EBITDA contribution	**50**	54	**(7.4%)**	**61**	62	**(1.6%)**
Depreciation and amortisation.	**61**	66	**(7.6%)**	**70**	72	**(2.8%)**
EBIT contribution	**(11)**	(12)	**8.3%**	**(9)**	(10)	**10.0%**
Capital expenditure	**39**	38	**2.6%**	**47**	44	**6.8%**
EBITDA margin on sales revenue	**18.2%**	18.8%	**(0.6)**	**18.4%**	18.7%	**(0.3)**

Note: 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 2008, revenue in New Zealand has remained flat in an economic environment which sees the New Zealand economy facing the challenge of negative GDP for the last three quarters and a continuing rise in unemployment.

This tightening in the Business markets has been offset by Consumer services provided on the Hybrid Fibre Coaxial (HFC) Cable Network in Wellington and Christchurch, which achieved period-on-period revenue growth of 15%. Broadband penetration continues to grow with 67% of the customer base now enabled.

Operating expenses (excluding depreciation and amortisation) increased by 0.4% as a result of promotion and advertising to drive momentum in brand awareness and customer preference with extensive television, sponsorship and other media campaigns. Partially offsetting these increases in expenses were lower network payments with the focus on profitable customer growth.

Depreciation and amortisation reduced following a lower level of capex spend in recent years, together with a change in the mix of assets acquired.

TelstraClear also supports our trans-Tasman revenue generating activities which are not directly reflected in the consolidated view shown above.

The movement in the NZ$ exchange rate had minimal impact on EBIT for the half-year ending 31 December 2008 compared to the half-year ending 31 December 2007.

Capex has increased by 6.8% due to the investment in two major projects, namely the upgrade of the billing platform and the implementation of access via Unbundled Local Loop in which TelstraClear will be the country's biggest participant.

Half-year results and operations review - December 2008

Statement of financial position

- Successfully executed a number of long term borrowing and refinancing initiatives despite difficult global capital markets
- Balance sheet settings remain strong in current economic climate

Statement of financial position

	As at			
	31 Dec 08 $m	30 Jun 08 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**914**	899	15	**1.7%**
Other current assets	**5,025**	4,614	411	**8.9%**
Total current assets	**5,939**	5,513	426	**7.7%**
Non current assets				
Property, plant and equipment	**23,961**	24,311	(350)	**(1.4%)**
Intangible assets	**8,250**	7,245	1,005	**13.9%**
Other non current assets	**2,715**	852	1,863	**218.7%**
Total non current assets	**34,926**	32,408	2,518	**7.8%**
Total assets	**40,865**	37,921	2,944	**7.8%**
Current liabilities				
Borrowings	**1,271**	2,055	(784)	**(38.2%)**
Other current liabilities	**5,763**	6,068	(305)	**(5.0%)**
Total current liabilities	**7,034**	8,123	(1,089)	**(13.4%)**
Non current liabilities				
Borrowings	**17,559**	13,444	4,115	**30.6%**
Other non current liabilities	**4,527**	4,109	418	**10.2%**
Total non current liabilities	**22,086**	17,553	4,533	**25.8%**
Total liabilities	**29,120**	25,676	3,444	**13.4%**
Net assets	**11,745**	12,245	(500)	**(4.1%)**
Equity				
Equity available to Telstra entity shareholders	**11,456**	12,017	(561)	**(4.7%)**
Minority interests	**289**	228	61	**26.8%**
Total equity	**11,745**	12,245	(500)	**(4.1%)**

Given the current volatility of the economy, our balance sheet remains in a healthy state with net assets of $11,745 million. Due to the tightening of the credit markets and the lack of liquidity in the short term markets, we made the decision to reduce our level of reliance on unsecured promissory notes for debt funding and specifically to replace unsecured promissory notes with term debt for all core funding. During the period, we replaced the majority of our short term funding with long term funding totalling $1,342 million as follows:

- $434 million 3 year domestic syndicated loan;
- $347 million 7.5 year Japanese Yen borrowing;
- $271 million 5 year Swiss Franc bond;
- $244 million 2 year Euro bond; and
- $46 million 6 year New Zealand bond issue.

Additionally, we executed a $846 million 3 year Australian Dollar syndicated loan facility which we fully drew down in January 2009.

These term borrowings, which total $2,188 million, have enabled our refinancing situation to be sound and our net unsecured promissory notes to be contained principally to support working capital and short term liquidity as well as hedging offshore investments. In response to the market conditions over the past six months we also put in place additional cash standby facilities of $1.5b for the three months to 31 December 2008. These standby facilities provided additional backing for our unsecured promissory notes over that period. We have no further long term debt maturities to refinance until March 2010 and subsequent to the expiry of our additional standby lines at 31 December 2008, our short term unsecured promissory notes will continue to be supported by our liquid assets and ongoing credit standby lines.

Half-year results and operations review - December 2008

Our net assets declined by 4.1% this half. However, our working capital (current asset to current liability) ratio has improved by 16.6 points to 0.84 times as a result of the shift from short term to long term borrowings. Other major balance sheet movements included:

- other current assets grew by 8.9% mainly due to a 7.9% increase since June 2008 in our trade and other receivables. This half saw a general deterioration in delinquency rates of our aged debt which in turn has caused an increase of approximately 3 days in our debtor turnover ratio. The deterioration in aged debt is associated with the slowing of the economy and increased volumes of in-bound calls to be managed which impacted our outbound calling capacity. This is being managed into the second half and is expected to reduce by June 2009;
- the net book value (NBV) of property, plant and equipment declined for the second consecutive half due to depreciation expense growth on our communications assets of 6.2% exceeding the 2.8% growth in the asset base since June 2008.
  - depreciation was impacted again this half by the continued accelerated depreciation on CSLNW's mobile network assets as we invest in new network technologies and the depreciation associated with our transformation program asset built out in recent years.
  - communications plant asset growth was mainly generated by our continued investments in building out our mobile 3G850MHz base station footprint across Australia, the commissioning into operation stage of our Sydney-Hawaii submarine transmission cable in November 2008, and the continued build of the new CSLNW mobile network due to be completed in 2009.
- intangible assets increased by 13.9% this period due to two key factors:
  - goodwill rose by $597 million, of which $559 million was foreign exchange related. Our goodwill also increased from Sensis' recent Chinese acquisitions, due to an increase in the estimate of deferred contingent consideration payable since its purchase in June 2008.
  - software intangibles rose by $372 million via our investments in IT transformation billing related systems.
- other non-current assets saw a significant increase primarily due to the $1,947 million rise in the value of our non-current cross currency swap hedge receivables. These are used to hedge our foreign currency borrowings and were significantly impacted by the fall in the Australian Dollar exchange rate and interest rate movements this half. This gain on derivatives was offset by revaluation losses on our offshore borrowings and commercial paper.
- total current and non-current borrowings, excluding derivatives, increased by $3,331 million which contributed to the increase in gross debt of $1,157 million. Offsetting this increase included a reduction in our net derivative liability position of $2,184 million which is included within other assets and other liabilities. Of this total increase, $681 million was due to revaluations which includes our hedging transactions converting offshore borrowings to Australian Dollar equivalents. This revaluation movement comprises:
  - $907 million (pre-tax) taken to equity (cash flow hedge reserve of $649 million and foreign currency translation reserve $258 million); offset by
  - $216 million taken to profit and loss; and
  - $10 million taken to plant and equipment.
- the remaining $475 million increase in gross debt was due to the net cash movements from new long term borrowings of $1,342 million offset by a decrease in unsecured promissory notes of $344 million and maturities of domestic and offshore borrowings of $523 million.
- our net debt position at 31 December 2008 was $16,388 million which represents an increase during the half of $1,146 million. These funds have been used for refinancing our borrowings as well as use in our capital and operational spending associated with our transformation program. The increase in net debt, which is line with our plan and reflects the cash flow profile for the first half of fiscal 2009, has contributed to an increase in our gearing ratio from 55.5% as at 30 June 2008 to 58.3% as at 31 December 2008.
- other non-current liabilities were also impacted by the turnaround of our defined benefit pension asset from a $182 million asset at June 2008 to a defined benefit liability of $1,169 million due to:
  - an actuarial loss of $1,272 million of which $758 million was caused by the significant decrease in the discount rate used to measure the obligations. Also contributing was the $314 million decline in the value of the assets held by the superannuation plans as a result of the current financial crisis causing lower asset returns; and
  - a $181 million increase in the adjustment for contributions tax payable.

Half-year results and operations review - December 2008

- deferred tax non-current liabilities decreased by 45.7% to $855 million of which the majority relates to the Telstra Tax Consolidated Group. Factors causing this decrease included:
  - a movement in temporary differences for the defined benefit liability recognised including a movement in equity of $363 million due to actuarial losses and the defined benefit surplus now being in deficit;
  - a decrease in temporary differences due to revaluation of our cash flow hedges which are recorded in the cash flow hedge reserve of $196 million; and
  - a decrease due to the true-up of the balance of the deferred tax liability at 30 June 2008 of $66 million compared to the tax return.
- equity attributable to Telstra entity shareholders declined by 4.7% in the half, impacted by a $709 million decline in retained profits which was affected by the actuarial losses on the defined benefit plan required to be taken through equity. Partially offsetting this was a $129 million increase in reserves from both the foreign currency translation reserve (FCTR) of $583 million and a reduction in the cash flow hedging reserve (CFHR) of $454 million. The FCTR movement was due to the exchange rate fluctuations on translation of our foreign controlled subsidiaries consolidated into the Telstra group and hence was affected by the weakening Australian dollar against most major currencies. The balance of our cash flow hedge reserve represents the deferred portion of our derivative hedging instruments designated as cash flow hedges. The after tax movement in the CFHR of $454 million reflects movements of $649 million in exchange rates and interest rates on our cash flow hedges offset by a tax effect of $195 million.

Capital expenditure

- Declined by 10.6% or $246 million driven significantly by IT transformation as capital intensive design and build programs were completed and delivered in the prior fiscal year

Operating capex by technology on an accruals basis

	Half-year ended 31 December			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Fixed access	**377**	459	(82)	**(17.9%)**
IT	**530**	634	(104)	**(16.4%)**
Land & buildings	**104**	112	(8)	**(7.1%)**
Network core	**248**	239	9	**3.8%**
Products	**97**	95	2	**2.1%**
Sensis	**113**	97	16	**16.5%**
Transmission	**221**	297	(76)	**(25.6%)**
Wireless access	**173**	236	(63)	**(26.7%)**
International	**120**	72	48	**66.7%**
Other	**91**	79	12	**15.2%**
Operating capital expenditure	**2,074**	2,320	(246)	**(10.6%)**

Our operating capital expenditure declined by 10.6% to $2,074 million in the half-year ending 31 December 2008 due to a decline in several categories namely:

- IT spend by 16.4% or $104 million primarily driven by the completion of significant IT transformation phase 1 programs and a reduction in the provision of server and storage hardware required to satisfy growth in BigPond and other IT applications. Major drivers of expenditure in the prior half-year included operation support systems for fulfilment and inventory and customer care and billing support systems.
- fixed access spend by 17.9% or $82 million principally driven by a combined reduction of $70 million across several programs including New Estates, Redevelopment and order driven. The spend in the current half-year was impacted by unit cost reductions due to fewer high cost structural and short network extension projects. The overall reduction was offset by increased structural fibre spend including the optical fibre route in the Northern Territory.
- transmission spend by 25.6% or $76 million partially due to reduced half-on-half activity in the transmission country 'ethernet enable' program as well as the metro network capacity technology installation program.

Half-year results and operations review - December 2008

- wireless access spend by 26.7% or $63 million following the delivery of the Next G™ network resulting in a major reduction of the base station site deployment program in the current half-year. Offsetting the decline was growth in Remote Access Node (RAN) traffic which required higher capacity investment and capital spend associated with Ethernet Enablement and the 21Mbps upgrade of our Next G™ network announced in November 2008.

Offsetting the above is an increase in the following categories:

- international increased by 66.7% or $48 million primarily due to the investment and build of a new mobile network in CSLNW as we invest in new network technologies.
- Sensis increased by 16.5% or $16 million as the business continues to progress with the transformation program to upgrade IT systems and improve business processes across the Sensis core product chain.
- other capital expenditure increased by 15.2% or $12m, driven largely by an increased spend on a second phase of a Supply Chain Services initiative that is transforming our procurement and supply chain processes. This was partially offset by the completion of major programs relating to a field productivity initiative.

Half-year results and operations review - December 2008

Cash flow summary

- Free cash flow grew by 44.3% or nearly $600 million to $1.9 billion
- Cash flow from operating activities grew by 2.1%. Meanwhile, cash flow from investing activities declined by 17.6% as we have passed the spending peak of our transformation program

Cash flow summary

	Half-year ended 31 December			
	2008 $m	2007 $m	Change $m	**Change %**
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	**13,942**	13,522	420	**3.1%**
Payments to suppliers and to employees (inclusive of GST)	**(8,836)**	(8,474)	(362)	**4.3%**
Net cash generated by operations	**5,106**	5,048	58	**1.1%**
Income taxes paid	**(861)**	(891)	30	**(3.4%)**
Net cash provided by operating activities	**4,245**	4,157	88	**2.1%**
Cash flows from investing activities				
Payments for property, plant and equipment	**(1,756)**	(2,268)	512	**(22.6%)**
Payments for intangible assets	**(726)**	(742)	16	**(2.2%)**
Capital expenditure (before investments)	**(2,482)**	(3,010)	528	**(17.5%)**
Payments for other investments	**(1)**	(1)	-	**-**
Total capital expenditure	**(2,483)**	(3,011)	528	**(17.5%)**
Proceeds from asset sales and finance leases	**65**	48	17	**35.4%**
Loans to jointly controlled and associated entities	**(2)**	-	(2)	**n/m**
Distribution received	**50**	100	(50)	**(50.0%)**
Interest received	**36**	30	6	**20.0%**
Net cash used in investing activities	**(2,334)**	(2,833)	499	**(17.6%)**
Operating cash flows less investing cash flows	**1,911**	1,324	587	**44.3%**
Cash flows from financing activities				
Movements in borrowings	**475**	1,257	(782)	**(62.2%)**
Repayment of finance lease principal amounts	**(19)**	(10)	(9)	**90.0%**
Staff repayments of share loans	**7**	8	(1)	**(12.5%)**
Purchase of shares for employee share plans	**-**	(129)	129	**n/m**
Finance costs paid	**(673)**	(583)	(90)	**15.4%**
Dividends paid to equity holders of Telstra Entity	**(1,737)**	(1,740)	3	**(0.2%)**
Dividends paid to minority interests	**(21)**	(18)	(3)	**16.7%**
Net cash used in financing activities	**(1,968)**	(1,215)	(753)	**62.0%**
Net increase/(decrease) in cash and cash equivalents	**(57)**	109	(166)	**(152.3%)**

Net cash provided by operating activities

Our primary source of liquidity is cash generated from our operations. Net cash provided by operating activities includes receipts from customers including trade and other receivables, payments made to suppliers and employees, and tax payments including goods and services tax, paid and remitted to the Australian Taxation Office (ATO).

