IT'S HOW
WE CONNECT

9 February 2012

The Manager

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

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Financial Results for the Half Year ended 31 December 2011.

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

1. Appendix 4D – half yearly report;
2. Half Year results and operations review – financial highlights;
3. Media release;
4. Directors' report; and
5. Half Year financial report for the half year ended 31 December 2011.

Telstra's Chief Executive Officer, David Thodey and Acting Chief Financial Officer, Mark Hall will present Telstra's Half Year Results to 31 December 2011 at 9.15am today. The announcement may be viewed live from 9.15am (AEDT) on the Telstra Investor website: http://www.telstra.com.au/abouttelstra/investor/financial-information/financial-results/index.htm.

Telstra will also broadcast its Half Year Results live on Telstra T-Box. Telstra T-Box customers can tune into the results using its Electronic Program Guide (EPG), or by directly accessing channel 919, from 9.15am AEDT today.

Transcripts will be lodged with the ASX when available.

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

Yours faithfully

Damien Coleman
Company Secretary

Telstra Corporation Limited and controlled entities

Appendix 4D

Half-Year report

For the half-year ended 31 December 2011

Appendix 4D
Half-year report
31 December 2011
Telstra Corporation Limited
ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2011	2010	Movement	Movement
	$m	$m	$m	%
Extract from the income statement				
Revenue (excluding finance income)	**12,419**	12,283	136	1.1%
Other income	**82**	125	(43)	(34.4%)
Profit for the period	**1,479**	1,207	272	22.5%
Profit for the period available to equity holders of Telstra Entity	**1,468**	1,194	274	22.9%

This report is to be read in conjunction with our half-year financial report as at 31 December 2011.

For the half-year ended 31 December 2011 and 2010, all items included in our income statements are considered to be from continuing operations.

There were no individual transactions that had significant impact on our income statement that require specific disclosure. We bring to your attention the following items:

- A $33 million gain from the derecognition of deferred consideration related to the fiscal 2010 acquisition of LMobile; and
- An impairment loss of $56 million relating to the goodwill and intangible assets in the LMobile Group.

Refer to note 8 in our half-year financial statements lodged with this document for further details.

Appendix 4D
Half-year report
31 December 2011
Telstra Corporation Limited

Results for announcement to the market (continued)

	Half-year ended 31 December	
	2011	2010
Dividends per ordinary share to be paid	**cents**	cents
Interim dividend fully franked (to be paid 23 March 2012)	**14.0**	14.0
Dividends paid	**$m**	$m
Previous year final dividend	**1,738**	1,737
Dividends paid per ordinary share	**cents**	cents
Previous year final dividend paid	**14.0**	14.0

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

The final dividend in respect of fiscal 2011 was paid during the period. The final dividend had a record date of 26 August 2011 and payment was made on 23 September 2011.

Subsequent to reporting date, an interim dividend for fiscal 2012 was resolved to be paid. The interim dividend of 14 cents per ordinary share, amounting to $1,738 million, has a record date of 24 February 2012 with payment to be made on 23 March 2012. Shares will trade excluding entitlement to the dividend on 20 February 2012. As the interim dividend for fiscal 2012 was not determined or publicly recommended by the Board as at 31 December 2011, no provision for dividend has been raised in the statement of financial position. The interim dividend in respect of fiscal 2012 has been disclosed as an event after reporting date.

Appendix 4D Half-year ended 31 December 2011

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 2011 half-year financial report lodged with this document.
2. Results for announcement to the market.	Refer page 2 for "Results for announcement to the market".
3. Net tangible assets per security.	Refer item 1 on page 5 of this report.
4. Details of entities where control has been gained or lost during the period and events after balance date.	Refer item 2 on page 5 and item 4 on page 7 of this report.
5. Details of individual and total dividends or distributions and dividend or distribution payments.	Refer to the "Results for announcement to the market" on page 3 of this report. Also refer to Note 3: Dividends and Note 11: Events after reporting date in the 31 December 2011 half-year financial report lodged with this document for additional information.
6. Details of dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in a dividend or distribution reinvestment plan.	Refer item 5 on page 7 of this report.
7. Details of our joint ventures and associated entities.	Refer item 3 on page 6 of this document for details on our jointly controlled and associated entities.
8. Accounting standards used in compiling reports by foreign entities (e.g. International Accounting Standards).	Not applicable.
9. If the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Not applicable.

Appendix 4D

Half-year ended 31 December 2011

1. Net tangible assets per security

	Telstra Group	
	As at	
	31 Dec 2011 cents	30 June 2011 cents
Net tangible assets per security	**30.1**	35.8

Net tangible assets are defined as net assets of the Telstra Group less intangible assets and non-controlling interests. The number of Telstra shares on issue as at 31 December 2011 and 30 June 2011 was 12,443 million.

The decrease in net tangible assets per security is due to the net tangible assets of the Telstra Group decreasing from $4,447 million at 30 June 2011 to $3,750 million at 31 December 2011. The decrease of $697 million is largely a result of a reduction in property, plant and equipment due to a decline in capital programme expenditure following the peaks of our transformation programme in recent years. In addition, net debt in the current half from 30 June 2011 increased, which is consistent with our annual profiling where second half cash flows are typically stronger than the first half.

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

We did not gain control over any entities during the period ended 31 December 2011.

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

- On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of $24 million. Payment of the consideration has been deferred for a period of up to two years.

- On 21 October 2011, our controlled entity Octave Investments Holdings Limited sold its ChinaM business for a total consideration of $5 million.

Appendix 4D Half-year ended 31 December 2011

3. Details of investments in joint ventures and associated entities

		Telstra Group	
		Ownership interest As at	
Name of entity	Principal activities	**31 Dec 2011 %**	30 June 2011 %
Jointly controlled entities			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Limited	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (i)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (ii)	Toll free number portability in New Zealand	**33.3**	33.3
3GIS Pty Ltd (i)	Management services	**50.0**	50.0
3GIS Partnership (i)	3G network services	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (ii)	Regional roaming provider	**10.0**	10.0
Associated entities			
Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (i)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Telstra Foundation Ltd	Charitable trustee organisation	**100.0**	100.0

(i) Balance date is 31 December.

(ii) Balance date is 31 March.

Unless noted, all investments are incorporated in Australia.

4. Events after reporting date

We are not aware of any matter or circumstance that has occurred since 31 December 2011 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than:

Interim dividend

On 9 February 2012, the directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 14 cents per ordinary share, amounting to $1,738 million. The record date for the interim dividend is 24 February 2012 with payment to be made on 23 March 2012. Shares will trade excluding entitlement to the dividend on 20 February 2012.

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 2011.

5. Dividend Reinvestment Plan

The Dividend Reinvestment Plan continues to be suspended.

6. Statement on review status

Our financial report for the half-year ended 31 December 2011 has been reviewed by Ernst & Young. It is not subject to dispute or qualification. Refer to the 31 December 2011 half-year financial report for the independent review report provided to the members of Telstra Corporation Limited.

FINANCIAL HIGHLIGHTS
HALF YEAR ENDED 31 DECEMBER 2011

IT'S HOW
WE CONNECT

TELSTRA DELIVERS REVENUE, PROFIT AND CUSTOMER GROWTH; GUIDANCE CONFIRMED

SUMMARY FINANCIAL RESULTS

	H1 2012 ($m)	H1 2011 ($m)	YoY change
Sales revenue	**12,405**	12,263	1.2%
Total revenue	**12,419**	12,283	1.1%
Operating expenses	**7,751**	7,829	-1.0 %
EBITDA	**4,750**	4,580	3.7 %
Depreciation & Amortisation	**2,186**	2,204	-0.8 %
EBIT	**2,564**	2,376	7.9%
Net finance costs	**396**	571	-30.6%
Tax	**689**	598	15.2%
Attributable NPAT	**1,468**	1,194	22.9%
Accrued capital expenditure	**1,715**	1,451	18.2%
Free cash flow	**1,795**	2,020	-11.1 %

REPORTED RESULTS

- Total revenue increased by 1.1% or $136 million to $12,419 million
- EBITDA increased by 3.7% or $170 million to $4,750
- Net Profit After Tax increased by 22.5% to $1,479 million
- Capex to sales ratio of 13.8%, with accrued capital expenditure of $1,715 million
- Free cashflow of $1,795 million

RESULTS ON GUIDANCE BASIS*

- Total revenue increased by 1.2%
- EBITDA increased by 4.5%
- Dividend of 14 cents per share, fully franked

* Adjusted for LMobile impairment and ACCC Final Access Determination. The guidance basis has been subject to review by our auditors.

CEO MESSAGE

Telstra today announced that its strategy continues to deliver financial benefits. Results for the six months to 31 December 2011 show growth in revenue, EBITDA and net profit and strong growth in the number of customers. The company also confirmed guidance for fiscal 2012 and announced a 14 cent interim dividend.

"Last year we recorded one of our best years for customer growth. This momentum has continued into the first half of fiscal 2012," Chief Executive Officer David Thodey said.

"Our superior networks and competitive offers are being recognised and valued by new and existing customers. We are also seeing improvement in Telstra's customer service with TIO complaints down 24% over the year, though we still have more work to do," he said.

1 MILLION NEW MOBILE CUSTOMERS IN AUSTRALIA AND HONG KONG

Telstra continued to attract new customers in the half year, adding:

- 958,000 domestic mobile customers, including 338,000 postpaid handheld and 436,000 mobile broadband customers
- 106,000 fixed broadband customers
- 166,000 T-Box® and T-Hub® services
- 206,000 customers on bundled multi-product plans, with the total bundled base now more than 1.2 million.
- 167,000 customers at CSL New World

Telstra's domestic mobile business delivered mobile revenue growth of 10.9% in the half to $4,393 million. Targeted offers and simplified processes have also helped to control costs.

In other key product categories, fixed line (PSTN) voice revenues declined by 9.0% to $2,489 million. Retail fixed broadband revenues increased by 5.8% to $835 million. IP Access revenues grew by 8.9% to $514 million.

In our strategic growth businesses:

- Network Applications and Services (NAS) revenue grew by 19.4% to $579 million as the company benefited from improved capabilities and major contract wins in the half.
- Telstra International includes our international managed services division (incorporating Reach), CSL New World and our Chinese digital media assets. Overall the portfolio achieved double-digit growth in the half and will be a key driver of growth for Telstra in the future.
- We established our new Digital Media business unit. Within this portfolio, Sensis sales revenue declined by 24.0% in the half to $528 million. First half results were impacted by the upfront costs of implementing the three year digital strategy and an acceleration in the decline of Yellow print revenues as the market evolved more rapidly than expected. Sensis' first half results were also impacted by the movement of the recognition of the Perth Yellow Pages book into the second half.

FINANCIAL HIGHLIGHTS – HALF YEAR ENDED 31 DEC 2011

REPORTED RESULTS

	H1 2012 YoY change	H2 2011 YoY change	H1 2011 YoY change	H2 2010 YoY change	H1 2010 YoY change
Sales revenue	**1.2%**	1.8%	-0.5%	-1.9%	-2.5%
Total revenue	**0.7%**	2.0%	0.2%	-1.6%	-2.9%
Operating expenses	**-1.0%**	3.0%	10.7%	-1.8%	-4.8%
EBITDA	**3.7%**	0.7%	-13.9%	-1.5%	-0.3%
Profit for the period	**22.5%**	-0.5%	-36.0%	-4.7%	-1.8%

Telstra's simplification programme remains on track to deliver incremental benefits in fiscal 2012 in excess of the $622 million delivered in fiscal 2011 and in the first half of the year achieved benefits of $456 million, driven by improved labour productivity and simplified processes.

NATIONAL BROADBAND NETWORK (NBN)

We believe we are close to finalising the NBN transaction. Shareholder approval of the National Broadband Network transaction at the company's Annual General Meeting in late 2011 was a key milestone. Telstra has now lodged a revised Structural Separation Undertaking for approval by the ACCC. The company is working towards satisfying this last key requirement and implementing its agreements with NBN Co and the Government.

OUTLOOK

"Our strategy is unchanged. We will continue to focus on improving customer satisfaction, growing customer numbers, simplifying the business and taking advantage of new growth opportunities." Mr Thodey said.

Telstra has confirmed fiscal 2012 guidance of low single digit revenue and EBITDA growth, with free cashflow of between $4.5 and $5.0 billion. In addition, the company expects capital expenditure to continue to be around 14% of sales. The NBN transaction is not expected to have a material impact on Telstra's underlying financial results in fiscal 2012.

As announced in October 2011, it is the company's intention to maintain a 28 cent fully-franked dividend for fiscal 2012 and 2013. This is subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

Telstra's Board has re-affirmed its intention to consider a broader capital management strategy upon implementation of the NBN agreements, following ACCC acceptance of Telstra's Structural Separation Undertaking.

GUIDANCE SUMMARY*

Measure	Fiscal 2012 Guidance
Sales revenue	Low single digit growth
EBITDA	Low single digit growth
Capex/sales	14%
Free cashflow	$4.5 - $5.0 billion
Dividend	28c fully franked

* Guidance assumes wholesale product price stability, no further impairments to investments and excludes any proceeds on the sale of businesses.

REPORTED RESULTS

Results for the first half of the year were in line with our expectations despite the difficult macro economic backdrop. Sales revenue rose by 1.2% to $12,405 million in the first half of fiscal 2012. Total revenue rose by 1.1% to $12,419 million.

Operating Expenses (before depreciation and amortisation) in the half decreased by 1.0% or $78 million to $7,751 million. This compares favourably to the first half of fiscal 2011 when the company undertook a number of strategic investments to improve customer satisfaction, acquire customers and simplify the business.

Labour expenses in the half increased by 5.6% to $2,099 million. This was driven by higher salary and associated costs and includes a $126 million impact from increases in the valuation of employee provisions as a result of the lower bond rate, offset by lower redundancy charges which fell by 48.4% to $83 million. Excluding the bond rate impacts, total labour costs declined in the half.

Directly variable costs (DVCs) or goods and services purchased increased by 0.4% to $3,161 million. This supports the growth in sales revenue in the half.

Other expenses decreased by 7.5% or $202 million to $2,491 million with a reduction in service contracts as we continue to simplify the business and a lower impairment charge compared to the prior period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 3.7% to $4,750 million, with EBITDA margins increasing by 1.0 percentage point to 38.3%.

Depreciation and Amortisation declined by 0.8% to $2,186 million, while Earnings before interest and tax (EBIT) increased by 7.9% to $2,564 million.

Finance costs decreased by 30.6% to $396 million largely as a result of fair value adjustments.

Reported profit after tax to controlling interests increased by 22.9% to $1,468 million. Basic earnings per share (EPS) increased by 22.9% from 9.6 cents to 11.8 cents.

Free cashflow of $1,795 million was generated in the half. Accrued capital expenditure was $1,715 million in the half, or 13.8% of sales.

On 9 February 2012, the Directors of Telstra resolved to pay a fully franked interim dividend of 14 cents per share. Shares will trade excluding entitlement to the dividend on 20 February 2012 with payment on 23 March 2012.

FINANCIAL HIGHLIGHTS - HALF YEAR ENDED 31 DEC 2011

SEGMENT PERFORMANCE

KEY SEGMENT INCOME

	H1 2012 ($m)	H1 2011 ($m)	YoY change
Telstra Consumer & CountryWide	**5,187**	4,929	5.2%
Telstra Business	**2,365**	2,378	-0.5 %
Telstra Enterprise & Government	**2,099**	2,015	4.2%
Total Customer Sales & Service	**9,651**	9,322	3.5%
Telstra Wholesale	**1,069**	1,126	-5.1%
Sensis	**528**	680	-22.4%

From 1 August 2011, Telstra's retail sales and customer service workforce was unified into a single business unit - Telstra Customer Sales & Service. This initiative was introduced to sharpen the company's focus on the customer. The business unit is responsible for sales and service to all segments including consumer, business, enterprise and government customers.

Telstra Consumer and Country Wide reported strong growth across all product categories which led to an increase in total income of 5.2% to $5,187 million. Momentum was also strong in Telstra Enterprise and Government where income grew by 4.2% to $2,099 million following strong growth in mobiles, IP Access and NAS revenue. Total income in Telstra Business declined by 0.5% to $2,365 million as the segment experienced challenging macro economic conditions. Telstra Wholesale reported a decline in total income of 5.1% as growth in Unconditioned Local Loop (ULL) continued to put pressure on resale revenue.

PRODUCT PERFORMANCE

KEY PRODUCT REVENUE

	H1 2012 ($m)	H1 2011 ($m)	YoY change
Mobile	**4,393**	**3,963**	10.9%
Fixed	**4,534**	**4,827**	-6.1%
IP Access and Data Services	**901**	**891**	1.1%
NAS	**579**	**485**	19.4%

MOBILE

The benefits from the investments we have made in mobile customer growth is reflected in strong mobile revenue growth of 10.9% in the half. 958,000 customers were also added in the six months to 31 December 2011.

10.9% MOBILE REVENUE GROWTH

Mobile services revenue grew by 10.0%, the strongest growth in six halves, while mobile hardware revenue was up 15.7% to $655 million. While we continue to refresh mobile plans to remain competitive, our superior network coverage and reliability continues to be recognised by our customers.

FIXED (PSTN AND BROADBAND)

The continued popularity of our bundled offers (many of which include the Telstra T-Hub and T-Box) and competitive broadband plans led to growth in fixed retail broadband revenue (including hardware) of 5.8% this half to $835 million. The growth in fixed retail broadband customers was also strong with 106,000 added in the half.

106,000 NEW FIXED BROADBAND CUSTOMERS

Total PSTN revenue declined by 9.0% during the half to $2,489 million. This decline is consistent with previous periods and is a result of lower usage across all calling categories. There was a 136,000 net decline in PSTN lines during the half compared to 163,000 lines in the second half of fiscal year 2011. However, local call revenue fell by 21.1% and national long distance revenue declined by 13.9%, an acceleration on the prior half.

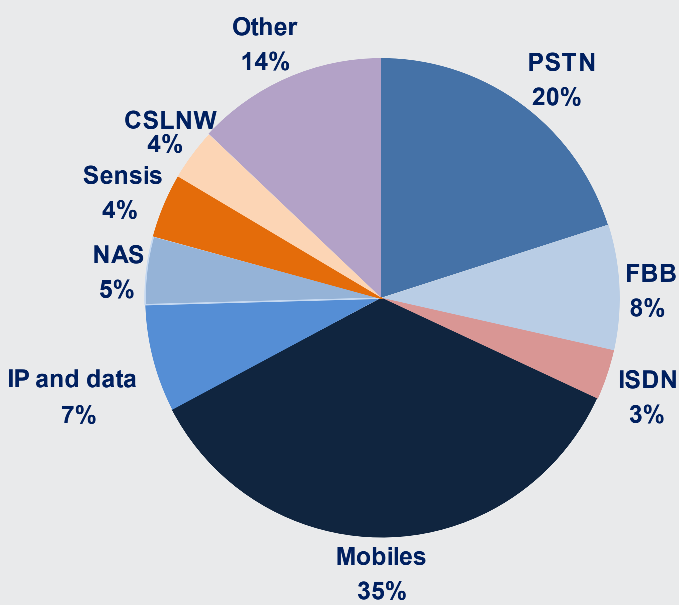
IP ACCESS & DATA SERVICES

IP Access and Data Services revenue increased by 1.1% to $901 million. Within this category, growth in IP Access revenue offset the decline from legacy technologies. IP Access revenue grew by 8.9% or $42 million to $514 million.

NETWORK APPLICATIONS & SERVICES (NAS)

Growth in our NAS business has accelerated, increasing by 19.4% to $579 million. It remains a strategic growth driver for Telstra. We have a dedicated business unit for network applications and services to ensure we continue to grow this business profitably.

H1 2012 PRODUCT REVENUE BREAKDOWN



FINANCIAL HIGHLIGHTS – HALF YEAR ENDED 31 DEC 2011

Growth in the half was driven by unified communications and managed data networks. Telstra acquired iVision Pty Ltd in March 2011. Revenue from this business contributed $34 million to total NAS revenue in the half.

We have signed a number of major customers to our NAS offerings, including Origin Energy and SA Health.

INTERNATIONAL

Telstra International is focussed on Asia and is predominantly made up of the Asian Reach network assets, the CSL New World mobile business in Hong Kong and a number of online businesses in China.

Since the completion of the Reach acquisition last year we have undertaken a significant expansion of our presence across the region, with new carrier licences in India, Singapore and Japan to support our corporate customers. Overall, our Telstra International revenues grew by 19.8% to $823 million on a reported basis, and 11.4% to $765 million after adjusting for intercompany revenue as a result of the Reach transaction.

CSL New World grew revenue by 2.8% to $436 million and added 167,000 new customers in the half.

DIGITAL MEDIA AND SENSIS

In the half we announced the establishment of a Digital Media business unit to drive growth from our media assets and manage the transition to digital at our Sensis directories business.

Within the Digital Media portfolio, Sensis is in the first year of implementing its three year digital strategy. Since launching the strategy in March 2011, it has made progress in restructuring its operations to adapt to the challenges of the directories market. First half results were impacted by the upfront costs of the restructuring and an acceleration in the decline of Yellow print revenues as the market evolves more rapidly than expected. As previously indicated, Sensis first half results were also impacted by the movement of the recognition of the Perth Yellow Pages book to the second half. This has put pressure on Sensis' first half results, with income declining by 24.1% and EBITDA declining by 54.9%. Adjusting for the timing of the Perth Yellow Pages, Sensis total income declined by 16.5% and EBITDA declined by 38.6%.