During the half-year ended 31 December 2008, operating cash flow increased by 2.1% to $4,245 million driven by stronger sales revenue and lower tax payments made to the ATO. Offsetting this was the increase in payments to suppliers and employees of $362 million discussed further below.

The increase in customer receipts of $420 million during the half-year was mainly due to an increase in external revenue compared to the first half of fiscal 2008. Higher revenue was driven by our sales performance in our key products, particularly mobiles services and retail broadband. However, the increase in our sales has been partially offset by an increase in our trade receivables which have risen by 7.9% in the current half-year in comparison to a 6.4% increase in the first half of fiscal 2008. Our higher receivables have occurred partially to support higher revenues but have also been impacted by the current economic conditions flowing through to our debtor turnover ratio.

Half-year results and operations review - December 2008

The increase in payments to suppliers and employees of $362 million is in line with increases in our operating expenditure particularly from labour, service contracts and general and administration costs. Offsetting this was a reduction in our inventory levels in comparison to the prior corresponding period.

Income tax payments to the ATO were $30 million lower in the current half-year than the prior corresponding period. This was due to a decline of $41 million in the quarterly instalment payments for the tax consolidated group made during the half-year primarily as a result of a reduced instalment rate being applied. This was offset by an increase in income tax paid by entities outside the tax consolidated group of $11 million.

Net cash used in investing activities

Net cash used in investing activities largely represents amounts paid for capital assets and investments and other cash used/ received from our investing activities.

During the half-year ended 31 December 2008, capital expenditure (before investment) declined by 17.5% to $2,482 million. This represents a significant reduction of $528 million as the capital intensity of our transformation program has passed its spending peak. The first half of fiscal 2008 included additions in relation to the rollout of Next G™, Next IP™ and infrastructure to support IT transformation, which have not been required to the same level this period.

In the current half-year, capital payments made included payments towards the submarine cable systems relating predominantly to the Sydney to Hawaii transmission cable, the internet protocol (IP) network and site works, optic fibre cable projects and the coverage expansion and upgrade of the Digital GSM cellular mobile system. Additionally, new fit outs and upgrades were added on existing operating sites within network land and building.

We received a $50 million distribution from FOXTEL during the current half-year, a 50.0% reduction from the prior corresponding period. There were insignificant changes reflected in the remaining categories within investing activities between the two comparative periods. Cash proceeds from asset sales, finance leases and interest received totalling $101 million, represent an increase of $23 million from the prior corresponding period.

As a result of the above, net cash used in investing activities decreased by 17.6% or $499 million to $2,334 million during the half-year ended 31 December 2008.

Free cash flow

Free cash flow increased by 44.3% or $587 million to $1,911 million for the half-year ended 31 December 2008. This was predominantly driven by the decline in capital asset payments within our investing activities of $528 million compared with the prior fiscal half, in addition to increased operating cash flow.

Net cash used in financing activities

Net cash used in financing activities increased by 62.0% to $1,968 million predominantly driven by movements in borrowings, which declined by $782 million in comparison to the prior fiscal half.

Proceeds from borrowings declined by $1,537 million mostly due to the $1 billion 5 year AUD bank loan taken out in November 2007 to support higher cash outflow relating to our transformation initiatives. In the current half-year, new long-term funding arrangements totalling $1,342 million were executed to support our working capital requirements in light of the current economic conditions. These new borrowings were offset by borrowing repayment consisting of $344 million in unsecured promissory notes and the maturities of our domestic and offshore borrowings of $523 million.

Other net financing cash movements included:

- the purchase of 27.5 million Telstra shares on market in order to support the long term incentive plan, amounting to $129 million that took place during the previous half-year ended 31 December 2007. This did not reoccur during the current period;
- the increase in finance costs paid of $90 million due to movements in interest rates and Telstra's borrowing margins. Refer to the discussion on net finance costs on page 34 for further details; and
- the $3 million increase in dividends paid to minority interests was in relation to dividend payments made by our offshore entities, CSLNW and SouFun, to their minority shareholders.

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

Half-year ended 31 December 2007

Product hierarchy at Dec 07 as previously released	Previously released Dec 07 $m	New product hierarchy based on Dec 08 structure	Based on new hierarchy Dec 07 $m	Movement since Dec 07 release $m	Description of change from old product hierarchy as released in Dec 07
FIXED TELEPHONY		FIXED TELEPHONY			
Basic access	1,657	Basic access	1,657	-	
Local calls	388	Local calls	388	-	
PSTN value added services	134	PSTN value added services	134	-	
National long distance calls	385	National long distance calls	385	-	
Fixed to mobile	615	Fixed to mobile	615	-	
International direct	92	International direct	92	-	
Fixed interconnection	120	Fixed interconnection	120	-	
Total PSTN products	3,391	Total PSTN products	3,391	-	
ISDN Products	495	ISDN Products	495	-	
Premium calling products	220	Premium calling products	223	3	**$3m international freecall moved from other fixed telephony.**
Payphones	36	Payphones	36	-	
Customer premises equipment	180	Customer premises equipment	162	(18)	**($13m) fee for services moved to other minor items; ($5m) managed IP telephony CPE moved to business services and applications.**
Intercarrier access services	114	Intercarrier access services	114	-	
Other fixed telephony	100	Other fixed telephony	91	(9)	**($3m) international freecall moved to premium calling products; ($4m) corporate virtual private network (VPN) moved to other minor items; ($2m) international VPN moved to global products.**
Total fixed telephony	4,536	Total fixed telephony	4,512	(24)	
MOBILES		MOBILES			
Mobile services - retail and interconnection	2,701	Mobile services - retail and interconnection	2,701	-	
Mobile services - wholesale	26	Mobile services - wholesale	26	-	
Total mobile services	2,727	Total mobile services	2,727	-	
Mobile handsets	459	Mobile handsets	459	-	
Total mobiles	3,186	Total mobiles	3,186	-	
INTERNET		INTERNET			
Narrowband	52	Narrowband	52	-	
Retail broadband	844	Retail broadband	917	73	**$73m internet direct moved from internet direct (IP & data access).**
Wholesale broadband	278	Wholesale broadband	278	-	
Other	16	VAS & content	16	-	
Total Internet	1,190	Total Internet	1,263	73	
IP & DATA ACCESS		IP & DATA ACCESS			
Internet direct	73		-	(73)	**($73m) internet direct moved to retail broadband.**
Specialised data	350	Specialised data	350	-	
Global products	45	Global products	47	2	**$2m international VPN moved from other fixed telephony.**
IP access	252	IP access	252	-	
Wholesale internet and data	137	Wholesale internet and data	137	-	
Total IP & data access	857	Total IP & data access	786	(71)	
Business services and applications	501	Business services and applications	519	18	**$5m managed IP telephony CPE moved from customer premises equipment; $13m commercial and recoverable works moved from other minor items.**
Advertising and directories	948	Advertising and directories	948	-	
CSL New World	485	CSL New World	485	-	
TelstraClear	287	TelstraClear	287	-	
Offshore services revenue	174	Offshore services revenue	174	-	
Pay TV bundling	204	Pay TV bundling	204	-	
Other minor items	133	Other minor items	137	4	**$13m fee for services moved from customer premises equipment; ($13m) commercial and recoverable works moved to business services and applications; $4m corporate VPN moved from other fixed telephony.**
Elimination for wireless broadband	(249)	Elimination for wireless broadband	(249)	-	
Sales revenue	**12,252**	**Sales revenue**	**12,252**	**-**	