FINANCIAL POSITION

CAPITAL EXPENDITURE AND CASH FLOW

Capital expenditure increased by 18.2% to $1,715 million in the half. The capital programme has also been smoothed across the year to improve the efficient use of resources.The increase was driven by capacity upgrades due to the growing demand for wireless data and spend on new initiatives to support emerging opportunities.

Free cashflow of $1,795 million was generated in the half. This is a fall of $225 million on the prior corresponding period as the proceeds of the SouFun sale were received in the first half of last fiscal year.

DEBT POSITION

The net debt position at 31 December 2011 was $14,098 million. This represents an increase of $503 million over the past six months. Our effective interest rate (or average borrowing cost) on average net debt for the first half of fiscal 2012 was 6.95% and for the first half of fiscal 2011, 6.94%. A number of successful borrowings in the period lengthened our debt maturity profile. These included a €750 million /$A1,002 million 10.5 year bond issue in November and a SFr 225m/A$252m seven year borrowing in December.

Half-year results and operations review - December 2011

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for the half-year ended 31 December 2011

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Half-year results and operations review - December 2011

Summary financial information

Results of operations

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Sales revenue	**12,405**	12,263	142	**1.2**
Other revenue (i)	**14**	20	(6)	**(30.0)**
Total revenue	**12,419**	12,283	136	**1.1**
Other income (ii)	**82**	125	(43)	**(34.4)**
Total income (excl. finance income)	**12,501**	12,408	93	**0.7**
Labour	**2,099**	1,988	111	**5.6**
Goods and services purchased	**3,161**	3,148	13	**0.4**
Other expenses	**2,491**	2,693	(202)	**(7.5)**
Operating expenses	**7,751**	7,829	(78)	**(1.0)**
Share of net profit from jointly controlled and associated entities	**-**	(1)	1	**(100.0)**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**4,750**	4,580	170	**3.7**
Depreciation and amortisation	**2,186**	2,204	(18)	**(0.8)**
Earnings before interest and income tax expense (EBIT)	**2,564**	2,376	188	**7.9**
Net finance costs	**396**	571	(175)	**(30.6)**
Profit before income tax expense	**2,168**	1,805	363	**20.1**
Income tax expense	**689**	598	91	**15.2**
Profit for the period	**1,479**	1,207	272	**22.5**
Attributable to:				
Equity holders of the Telstra Entity	**1,468**	1,194	274	**22.9**
Non-controlling interests	**11**	13	(2)	**(15.4)**
	1,479	1,207	272	**22.5**
Effective tax rate	**31.8%**	33.1%		**(1.3) pp**
EBITDA margin on sales revenue	**38.3%**	37.3%		**1.0 pp**
EBIT margin on sales revenue	**20.7%**	19.4%		**1.3 pp**
	cents	cents	Change cents	**Change %**
Basic earnings per share (iii)	**11.8**	9.6	2.2	**22.9**
Diluted earnings per share (iii)	**11.8**	9.6	2.2	**22.9**
Interim dividend	**14.0**	14.0		

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

Half-year results and operations review - December 2011

Statement of financial position

	As at 31 Dec 11 $m	As at 30 Jun 11 $m	Change $m	Change %
Current assets				
Cash and cash equivalents	**3,035**	2,630	405	**15.4**
Trade and other receivables	**4,584**	4,137	447	**10.8**
Inventories	**371**	283	88	**31.1**
Derivative financial assets	**36**	83	(47)	**(56.6)**
Current tax receivables	**3**	4	(1)	**(25.0)**
Prepayments	**297**	275	22	**8.0**
Assets classified as held for sale	**-**	41	(41)	**(100.0)**
Total current assets	**8,326**	7,453	873	**11.7**
Non current assets				
Trade and other receivables	**480**	340	140	**41.2**
Inventories	**15**	22	(7)	**(31.8)**
Investments - accounted for using the equity method	**2**	2	-	**0.0**
Investments - other	**1**	1	-	**0.0**
Property, plant and equipment	**21,388**	21,790	(402)	**(1.8)**
Intangible assets	**7,631**	7,627	4	**0.1**
Derivative financial assets	**552**	285	267	**93.7**
Non current tax receivables	**382**	382	-	**0.0**
Deferred tax assets	**3**	-	3	**100.0**
Defined benefit assets	**-**	11	(11)	**(100.0)**
Total non current assets	**30,454**	30,460	(6)	**(0.0)**
Total assets	**38,780**	37,913	867	**2.3**
Current liabilities				
Trade and other payables	**3,943**	4,093	(150)	**(3.7)**
Provisions	**944**	846	98	**11.6**
Borrowings	**3,321**	1,990	1,331	**66.9**
Derivative financial liabilities	**573**	634	(61)	**(9.6)**
Current tax payables	**571**	404	167	**41.3**
Revenue received in advance	**1,166**	1,018	148	**14.5**
Liabilities classified as held for sale	**-**	5	(5)	**(100.0)**
Total current liabilities	**10,518**	8,990	1,528	**17.0**
Non current liabilities				
Other payables	**175**	177	(2)	**(1.1)**
Provisions	**280**	244	36	**14.8**
Borrowings	**11,579**	12,178	(599)	**(4.9)**
Derivative financial liabilities	**2,248**	1,799	449	**25.0**
Deferred tax liabilities	**1,235**	1,730	(495)	**(28.6)**
Defined benefit liability	**839**	205	634	**309.3**
Revenue received in advance	**303**	298	5	**1.7**
Total non current liabilities	**16,659**	16,631	28	**0.2**
Total liabilities	**27,177**	25,621	1,556	**6.1**
Net assets	**11,603**	12,292	(689)	**(5.6)**
Equity				
Equity available to Telstra Entity shareholders	**11,381**	12,074	(693)	**(5.7)**
Non-controlling interests	**222**	218	4	**1.8**
Total equity	**11,603**	12,292	(689)	**(5.6)**
Gross debt	**17,108**	16,232	876	**5.4**
Net debt	**14,098**	13,595	503	**3.7**
EBITDA interest cover (times)	**9.3**	9.6	(0.3)	**(3.1)**
Net debt to EBITDA	**1.5**	1.3	0.2	**15.4**
Return on average assets	**14.6%**	15.9%		**(1.3) pp**
Return on average equity	**25.0%**	26.1%		**(1.1) pp**
Return on average investment	**19.9%**	21.6%		**(1.7) pp**
Gearing ratio (net debt to capitalisation)	**54.9%**	52.5%		**2.4 pp**

Half-year results and operations review - December 2011

Statement of cashflows

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Cashflows from operating activities				
Receipts from customers (inclusive of goods and services tax (GST))	**13,527**	13,487	40	**0.3**
Payments to suppliers and to employees (inclusive of GST)	**(8,909)**	(9,294)	385	**(4.1)**
Net cash generated by operations	**4,618**	4,193	425	**10.1**
Income taxes paid	**(800)**	(758)	(42)	**5.5**
Net cash provided by operating activities	**3,818**	3,435	383	**11.1**
Cashflows from investing activities				
Payments for:				
- property, plant and equipment	**(1,777)**	(1,385)	(392)	**28.3**
- intangible assets	**(360)**	(446)	86	**(19.3)**
Total capital expenditure	**(2,137)**	(1,831)	(306)	**16.7**
Proceeds from:				
- sale of property, plant and equipment	**9**	6	3	**50.0**
- sale of shares in controlled entities (net of cash disposed)	**(6)**	288	(294)	**(102.1)**
- sale of businesses (net of cash disposed)	**(2)**	10	(12)	**(120.0)**
- sale of associates	**-**	23	(23)	**(100.0)**
Proceeds from finance lease principal amounts	**27**	40	(13)	**(32.5)**
Repayments of loans to jointly controlled and associated entities	**-**	3	(3)	**(100.0)**
Loans to jointly controlled and associated entities	**(1)**	-	(1)	**100.0**
Interest received	**48**	35	13	**37.1**
Settlement of hedges of net investments	**39**	5	34	**680.0**
Dividends recevied from SouFun	**-**	6	(6)	**(100.0)**
Net cash used in investing activities	**(2,023)**	(1,415)	(608)	**43.0**
Operating cashflows less investing cashflows	**1,795**	2,020	(225)	**(11.1)**
Cashflows from financing activities				
Proceeds from borrowings	**1,637**	999	638	**63.9**
Repayment of borrowings	**(746)**	(67)	(679)	**1013.4**
Repayment of finance lease principal amounts	**(25)**	(35)	10	**(28.6)**
Staff repayments of share loans	**2**	4	(2)	**(50.0)**
Finance costs paid	**(559)**	(547)	(12)	**2.2**
Dividends paid to equity holders of Telstra Entity	**(1,738)**	(1,737)	(1)	**0.0**
Dividends paid to non-controlling interests	**(9)**	(13)	4	**(30.8)**
Net cash used in financing activities	**(1,438)**	(1,396)	(42)	**3.0**
Net increase in cash and cash equivalents	**357**	624	(267)	**(42.8)**
Cash and cash equivalents at the beginning of the period	**2,637**	2,105	532	**25.3**
Effects of exchange rate changes on cash and cash equivalents	**16**	(53)	69	**(130.2)**
Cash and cash equivalents at the end of the period	**3,010**	2,676	334	**12.5**

Half-year results and operations review - December 2011

Segment information and product profitability

	Total external income			Underlying EBITDA contribution		
	Half-year ended 31 December			Half-year ended 31 December		
	2011 $m	2010 $m	**Change %**	**2011 $m**	2010 $m	**Change %**
Telstra Consumer and Country Wide	**5,187**	4,929	**5.2**	**2,749**	2,385	**15.3**
Telstra Business	**2,365**	2,378	**(0.5)**	**1,744**	1,799	**(3.1)**
Telstra Enterprise and Government	**2,099**	2,015	**4.2**	**1,680**	1,636	**2.7**
Telstra Wholesale	**1,069**	1,126	**(5.1)**	**988**	1,049	**(5.8)**
Telstra Operations	**31**	40	**(22.5)**	**(1,840)**	(1,837)	**0.2**
Sensis	**528**	680	**(22.4)**	**130**	281	**(53.7)**
Telstra International Group	**823**	687	**19.8**	**147**	108	**36.1**
TelstraClear	**255**	265	**(3.8)**	**47**	40	**17.5**
Other	**113**	159	**(28.9)**	**(869)**	(823)	**5.6**
Total Telstra segments (i)	**12,470**	12,279	**1.6**	**4,776**	4,638	**3.0**
Other items excluded from segment results (ii)	**31**	129	**(76.0)**	**(26)**	(58)	**(55.2)**
Total Telstra Group (reported)	**12,501**	12,408	**0.7**	**4,750**	4,580	**3.7**

(i) Internally, we monitor our segment performance excluding the impact of certain revenue and expense items such as sales of major businesses and investments, sales of land and buildings and impairment write-offs.
(ii) Other items excluded from the segment results for the half ended 31 December 2011 include the write back of deferred consideration and associated impairment expense relating to our investment in the LMobile Group.
(iii) Income from external customers in the Telstra International Group includes $58 million (2010: nil) of inter-segment income treated as external cost in our Retail units and is eliminated in the Other segment. External expenses in the Telstra International Group also includes $18 million (2010: nil) of inter-segment expenses treated as external income in Wholesale and eliminated in the Other segment.

Revenue by Business Segment

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Telstra Consumer and Country Wide				
PSTN products	**1,427**	1,536	(109)	**(7.1)**
Fixed broadband	**644**	583	61	**10.5**
Mobile services revenue	**2,085**	1,823	262	**14.4**
Telstra Business				
PSTN products	**622**	686	(64)	**(9.3)**
Fixed broadband	**165**	184	(19)	**(10.3)**
Mobile services revenue	**1,100**	1,055	45	**4.3**
Network applications and services	**109**	78	31	**39.7**
Telstra Enterprise and Government				
Mobile services revenue	**513**	452	61	**13.5**
IP access and data services	**545**	535	10	**1.9**
Network applications and services	**456**	405	51	**12.6**

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

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

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

Half-year results and operations review - December 2011

Further details about the performance of our business segments follows:

Segment Information

From 1 August 2011, the retail customer sales and service workforce responsible for the consumer, business and enterprise and government customers was unified into one unit - Telstra Customer Sales & Service. This initiative was to execute on our strategy for customer sales and service excellence. For management reporting purposes, we continue to monitor performance on a segmented basis.

Telstra Consumer and Country Wide

Telstra Consumer and Country Wide (TC&CW) has benefited from our strategic investment to retain and grow customer numbers. We have seen strong growth in our customer base across the mobile, fixed broadband and pay TV portfolios, whilst the rate of PSTN customer loss has slowed. This customer growth has stimulated revenue growth with our TC&CW segment income increasing in the first half by 5.2% to $5,187 million.

Our TC&CW segment increased its mobile customer base by more than 626,000 in the first half. This was driven by growth across both handheld and mobile broadband and as a result, mobile services revenue increased by 14.4% from the prior corresponding period.

The decline in PSTN revenue was driven by lower calling volumes and customer numbers, however the decline of 7.1% was lower than the second half of last fiscal year. Fixed broadband revenue increased by 10.5% in the first half as a result of customer growth and improved ARPU which increased by 2.4% to $51.26. The success of our bundling strategy contributed to growth in fixed broadband SIOs of 88,000.

In the first half, costs reduced by 4.2% and underlying EBITDA contribution increased by 15.3% as we realised benefits from last year's strategic investments.

Telstra Business

Telstra Business (TB) is a business partner and one-stop shop providing communications solutions to small and medium enterprises (SMEs). Income in the first half was $2,365 million, a decline of 0.5% on the prior corresponding period, while EBITDA contribution declined by 3.1% to $1,744 million.

PSTN revenue declined by 9.3% as a result of customer disconnections and lower usage, although this was partially offset by growth in other fixed product offerings. Mobile services revenue increased by 4.3% as a result of increased customer acquisitions with the mobile customer base increasing by 117,000 in the first half. Network applications and services (NAS) revenue also grew strongly, increasing by 38.8% to $109 million.

Expenses increased by 7.4% due to higher carrier network outpayments and additional costs associated with customer acquisitions.

Telstra Enterprise and Government

Telstra Enterprise and Government (TE&G) is a leading provider of network based solutions and services to enterprise and government organisations in Australia and New Zealand. Income in this segment grew by 4.2% to $2,099 million while underlying EBITDA contribution increased by 2.7% to $1,680 million.

TE&G has delivered another strong mobile services revenue result with growth accelerating to 13.5% and the mobile customer base increasing by 213,000 in the first half, offset by an ARPU decline of 4.4%.

IP access and data services revenue grew by 1.9% while NAS revenue growth of 12.6% was driven by strong managed data networks revenue including the contribution from our iVision acquisition and project activity.

Expenses grew by 10.5% due to increased subscriber costs of acquisition to support our strategy to grow and retain the customer base.

Telstra Wholesale

Income generated from our Wholesale business declined by 5.1% to $1,069 million impacted by adverse regulatory pricing determinations and ongoing loss of resale revenue as customers migrate to the lower ARPU Unconditioned Local Loop (ULL) services.

Strong growth in ULL continues with 60,000 ULL SIOs added during the first half while Line Spectrum Sharing (LSS) SIOs declined by 8,000 over the same period as carriers migrated to ULL services.

Wholesale PSTN revenue declined by 13.3% driven by a reduction of 12,000 wholesale PSTN SIOs and continuing reductions in usage and adverse regulatory pricing, including removal of previous exemptions. Wholesale fixed broadband revenue fell by 12.0% led by a decline in wholesale ADSL SIOs.

External expenses increased by 5.2% led by higher network payments, driven by volume increases and higher labour costs. As a result of the combined revenue and expense movement, underlying EBITDA contribution fell by 5.8% to $988 million.

Telstra Operations

Telstra Operations is primarily a cost centre supporting the revenue generating activities of our other segments. The negative underlying EBITDA contribution increased by 0.2% in the current half and reflects the focus on our growth businesses such as NAS, with traditional areas such as network and IT areas showing reductions on the prior corresponding period.

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Sensis and TelstraClear

Refer to more detailed discussions in the major subsidiaries section beginning on page 25.

Telstra International Group

The Telstra International Group encompasses our international assets outside Australia and New Zealand as well as international gateways and points of presence in Australia and New Zealand. It includes CSL New World (CSLNW) which provides mobile services to the Hong Kong market, our mainland China businesses providing online advertising services in auto, IT and consumer electronics and mobile value added service segments. It also includes our Telstra Global business that manages our global networks (including the network assets acquired from Reach on 1 March 2011) and provides managed services across 1,300 points of presence throughout Australia, Asia Pacific, Europe, Africa and the Americas.

Since the completion of the Reach restructure last year we have undertaken a significant expansion of our presence across the region, with new carrier licenses in India, Singapore and Japan to support our corporate customers. Overall, our Telstra International Group income grew by 19.8% to $823 million and EBITDA contribution grew by 36.1% to $147 million. Our Telstra International Group also manages global services and connectivity on behalf of our domestic business units. Adjusting for associated intercompany revenue consolidated into the Telstra International Group as a result of the Reach transaction, Telstra International Group income grew 11.4% to $765 million and EBITDA contribution declined by 0.4% to $107 million.

CSLNW represents 53.0% of the Telstra International Group's income. CSLNW grew income by 2.8% to $436 million and mobile customers increased by 167,000 to 3.2 million in the half. For financial information about CSLNW please refer to the more detailed discussion in the major subsidiaries section beginning on page 25.

Other

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

Product profitability

The following table reflects our EBITDA margins on a product basis for selected product categories in our domestic business. These EBITDA margins are based on management estimates and are calculated in accordance with AASB 8: “Operating Segments” and reconcile with segment information.

We have seen a recovery in mobile EBITDA margin to 34% this half-year from 29% in the prior corresponding period. This improvement was expected and highlights the benefit of mobile customer growth in fiscal 2011 where we grew mobile revenue and customer share. Our mobile strategy now favours mobile repayment offers, which has also assisted mobile EBITDA margin expansion. Fixed Broadband EBITDA margin improved from 33% to 37% primarily due to customer growth in retail FBB across the last financial year. IP access and data services and PSTN product EBITDA margins remain consistent with prior periods.

As foreshadowed, Sensis' underlying EBITDA margin has declined significantly to 25%. The advertising and directories market's shift to digital marketing is occurring faster than we expected. This is having a significant impact on Sensis with Yellow Pages print revenues declining more than expected and digital demand is also taking longer to monetise than expected. Also contributing to the Sensis underlying EBITDA margin decline was the deferral of revenue attributable to the Perth Yellow Pages book into the second half of fiscal 2012. The impact of this timing difference on Sensis' underlying EBITDA is $47 million.

Product profitability - EBITDA margins

	Half-year ended		
	Dec 2011	Jun 2011	Dec 2010
Mobile	**34%**	35%	29%
Fixed Broadband	**37%**	33%	33%
PSTN	**60%**	59%	59%
IP access and data services	**59%**	61%	61%
Sensis	**25%**	65%	41%
Telstra Group	**38.3%**	43.8%	37.3%

Note: product margins represent management's best estimates.

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Billable traffic data (i)

	Half-year ended			Dec 11 vs Dec 10		Dec 11 vs Jun 11	
	Dec 2011 million	Jun 2011 million	Dec 2010 million	Change million	**Change %**	Change million	**Change %**
Fixed telephony							
Number of local calls	**1,576**	1,698	1,872	(296)	**(15.8)**	(122)	**(7.2)**
National long distance minutes	**2,420**	2,638	2,770	(350)	**(12.6)**	(218)	**(8.3)**
Fixed to mobile minutes	**1,503**	1,560	1,562	(59)	**(3.8)**	(57)	**(3.7)**
International direct minutes	**241**	250	260	(19)	**(7.3)**	(9)	**(3.6)**
Mobiles							
Mobile voice telephone minutes	**8,063**	7,096	6,416	1,647	**25.7**	967	**13.6**
Number of SMS sent	**5,882**	5,095	4,810	1,072	**22.3**	787	**15.4**

Services in operation (i)

		As at		Dec 11 vs Dec 10		Dec 11 vs Jun 11	
	Dec 2011	Jun 2011	Dec 2010	Change	**Change %**	Change	**Change %**
Fixed products ('000)							
Basic access lines in service							
Retail	**7,034**	7,158	7,298	(264)	**(3.6)**	(124)	**(1.7)**
Wholesale	**1,200**	1,212	1,235	(35)	**(2.8)**	(12)	**(1.0)**
Total basic access lines in service	**8,234**	8,370	8,533	(299)	**(3.5)**	(136)	**(1.6)**
Fixed broadband SIOs - retail	**2,519**	2,413	2,394	125	**5.2**	106	**4.4**
Fixed broadband SIOs - wholesale	**815**	869	919	(104)	**(11.3)**	(54)	**(6.2)**
ISDN access (basic line equivalents)	**1,313**	1,315	1,318	(5)	**(0.4)**	(2)	**(0.2)**
T-Hub® sales (life to date)	**271**	194	128	143	**111.7**	77	**39.7**
T-Box® sales (life to date)	**281**	192	107	175	**163.8**	89	**46.3**
Unconditioned local loop SIOs	**1,061**	1,001	914	147	**16.1**	60	**6.0**
Spectrum sharing services (ii)	**717**	725	741	(24)	**(3.2)**	(8)	**(1.1)**
Mobiles SIOs ('000)							
Postpaid handheld retail mobile	**6,400**	6,062	5,728	672	**11.7**	338	**5.6**
Total mobile broadband (data card)	**2,746**	2,310	1,970	776	**39.4**	436	**18.9**
Total wholesale mobile	**65**	74	80	(15)	**(18.8)**	(9)	**(12.2)**
Prepaid handheld unique users (iii)	**1,988**	1,921	1,943	45	**2.3**	67	**3.5**
Prepaid handheld retail mobile	**3,291**	3,193	3,207	84	**2.6**	98	**3.1**
M2M	**744**	658	577	167	**28.9**	86	**13.1**
Total pay TV bundling SIOs ('000)	**504**	508	513	(9)	**(1.8)**	(4)	**(0.8)**
Employee data							
Domestic full time staff (iv)	**30,405**	30,121	29,970	435	**1.5**	284	**0.9**
Full time staff and equivalents (iv)	**36,472**	35,790	35,729	743	**2.1**	682	**1.9**
Total workforce (iv)	**41,183**	40,630	41,404	(221)	**(0.5)**	553	**1.4**

Note: statistical data represents management's best estimates.