Summary Reported Half Yearly Data ($ millions)	Full year Jun-05	Growth	Half 1 Dec-05	Growth	Half 2 Jun-06	Growth	Full year Jun-06	Growth	Half 1 Dec-06	Growth	Half 2 Jun-07	Growth	Full year Jun-07	Growth	Half 1 Dec-07	Growth	Half 2 Jun-08	Growth	Full year Jun-08	Growth	Half 1 Dec-08	Growth
Revenue																						
Fixed telephony (incl ISDN products)																						
PSTN products																						
Basic access	3,362	3.8%	1,658	(2.5%)	1,659	(0.2%)	3,317	(1.3%)	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%)
Local calls	1,284	(14.6%)	553	(19.7%)	470	(20.9%)	1,023	(20.3%)	432	(21.9%)	413	(12.1%)	845	(17.4%)	388	(10.2%)	348	(15.7%)	736	(12.9%)	**328**	(15.5%)
PSTN value added services	250	(3.5%)	123	(1.6%)	123	(0.8%)	246	(1.6%)	125	1.6%	132	7.3%	257	4.5%	134	7.2%	135	2.3%	269	4.7%	**135**	0.7%
National long distance calls	1,013	(9.6%)	470	(10.8%)	442	(9.1%)	913	(9.9%)	408	(13.2%)	400	(9.5%)	808	(11.5%)	385	(5.6%)	364	(9.0%)	749	(7.3%)	**349**	(9.4%)
Fixed to mobile calls	1,288	(3.4%)	621	(6.5%)	595	(4.6%)	1,215	(5.7%)	608	(2.1%)	600	0.8%	1,208	(0.6%)	615	1.2%	607	1.2%	1,222	1.2%	**615**	0.0%
International direct	234	(12.0%)	106	(14.5%)	96	(12.7%)	201	(14.1%)	94	(11.3%)	90	(6.3%)	184	(8.5%)	92	(2.1%)	89	(1.1%)	181	(1.6%)	**90**	(2.2%)
Fixed interconnection	309	(8.0%)	146	(8.2%)	140	(6.7%)	286	(7.4%)	133	(8.9%)	119	(15.0%)	252	(11.9%)	120	(9.8%)	111	(6.7%)	231	(8.3%)	**110**	(8.3%)
Total PSTN products	**7,740**	**(3.9%)**	**3,677**	**(7.8%)**	**3,525**	**(6.0%)**	**7,201**	**(7.0%)**	**3,463**	**(5.8%)**	**3,424**	**(2.9%)**	**6,887**	**(4.4%)**	**3,391**	**(2.1%)**	**3,275**	**(4.4%)**	**6,666**	**(3.2%)**	**3,219**	**(5.1%)**
ISDN products	1,152	(2.0%)	553	(5.6%)	513	(9.4%)	1,066	(7.5%)	517	(6.5%)	497	(3.1%)	1,014	(4.9%)	495	(4.3%)	483	(2.8%)	978	(3.6%)	**483**	(2.4%)
Premium calling products	447	(5.9%)	224	(3.0%)	219	1.4%	443	(0.9%)	223	(0.4%)	229	4.6%	452	2.0%	223	0.0%	224	(2.2%)	447	(1.1%)	**217**	(2.7%)
Payphones	112	(14.5%)	50	(13.8%)	46	(14.8%)	96	(14.3%)	44	(12.0%)	41	(10.9%)	85	(11.5%)	36	(18.2%)	34	(17.1%)	70	(17.6%)	**30**	(16.7%)
Customer premises equipment	233	21.4%	135	23.9%	140	12.9%	275	18.0%	151	11.9%	164	17.1%	315	14.5%	162	7.3%	149	(9.1%)	311	(1.3%)	**161**	(0.6%)
Intercarrier access services	134	30.1%	84	31.3%	90	26.8%	174	29.9%	91	8.3%	99	10.0%	190	9.2%	114	25.3%	151	52.5%	265	39.5%	**173**	51.8%
Other fixed telephony	224	(5.9%)	107	(7.8%)	103	(4.6%)	210	(6.3%)	101	(5.6%)	98	(4.9%)	199	(5.2%)	91	(9.9%)	88	(10.2%)	179	(10.1%)	**88**	(3.3%)
Total fixed telephony	**10,042**	**(3.2%)**	**4,830**	**(6.3%)**	**4,636**	**(5.2%)**	**9,465**	**(5.7%)**	**4,590**	**(5.0%)**	**4,552**	**(1.8%)**	**9,142**	**(3.4%)**	**4,512**	**(1.7%)**	**4,404**	**(3.3%)**	**8,916**	**(2.5%)**	**4,371**	**(3.1%)**
Mobiles																						
Mobile services - retail	3,736	8.2%	1,945	3.1%	1,913	3.4%	3,858	3.3%	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%
Mobile services - interconnection	547	6.2%	318	12.8%	305	15.5%	623	13.9%	296	(6.9%)	297	(2.6%)	593	(4.8%)	292	(1.4%)	298	0.3%	590	(0.5%)	**318**	8.9%
Mobile services - retail and interconnection	4,283	7.9%	2,263	4.4%	2,218	4.9%	4,481	4.6%	2,399	6.0%	2,489	12.2%	4,888	9.1%	2,701	12.6%	2,805	12.7%	5,506	12.6%	**3,050**	12.9%
Mobile services - wholesale	24	60.0%	16	45.5%	20	53.8%	36	50.0%	26	62.5%	25	25.0%	51	41.7%	26	0.0%	16	(36.0%)	42	(17.6%)	**16**	(38.5%)
Mobile services	**4,307**	**8.1%**	**2,279**	**4.6%**	**2,238**	**5.2%**	**4,517**	**4.9%**	**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%**
Mobile handsets	381	8.2%	211	6.6%	256	39.1%	467	22.6%	357	69.2%	361	41.0%	718	53.7%	459	28.6%	369	2.2%	828	15.3%	**387**	(15.7%)
Total Mobiles	**4,688**	**8.1%**	**2,490**	**4.8%**	**2,494**	**7.9%**	**4,984**	**6.3%**	**2,782**	**11.7%**	**2,875**	**15.3%**	**5,657**	**13.5%**	**3,186**	**14.5%**	**3,190**	**11.0%**	**6,376**	**12.7%**	**3,453**	**8.4%**
Internet																						
Narrowband	275	(6.8%)	117	(17.6%)	102	(23.3%)	220	(20.0%)	79	(32.5%)	65	(36.3%)	144	(34.5%)	52	(34.2%)	41	(36.9%)	93	(35.4%)	**35**	(32.7%)
Retail broadband	551	44.6%	390	52.9%	456	54.1%	846	53.5%	573	46.9%	759	66.4%	1,332	57.4%	917	60.0%	1,035	36.4%	1,952	46.5%	**1,204**	31.3%
Wholesale broadband	267	79.2%	208	90.8%	260	64.6%	468	75.3%	278	33.7%	287	10.4%	565	20.7%	278	0.0%	276	(3.8%)	554	(1.9%)	**253**	(9.0%)
VAS & content	12	500.0%	9	200.0%	9	12.5%	17	41.7%	10	11.1%	10	11.1%	20	17.6%	16	60.0%	18	80.0%	34	70.0%	**23**	43.8%
Total internet	**1,105**	**33.6%**	**724**	**42.5%**	**827**	**38.5%**	**1,551**	**40.4%**	**940**	**29.8%**	**1,121**	**35.6%**	**2,061**	**32.9%**	**1,263**	**34.4%**	**1,370**	**22.2%**	**2,633**	**27.8%**	**1,515**	**20.0%**
IP & data access																						
Specialised data	901	(6.4%)	424	(9.2%)	397	(8.5%)	821	(8.9%)	377	(11.1%)	368	(7.3%)	745	(9.3%)	350	(7.2%)	340	(7.6%)	690	(7.4%)	**328**	(6.3%)
Global products	84	(2.3%)	46	7.0%	49	19.5%	95	13.1%	45	(2.2%)	46	(6.1%)	91	(4.2%)	47	4.4%	54	17.4%	101	11.0%	**63**	34.0%
IP access	217	39.1%	148	57.4%	172	39.8%	320	47.5%	180	21.6%	236	37.2%	416	30.0%	252	40.0%	282	19.5%	534	28.4%	**323**	28.2%
Wholesale internet & data	184	12.9%	108	25.6%	126	27.3%	234	27.2%	127	17.6%	131	4.0%	258	10.3%	137	7.9%	141	7.6%	278	7.8%	**156**	13.9%
Total IP & data access	**1,386**	**1.4%**	**726**	**5.4%**	**744**	**6.7%**	**1,470**	**6.1%**	**729**	**0.4%**	**781**	**5.0%**	**1,510**	**2.7%**	**786**	**7.8%**	**817**	**4.6%**	**1,603**	**6.2%**	**870**	**10.7%**
Business services and applications																						
Managed network services	364	3.7%	175	(1.1%)	173	(7.5%)	347	(4.7%)	175	0.0%	182	5.2%	357	2.9%	190	8.6%	203	11.5%	393	10.1%	**199**	4.7%
IT services	547	299.3%	282	2.5%	314	15.4%	597	9.1%	242	(14.2%)	259	(17.5%)	501	(16.1%)	213	(12.0%)	209	(19.3%)	422	(15.8%)	**170**	(20.2%)
Business applications	118	5.4%	54	(10.0%)	57	0.0%	111	(5.9%)	57	5.6%	70	22.8%	127	14.4%	61	7.0%	61	(12.9%)	122	(3.9%)	**60**	(1.6%)
Other	27	8.0%	3	(75.0%)	8	(46.7%)	11	(59.3%)	25	733.3%	49	512.5%	74	572.7%	55	120.0%	63	28.6%	118	59.5%	**61**	10.9%
Total business services and applications	**1,056**	**69.5%**	**514**	**(1.9%)**	**552**	**3.8%**	**1,066**	**0.9%**	**499**	**(2.9%)**	**560**	**1.4%**	**1,059**	**(0.7%)**	**519**	**4.0%**	**536**	**(4.3%)**	**1,055**	**(0.4%)**	**490**	**(5.6%)**
Advertising and directories [i]	1,696	18.2%	996	5.4%	818	9.1%	1,814	7.0%	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%
CSL New World [ii]	734	n/m	373	(1.8%)	457	29.5%	830	13.1%	519	39.1%	481	5.3%	1,000	20.5%	485	(6.6%)	432	(10.2%)	917	(8.3%)	**495**	2.1%
TelstraClear	625	n/m	321	5.6%	298	(6.9%)	620	(0.8%)	286	(10.9%)	287	(3.7%)	573	(7.6%)	287	0.3%	275	(4.2%)	562	(1.9%)	**275**	(4.2%)
Offshore revenue	252	(82.6%)	139	16.8%	156	17.3%	295	17.1%	173	24.5%	175	12.2%	348	18.0%	174	0.6%	172	(1.7%)	346	(0.6%)	**195**	12.1%
Pay TV bundling	263	70.8%	156	28.9%	164	15.5%	320	21.7%	164	5.1%	180	9.8%	344	7.5%	204	24.4%	222	23.3%	426	23.8%	**233**	14.2%
Other minor items	314	79.4%	183	19.6%	188	16.8%	371	18.2%	144	(21.3%)	136	(27.7%)	280	(24.5%)	137	(4.9%)	135	(0.7%)	272	(2.9%)	**131**	(4.4%)
Elimination for wireless broadband	0	n/m	(31)	n/m	(43)	n/m	(74)	n/m	(75)	141.9%	(180)	318.6%	(255)	244.6%	(249)	232.0%	(316)	75.6%	(565)	121.6%	**(412)**	65.5%
Total sales revenue	**22,161**	**6.9%**	**11,421**	**1.3%**	**11,291**	**3.7%**	**22,712**	**2.5%**	**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%**
Other revenue	20	(16.7%)	10	(9.1%)	12	33.3%	22	10.0%	15	50.0%	21	75.0%	36	63.6%	120	700.0%	51	142.9%	171	375.0%	**66**	(45.0%)
Total revenue	**22,181**	**6.8%**	**11,431**	**1.3%**	**11,303**	**3.7%**	**22,734**	**2.5%**	**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%**
Other income	261	(35.7%)	128	73.0%	200	7.0%	328	25.7%	152	18.8%	99	(50.5%)	251	(23.5%)	107	(29.6%)	67	(32.3%)	174	(30.7%)	**53**	(50.5%)
Total external income	**22,442**	**6.0%**	**11,559**	**1.7%**	**11,503**	**3.8%**	**23,062**	**2.8%**	**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%**
Expenses																						
Labour	3,858	19.9%	2,053	9.1%	2,311	17.0%	4,364	13.1%	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%
Goods and services purchased	4,211	23.1%	2,200	2.8%	2,502	20.9%	4,701	11.6%	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%)
Other expenses	3,815	(13.2%)	2,011	8.4%	2,415	23.2%	4,427	16.0%	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%
Operating expense (before interest)	11,884	7.7%	6,264	6.6%	7,228	20.4%	13,492	13.5%	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%
Share of net(gain)/loss from jointly controlled and associated entities	94	20.5%	1	(200.0%)	(6)	(106.3%)	(5)	(105.3%)	1	0.0%	6	(200.0%)	7	(240.0%)	0	(100.0%)	1	(83.3%)	1	(85.7%)	**1**	n/m
EBITDA	**10,464**	4.1%	**5,294**	(3.4%)	**4,281**	(14.1%)	**9,575**	(8.5%)	**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%
Depreciation and amortisation	3,529	1.0%	1,805	4.2%	2,273	26.5%	4,078	15.6%	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%
EBIT	**6,935**	**5.7%**	**3,489**	**(7.0%)**	**2,008**	**(36.9%)**	**5,497**	**(20.7%)**	**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%)**
Net finance costs	880	23.6%	441	4.0%	492	7.9%	933	6.0%	520	17.9%	567	15.2%	1,087	16.5%	500	(3.8%)	586	3.4%	1,086	(0.1%)	**403**	(19.4%)
Profit before income tax expense	6,055	3.5%	3,048	(8.4%)	1,516	(44.4%)	4,564	(24.6%)	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%
Income tax expense	1,746	0.9%	904	(4.0%)	477	(40.7%)	1,381	(20.9%)	706	(21.9%)	711	49.1%	1,417	2.6%	678	(4.0%)	751	5.6%	1,429	0.8%	**755**	11.4%
Profit for the period	**4,309**	**4.6%**	**2,144**	**(10.1%)**	**1,039**	**(46.0%)**	**3,183**	**(26.1%)**	**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%)**

(i) The growth rates relating to advertising and directories have been impacted by the acquisition of SouFun in August 2006.
(ii) 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	Full year Jun-05	Growth	Half 1 Dec-05	Growth	Half 2 Jun-06	Growth	Full year Jun-06	Growth	Half 1 Dec-06	Growth	Half 2 Jun-07	Growth	Full year Jun-07	Growth	Half 1 Dec-07	Growth	Half 2 Jun-08	Growth	Full year Jun-08	Growth	Half 1 Dec-08	Growth
Selected statistical data																						
PSTN																						
Retail basic access lines in service (millions)	8.05	(4.6%)	7.89	(4.0%)	7.78	(3.3%)	7.78	(3.3%)	7.74	(1.8%)	7.78	(0.0%)	7.78	(0.0%)	7.82	1.0%	7.87	1.2%	7.87	1.2%	**7.83**	0.1%
Wholesale basic access lines in service (millions)	2.07	12.5%	2.14	8.2%	2.16	4.3%	2.16	4.3%	2.12	(1.2%)	1.98	(8.3%)	1.98	(8.3%)	1.73	(18.3%)	1.50	(24.3%)	1.50	(24.2%)	**1.34**	(22.5%)
Total basic access lines in service (millions)	**10.12**	**(1.6%)**	**10.03**	**(1.6%)**	**9.94**	**(1.8%)**	**9.94**	**(1.8%)**	**9.86**	**(1.7%)**	**9.76**	**(1.8%)**	**9.76**	**(1.8%)**	**9.55**	**(3.1%)**	**9.37**	**(4.0%)**	**9.37**	**(4.0%)**	**9.17**	**(4.0%)**
PSTN average revenue per user per month ($'s)	63.23	(2.8%)	60.83	(6.4%)	58.84	(4.4%)	59.83	(5.4%)	58.29	(4.2%)	58.18	(1.1%)	58.26	(2.6%)	58.51	0.4%	57.71	(0.8%)	58.11	(0.3%)	**57.90**	(1.0%)
Number of local calls (millions)	8,469	(9.9%)	3,882	(12.0%)	3,550	(12.5%)	7,432	(12.2%)	3,390	(12.7%)	3,138	(11.6%)	6,528	(12.2%)	2,991	(11.8%)	2,689	(14.3%)	5,680	(13.0%)	**2,501**	(16.4%)
National long distance minutes (millions)	7,743	(9.1%)	3,666	(7.8%)	3,549	(5.8%)	7,215	(6.8%)	3,594	(2.0%)	3,536	(0.4%)	7,130	(1.2%)	3,530	(1.8%)	3,417	(3.4%)	6,947	(2.6%)	**3,278**	(7.1%)
Fixed to mobile minutes (millions)	3,351	n/m	1,663	(2.7%)	1,667	1.6%	3,329	(0.6%)	1,696	2.0%	1,693	1.6%	3,389	1.8%	1,714	1.1%	1,696	0.1%	3,410	0.6%	**1,675**	(2.3%)
International direct minutes (millions)	580	(10.9%)	273	(10.2%)	261	(5.4%)	534	(7.9%)	264	(3.3%)	264	1.1%	528	(1.1%)	273	3.4%	275	4.2%	548	3.8%	**278**	1.8%
Unbundled local loop services in operation (thousands)	44	79.2%	82	170.4%	120	172.4%	120	172.4%	163	100.0%	239	99.2%	239	98.9%	391	139.4%	527	120.1%	527	120.5%	**615**	57.3%
ISDN																						
ISDN access (basic access lines equivalents) (thousands)	1,235	5.7%	1,235	2.9%	1,270	2.8%	1,270	2.8%	1,283	3.9%	1,229	(3.2%)	1,229	(3.2%)	1,288	0.3%	1,298	5.6%	1,298	5.6%	**1,284**	(0.3%)
ISDN average revenue per user per month ($'s)	79.90	(2.8%)	74.63	(9.6%)	68.23	(11.9%)	70.91	(11.3%)	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%)
Mobiles																						
Mobile voice telephone minutes (millions)	6,745	9.8%	3,612	6.1%	3,700	10.7%	7,311	8.4%	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%
Number of SMS sent (millions)	2,289	17.8%	1,318	15.4%	1,700	48.2%	3,019	31.9%	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%
3GSM mobile SIO (thousands)	0	n/m	20	n/m	317	n/m	317	n/m	1,024	5020.0%	2,003	531.9%	2,003	531.9%	3,295	221.8%	4,352	117.3%	4,352	117.3%	**5,246**	59.2%
Total mobile SIO (thousands)	8,227	8.2%	8,582	7.5%	8,529	3.7%	8,529	3.7%	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%
Total Wholesale SIO (thousands) (included in total SIOs above)	83	36.5%	101	46.4%	119	43.1%	119	43.1%	129	27.5%	131	10.4%	131	10.3%	71	(44.9%)	74	(43.6%)	74	(43.5%)	**75**	5.6%
Average 3GSM revenue per user per month ($'s)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	73.14	n/m	79.64	n/m	73.08	n/m	74.49	1.8%	70.94	(10.9%)	73.74	0.9%	**68.64**	(7.9%)
Average 2GSM revenue per user per month ($'s)	39.04	(3.9%)	38.21	(4.4%)	38.51	2.5%	39.14	0.2%	37.25	(2.5%)	32.74	(15.0%)	35.05	(10.5%)	30.93	(17.0%)	26.92	(17.8%)	29.22	(16.6%)	**26.65**	(13.8%)
Average mobile revenue per user per month (including interconnection) $'s	45.09	(3.4%)	44.87	(3.2%)	42.98	(1.1%)	44.45	(1.4%)	45.91	2.3%	45.81	6.6%	45.92	3.3%	48.59	5.8%	50.11	9.4%	49.48	7.8%	**53.39**	9.9%
Average prepaid revenue per user per month ($'s)	12.24	(11.5%)	10.81	(17.5%)	10.15	(9.8%)	10.85	(11.4%)	11.94	10.5%	11.61	14.4%	11.74	8.2%	12.46	4.3%	13.05	12.4%	12.78	8.9%	**15.08**	21.0%
Average postpaid revenue per user per month ($'s)	59.07	3.5%	60.29	0.9%	57.86	(0.6%)	58.74	(0.5%)	60.30	0.0%	59.87	3.5%	60.32	2.7%	62.88	4.3%	62.74	4.8%	62.97	4.4%	**65.12**	3.6%
Average data revenue per user per month ($'s)	5.70	6.6%	6.19	6.6%	7.15	28.9%	6.75	18.6%	9.37	51.5%	10.73	50.1%	10.07	49.1%	12.88	37.4%	14.83	38.3%	13.89	37.9%	**17.14**	33.1%
Deactivation rate	20.0%	3.16	8.8%	(0.85)	13.9%	4.10	23.4%	3.36	10.4%	1.53	9.6%	(4.37)	20.4%	(2.99)	13.9%	3.53	14.9%	5.32	29.0%	8.60	**12.7%**	(1.20)
Internet																						
Broadband retail SIOs (thousands) (i)	870	n/a	1,206	n/a	1,537	n/a	1,537	76.7%	1,921	59.3%	2,443	58.9%	2,443	58.9%	2,916	51.8%	3,331	36.3%	3,331	36.3%	**3,737**	28.2%
Broadband wholesale SIOs (thousands)	889	134.4%	1,164	90.3%	1,427	60.6%	1,427	60.5%	1,622	39.3%	1,762	23.5%	1,762	23.5%	1,753	8.1%	1,708	(3.1%)	1,708	(3.1%)	**1,680**	(4.2%)
Total broadband SIOs (thousands)	**1,759**	**n/a**	**2,370**	**n/a**	**2,964**	**n/a**	**2,964**	**68.5%**	**3,543**	**49.5%**	**4,205**	**41.9%**	**4,205**	**41.9%**	**4,669**	**31.8%**	**5,039**	**19.8%**	**5,039**	**19.8%**	**5,417**	**16.0%**
Wholesale spectrum site sharing SIOs (thousands) (in wholesale subs)	40	2748.0%	90	304.2%	152	281.0%	152	281.0%	230	155.2%	304	99.6%	304	99.6%	377	63.6%	436	43.3%	436	43.3%	**501**	32.9%
Average broadband retail revenue per SIO per month ($'s) (i)	57.73	(15.1%)	62.69	(0.8%)	55.42	0.5%	58.59	1.5%	55.20	(11.9%)	58.01	4.7%	55.78	(4.8%)	57.03	3.3%	55.23	(4.8%)	56.35	1.0%	**56.76**	(0.5%)
Narrowband SIOs (thousands)	1,205	1.0%	1,143	(4.9%)	1,027	(14.8%)	1,027	(14.8%)	819	(28.3%)	654	(36.3%)	654	(36.3%)	595	(27.3%)	530	(19.0%)	530	(19.0%)	**435**	(26.9%)
Pay TV bundling																						
Total pay TV bundling SIOs (thousands)	335	30.2%	340	10.6%	344	2.6%	344	2.6%	347	1.9%	390	13.5%	390	13.5%	426	22.8%	450	15.4%	450	15.4%	**460**	8.0%
Labour																						
Domestic full time employees	39,680	9.7%	39,115	(1.3%)	37,599	(5.2%)	37,599	(5.2%)	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%)
Full time employees and employed equivalents	46,227	10.2%	45,456	(1.6%)	44,452	(3.8%)	44,452	(3.8%)	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%)
Total workforce, including contractors and agency staff	52,705	n/a	51,057	n/a	49,443	(6.2%)	49,443	(6.2%)	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%)

(i) Total retail internet SIOs have been restated to include internet direct SIOs while broadband ARPU has been restated to include internet direct from H1 Dec 05 onwards
(ii) Wireless broadband and data pack SIOs have been restated due to further definitional refinement

Media Release

26 February, 2009 041/2009

Telstra grows free cash flow 44% and maintains dividend

Telstra today announced a strong first half result with free cash flow growing by 44% to $1.9 billion, while also continuing to outperform domestic and global peers in key products and segments.

Telstra's Chief Executive Officer, Mr Sol Trujillo, said: "We are on an upward glide path to hit our key targets for 2010 and beyond for free cash flow, margins, returns and top line growth.

"The combination of a strong balance sheet and free cash flow allows us to maintain our robust 14c fully franked dividend. Profit after tax of $1.9 billion is ahead of consensus.

"We are also improving underlying EBITDA margins, and have EBITDA growth in the half that is five times our nearest competitor.

"Telstra is seeing world class growth in core businesses such as wireless services, broadband, IP business services, advertising and media services, despite Australia facing the most volatile and challenging economic conditions for decades. The growth more than offsets the 5.1% decline in PSTN revenue. The decline was skewed to the wholesale business with retail PSTN revenues falling only 1.8%."

However, in fiscal 2009 Telstra results are affected by reduced calling volumes, as people manage their usage down more than expected in the deteriorating macro environment. Also, there have been one-off costs such as the Victorian bushfires and Queensland floods, meeting higher customer contacts into call centres and the accelerated roll-out of our T[life]™ stores.

While we continue to expect revenue growth in the range of 3-4% this year, we now expect EBITDA growth in the range of 5-6% (previously 6-7%) and EBIT growth in the range of 3-5% (previously 6-8%).

All other guidance measures remain unchanged. As made clear in recent months, guidance is unaffected by the National Broadband Network process.

Mr Trujillo said: "We have today reiterated our all-important cash flow and margin guidance for fiscal 2010 which is in line with the consensus view.

"Our five year transformation is on track, having completed the migration of seven million customers to the new billing and CRM systems, and processing an average 230 million records each day. We have delivered 21 Mbps peak network speeds on our Next G™ network *, with 42 Mbps peak network speeds coming later this year.

"Our strong balance sheet enables Telstra to continue to invest in the future, including taking us up to 80 T[life]™ stores and 18 dedicated business centres open later this year. Our Chinese portfolio grows from strength to strength, with our recent acquisitions. In the first half proforma EBITDA growth was 99% from SouFun and Sequel ($US), leveraging an online audience of more than 60 million unique visitors."

Other key financial results include:

- Sales revenue grew 3.2% to $12,644 million, an increase from the 3.0% growth in the previous half. Total revenue grew 2.7% to $12,710 million.
- Reported EBITDA rose 3.1% to $5,334 million. Reported EBIT fell 1.3% to $3,079 million, in line with expectations.
- Underlying EBITDA and EBIT grew 4.8%, adjusting for one-off factors.

* Average user speeds are lower.

Key operational highlights include:

- Retail business units grew revenue 4.1% or 5.1% excluding handset sales.
- Mobile services revenue grew 12.4%, with 284,000 postpaid SIOs added.
- Retail broadband revenue grew 31.3%, with fixed broadband SIO growth three times our nearest competitor.
- IP Access data revenue grew 28%.
- Foxtel revenues grew 13%.
- Sensis grew sales revenue 8.4%.
- FTE reduced by 1,300, bringing the total reduction to more than 10,000 since 2005.

"Our customer-centric approach is bringing benefits not just to customers, but to our shareholders. Telstra's share price has outperformed the ASX 200 by 19% over the last 12 months. While many other companies have reported falling earnings, margins, cash flows and even dividends, Telstra's underlying results continue to be strong."

In the first half of fiscal 2009, Telstra continued to gain or hold revenue market share across key products and segments.

- In our Consumer business there was a slight slowdown in growth to 3.0%. This slowdown was largely driven by PSTN and lower handset revenues, with mobile services growth increasing to 8.5%.
- In Telstra Business we achieved further strong revenue growth of 7.2% and market share gains, especially in the mobile and internet portions of that business.
- In our Enterprise and Government business, revenue grew 3.9% as our networks, integration and innovation led to major contract wins. IP access ARPU from Enterprise and Government customers is up 40% since fiscal 2007.

At the product level, Telstra achieved mobile services revenue growth of 12.4% to $3,066 million. We added 371k new SIOs, of which 284k were postpaid services. Total mobile ARPU grew almost 10% to $53. At the end of December, the wireless broadband SIO base reached 828k, which we believe is close to 50% of the total market.

Commenting on the mobile result, Mr Trujillo said: "In the highly competitive mobiles market, Telstra continues to win the battle for revenue and profit market share. Our mobile margins are now 12 percentage points above the number two player."

Retail broadband revenue in the half was $1,204 million, up 31.3% year-on-year. The number of customers on high-speed broadband plans (20Mbps or more) more than doubled to 200,000 helping ARPU increase 6.1%.

IP and data revenue growth accelerated to 10.7%, driven by a 28.2% increase in IP access revenue to $323 million—world-class growth resulting from Telstra's investment in cutting edge technology.

In terms of costs, total operating expenses (before depreciation and amortisation) grew by 1.7% to $7,428 million. Accrued capital expenditure declined $246 million or 10.6% in the half to $2,074 million. We invested $530 million – a decline of 16.4% - to complete the first release of the IT transformation.

Telstra Media Contact: Andrew Butcher
Mbl: 0400 841 088

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 2008

Page number

Half-Year Financial Statements

Notes to the Half-Year Financial Statements

Income Statement

for the half-year ended 31 December 2008

	Note	Telstra Group Half-year ended 31 December 2008 $m	2007 $m
Income			
Revenue (excluding finance income)		**12,710**	12,372
Other income		**53**	107
		12,763	12,479
Expenses			
Labour		**2,152**	2,092
Goods and services purchased		**2,632**	2,676
Other expenses		**2,644**	2,539
		7,428	7,307
Share of net loss from jointly controlled and associated entities		**1**	-
		7,429	7,307
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**5,334**	5,172
Depreciation and amortisation		**2,255**	2,052
Earnings before interest and income tax expense (EBIT)		**3,079**	3,120
Finance income		**37**	30
Finance costs	6	**440**	530
Net finance costs		**403**	500
Profit before income tax expense		**2,676**	2,620
Income tax expense		**755**	678
Profit for the period		**1,921**	1,942
Attributable to:			
Equity holders of Telstra Entity		**1,916**	1,926
Minority interests		**5**	16
		1,921	1,942
Earnings per share (cents per share)		**cents**	cents
Basic		**15.5**	15.6
Diluted		**15.5**	15.5

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 2008

	Note	Telstra Group Half-year ended 31 December 2008 $m	2007 $m
Profit for the period		**1,921**	1,942
Foreign currency translation reserve			
Translation of financial statements of non-Australian controlled entities		**764**	(99)
Net (loss)/gain on hedges of net investments		**(258)**	37
Income tax on movements in the foreign currency translation reserve		**77**	(11)
		583	(73)
Cash flow hedging reserve			
Changes in fair value of cash flow hedges	6	**570**	332
Changes in fair value transferred to profit for the period	6	**(1,209)**	(164)
Changes in fair value transferred to property, plant and equipment	6	**(10)**	1
Income tax on movements in the cash flow hedging reserve	6	**195**	(51)
		(454)	118
Retained profits			
Actuarial (loss)/gain on defined benefit plans	7	**(1,254)**	120
Income tax on actuarial loss/gain on defined benefit plans		**363**	(36)
		(891)	84
Minority interests			
Translation of financial statements of non-Australian controlled entities		**84**	(8)
Actuarial (loss)/gain on defined benefit plans	7	**(18)**	-
		66	(8)
Total comprehensive income for the period		**1,225**	2,063
Attributable to:			
Equity holders of Telstra Entity		**1,154**	2,055
Minority interests		**71**	8
		1,225	2,063

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

Statement of Financial Position

as at 31 December 2008

		Telstra Group	
		as at	
		31 Dec	30 June
		2008	2008
	Note	$m	$m
Current assets			
Cash and cash equivalents		**914**	899
Trade and other receivables		**4,321**	3,952
Inventories		**336**	309
Derivative financial assets	6	**56**	54
Prepayments		**312**	299
Total current assets		**5,939**	5,513
Non current assets			
Trade and other receivables		**181**	198
Inventories		**14**	12
Investments - accounted for using the equity method		**13**	14
Investments - other		**1**	1
Property, plant and equipment		**23,961**	24,311
Intangible assets		**8,250**	7,245
Deferred tax assets		**1**	1
Derivative financial assets	6	**2,505**	444
Defined benefit assets	7	**-**	182
Total non current assets		**34,926**	32,408
Total assets		**40,865**	37,921
Current liabilities			
Trade and other payables		**3,527**	3,930
Provisions		**506**	535
Borrowings	6	**1,271**	2,055
Derivative financial liabilities	6	**113**	82
Current tax liabilities		**243**	264
Revenue received in advance		**1,374**	1,257
Total current liabilities		**7,034**	8,123
Non current liabilities			
Trade and other payables		**222**	181
Provisions		**818**	776
Borrowings	6	**17,559**	13,444
Derivative financial liabilities	6	**1,070**	1,222
Deferred tax liabilities		**855**	1,575
Revenue received in advance		**393**	355
Defined benefit liability	7	**1,169**	-
Total non current liabilities		**22,086**	17,553
Total liabilities		**29,120**	25,676
Net assets		**11,745**	12,245
Equity			
Share capital		**5,556**	5,534
Reserves		**(284)**	(410)
Retained profits		**6,184**	6,893
Equity available to Telstra Entity shareholders		**11,456**	12,017
Minority interests		**289**	228
Total equity		**11,745**	12,245