(i) Refer to each product section for more detailed data.
(ii) Excluded from wholesale broadband SIOs.
(iii) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.
(iv) Refer to the labour section on page 19 for definitions.

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Revenue

	Half-year ended 31 December			
	2011	2010	Change	**Change**
	$m	$m	$m	**%**
Fixed products				
PSTN products	**2,489**	2,736	(247)	**(9.0)**
Fixed broadband	**1,047**	1,036	11	**1.1**
ISDN products	**420**	447	(27)	**(6.0)**
Other fixed revenue (i)	**578**	608	(30)	**(4.9)**
Total fixed products	**4,534**	4,827	(293)	**(6.1)**
Mobiles				
Mobile services - retail	**3,262**	3,018	244	**8.1**
Mobile services - interconnection and wholesale	**476**	379	97	**25.6**
Total mobile services	**3,738**	3,397	341	**10.0**
Mobile hardware	**655**	566	89	**15.7**
Total mobiles	**4,393**	3,963	430	**10.9**
IP access and data services				
Specialised data	**148**	187	(39)	**(20.9)**
Global products	**58**	58	-	**0.0**
IP access	**514**	472	42	**8.9**
Wholesale internet and data	**181**	174	7	**4.0**
Total IP access and data services	**901**	891	10	**1.1**
Network applications and services	**579**	485	94	**19.4**
Offshore content and online content	**37**	47	(10)	**(21.3)**
Advertising and directories	**602**	804	(202)	**(25.1)**
CSL New World	**436**	424	12	**2.8**
TelstraClear	**255**	265	(10)	**(3.8)**
Other offshore services revenue	**194**	130	64	**49.2**
Pay TV bundling	**302**	286	16	**5.6**
Other sales revenue (ii)	**172**	141	31	**22.0**
Sales revenue	**12,405**	12,263	142	**1.2**
Other revenue (iii)	**14**	20	(6)	**(30.0)**
Total revenue	**12,419**	12,283	136	**1.1**
Other income (iv)	**82**	125	(43)	**(34.4)**
Total income	**12,501**	12,408	93	**0.7**

(i) Other fixed revenue includes premium calling products, Telstra operated payphones, customer premises equipment, narrowband, intercarrier services, Telstra information & connection services, card services and customNet and satellite products.
(ii) Other sales revenue includes $58 million relating to HFC cable usage (December 2010: $38 million).
(iii) Other revenue primarily consists of rental income.
(iv) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.

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Fixed products

PSTN

- PSTN revenue declined by 9.0% to $2,489 million as a result of lower usage and continued SIO loss
- The net decrease in PSTN SIOs of 136,000 for the first half of fiscal 2012 was lower than the 163,000 net decrease in the second half of fiscal year 2011
- Over 1.2 million customers are now on a bundled plan, an increase of 206,000 over the last six months

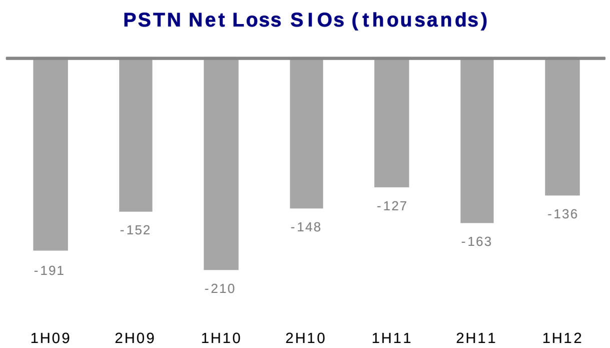
PSTN

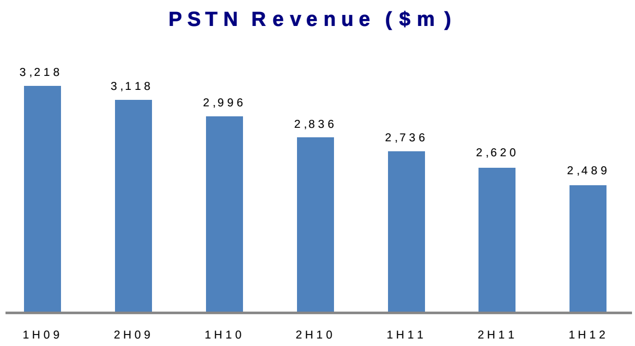
	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
PSTN revenue	**2,489**	2,736	(247)	**(9.0)**
PSTN retail versus wholesale revenue				
Retail	**2,213**	2,409	(196)	**(8.1)**
Wholesale	**276**	327	(51)	**(15.6)**
Basic access lines in service ('000)				
Retail	**7,034**	7,298	(264)	**(3.6)**
Wholesale	**1,200**	1,235	(35)	**(2.8)**
Total basic access lines in service	**8,234**	8,533	(299)	**(3.5)**
Average revenue per user per month ($'s)	**49.97**	53.04	(3.07)	**(5.8)**
Number of local calls (millions) (i)	**1,576**	1,872	(296)	**(15.8)**
National long distance minutes (millions) (i)	**2,420**	2,770	(350)	**(12.6)**
Fixed to mobile minutes (millions) (i)	**1,503**	1,562	(59)	**(3.8)**
International direct minutes (millions) (i)	**241**	260	(19)	**(7.3)**

Note: statistical data represents management's best estimates.

(i) Includes local calls, national long distance, fixed to mobiles 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.

PSTN revenue declined by 9.0% or $247 million to $2,489 million in the half. The rate of decline has increased, attributable to the loss of lines and lower usage across all calling categories. The number of local calls declined by 15.8%, while minutes of use for national long distance and fixed to mobile declined by 12.6% and 3.8% respectively. PSTN ARPU declined as a result of the falling usage and for the six months to December was $49.97, down 5.8% compared with the prior corresponding period.





A further 206,000 customers took up a bundled offer in the half and there are now 1.2 million customers on bundled plans. These bundled plans, which include a PSTN line and a fixed broadband product, helped deliver a lower absolute decline in PSTN SIOs of 136,000 in the first half. The growth in bundled plans has also stimulated growth in fixed broadband revenue.

Half-year results and operations review - December 2011

Fixed broadband

- Fixed retail broadband revenue (including hardware) grew by 5.8% to $835 million driven by strong customer growth and steady ARPU
- Fixed retail broadband customers increased by 106,000 in the first half of the year
- Cancellation rate fell to 14.1% compared with 17.3% from the prior corresponding period

Fixed broadband

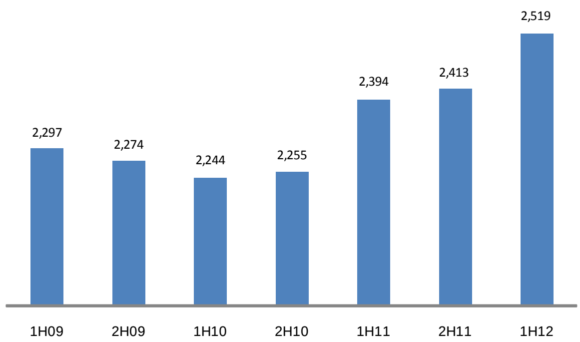
	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
- Fixed broadband - retail	**820**	781	39	**5.0**
- Fixed broadband - hardware	**15**	8	7	**87.5**
Total retail fixed broadband	**835**	789	46	**5.8**
Wholesale broadband	**185**	208	(23)	**(11.1)**
Spectrum sharing services	**13**	17	(4)	**(23.5)**
Internet VAS	**14**	22	(8)	**(36.4)**
Total fixed broadband revenue	**1,047**	1,036	11	**1.1**
Total fixed broadband SIOs - retail ('000)	**2,519**	2,394	125	**5.2**
Average fixed broadband retail revenue per SIO per month (excl hardware) ($'s)	**55.39**	55.97	(0.58)	**(1.0)**
Broadband SIOs - wholesale ('000)	**815**	919	(104)	**(11.3)**
Average broadband wholesale revenue per SIO per month ($'s)	**36.60**	36.08	0.52	**1.4**
Spectrum sharing services ('000) (excluded from wholesale SIOs)	**717**	741	(24)	**(3.2)**

Note: statistical data represents management's best estimates.

Fixed retail broadband revenue (including hardware) grew by 5.8% to $835 million, the strongest performance in over 2 years. Strong net growth in fixed retail broadband customers continued in the first half with the addition of 106,000 customers. Fixed retail broadband ARPU of $55.39 in the first half continues to hold up well despite the competitive environment, down by 1.0% from the prior corresponding period but up on the second half of fiscal 2011.

As part of our bundled offers, we have sold 271,000 T-Hub® and 281,000 T-Box® devices since launch, contributing to the value proposition in our fixed broadband offering.

Fixed Retail Broadband SIOs (thousands)



Wholesale broadband revenue fell by 11.1% to $185 million as the decline in wholesale DSL customers continues.

Wholesale broadband customers decreased by 54,000 in the first half, as customers migrate to ULL services. There are now 1.1 million ULL services in operation, an increase of 60,000 in the first half although at a slowing rate of uptake. LSS services declined by 8,000 in the first half, further reflecting the shift to ULL by competitors.

Total fixed broadband revenue increased by 1.1% to $1,047 million, a pleasing turnaround from the revenue decline of the previous three half-year periods, the improvement was driven by the retail business.

Fixed broadband EBITDA margin improved from 33% to 37% primarily due to customer growth in retail fixed broadband across the last financial year.

Half-year results and operations review - December 2011

ISDN and other fixed revenue

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
ISDN revenue	**420**	447	(27)	**(6.0)**
Other fixed revenue	**578**	608	(30)	**(4.9)**
ISDN average revenue per user per month ($'s)	**53.24**	56.76	(3.52)	**(6.2)**
ISDN access lines (basic access line equivalents) ('000)	**1,313**	1,318	(5)	**(0.4)**
Unconditioned local loop SIOs ('000)	**1,061**	914	147	**16.1**

Note: statistical data represents management's best estimates.

ISDN revenue declined by 6.0% to $420 million. The decline was predominately driven by call revenue which decreased by $21 million or 8.5% from the prior corresponding period as a result of product substitution, migration to other services including IP voice and data alternatives and competitive pressures.

Other fixed revenue decreased by 4.9% to $578 million. Customer premises equipment revenue decreased by 19.1% from the prior corresponding period. This was partially offset by intercarrier services revenue which increased by 8.1% with higher ULL SIOs and increased demand for mobile tower and exchange access and equipment.

Half-year results and operations review - December 2011

Mobiles

- Double digit mobile service revenue and total mobile revenue growth, with strong growth in postpaid handheld and mobile broadband
- Customer acquisition momentum continues with 958,000 services added in the half in our domestic business
- Another strong half for mobile hardware revenue growth, increasing by 15.7%
- Deactivation rate improves to 13.2% from 14.0% in first half of fiscal 2011

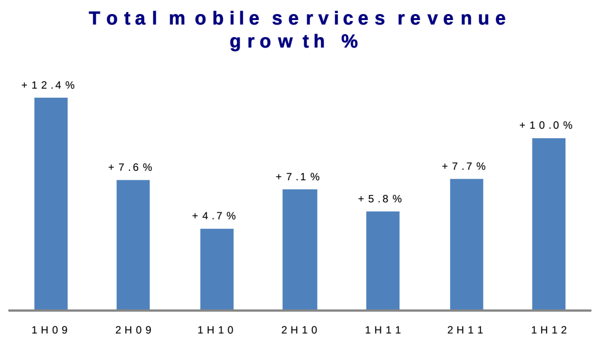
Mobiles

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
- Postpaid handheld	**2,384**	2,183	201	**9.2**
- Prepaid handheld	**345**	351	(6)	**(1.7)**
Total handheld	**2,729**	2,534	195	**7.7**
Mobile broadband	**493**	452	41	**9.1**
Machine to Machine (M2M)	**40**	32	8	**25.0**
Mobile services revenue - retail	**3,262**	3,018	244	**8.1**
Mobiles interconnection	**407**	306	101	**33.0**
Mobile services revenue - wholesale resale	**69**	73	(4)	**(5.5)**
Total mobile services revenue	**3,738**	3,397	341	**10.0**
Mobile hardware	**655**	566	89	**15.7**
Total mobile revenue	**4,393**	3,963	430	**10.9**
SIOs (at end of period) ('000)				
Postpaid handheld retail mobile SIOs	**6,400**	5,728	672	**11.7**
Prepaid handheld retail mobile SIOs	**3,291**	3,207	84	**2.6**
Mobile broadband SIOs	**2,746**	1,970	776	**39.4**
Machine to Machine (M2M) SIOs	**744**	577	167	**28.9**
Total retail mobile SIOs	**13,181**	11,482	1,699	**14.8**
Wholesale SIOs	**65**	80	(15)	**(18.8)**
Prepaid handheld unique users (3 month average of monthly users)	**1,988**	1,943	45	2.3
ARPUs ($'s)				
Blended average revenue per user (incl interconnection)	**48.14**	50.29	(2.15)	**(4.3)**
Postpaid handheld average revenue per user	**63.76**	65.23	(1.47)	**(2.3)**
Prepaid handheld average revenue per user	**17.74**	18.58	(0.84)	**(4.5)**
Mobile broadband average revenue per user	**32.50**	43.44	(10.94)	**(25.2)**
Machine to Machine (M2M) average revenue per user	**9.60**	9.66	(0.06)	**(0.6)**
Number of SMS sent (millions)	**5,882**	4,810	1,072	**22.3**
Number of MMS sent (millions)	**111**	66	45	**68.2**
Mobile voice telephone minutes (millions)	**8,063**	6,416	1,647	**25.7**
Postpaid handheld deactivation rate (annualised) (i)	**13.2%**	14.0%		**(0.8) pp**

Note: statistical data represents management's best estimates.

(i) In addition to the separation of M2M services from our handheld and mobile broadband base, we have also revised the methodology we use for determining our deactivation rate. Prior year comparatives have also been restated as a result.

Domestic mobile revenue grew by 10.9% or $430 million to $4,393 million.



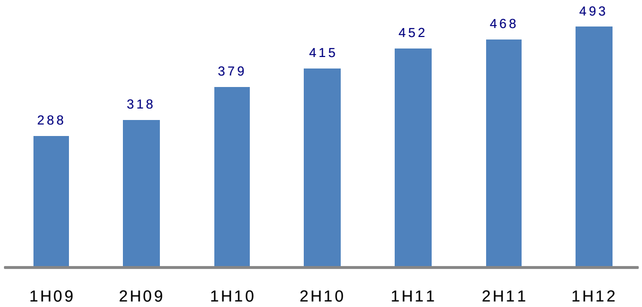
At the end of December 2011, total mobile customers were 13.2 million, up 958,000 in the half. Growth in mobile revenue was led by postpaid handheld with 6.4 million handheld customers at the end of December 2011, an increase of 338,000 in the half with churn continuing to be well managed as evidenced by a lower deactivation

Half-year results and operations review - December 2011

rate of 13.2%, down from 14.0% in the prior corresponding period. This has contributed to postpaid handheld revenue growth of 9.2% to $2,384 million. Growth in the postpaid category was led by strong sales in all smartphone categories.

Blended ARPU fell by 4.3% to $48.14 as a result of an increased penetration of lower ARPU services.

Mobile broadband revenue ($m)



Importantly however, postpaid handheld ARPU has remained relatively steady, declining by 2.3% to $63.76.

Mobile broadband revenue of $493 million grew by 9.1%. The growth rate is slightly lower than in previous halves with a continuing growth trend towards lower ARPU prepaid offerings. Mobile broadband customers at the end of December were 2.7 million, an increase of 436,000 in the half. Mobile broadband ARPU declined by 25.2% as a result of increased penetration of lower value prepaid plans including the increased popularity of tablets on these plans, together with lower priced postpaid offers in the half.

Another source of growth in the mobiles category is our machine to machine (M2M) product. A service is considered M2M if it is being used to support communications where remote machines are monitored and controlled by a central server such as SIM cards in vehicles to facilitate tracking and location of fleet for logistics operation. We also see the emergence of new M2M segments in connected consumer devices such as e-readers, personal navigation devices and entertainment options.

M2M revenue and customers were previously reported as part of postpaid handheld and mobile broadband, however given its importance, M2M is now being reported as a separate mobile category. Revenue grew by $8 million to $40 million, with M2M SIOs now at 744,000.

Mobile interconnection revenue increased by $101 million or 33.0% driven by increased SMS messages and voice minutes terminating on our wireless networks. The growth in interconnection revenue generated from SMS volumes is attributable in part to an increase in the number of postpaid handheld plans which include an unlimited SMS bundle.

We have seen significant growth in mobile EBITDA margin to 34% this half from 29% in the prior corresponding period. This improvement was expected and highlights the benefit of mobile customer growth in fiscal 2011 where we grew mobile revenue and customer share. Our go to market mobile strategy now favours mobile repayment offers, which has also assisted mobile EBITDA margin expansion.

Half-year results and operations review - December 2011

IP access and data services

- IP access revenue grew by 8.9% to $514 million as major customers continue to see the benefits of our Next IP™ network and migrate from legacy data networks
- Legacy specialised data product revenue declined by 20.9% to $148 million
- IP MAN SIOs increased by 8.7% and IP WAN SIOs increased by 6.0% as customers continue to migrate services to IP based products

IP access and data services

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Specialised data	**148**	187	(39)	**(20.9)**
Global products.	**58**	58	-	**0.0**
IP access	**514**	472	42	**8.9**
Wholesale internet and data	**181**	174	7	**4.0**
Total IP access and data services revenue	**901**	891	10	**1.1**
Domestic frame access ports ('000)	**13**	17	(4)	**(23.5)**
ADSL IP services in operation ('000)	**41**	39	2	**5.1**
Ethernet lite services in operation ('000)	**33**	28	5	**17.9**
IP MAN services in operation ('000)	**25**	23	2	**8.7**
IP WAN services in operation ('000)	**106**	100	6	**6.0**

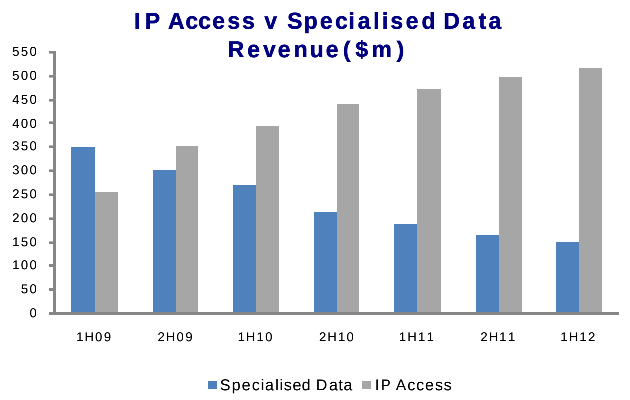
Note: statistical data represents management's best estimates.

IP access and data services revenue grew by 1.1% to $901 million, reversing the trend seen in the second half of last fiscal year where revenue fell by 0.3%. As the migration continues from legacy data networks to the Next IP network, specialised data continues to decline but the decline has been more than offset by IP access and wholesale internet and data revenue growth.

IP access revenue, which is predominantly made up of IP MAN and IP WAN revenue, increased by 8.9% to $514 million as customers continue to benefit from the scalability, security and reliability of the Next IP network, and the NEXT G® network for advanced applications and solutions.

IP MAN revenue grew by 13.9% to $303 million in the half and there are now 25,000 IP MAN services in operation. IP MAN provides customers with their own virtual private network using the IP protocol across a metropolitan area which can link two or more sites into the virtual private network. This allows sites to network with each other with access speeds of 2Mbps to 1,000Mbps.

Telstra's IP WAN solution is a high-quality managed service which provides businesses with a simple, cost-effective and secure means of interconnecting between metropolitan, regional and rural offices. IP WAN revenue increased by 2.4% to $126 million with SIOs also increasing by 6.0%.



Specialised data revenue declined by 20.9% for the half to $148 million with declines in all revenue categories including frame relay, digital data services and leased lines. While the rate of decline has improved compared to the previous halves, this is consistent with the continued transition to the Next IP network from legacy data networks.

Half-year results and operations review - December 2011

Network applications and services

- Growth in our network applications and services (NAS) portfolio continues with revenue growing by 19.4% supported by significant contract wins
- Unified communications revenue almost doubled to $100 million with the acquisition of iVision which contributed $34 million in the half

	Half-year ended 31 December			
	2011	2010	Change	**Change**
	$m	$m	$m	**%**
Network applications and services revenue	**579**	485	94	**19.4**

Our NAS business is a cornerstone of our strategy to invest in new growth businesses. We are executing on our NAS strategy by continuing to build offers and capability to evolve with our customers. This portfolio is focussed on delivering value-add services using our own high speed networks as opposed to just traditional carriage and includes high definition video conferencing and telepresence, IP telephony, cloud computing and managed data networks. For the half, network applications and services revenue grew by 19.4% or $94 million to $579 million.

Within this product category, managed network services revenue grew by 24.0%, or $75 million to $387 million. This was predominately due to strong growth in video conferencing with our acquisition of iVision on 31 March 2011 and strong growth in managed data networks. The latter is a result of increased professional services and project management revenue as some of our major customers have undergone major equipment updates. In addition we had significant contract wins in the half including Origin Energy and SA Health.