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 2008

		Telstra Group	
		Half-year ended 31 December	
		2008	2007
	Note	$m	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**13,942**	13,522
Payments to suppliers and to employees (inclusive of GST)		**(8,836)**	(8,474)
Net cash generated by operations		**5,106**	5,048
Income taxes paid		**(861)**	(891)
Net cash provided by operating activities		**4,245**	4,157
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(1,756)**	(2,268)
- intangible assets		**(726)**	(742)
Capital expenditure (before investments)		**(2,482)**	(3,010)
- payments for other investments		**(1)**	(1)
Total capital expenditure		**(2,483)**	(3,011)
Proceeds from:			
- sale of property, plant and equipment		**16**	19
- sale of shares in controlled entities (net of cash disposed)	5	**-**	1
Loans to jointly controlled and associated entities		**(2)**	-
Proceeds from finance lease principal amounts		**49**	28
Distribution received		**50**	100
Interest received		**36**	30
Net cash used in investing activities		**(2,334)**	(2,833)
Operating cash flows less investing cash flows		**1,911**	1,324
Cash flows from financing activities			
Proceeds from borrowings		**2,209**	3,746
Repayment of borrowings		**(1,734)**	(2,489)
Repayment of finance lease principal amounts		**(19)**	(10)
Staff repayments of share loans		**7**	8
Purchase of shares for employee share plans		**-**	(129)
Finance costs paid		**(673)**	(583)
Dividends paid to equity holders of Telstra Entity	3	**(1,737)**	(1,740)
Dividends paid to minority interests		**(21)**	(18)
Net cash used in financing activities		**(1,968)**	(1,215)
Net (decrease)/increase in cash and cash equivalents		**(57)**	109
Cash and cash equivalents at the beginning of the period		**899**	823
Effects of exchange rate changes on cash and cash equivalents		**67**	(1)
Cash and cash equivalents at the end of the period	5	**909**	931

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 2008

Telstra Group

	Share capital $m	Reserves: Foreign currency translation (i) $m	Reserves: Cash flow hedging (ii) $m	Reserves: Consolidation fair value (iii) $m	Reserves: General reserve (iv) $m	Retained profits (v) $m	Minority interests $m	Total $m
Balance at 1 July 2008	5,534	(598)	164	20	4	6,893	228	12,245
- total comprehensive income for the period	**-**	**583**	**(454)**	**-**	**-**	**1,025**	**71**	**1,225**
- dividends	**-**	**-**	**-**	**-**	**-**	**(1,737)**	**(10)**	**(1,747)**
- transfers to retained profits	**-**	**-**	**-**	**(3)**	**-**	**3**	**-**	**-**
- amounts repaid on share loans provided to employees	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**6**
- prior year labour expense settled in equity	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**2**
- share-based payments	**14**	**-**	**-**	**-**	**-**	**-**	**-**	**14**
Balance at 31 December 2008	**5,556**	**(15)**	**(290)**	**17**	**4**	**6,184**	**289**	**11,745**
Balance at 1 July 2007	5,611	(325)	37	26	4	6,976	251	12,580
- total comprehensive income for the period	-	(73)	118	-	-	2,010	8	2,063
- dividends	-	-	-	-	-	(1,740)	(42)	(1,782)
- transfers to retained profits	-	-	-	(3)	-	3	-	-
- amounts repaid on share loans provided to employees	8	-	-	-	-	-	-	8
- additional shares purchased	(129)	-	-	-	-	-	-	(129)
- share-based payments	21	-	-	-	-	-	-	21
Balance at 31 December 2007	5,511	(398)	155	23	4	7,249	217	12,761

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 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. There has been significant movement in this reserve during the period owing to deterioration in the value of the Australian dollar compared to other currencies, namely the Hong Kong dollar, Chinese renminbi and the New Zealand dollar.

(ii) The cash flow hedging reserve represents the effective portion of gains or losses that arise on remeasuring the fair value of financial instruments designated as cash flow hedges. These gains or losses are transferred to the income statement when the underlying 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. Refer to note 6 for details regarding the significant movement in the cash flow hedging reserve since 30 June 2008.

(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.

(v) Total comprehensive income for the period recognised in retained profits of $1,025 million (2007: $2,010 million) includes the net profit attributable to equity holders of Telstra Entity of $1,916 million (2007: $1,926 million) and the after tax actuarial loss recorded on our defined benefit plans of $891 million (2007: $84 million gain).

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 2008. 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 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.

This half-year financial report is prepared in accordance with historical cost, except for some categories of investments, which are equity accounted and some financial assets and liabilities (including derivative 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 Further 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 (gain)/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 the company's operating performance.

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the company's 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 income in understanding cash flows generated from operations that are 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.

Earnings before interest and income tax expense (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.

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 2008, however we note the issue of the following new accounting standard since the release of our Annual Financial Report:

(i) Reclassification of Financial Assets

AASB 2008-10: "Amendments to Australian Accounting Standards - Reclassification of Financial Assets" was issued in October 2008. This standard allows certain non-derivative financial assets that are accounted for at fair value to be reclassified in limited situations. The amendments are to be applied prospectively from 1 July 2008.

These amendments do not apply to derivative instruments which must always be accounted for at fair value. AASB 2008-10 also amends AASB 7 "Financial Instruments: Disclosures" to require extensive disclosures for any financial asset reclassified.

AASB 2008-12 “Amendments to Australian Accounting Standards - Reclassification of Financial Assets - Effective Date and Transition" was issued in December 2008 and clarifies the effective date of the amendments made in AASB 2008-10.

Our financial assets (excluding derivatives) include trade and other receivables and cash, which are accounted for at amortised cost. As such there is no impact as a result of AASB 2008-10 and AASB 2008-12, as these financial assets cannot be reclassified.

2.2 Recently issued accounting standards to be applied in future reporting period

The accounting standards and AASB Interpretations that will be applicable to the Telstra Group and Telstra Entity in future reporting periods, apart from those already disclosed in our 30 June 2008 Annual Financial Report, are detailed below. Apart from these standards and interpretations, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Telstra.

(i) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

AASB 2008-7 "Amendments to Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" was issued in July 2008, is applicable for annual reporting periods beginning on or after 1 January 2009, with early adoption permitted.

This new standard addresses accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements of the investor at cost.

There are a number of changes, which Telstra will need to take into account, with the key change relating to treating dividends received from a subsidiary, jointly controlled entity or associate, which is paid out of pre-acquisition profits, as income and not as a reduction in the cost of the investment, as currently required. Telstra plans to apply the new requirements from 1 July 2009.

(ii) Eligible Hedged Items

AASB 2008-8 "Amendments to Australian Accounting Standards - Eligible Hedged Items" was released in August 2008 and is applicable for annual reporting periods beginning on or after 1 July 2009, with early adoption permitted.

This standard amends AASB 139 "Financial Instruments: Recognition and Measurement" and provides further clarification of the effects of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments in this standard are required to be applied retrospectively. These amendments are not expected to have any impact on Telstra.

(iii) Distributions of Non-Cash Assets to Owners

AASB Interpretation 17 "Distributions of Non-Cash Assets to Owners" and AASB 2008-13 "Amendments to Australian Accounting Standards arising from AASB Interpretation 17 Distributions of Non-Cash Assets to Owners" deal with how a company should measure distributions of assets other than cash when it pays dividends to its owners, except for common control transactions.

They provide guidance on when a dividend payable should be recognised, how that liability should be measured and how to treat any difference between the liability and carrying amount that arises on settlement.

AASB Interpretation 17 and AASB 2008-13 apply prospectively for annual reporting periods beginning on or after 1 July 2009. Retrospective application is not permitted. These amendments will only impact Telstra if we undertake a non-cash distribution to shareholders.

(iv) Transfer of Assets from Customers

IFRIC Interpretation 18 “Transfer of Assets from Customers” was issued in January 2009 and is applicable to all transfers that occur from 1 July 2009, with earlier adoption permitted. IFRIC Interpretation 18 provides guidance in relation to the accounting for assets that are received by customers either in the form of direct transfer of asset ownership or cash contributions received towards the construction or purchase of assets. Management are currently assessing the impact of this interpretation.

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	
	2008	2007
	$m	$m
Dividends paid		
Previous year final dividend paid	**1,737**	1,740
Dividends paid per ordinary share	**¢**	¢
Previous year final dividend paid	**14.0**	14.0

Our dividends provided for and paid during the interim period are fully franked at a tax rate of 30%.

Dividends per ordinary share to be paid

Our dividends per share to be paid in respect of the half-year is detailed below:

	Telstra Entity	
	Half-year ended 31 December	
	2008	2007
	¢	¢
Dividends per ordinary share		
Interim dividend (a)	**14.0**	14.0

(a) As the interim dividend for the half-year ended 31 December 2008 was not determined or resolved to be paid by the Board as at 31 December 2008, 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 10 for further information).

Notes to the Half-Year Financial Statements (continued)

4. Segment information

Business 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.

During the half-year ended 31 December 2008 the following changes were made to our business segments:

- A new segment, Telstra Media, was formed to focus on online and mobile content. Telstra Media is responsible for the management and control of our retail online and mobile content business, previously recorded within the BigPond segment.
- The previous Telstra Media segment has now been renamed Telstra Television. This segment remains responsible for the management of our investment in the FOXTEL partnerships; and the development and management of the hybrid fibre coaxial (HFC) cable network.
- Telstra Consumer Marketing and Channels has been renamed Telstra Consumer.

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:

- Telstra Country Wide;
- Telstra Media (new);
- Telstra Television (previously Telstra Media);
- Strategic Marketing; and
- our Corporate areas.

For a description of our reportable segments and other business units, refer to note 5 of the 30 June 2008 Annual Financial Report.

Segment financial 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 their “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 in the financial statements.

Segment results are reported according to the internal management reporting structure at balance date. Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period to present a like-for-like view.

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 depreciation and amortisation of the Telstra Entity fixed assets (including network assets) which are managed centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Instead our reportable segments record these amounts upfront; and
- redundancy expenses 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 Telstra Consumer (TC), Telstra Business (TB) and Telstra Enterprise & Government (TE&G) are mainly allocated to the TC segment. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC, TB and TE&G depending on the type of customer serviced;
- revenue derived from our Telstra Media Internet products and its related segment assets are recorded in the customer facing business segments of TC, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations recognise certain expenses in relation to the installation and running of the broadband cable network; and
- revenue derived from our Telstra Country Wide customers is recorded in our TC, TB and TE&G segments. Direct costs associated with this revenue is also recorded in TC, TB and TE&G.

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 2008:

Telstra Group

	Telstra Consumer	Telstra Business	Telstra Enterprise & Government	Telstra Operations	Telstra Wholesale	Sensis	CSL New World	Telstra Clear	All other	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2008										
Revenue from external customers	**5,171**	**1,927**	**2,397**	**57**	**1,210**	**1,034**	**495**	**275**	**94**	**12,660**
Other income	**30**	**6**	**-**	**7**	**-**	**-**	**-**	**-**	**9**	**52**
Total income	**5,201**	**1,933**	**2,397**	**64**	**1,210**	**1,034**	**495**	**275**	**103**	**12,712**
Labour expenses	**230**	**103**	**278**	**752**	**34**	**265**	**41**	**53**	**396**	**2,152**
Goods and services purchased	**1,254**	**362**	**385**	**123**	**44**	**92**	**233**	**129**	**10**	**2,632**
Other expenses	**519**	**85**	**86**	**1,260**	**10**	**212**	**93**	**43**	**334**	**2,642**
Share of equity accounted losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Depreciation and amortisation	**-**	**-**	**22**	**35**	**-**	**86**	**195**	**61**	**1,856**	**2,255**
EBIT contribution	**3,198**	**1,383**	**1,626**	**(2,106)**	**1,122**	**379**	**(67)**	**(11)**	**(2,494)**	**3,030**
Total assets	**1,626**	**450**	**1,588**	**3,654**	**407**	**2,862**	**2,401**	**1,147**	**26,730**	**40,865**

Telstra Group

	Telstra Consumer	Telstra Business	Telstra Enterprise & Government	Telstra Operations	Telstra Wholesale	Sensis	CSL New World	Telstra Clear	All other	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2007										
Revenue from external customers	5,022	1,797	2,306	65	1,263	953	485	287	94	12,272
Other income	29	6	-	8	-	-	-	-	26	69
Total income	5,051	1,803	2,306	73	1,263	953	485	287	120	12,341
Labour expenses	214	100	269	781	37	210	37	49	395	2,092
Goods and services purchased	1,315	351	400	144	(23)	85	231	141	32	2,676
Other expenses	451	69	76	1,210	23	197	86	43	381	2,536
Depreciation and amortisation	-	-	19	35	-	71	87	66	1,774	2,052
EBIT contribution	3,071	1,283	1,542	(2,097)	1,226	390	44	(12)	(2,462)	2,985
Total assets	1,620	451	1,595	3,930	399	2,197	2,022	1,250	25,082	38,546

Notes to the Half-Year Financial Statements (continued)

4. Segment information (continued)

A reconciliation of EBIT contribution for reportable segments to Telstra Group EBIT is provided below:

	Telstra Group	
	Half-year ended 31 December	
	2008	2007
	$m	$m
EBIT contribution for reportable segments	**5,524**	5,447
All other	**(2,494)**	(2,462)
	3,030	2,985
Amounts excluded from underlying results:		
- distribution from FOXTEL (a)	**50**	100
- net gain on disposal of non current assets	**1**	38
- impairment losses	**(2)**	(3)
Telstra Group EBIT (reported)	**3,079**	3,120

(a) The $50 million distribution received from FOXTEL during the period has been recorded in revenue in the income statement (2007: $100 million).

Notes to the Half-Year Financial Statements (continued)

5. Notes to the statement of cash flows

Reconciliation of cash balances

	Telstra Group	
	Half-year ended 31 December	
	2008	2007
	$m	$m
Cash at bank and on hand	**417**	659
Cash equivalents (bank deposits, bills of exchange and promissory notes)	**497**	272
Bank overdraft	**(5)**	-
Net cash and cash equivalents	**909**	931

Acquisitions and disposals

During the half-year ended 31 December 2008 there were no acquisitions or disposals of controlled entities made.

On 27 June 2008, our controlled entity Telstra Holdings Pty Ltd acquired 55% of the issued capital of Telstra Sensis Media (China) Ltd (formerly Sequel Limited) which acquired 100% of the issued capital of the Cheerbright International Holdings Limited Group, the China Topside Limited Group and the Norstar Advertising Media Holdings Limited Group (Norstar Media and Autohome/PCPop).

Part of the acquisition price is contingent upon certain pre-determined revenue and EBITDA targets being achieved by Norstar Media and Autohome/PCPop in the year ended 31 December 2008. At 30 June 2008 we estimated that $15 million of this contingent consideration would become payable and recorded a liability for this amount. In addition, we disclosed a contingent liability of $35 million that could become payable. Based on the preliminary results of these subsidiaries to 31 December 2008, and the decrease in the value of the Australian dollar, we have recorded an additional $59 million of consideration payable on the acquisition, with a corresponding increase in goodwill. Our estimate of the total amount payable as at 31 December 2008 is $74 million. This estimate is still subject to change based upon the finalisation of the earnout payment and the completion audit.

Prior period disposals

The following disposals occurred during the half-year ended 31 December 2007:

KAZ Group Pty Limited

On 31 July 2007, our controlled entity KAZ Group Pty Limited sold its 100% shareholding in KAZ Business Services Pty Ltd, KAZ Software Solutions Pty Ltd and Enhanced Processing Technologies Pty Ltd for a total consideration of $2 million (net of cash balances of the disposed entities).

Invizage Pty Ltd

On 15 August 2007, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Invizage Pty Ltd for a total cash consideration of $1 million (net of cash balances of the disposed entity).

Telstra eBusiness Services Pty Limited

On 22 December 2007, our controlled entity Telstra Services Solutions Holdings Limited sold its 100% shareholding in Telstra eBusiness Services Pty Limited for a total cash consideration of $48 million (net of cash balances of the disposed entity). The consideration for the sale of Telstra eBusiness Services Pty Limited was included in receivables as at 31 December 2007.

	Total disposals
	Half-year ended 31 December
	2007
	$m
Consideration on disposal	
Cash consideration for disposal	3
Cash and cash equivalents disposed of	(2)
Inflow of cash on disposal	1
Consideration receivable as at 31 December 2007	50

Notes to the Half-Year Financial Statements (continued)

6. Finance costs, financial assets, financial liabilities and capital management

Our finance costs for the half-year ended 31 December 2008 are detailed below:

	Telstra Group Half-year ended 31 December	
	2008 $m	2007 $m
Finance costs		
- interest on borrowings (i)	**664**	601
- interest on finance leases	**5**	6
- unwinding of discount on liabilities recognised at present value	**12**	12
- gain on fair value hedges - effective (ii)	**(146)**	(80)
- gain on cash flow hedges - ineffective	**(6)**	(5)
- gain on transactions not in a designated hedge relationship (iii)	**(63)**	-
- gain on transactions de-designated from fair value hedge relationship (iii)	**(33)**	(10)
- other	**7**	6
	440	530

(i) The period-on-period increase in interest on borrowings is primarily due to:

- higher yields driven by an increase in Telstra's borrowing margins which have impacted our refinancing yields; and
- an increase in the average volume of debt over the period.

Whilst market base interest rates have fallen, increasing borrowing margins has resulted in higher absolute interest yields on new debt raisings undertaken during the period. The average yield on average net debt during the 6 months to 31 December 2008 was 7.46% (31 December 2007: 7.14%).

The significant deterioration in global economic conditions in the first half of fiscal 2009 has resulted in the de-leveraging of financial institutions and as a consequence market borrowing margins have significantly increased during the period. The increase in yields has been constrained to some extent from lower costs on the floating rate debt component of our debt portfolio. However, the full impact of reductions in market base interest rates is not fully reflected during the period but will flow through as the remaining rate resets occur in the latter half of fiscal 2009.

The effective yield (effective interest rate) on our net debt at 31 December 2008 was 7.11% (30 June 2008: 7.72%) for the Telstra Group. This yield is a weighted average yield calculated on the interest rates and net debt carrying values as at 31 December 2008. It should be noted that these yields are calculated based on interest rates applicable as at balance date. The benefit from the reduction in market base interest rates will not be reflected for the half-year ended 31 December 2008 period.

(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. A combination of the following factors has resulted in a net unrealised gain on our Australian dollar pay floating interest rate positions relating to the effective component of these fair value hedges:

- An increase in Telstra's long term borrowing margins;
- A reduction in base market rates;
- 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 our intention is to hold our borrowings and associated derivative instruments to maturity and accordingly revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and will progressively unwind out to nil at maturity.

(iii) For the half-year ended 31 December 2008, the Telstra Group recorded a gain of $96 million (31 December 2007: $10 million) 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.

Notwithstanding that 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.

The $96 million gain comprises the following movements relating to those borrowings and derivatives that were de-designated from hedge relationships or are not in a designated hedge relationship:

- 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), resulting in some disparity attributable to the discounting impact of future cash flows in the derivatives; and
- A net loss of $10 million for the amortisation impact of unwinding previously recognised gains on those borrowings that were previously in a hedge relationship and were de-designated.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs, financial assets, financial liabilities and capital management (continued)

	Telstra Group As at 31 Dec 2008		Telstra Group As at 30 June 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	Receivable / (Payable)		Receivable / (Payable)	
	$m	$m	$m	$m
Financial instruments included in net debt				
Cash at bank and on hand (i)	**417**	**417**	426	426
Bank overdraft	**(5)**	**(5)**	-	-
Available for sale - at fair value				
Bank deposits, bills of exchange and promissory notes	**512**	**512**	493	493
In designated hedge relationships - at fair value				
Cross currency swap receivable - hedging instrument	**1,810**	**1,810**	117	117
Cross currency swap payable - hedging instrument	**(558)**	**(558)**	(840)	(840)
Interest rate swap asset - hedging instrument	**429**	**429**	347	347
Interest rate swap liability - hedging instrument	**(508)**	**(508)**	(183)	(183)
Forward contract asset - hedging instrument	**49**	**49**	1	1
Forward contract liability - hedging instrument	**(35)**	**(35)**	(26)	(26)
Promissory notes - hedged item	**(712)**	**(718)**	(929)	(932)
Offshore loans - hedged item	**(4,480)**	**(4,505)**	(2,932)	(2,960)
Telstra bonds and domestic loans - hedged item	**(274)**	**(235)**	(274)	(257)
In designated hedge relationships - at amortised cost				
Offshore loans - hedged item	**(6,374)**	**(5,910)**	(4,866)	(4,601)
Not in designated hedge relationship - at fair value				
Cross currency swap receivable	**234**	**234**	33	33
Cross currency swap payable	**(68)**	**(68)**	(112)	(112)
Interest rate swap receivable	**32**	**32**	-	-
Interest rate swap payable	**(10)**	**(10)**	(133)	(133)
Forward contract asset	**7**	**7**	-	-
Forward contract liability	**(4)**	**(4)**	(10)	(10)
Finance leases - at amortised cost				
Finance lease receivable	**135**	**135**	144	144
Finance lease payable	**(99)**	**(99)**	(107)	(107)
Borrowings de-designated from hedge relationship				
Offshore loans (ii)	**(1,476)**	**(1,379)**	(1,174)	(1,163)
Financial liabilities at amortised cost				
Promissory notes	**(297)**	**(299)**	(203)	(205)
Promissory notes - hedging instrument	**(225)**	**(228)**	(320)	(325)
Offshore loans (iii)	**(1,019)**	**(998)**	(815)	(805)
Offshore loans - hedging instrument	**(211)**	**(214)**	(158)	(147)
Telstra bonds and domestic loans	**(3,658)**	**(3,573)**	(3,721)	(3,514)
Net debt	**(16,388)**	**(15,721)**	(15,242)	(14,759)

(i) Our bank accounts operate under a set off arrangement which allows for our bank accounts, including those of wholly owned domestic entities, to be pooled together and managed centrally.

(ii) During fiscal 2008, offshore loans denominated in Euro which did not meet the requirements for hedge effectiveness were de-designated from the hedge relationships. Notwithstanding that these borrowings were de-designated for hedge accounting purposes, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

(iii) Offshore loans not in a designated hedge relationship comprises a long term Euro bond issue in the second half of fiscal 2008. Whilst this borrowing is not in a designated hedge relationship for hedge accounting purposes, it is in an effective economic relationship based on contractual face value amounts and cash flows over the life of the transaction.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs, financial assets, financial liabilities and capital management (continued)

Financial instruments included in net debt (continued)

The increase in net debt of $1,146 million during the six months to 31 December 2008 is represented by the following movements:

	Telstra Group
	Half-year ended
	31 Dec 2008 $m
New offshore and domestic loans	1,342
Net maturities and realised FX gains and losses	(867)
Net cash inflow	475
Revaluations affecting cash flow hedging reserve	649
Revaluations affecting foreign currency translation reserve	258
Revaluation gains taken to property, plant and equipment	(10)
Revaluation gains taken to income statement	(216)
Total movement in gross debt	1,156
Net movement in cash, cash equivalents and overdraft	(10)
Total movement in net debt	1,146

As a result of the intense financial market pressures in the first half of fiscal 2009, we have replaced some of our short-term funding comprising unsecured promissory notes with $1,342 million of long-term funding as follows:

- $244 million 2 year Euro bond in July 2008;
- $271 million 5 year Swiss Franc bond in October 2008;
- $347 million 7.5 year Japanese Yen borrowing in November 2008;
- $434 million 3 year domestic syndicated loan in September 2008; and
- $46 million 6 year New Zealand bond issue in October 2008.

In addition, during November 2008 we executed a 3 year domestic syndicated loan for $846 million which was drawn down in January 2009.

These term borrowings, which total $2,188 million (including the $846 million drawn down in January 2009), have enabled our refinancing situation to be sound and our net unsecured promissory notes to be contained principally to support working capital and short term liquidity, as well as hedging offshore investments.

We have no further long-term debt maturities to refinance until March 2010, and subsequent to the expiry of our additional standby lines at 31 December 2008, our short-term unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

Gearing

We monitor our capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets 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 2008, our strategy was to target the net debt gearing ratio within 55 to 75 per cent (30 June 2008: 55 to 75 per cent). The gearing ratios were as follows:

	Telstra Group		
	As at		
	31 Dec 2008 $m	30 June 2008 $m	Net movement $m
Net debt	16,388	15,242	1,146
Total equity (i)	11,745	12,245	(500)
Total capital	28,133	27,487	646
Gearing ratio	58.3%	55.5%	2.8%

(i) Refer to the Statement of Changes in Equity for the detailed movement. The decrease in total equity of $500 million is largely a result of the revaluation of our defined benefit plans, offset by the increase in the carrying value of our offshore investments due to foreign currency movements.

Net debt included in the table above is based on the carrying values of our financial assets and financial liabilities which are provided in the table on the previous page. We are not subject to any externally imposed capital requirements.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs, financial assets, financial liabilities and capital management (continued)

Credit standby arrangements

	Telstra Group	
	As at	
	31 Dec 2008 $m	30 June 2008 $m
We have access to the following lines of credit:		
Unsecured committed cash standby facilities which are subject to annual review	**663**	758
Amount of credit unused	**662**	758

We have promissory note facilities in place in the United States, Europe, Australia and New Zealand under which we may nominally issue up to $12,734 million (30 June 2008: $10,226 million). As at 31 December 2008, we had on issue $1,234 million (30 June 2008: $1,452 million) under these facilities. These facilities are not committed or underwritten and we have no guaranteed access to the funds.

Generally, given we retain suitable ratings, our facilities are available unless we default on any terms applicable under the relevant agreements or become insolvent.

In response to the changing market conditions over the past 6 months, additional cash standby lines of $1,500 million were put in place for the three months through to 31 December 2008. These standby lines provided additional backing for our unsecured promissory notes over that period.

Cash flow hedging reserve

	Telstra Group	
	Half-year ended	
	31 Dec 2008 $m	31 Dec 2007 $m
Opening balance	**164**	37
Changes in fair value of cash flow hedges	**570**	332
Changes in fair value transferred to profit for the period	**(1,209)**	(164)
Changes in fair value transferred to property, plant and equipment	**(10)**	1
Income tax on movements in the cash flow hedging reserve	**195**	(51)
Closing balance	**(290)**	155

The year to date net reduction in our cash flow hedge reserve of $649 million before tax comprises:

- Revaluation gains of $570 million before tax on our cross currency and interest rate swaps hedging future payments on our offshore borrowings in cash flow hedges, and revaluation gains on our forward foreign currency contracts hedging forecast purchases denominated in foreign currency. These revaluation gains represent the effective portion on remeasuring the fair value of these hedging instruments; and
- Transfer to the income statement and plant and equipment of $1,219 million before tax representing hedging gains previously recognised in the cash flow hedge reserve which offset losses on translation of the underlying hedged borrowings and purchases at the applicable spot exchange rate at reporting date.