Our commercial recoverable and industrial works revenue also grew by 28.4% or $22 million to $99 million due to increased revenue from our "pit and pipe work" for new estate development combined with an increase in project work in the half.

Advertising and directories

	Half-year ended 31 December			
	2011	2010	Change	**Change**
	$m	$m	$m	**%**
Sensis advertising and directories revenue	**528**	695	(167)	**(24.0)**
Other advertising revenue	**74**	109	(35)	**(32.1)**
Total advertising and directories revenue	**602**	804	(202)	**(25.1)**

Our advertising and directories revenue is predominantly derived from our wholly owned company Sensis and its controlled entities. For a detailed description of the performance of Sensis please refer to the financial summary on page 25.

Other advertising revenue mainly consists of revenue from our Chinese advertising businesses and Trading Post. Chinese advertising revenue declined by $46 million to $53 million however this decline is predominantly attributable to the sale of SouFun which occurred in the first half of fiscal 2011.

Half-year results and operations review - December 2011

Offshore controlled entities

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
CSL New World	**436**	424	12	**2.8**
TelstraClear	**255**	265	(10)	**(3.8)**
Other offshore controlled entities revenue	**194**	130	64	**49.2**
Total offshore controlled entities revenue	**885**	819	66	**8.1**

For further details regarding the performance of CSL New World (CSLNW) and TelstraClear, please refer to their respective business summaries commencing on page 27 and 28. Revenue from total offshore controlled entities increased by $66 million for the half-year or 8.1% to $885 million. This increase includes a $46 million impact as a result of foreign currency changes.

Other offshore controlled entities revenue increased by $64 million and includes a foreign currency translation decline of $5 million. Asia recorded an $80 million increase associated with the acquisition of assets under the restructure of our Reach network assets arrangements effective 28 February 2011. Europe revenues have reduced by $13 million due mainly to the sale of part of our UK voice business in the prior year, together with unfavourable churn in data and voice products.

Half-year results and operations review - December 2011

Pay TV bundling

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Pay TV bundling revenue	**302**	286	16	**5.6**
Total pay TV bundling SIOs ('000)	**504**	513	(9)	**(1.8)**
Total pay TV ARPU ($)	**99.37**	93.80	5.57	**5.9**

Note: statistical data represents management's best estimates.

Total pay TV bundling revenue increased by 5.6% to $302 million. While pay TV bundling SIOs reduced in the half by 4,000 to 504,000, this was more than offset by an improvement in ARPU which increased by 5.9% to $99.37. This was as a result of pricing reviews and the strong sales activity of the premium Platinum iQ and Platinum HD packages.

Other income

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Proceeds from asset and investment sales	**32**	510	(478)	**(93.7)**
Cost of asset and investment sales	**33**	440	(407)	**(92.5)**
Net gain (loss) on assets/investment sales	**(1)**	70	(71)	**(101.4)**
USO levy receipts and subsidies	**35**	38	(3)	**(7.9)**
Miscellaneous income	**48**	17	31	**182.4**
Other income	**83**	55	28	**50.9**
Total other income	**82**	125	(43)	**(34.4)**

Other income decreased by 34.4% largely driven by asset sales in the prior corresponding period. In the first half of fiscal 2012 we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd, our advertising workflow and distribution company, for $24 million. Payment of the consideration has been deferred for a period of up to two years. In fiscal 2011 we sold SouFun, our interest in Keycorp Ltd, and Telstra Ltd's non-core voice business in the UK.

Other miscellaneous income grew by 182.4% or $31 million due to the write back in fiscal 2012 of the final deferred consideration amount payable for the acquisition of LMobile partially offsetting the impairment of goodwill in other expenses following a further review of estimated future cash flows.

Half-year results and operations review - December 2011

Expenses

Labour

- The impact of bond rate movements has driven the increase in salary and associated costs
- The decrease in redundancy costs was driven by a business simplification program undertaken in the prior corresponding half

Labour

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Salary and associated costs	**1,812**	1,640	172	**10.5**
Redundancy	**83**	161	(78)	**(48.4)**
Other labour expenses	**204**	187	17	**9.1**
Total labour	**2,099**	1,988	111	**5.6**
Domestic full time employees (whole numbers) (i)	**30,405**	29,970	435	**1.5**
Full time employees and employed equivalents (whole numbers) (ii)	**36,472**	35,729	743	**2.1**
Total workforce, including contractors and agency staff (whole numbers) (iii)/(iv)	**41,183**	41,404	(221)	**(0.5)**

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) December 2010 total workforce Full Time Equivalents (FTEs) has been adjusted to reflect an additional 593 agency staff within the CSLNW business not previously recognised in our reported results. Additionally, we have included 979 predominantly IT professional services staff in our December 2010 total workforce FTE number (June 2011: 230). These staff have progressively had their employee instruments converted since the prior corresponding period. Expenses for these staff were captured within service contracts and agreements in the other expenses category for the half-year ending December 2010.

Labour expenses increased by 5.6% or $111 million from the prior corresponding period predominantly due to increased salary and associated costs, partially offset by a decline in redundancy expenses.

Salary and associated costs increased by 10.5% or $172 million from the prior corresponding period. This included the impact of bond rate movements which resulted in a $107 million increase to our long service leave provision as well as a $19 million impact on workers compensation. Excluding the impact of bond rate movements, salary and associated costs increased by 2.8%. Total labour costs would also have declined by 0.8% on this basis.

Short-term incentive provisions increased from the prior year whilst additional resources dedicated to support NAS growth and the acquisitons of Reach ($16 million) and iVision ($10 million) also contributed to the increase.

In the second half of fiscal 2011, we commenced a program to convert the employment instruments of a group of predominantly IT professional services staff. These conversions have had the impact of increasing our salary and associated costs by $16 million and other labour expenses by $27 million in the half. In the prior corresponding period, these costs were included as part of our service contracts and agreements in the other expense category.

Redundancy expenses declined by 48.4% following a significant investment to simplify the business in the prior half with a reduction of management layers as well as improved efficiencies within service delivery. The current half has seen the consolidation of previous activity with smaller redundancy programmes being undertaken.

Total workforce numbers decreased by 221 from the prior half with the continued focus on improving customer experience and service levels resulting in reductions to inbound call volumes and staff levels required to service this area. These reductions combined with productivity improvements were partially offset by increases in our workforce following the Reach demerger and iVision acquisition.

On an absolute basis, labour expenses have increased however our initiatives to simplify our operating model and drive cost productivity in our sales revenue to labour and labour substitution ratio, is delivering underlying benefits. Excluding the $126 million impact on labour costs from bond rate movements, we have seen an improvement in this ratio from the prior half.

Half-year results and operations review - December 2011

Goods and services purchased

- Goods and services purchased was flat compared to the prior corresponding period with a decline in cost of goods sold offset by an increase in network payments due to higher customer numbers

Goods and services purchased

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Cost of goods sold	**1,289**	1,410	(121)	**(8.6)**
Usage commissions	**134**	142	(8)	**(5.6)**
Network payments	**1,050**	946	104	**11.0**
Service fees	**346**	333	13	**3.9**
Managed services	**54**	74	(20)	**(27.0)**
Dealer performance commissions	**49**	53	(4)	**(7.5)**
Paper purchases and printing	**19**	39	(20)	**(51.3)**
Other	**220**	151	69	**45.7**
Total goods and services purchased	**3,161**	3,148	13	**0.4**

Goods and services purchased increased by 0.4% or $13 million from the prior corresponding period as our focus on customer growth continues and we see higher offnet usage from our increasing customer base.

Cost of goods sold (which includes the cost of mobile handsets, wireless devices and fixed/digital products sold) decreased by 8.6% or $121 million, driven by a reduction in subsidised volumes due to a change in the products/plans available with a greater number of customers moving onto mobile repayment option (MRO) offerings. This was partially offset by an increase in hardware costs with mobile hardware revenue also showing strong growth of 15.7%. We continue our strong momentum with higher sales volumes and increased smartphone penetration with a 958,000 increase in domestic mobile services this half supporting mobile revenue growth of 10.9%.

Network payments increased by 11.0% or $104 million driven by growth in domestic carrier network outpayments resulting from higher SMS and MMS offnet volumes as well as increases in mobile voice terminating offnet volumes.

Other goods and services purchased increased by 45.7% or $69 million predominantly driven by a progressive change in dealer remuneration plans completed in April 2011 (partially offset by a decrease in postpaid usage commissions) and higher service provider payments in Sensis for online search royalties in line with revenue increases.

Managed services decreased by 27.0% or $20 million mainly due to project work undertaken in the prior corresponding period which has not been repeated in the current half.

Paper purchases and printing decreased by 51.3% or $20 million mainly within the Sensis business driven by lower print advertising activity whilst a later release date of the Perth Metro Yellow Pages book also contributed to the decline.

Service fees increased by 3.9% or $13 million from the prior corresponding period to support strong pay TV revenue growth of 5.6%.

Half-year results and operations review - December 2011

Other expenses

- A sustained focus on improving our customer experience has resulted in decreased call volumes, combined with renegotiated supplier contracts has helped deliver an 11.8% decline in service contracts and other agreements
- The decline in impairment and diminution expenses was driven by lower goodwill impairment charges with the current half including an impairment against our LMobile Group investment amounting to $56 million. There is an offsetting amount of $33 million included within other income due to the write back of the final contingent consideration amount payable, resulting in a net impact to EBITDA of $23 million from this write down.

Other expenses

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Property, motor vehicle and IT rental expense	**293**	276	17	**6.2**
Net foreign currency conversion losses / (gains)	**3**	2	1	**50.0**
Service contracts and other agreements	**1,059**	1,200	(141)	**(11.8)**
Promotion and advertising	**176**	198	(22)	**(11.1)**
General and administration	**493**	450	43	**9.6**
Other operating expenses	**201**	215	(14)	**(6.5)**
Impairment and diminution expenses	**266**	352	(86)	**(24.4)**
Total other expenses	**2,491**	2,693	(202)	**(7.5)**

Total other expenses decreased by 7.5% or $202 million primarily driven by lower costs in service contracts and agreements and a lower impairment charge this half.

Service contracts and agreements decreased by 11.8% or $141 million with lower inbound customer call volumes a key outcome from the continued focus on improving customer service through the ongoing investments made in this area. Additional savings were achieved with the renegotiation of contracts with external suppliers. A continued conversion of employment instruments for predominantly IT professional staff has also contributed to the decrease with a corresponding increase in labour costs in the current half amounting to $43 million. Within service contracts and agreements, the group of costs we monitor as labour substitution also declined by 15.2% or $81 million to $450 million.

Impairment and diminution expenses decreased by 24.4% or $86 million from the prior corresponding period driven by a reduction in goodwill impairment charges. The current half included an impairment of our investment in the LMobile Group of $56 million partially offset by an amount included within other income of $33 million for the write back of the final contingent consideration amount payable, resulting in a net impact to EBITDA of $23 million from this write down. The prior half included an impairment charge of $133 million against our Octave investment.