The net revaluation gain of $570 million on our derivatives in cash flow hedges comprises valuation impacts from:

- Increases in Telstra's borrowing margins;
- Reduction in market base interest rates;
- A weakening 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 that we participate in 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.

The defined contribution divisions of the scheme receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans are calculated by an actuary using the projected unit credit method. This method determines each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to calculate the final obligation.

Details of the defined benefit plans we participate in are set out in Note 24 of the 30 June 2008 Annual Financial Report.

(a) Net defined benefit plan asset / liability

Our net defined benefit plan asset of $182 million as at 30 June 2008 has decreased by $1,351 million during the six months to 31 December 2008 and is now reported as a defined benefit liability of $1,169 million. This decrease is mainly due to changes in the discount rate assumption and the decrease in market values and returns on plan assets. The net defined benefit plan asset / liability recognised in the statement of financial position for the current and previous periods is determined as follows:

	Telstra Group		
	As at		
	31 Dec 2008 $m	30 June 2008 $m	31 Dec 2007 $m
Fair value of defined benefit plan assets	**2,697**	3,205	3,943
Present value of the defined benefit obligation	**3,696**	3,048	3,231
Net defined benefit (liability)/asset before adjustment for contributions tax	**(999)**	157	712
Adjustment for contributions tax	**(170)**	25	120
Net defined benefit (liability)/asset	**(1,169)**	182	832
Comprising:			
Telstra Superannuation Scheme	**(1,131)**	161	801
HK CSL Retirement Scheme	**(38)**	21	31
Net defined benefit (liability)/asset	**(1,169)**	182	832

(b) Reconciliation of net defined benefit asset / liability

	Telstra Group	
	Half-year ended	
	31 Dec 2008 $m	31 Dec 2007 $m
Net defined benefit asset at beginning of period	**182**	814
Defined benefit expense - recognised in the income statement	**(113)**	(102)
Actuarial (loss)/gain - recognised directly in equity (i)	**(1,272)**	120
Employer cash contributions	**30**	-
Foreign exchange differences	**4**	-
Net defined benefit (liability)/asset at end of period	**(1,169)**	832

Notes to the Half-Year Financial Statements (continued)

7. Post employment benefits (continued)

	Telstra Group	
	Half-year ended	
	31 Dec 2008 $m	31 Dec 2007 $m
(i) The actuarial (loss)/gain comprises the following movements:		
Actuarial (loss)/gain on plan assets due to decreasing asset values and asset returns	**(314)**	18
Actuarial (loss)/gain on obligation due to change in discount rate	**(758)**	142
Actuarial loss on obligation due to experience	**(19)**	(58)
Allowance for contributions tax	**(181)**	18
Actuarial (loss)/gain - recognised directly in equity	**(1,272)**	120
Attributable to:		
Equity holders of Telstra Entity	**(1,254)**	120
Minority interests	**(18)**	-
	(1,272)	120

(c) Principal actuarial assumptions

We used the following major assumptions to determine our defined benefit obligations for the period:

	Telstra Super		HK CSL Retirement Scheme	
	As at		As at	
	31 Dec 2008 %	30 June 2008 %	**31 Dec 2008 %**	30 June 2008 %
Discount rate (i)	**3.4**	5.5	**1.15**	3.8
Expected rate of increase in future salaries	**4.0**	4.0	**4.5**	4.5

We used the following major assumptions to determine our defined benefit plan expense for the period:

	Telstra Super		HK CSL Retirement Scheme	
	Half-year ended		Half-year ended	
	31 Dec 2008 %	31 Dec 2007 %	**31 Dec 2008 %**	31 Dec 2007 %
Discount rate	**5.5**	5.1	**3.8**	4.75
Expected rate of return on plan assets	**8.0**	8.0	**7.4**	7.4
Expected rate of increase in future salaries	**4.0**	3.5 - 4.0	**4.5**	4.0

(i) 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.

For Telstra Super we have used the 10-year Australian government bond rate as it has the closest term in the Australian bond market to match the term of the defined benefit obligations.

We have adjusted the discount rate for Telstra Super to take into account future investment tax of the fund which is considered part of the ultimate cost to settle the obligation.

Notes to the Half-Year Financial Statements (continued)

7. Post employment benefits (continued)

(d) Employer contributions

During the half-year ended 31 December 2008, Telstra recommenced making cash contributions to the Telstra Superannuation Scheme (Telstra Super). This has occurred due to the reduction in market values triggering the funding deed we have with Telstra Super requiring contributions to be made when the average vested benefits index (VBI) in respect of the defined benefit membership (the ratio of defined benefit plan assets to defined benefit members' vested benefits) of a calendar quarter falls to 103% or below.

The average VBI for the September quarter was 99% and in accordance with the funding deed we have paid contributions totalling $43 million up to 31 December 2008. Note that this includes employees pre-tax salary sacrifice contributions, which is excluded from the $30 million employer cash contributions noted in the reconciliation at (b).

The average VBI for the December quarter was 91%. At this level we expect to make a further $239 million of contributions in the second half of fiscal 2009, taking the total amount of contributions for the full year to $282 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. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

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 2008 $m	30 June 2008 $m	**31 Dec 2008 $m**	30 June 2008 $m
CGUs				
CSL New World Group (a)	**1,366**	972	**-**	-
KAZ Group	**127**	127	**-**	-
TelstraClear Group (a)	**140**	132	**-**	-
Telstra Europe Group (a)	**95**	94	**-**	-
Sensis Group (b)	**215**	215	**-**	-
Universal Publishers	**15**	15	**10**	10
Adstream Group	**27**	28	**-**	-
Telstra Business Systems (c)	**-**	30	**-**	-
SouFun Group (a)	**402**	287	**-**	-
1300 Australia Pty Ltd	**16**	16	**12**	12
Telstra Sensis Media (China) Group (formerly Sequel Group) (a)	**148**	68	**-**	-
Other	**63**	33	**-**	-
	2,614	2,017	**22**	22
Individual assets				
Trading Post mastheads	**-**	-	**337**	337
	2,614	2,017	**359**	359

(a) Goodwill has increased mainly due to the significant deterioration in the value of the Australian dollar compared to other currencies in the period, namely the Hong Kong dollar, Chinese renminbi and the New Zealand dollar.

The Telstra Sensis Media (China) Group was acquired on 27 June 2008. Based on the preliminary results of the group since acquisition, and the decrease in the value of the Australian dollar, we have increased the deferred contingent consideration payable. This has increased the goodwill of the group by $59 million.

We are currently in the process of finalising the earnout payment and the completion audit for this acquisition. Refer to note 5 for further details.

(b) Our assessment of the Sensis Group CGU excludes Universal Publishers, Adstream Group, SouFun Group, Telstra Sensis Media (China) Group and the Trading Post mastheads that form part of the Sensis reportable segment. These CGU's are assessed separately.

(c) The operations of Telstra Business Systems have been integrated into Telstra Corporation Ltd. As a result Telstra Business Systems ceases to be a separate CGU. The assets of Telstra Business Systems are assessed within Telstra Corporation Ltd.

Notes to the Half-Year Financial Statements (continued)

8. Impairment (continued)

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 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 (a)		**Terminal value growth rate (b)**	
	As at		**As at**	
	31 Dec 2008 %	30 June 2008 %	**31 Dec 2008 %**	30 June 2008 %
CSL New World Group. . . .	**9.9**	10.7	**2.0**	2.0
KAZ Group.	**12.4**	14.8	**3.0**	3.0
TelstraClear Group.	**12.3**	14.0	**3.0**	3.0
Telstra Europe Group	**9.1**	9.3	**3.0**	3.0
Sensis Group	**11.4**	13.3	**3.0**	3.0
Universal Publishers	**11.1**	14.0	**3.0**	3.0
Adstream Group	**11.5**	14.1	**3.0**	3.0
Telstra Business Systems. .	**-**	15.6	**-**	3.0
SouFun Group	**14.1**	17.8	**5.0**	5.0
1300 Australia Group	**13.8**	16.2	**3.0**	3.0
Trading Post Mastheads . .	**11.1**	14.7	**3.0**	3.0

(a) 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 was adjusted for specific risks relating to the CGU and the countries in which they operate. Discount rates have generally decreased as a result of the decrease in interest rates internationally.

(b) 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 percent. Despite recent changes in global economic conditions, the terminal growth rates remain unchanged to reflect the long term outlook of the economies we operate in.

Notes to the Half-Year Financial Statements (continued)

9. Contingent liabilities, contingent assets and expenditure commitments

There have been no significant changes from 30 June 2008 to our contingent assets.

Contingent liabilities

There have been no significant changes from 30 June 2008 to guarantees, indemnities and support provided by us, apart from the following:

- Our contingent liability in relation to FOXTEL's minimum subscriber guarantees (MSG's) and other agreements, arising if our partners fail to meet any of their obligations, has increased by $116 million to $1,944 million as at 31 December 2008 (30 June 2008: $1,828 million). This increase is mainly due to foreign currency translation movements, with some of the MSG's denominated in US dollars; and
- Guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by third parties, has increased by $197 million to $687 million as at 31 December 2008 (30 June 2008: $490 million). This increase is due to foreign currency translation movements, with the lease payments denominated in US dollars.

The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities as at 31 December 2008:

Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 31 December 2008, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reasonably estimated.

Included in our common law claims are the following litigation cases:

In November 2002, Seven Network Limited and C7 Pty Limited ('Seven') commenced litigation against us and various other parties ('the respondents') in relation to the contracts and arrangements between us and some of those other parties relating to the right to broadcast Australian Football League and National Rugby League, the contract between FOXTEL and us for the provision of HFC cable services (the Broadband Co-operation Agreement) and other matters.

Seven sought damages and other relief, including that some of these contracts and arrangements are void. Seven also sought orders which would, in effect, require a significant restructure of the subscription television/sports rights markets in Australia.

On 27 July 2007 the Federal Court dismissed Seven's case on all grounds. Final orders were made and in December 2007 Seven paid Telstra $13 million in costs. Seven has appealed some aspects of the decision. The appeal hearing was completed in November 2008 and the Court's decision was reserved.

Unconditioned Local Loop Service (ULLS) and Line Sharing Service (LSS)

A number of Telstra competitors have notified access disputes in relation to ULLS and LSS. From August 2007 the ACCC issued a number of interim and final determinations in the 2007/08 round of access disputes setting the monthly access charge for LSS at $2.50 per month until 30 June 2009 and the key Band 2 price for ULLS at $14.30 per month until 30 June 2008. In late June 2008 the ACCC began making interim determinations in a new 2008/09 round of ULLS access disputes at the Band 2 price of $16 per month until 30 June 2009.

Telstra filed judicial review applications in the Federal Court of Australia challenging a number of the 2007/08 final determinations. The Federal Court has now heard all of these applications. Of the judgements received, the Federal Court has found against Telstra in its challenge to three 2007/08 LSS final determinations. The Court found in Telstra's favour in one application challenging a non-price ULLS provisioning final determination which has been appealed by the ACCC and Optus to the Full Court of the Federal Court. Judgement remains reserved in the other fourteen applications.

Expenditure commitments

There have been no significant changes from June 2008 to our expenditure commitments, apart from the following:

- Contract for the delivery of equipment for the wireless and optical network for $208 million;
- Contract for the delivery of routers and switches for $251 million;
- A two year extension to 2016 in the existing contract for the provision of supply chain logistic services for $168 million; and
- Increase in our share of FOXTEL's commitments for MSG's and other agreements of $116 million, primarily due to foreign currency translation movements.

Notes to the Half-Year Financial Statements (continued)

10. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 31 December 2008 that, in their 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 26 February 2009, 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 13 March 2009 with payment to be made on 9 April 2009. Shares will trade excluding entitlement to the dividends on 6 March 2009.

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 2008.

Borrowings

During November 2008, we executed a 3 year domestic syndicated loan for $846 million. This loan was drawn down in January 2009.

CSL Limited

On 22 January 2009 our subsidiary CSL Limited was announced as a successful bidder in the auction of radio spectrum for the provision of broadband wireless access services in Hong Kong. The total amount payable for this spectrum is $98 million (HK$523 million), with a $28 million (HK$150 million) performance bond also required.

Octave Investments Holdings Limited

On 9 February 2009, our controlled entity Telstra Octave Holdings Limited (incorporated on 2 February 2009) acquired 67% of the issued capital of Octave Investments Holdings Limited which acquired 100% of the issued capital of Beauty Sunshine Investments Limited and Sharp Point Group Limited for a total consideration of $302 million excluding transaction costs.

Beauty Sunshine Investments Limited and Sharp Point Group Limited are mobile value added services businesses with leading positions in the fast growing media comms sector in China.

The accounting for the acquisition and assignment of fair values to identifiable assets, liabilities and contingent liabilities of the acquired businesses has not been finalised. The total consideration of $302 million includes an initial aggregate cash consideration of $178 million and a deferred consideration of $124 million. The deferred consideration is subject to achieving certain pre-determined targets.

Directors' Declaration

The directors of Telstra Corporation Limited declare, as at the date of this declaration:

(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 2008, as set out on pages 2 to 24, 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 2008.

This declaration is made in accordance with a resolution of the Directors.

Donald G McGauchie AO	Solomon D Trujillo
Chairman	**Chief Executive Officer**

26 February 2009
Melbourne, Australia

Independent Review Report

To the members of Telstra Corporation Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited and the entities it controlled at the period end or from time to time during the half-year (the Telstra Group), which comprises the statement of financial position as at 31 December 2008, and 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, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 2008 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* and other mandatory financial reporting requirements in Australia. As the auditor of the Telstra Group, 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 interim financial report of the Telstra Group 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 2008 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

Sean C Van Gorp
Partner

26 February 2009
Melbourne, Australia

Telstra Corporation Limited and controlled entities

Directors' Report

For the half-year ended 31 December 2008

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 2008. Financial comparisons used in this report are of results for the half-year ended 31 December 2008 compared with the half-year ended 31 December 2007.

Transformation Highlights

We are now into the fourth year of our five year end-to-end transformation. Our transformation is driving real and sustainable change across the business as we continue to win in the marketplace. The investment we have made in transforming the business is flowing through to our improving financial performance, as we continue to grow revenue and remove costs.

Our achievements in the past half-year, as we continue to deliver on our five year transformation strategy, include:-

- the migration of more than 7.1 million customers and 13.1 million services onto the new billing and customer relationship management (CRM) systems;
- the roll-out of a 9,120 kilometre submarine cable from Sydney to Hawaii named "Telstra Endeavour" to meet the needs of growing internet traffic between Australia and the United States, carrying up to 1.28 Terabits per second of traffic and providing download speeds of 20 megabits per second (Mbps);
- the extension of our Next G™ network breadth and depth of coverage, offering commercially available speeds that are unsurpassed anywhere in the world to 99% of Australia's population or more than two million square kilometres;
- the launch of a unified messaging platform MyConnect™, a business and consumer offering that allows customers to access emails and other communications from their address book from either their PC or mobile; and
- the unveiling of another world first for the Next G™ network - the fastest mobile broadband modem in the world, capable of reaching peak network download speeds of 21Mbps and upload speeds of 5.4Mbps (average user network speeds are lower).

The migration of Telstra Consumer customers from our legacy systems to the new systems continues through the second phase of our IT transformation. We are continuing to achieve our key IT transformation objectives and continue on with the next phases of the IT transformation.

Other business highlights over the last six months include:-

- double-digit mobile services revenue growth and over 30% retail broadband revenue growth;
- improvement in field workforce productivity by 50% since we started the transformation;
- that the number of 3G customers exceeded 2G customers for the first time with total mobile average revenue per user (ARPU) growing almost 10%; and
- continuing the evolution to a media comms company ie. Mobile FOXTEL, BigPond TV, and to further prioritise these media assets we created a new business unit called Telstra Media to focus on leveraging Telstra's unique online and mobile content assets to drive future growth both in Australia and internationally. As part of this strategy the Trading Post including its online and auction sites, will be integrated into Telstra Media.

National Broadband Network

On 14 December 2008, the Federal Government's expert panel overseeing the National Broadband Network (NBN) request for proposals (RFP), made the decision to exclude Telstra from participating in the process. Despite the decision, Telstra remains committed to enhancing and expanding broadband and high speed access services for our consumers and small business customers through our innovative technologies. Our overall business strategy and the execution of our transformation plan are not dependant on NBN. Our delivery of broadband services to our enterprise and government customers will not be impacted as the

Directors' Report

network that provides these services, the Telstra Next IP™ network, is completely separate to the proposed NBN.

We were prepared for a range of scenarios as a result of the NBN process - including not being part of it. Next IP™, together with Next G™, is the largest, fully integrated, national IP broadband network in the world, enabling delivery of reliable, secure and high performance IP-based services to businesses. For consumers and for business, the Next G™ network now offers peak network speeds of 21Mbps with a clear roadmap to 42Mbps and beyond and we are in a position to roll-out technology that is being deployed in Europe and the US, which will enable our Hybrid Fibre Co-axial (HFC) to deliver speeds of up to 100Mbps. Regardless of the outcomes of the NBN process, Telstra's transformation and strong financial position mean we will continue to deliver world-leading services to our customers and provide strong returns for our shareholders.

Community relief

We have all been shocked and saddened by the tragic bushfires that have unfolded in Victoria in early February 2009. For Telstra, the most important priority is to restore services to the people in the communities burnt out by the Victorian fires. This comes on top of our efforts in North Queensland where a number of townships are in the midst of the worst flooding in history.

The commitment, dedication and teamwork of all involved in the bushfire recovery effort has been exceptional. All major infrastructure was live less than ten days after the fires. Next G™ routers and other communications were provided to all relief and emergency centres and we met every request for voice and data communications from emergency services. Over 700 Next G™ handsets were provided to people in desperate need and to police undertaking investigations in the area. Mobile base stations were deployed to five locations to provide extra mobile capacity to townships set up as relief centres and mobile capacity was upgraded across the area as required. A true team effort which will continue in the weeks and months ahead.

Telstra donated $500,000 to the Bushfire Appeal and committed to match dollar-for-dollar personal contributions made by Telstra employees (up to a total of $250,000). Telstra's total contribution reached $1.48 million, with staff alone pledging $730,000 to date.

We have also announced assistance packages for Victorian customers affected by the bushfires and Queensland customers affected by storms and flooding, as well as relief for customers affected by Middle-East violence.

We are still assessing the enormous amount of damage to network and plant from the fires in Victoria and floods in Queensland, Western Australia and New South Wales, though the financial impact of this is not material to the company.

Results of operations

Telstra's net profit for the half-year was $1,921 million (2007: $1,942 million). This result was after deducting:

- net finance costs of $403 million (2007: $500 million); and
- income tax expense of $755 million (2007: $678 million).

Earnings before interest and income tax expense was $3,079 million, representing a 1.3% or $41 million decrease on the prior corresponding period result of $3,120 million.

This decrease was due to higher depreciation and amortisation expenses associated with the IT transformation and accelerated depreciation of CSL New World mobile network assets which are being replaced. Excluding depreciation and amortisation expense, earnings increased by $162 million or 3.1% to $5,334 million.

Our basic earnings per share is down slightly on the prior period at 15.5 cents (2007: 15.6 cents).

Directors' Report

Review of operations

The significant deterioration in the economic environment, particularly over the last six months, is presenting a fresh set of challenges not experienced in this country for some time. However, despite the downturn being experienced, we continue to grow the business and generate increasing cash flows. Our financial position remains strong and we continue to deliver on our strategy.

Financial performance

Our total revenue for the half-year (excluding finance income) increased by 2.7% or $338 million to $12,710 million (2007: $12,372 million).

The growth in total revenue was mainly attributable to:

- mobiles revenue (including wireless broadband) - increased by $267 million, up 8.4%; and
- internet revenue (including wireless broadband) - increased by $252 million, up 20.0%.

Mobile services revenue growth continues to be strong with in excess of 5.2 million 3GSM customers and strong overall growth in ARPU. We experienced growth in outbound mobile voice revenue, data messaging revenue, wireless broadband as well as accelerated growth in other mobile handset data usage.

Internet revenue recorded strong growth and our broadband business, BigPond, continues to be Australia's leading internet service provider despite intense competition. Fixed broadband ARPU continued its growth momentum as customers continue to migrate across to higher speed broadband plans. The superior speed and coverage of our Next G™ wireless broadband network combined with our strategy of focusing on high-value customers is delivering results with increases in wireless broadband revenue.

Offsetting the sales growth in these areas was a decline in PSTN products revenue of $172 million or 5.1% primarily driven by decline in our Wholesale business but also reflecting the market as it continues to move towards mobile and broadband products. Despite the decline in PSTN revenue, retail basic access revenues and revenues associated with PSTN value added services (eg. message bank) both increased period on period. Our PSTN revenue results continue to remain strong relative to global peers.

Total operating expenses (before depreciation and amortisation, finance costs and income tax expense) increased by 1.7% or $121 million to $7,428 million for the half-year (2007: $7,307 million). This increase was mainly attributable to:

- labour expenses - $2,152 million, up 2.9%;
- other expenses - $2,644 million, up 4.1%; offset by
- goods and services purchased - $2,632 million, down 1.6%.

Labour expenses increased by $60 million, driven primarily by the decline in the 10 year government bond rate, which required a revaluation of our long-term employee provisions and a subsequent increase in labour costs.

Other expenses were higher by $105 million, up 4.1% due to the following:-

- increased service contracts and other agreements as a result of costs associated with transformation initiatives, primarily customer migration activity to the new billing platforms and additional costs associated with outsourcing our logistics activities; and
- increased net foreign currency conversion costs that resulted from the significant fall in the Australian dollar during the period which impacted the unhedged exposure associated with the timing of invoice receipts and payments.

Goods and services decreased by $44 million during the period, which was achieved despite an increase in sales revenue. This was primarily due to lower cost of goods sold and domestic handset subsidy costs. There were also lower handset volumes as compared to this time last year when volumes were elevated by the closure of the CDMA network.

Directors' Report

Depreciation and amortisation expenses increased by $203 million to $2,255 million, due to additional depreciation and amortisation on information technology equipment and projects associated with the IT transformation and further growth in our communications plant due to the spend on the Next G™ and Next IP™ roll outs. In addition, there has been an acceleration in depreciation on CSL New World mobile network assets which are being replaced.

Financial position

Given the current volatility of the economy, our financial position remains in a healthy state with net assets of $11,745 million, down from $12,245 million at 30 June 2008. The decrease in net assets of $500 million is largely a result of the revaluation of our defined benefit plans and increase in net debt, offset by the increase in the carrying value of our offshore investments due to foreign currency movements.

Financial condition

Our credit rating outlook improved during the period with Standard & Poors upgrading their rating from negative to stable. Our credit ratings are as follows:

	Long term	Short term	Outlook
Standard & Poors	A	A1	stable
Moodys	A2	P1	negative
Fitch	A	F1	stable

Our cash flow before financing activities (free cash flow) has increased by $587 million to $1,911 million in the current half-year as our peak capital spending year is now behind us and we start to realise the benefits of our transformation. This position combined with our borrowing program will continue to support our ongoing operating and investing activities within our target financial parameters.

Cash used in financing activities was $1,968 million for the half-year, which represents an increase of $753 million over the prior corresponding period. The increase is due to the lower level of borrowings undertaken compared to the prior period where transformation spend was at its peak.

Maintaining a strong liquidity position is of critical importance. Given the significant deterioration in the global economic conditions that intensified in the first half of fiscal 2009, we took several steps to strengthen our position, with the key objective being to ensure we have sufficient funding to meet payment obligations as they fall due. This included taking precautionary measures such as:

- reducing our level of reliance on unsecured promissory notes for debt funding. Specifically to replace unsecured promissory notes with term debt for all core funding;
- putting additional cash standby lines of $1.5 billion in place for the three months through to 31 December 2008. These standby lines provided additional backing for our unsecured promissory notes maturing during the period. These facilities have now expired.

Our net debt at 31 December 2008 was $16,388 million, up $1,146 million from 30 June 2008. The increase is due to new borrowings during the period totalling $1,342 million and $681 million relating to fair value adjustments resulting from significant movement in debt margins, market interest rates and the reduction in the Australian dollar exchange rate over the period. Offsetting these increases were net maturities and revalued foreign currency gains and losses totalling $867 million, and a net movement in cash and cash equivalents of $10 million.

In addition to the $1,342 million of new borrowings for the period, during November 2008 we executed a 3 year domestic syndicated loan for $846 million which was drawn down in January 2009.

These measures assist in managing liquidity risk and the term borrowings provide a sound refinancing situation, with net unsecured promissory notes contained principally to support working capital and short term liquidity, as well as hedging offshore investments. We have no further long term debt maturities to finance until March 2010, when we will have $500 million due for refinancing.

Directors' Report

The increase in net debt, which is in line with our plan and reflects the cash flow profile for the first half of fiscal 2009, has contributed to an increase in our gearing ratio. During the first half our strategy was to target the net debt gearing ratio within 55 to 75 per cent (30 June 2008: 55 to 75 per cent). The gearing ratio along with other relevant measures of our liquidity position were as follows:

	Telstra Group	
	As at	
	31 Dec 2008	30 June 2008
Net debt ($m)	**16,388**	15,242
Total equity ($m)	**11,745**	12,245
Gearing ratio (%)	**58.3%**	55.5%
EBITDA interest cover (times) (i)	**8.4**	8.9
Net debt to EBITDA (annualised)	**1.5**	1.5

(i) EBITDA interest cover (times) excludes unrealised gains and other non-interest finance expenses.

Dividends

The directors have resolved to pay an interim ordinary dividend of 14 cents per ordinary share ($1,737 million). The dividend will be fully franked at a tax rate of 30%. The record date for the interim dividend will be 13 March 2009, with payment to be made on 9 April 2009.

Our final ordinary dividend for the financial year ended 30 June 2008 of 14 cents per share ($1,737 million) was provided for and paid during the half-year ended 31 December 2008. These dividends were fully franked at a tax rate of 30%. The final dividend paid had a record date of 29 August 2008 and payment was made on 26 September 2008.

In July 2007, the directors of Telstra Corporation Limited offered shareholders the opportunity to participate in a Dividend Reinvestment Plan ("DRP") where Telstra expected to source the shares to be allocated under the DRP from the Future Fund. The Future Fund confirmed that they would not participate in the DRP for the 2008 final dividend, and therefore the DRP was suspended during the period. The Future Fund has also declined to participate in the DRP for the 2009 interim dividend and accordingly the directors of Telstra Corporation Limited have determined the DRP continues to be suspended for the 2009 interim dividend.

Directors' Report

Directors

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

Donald G McGauchie	- chairman since 2004, non-executive director since 1998
Solomon D Trujillo	- chief executive officer and executive director since 2005
Geoffrey A Cousins	- a director since 2006
Catherine B Livingstone	- a director since 2000
Charles Macek	- a director since 2001
John P Mullen	- a director since 1 July 2008
John M Stewart	- a director since 2008
John W Stocker	- a director since 1996
Peter J Willcox	- a director since 2006
John D Zeglis	- a director since 2006

Auditor's independence declaration

The independence declaration of our auditors is on page 8 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.

Donald G McGauchie AO

Chairman

26 February 2009

Solomon D Trujillo

Chief Executive Officer

26 February 2009

Directors' Report

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 2008, 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

26 February 2009

Melbourne, Australia