Bad and doubtful debts expense also declined due to lower levels of consumer debt defaults and an improved remediation of long outstanding debt, partially offset by an increase in inventory impairment relating to slow moving stock.

Promotion and advertising expenses decreased by 11.1% or $22 million. Domestically, media spend decreased across our postpaid, prepaid, T-Box, and bundling promotions following significant investment in the prior corresponding period. Internationally, expenditure increased following a branding campaign for our China Media businesses along with an aggressive sales campaign for CSLNW.

Partially offsetting the above declines, general and administration expenses increased by 9.6% or $43 million driven by higher accommodation costs as a result of floods and cyclone activity and increased light and power costs due to a Federal Government emissions initiative implemented in January 2011.

Half-year results and operations review - December 2011

Share of net profit from jointly controlled and associated entities

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Share of net profit from jointly controlled and associated entities	**-**	(1)	1	**n/m**

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

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

As at 31 December 2011, our carried forward losses from our share of FOXTEL amounted to $79 million compared to $132 million at 30 June 2011. The decrease of $53 million during the current half-year is due to our share of FOXTEL's profit for the period of $53 million.

Our share of carried forward losses in Reach and Australia-Japan Cable as at 31 December 2011 were $558 million and $143 million respectively.

Depreciation and amortisation

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Depreciation	**1,661**	1,708	(47)	**(2.8)**
Amortisation	**525**	496	29	**5.8**
Total depreciation and amortisation	**2,186**	2,204	(18)	**(0.8)**

Total depreciation and amortisation has decreased by 0.8% or $18 million from the prior corresponding period.

Depreciation declined by 2.8% or $47 million from the prior half-year, driven by lower depreciation for other plant and equipment and communications plant. The decrease was driven by extensions to the service lives as part of the continual review of the asset base, asset retirements and slightly lower investment levels in plant and equipment from the prior half-year.

Amortisation expense increased by 5.8% or $29 million predominantly due to software additions and improvements to our asset base comprising customer relations, workflow management applications, network operations management and our billing systems.

Half-year results and operations review - December 2011

Net finance costs

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Borrowing costs	**558**	571	(13)	**(2.3)**
Finance leases	**6**	6	-	**0.0**
Finance Income	**(53)**	(46)	(7)	**15.2**
Net Borrowing Costs	**511**	**531**	**(20)**	**(3.8)**
Unwinding of discount on liabilities recognised at present value	**8**	11	(3)	**(27.3)**
(Gain)/loss on fair value hedges - effective	**(27)**	32	(59)	**(184.4)**
(Gain)/loss on cashflow hedges - ineffective	**(2)**	4	(6)	**(150.0)**
(Gain)/loss on transactions not in a designated hedge relationship or de-designated from fair value hedge relationships	**(34)**	75	(109)	**(145.3)**
Other	**4**	8	(4)	**(50.0)**
Capitalised interest	**(64)**	(90)	26	**(28.9)**
Net finance costs	**396**	**571**	**(175)**	**(30.6)**

Net finance costs decreased by 30.6% or $175 million from the prior corresponding period.

The decrease in net interest on borrowings of $20 million during the period principally arises from a reduction in the volume of average net debt. The average yield on average net debt during the 6 months to 31 December 2011 was 6.95% (31 December 2010: 6.94%). The steady yield reflects a combination of an increase in refinancing margins on term debt issued during the period offset by reductions in short-term market base interest rates period on period.

The movement in (gain)/loss on transactions not in or de-designated from fair value hedge relationships and (gain)/loss on fair value hedges reflects valuation impacts. These include movements in base market interest rates and borrowing margins as at 31 December valuation date and the impact from net present value calculations as borrowings move closer to maturity. Unrealised gains in the current half-year reflect a widening of our borrowing margins.

Valuation impacts also applicable to transactions not in or de-designated from fair value hedge relationships include the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value).

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

Our level of capitalised interest has decreased by $26 million from the prior corresponding period due to a progressive decrease in the value of the qualifying asset base for which borrowing costs are capitalised.

Half-year results and operations review - December 2011

Income tax expense and franking account

- The increase in our income tax expense has been driven by a more profitable half-year result

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Income tax expense	**689**	598	91	**15.2**
Effective tax rate	**31.8%**	33.1%		**(1.3) pp**

Income tax expense increased by $91 million in the half largely due to an increase in profit during the period with the notional income tax expense on profit increasing by $109 million as a consequence.

Our franking account balance was $89 million in deficit at the end of December 2011. Our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, is sufficient to fully frank our interim 2012 dividend.

Half-year results and operations review - December 2011

Major subsidiaries - financial summaries

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

Sensis financial summary(i)(ii)

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Sales revenue	**528**	695	(167)	**(24.0)**
Total income	**528**	696	(168)	**(24.1)**
Operating expenses (excl. depreciation and amortisation)	**398**	408	(10)	**(2.5)**
EBITDA contribution	**130**	288	(158)	**(54.9)**
Depreciation and amortisation	**59**	59	-	**0.0**
EBIT contribution	**71**	229	(158)	**(69.0)**
Capital expenditure	**52**	55	(3)	**(5.5)**
EBITDA margin on sales revenue	**24.6%**	41.4%		**(16.8) pp**

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

(i) The above prior period results differ from the segment results reported on page 5 as our Sensis Digital Media business was transferred to our Telstra Innovation, Products and Marketing business unit in July 2011. These results are included in our Sensis results for the half year ending December 2010 and have been restated for our internal segment result.

Sensis total income is split into the following categories:

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
- Yellow Pages revenue	**248**	383	(135)	**(35.2)**
- White Pages revenue	**191**	189	2	**1.1**
- Voice	**67**	66	1	**1.5**
- Other revenue	**22**	57	(35)	**(61.4)**
Total Sensis advertising and directories	**528**	695	(167)	**(24.0)**
- Other income	**-**	1	(1)	**(100.0)**
Sensis total income	**528**	696	(168)	**(24.1)**

(ii) $11m of other sales revenue in the prior year relating to Location and Navigation has now been reclassified to sales revenue within the "other revenue" category.

Sensis is our advertising subsidiary which helps you find, buy and sell through service offerings including Yellow Pages®, White Pages®, Citysearch®, Whereis® and Quotify®.

In March 2011, Sensis launched a digital strategy to deliver long term profitable growth. This strategy is designed to help Australian buyers and sellers benefit from the rapidly evolving digital environment. In particular, this strategy seeks to empower small business advertisers with competitive marketing solutions. The speed of the migration of our customer base from traditional print products to digital has had a significant impact on Sensis' financials in the first half of the fiscal year.

Total income declined by 24.1% to $528 million and EBITDA contribution declined by 54.9% to $130 million for the half. These results were impacted by the timing of revenue recognition of the Perth Yellow Pages book which was previously recognised in the first half of the fiscal year and this year will be recognised in January, representing an impact of $53 million on total income and $47 million on EBITDA contribution in the current half. Adjusting for this timing difference, total income declined by 16.5% and EBITDA contribution declined by 38.6%. This adjusted result is mainly driven by the reduction in revenue from Yellow Pages of 21.3%, primarily due to decline in print revenues.

The market's shift to digital marketing is occurring faster than expected, caused by higher cancellations and in turn driving declining yields as customers migrate their advertising solutions. New business has also been impacted as sales have taken longer than expected to complete. Growth in Yellow Pages digital revenue of 7.0% was driven by an increase in take up of digital products as a result of the digital strategy. Digital demand is taking longer to monetise than expected due to longer than expected sales completion times.

Half-year results and operations review - December 2011

White Pages revenue increased by 1.1% from the prior corresponding period to $191 million. This was driven by an increase of 18.0% in White Pages online revenue due to growth in the number of customers taking the online package product. White Pages print revenue was flat compared to the prior corresponding period.

Operating expenses declined by 2.5%, this decline was partially driven by the timing of distribution of the Perth Yellow Pages book amounting to $6 million. After adjusting for this, operating expenses decreased by 0.9%. Initial costs of the transition to our digital strategy have been incurred due to additional time required to educate customers on the new digital products and to create the digital content.

Half-year results and operations review - December 2011

CSL New World financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2011 A$m	2010 A$m	**Change %**	**2011 HK$m**	2010 HK$m	**Change %**
Sales revenue	**436**	424	**2.8**	**3,496**	3,122	**12.0**
Total income	**436**	424	**2.8**	**3,496**	3,124	**11.9**
Operating expenses (excl. depreciation & amortisation)	**333**	349	**(4.6)**	**2,672**	2,568	**4.0**
EBITDA contribution	**103**	75	**37.3**	**824**	556	**48.2**
Depreciation and amortisation	**40**	45	**(11.1)**	**297**	307	**(3.3)**
EBIT contribution	**63**	30	**110.0**	**527**	249	**111.6**
Capital expenditure	**17**	20	**(15.0)**	**130**	155	**(16.1)**
EBITDA margin on sales revenue	**23.6%**	**17.7%**	**5.9 pp**	**23.6%**	17.8%	**5.8 pp**
Mobile SIOs ('000)				**3,160**	2,619	**20.7**

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

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

Revenue in local currency grew by 12.0% driven by strong customer additions from the introduction of new device bundles and competitive mobile plans. Mobile customers increased 167,000 to 3.2 million in the half.

Operating expenses, (excluding depreciation and amortisation), grew by 4.0% in local currency, with margin improvement in both cost of sales and cost of services keeping the increase below that of revenue.

In local currency, EBITDA contribution improved by 48.2% due to the impact of the new device bundle rate plans supplemented by cost control measures exercised over operating expenses.

The period on period change in the HKD/AUD exchange rate resulted in a decrease in consolidated total income of A$41 million which was partially offset by a corresponding decrease in expenses (including depreciation and amortisation) of A$35 million.

Capital expenditure decreased by 16.1% in HK$ with the decrease being mainly due to the high spend last year to complete the long term evolution (LTE) network build.

Half-year results and operations review - December 2011

TelstraClear financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2011 A$m	2010 A$m	**Change %**	**2011 NZ$m**	2010 NZ$m	**Change %**
Sales revenue	**255**	265	**(3.8)**	**327**	340	**(3.8)**
Total income	**255**	265	**(3.8)**	**327**	340	**(3.8)**
Operating expenses (excl. depreciation & amortisation)	**208**	225	**(7.6)**	**266**	289	**(8.0)**
EBITDA contribution	**47**	40	**17.5**	**61**	51	**19.6**
Depreciation and amortisation	**56**	57	**(1.8)**	**68**	70	**(2.9)**
EBIT contribution	**(9)**	(17)	**(47.1)**	**(7)**	(19)	**(63.2)**
Capital expenditure	**28**	27	**3.7**	**37**	36	**2.8**
EBITDA margin on sales revenue	**18.4%**	15.1%	**3.3 pp**	**18.7%**	15.0%	**3.7 pp**

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, revenue (excluding trans Tasman intercompany revenue) declined by 3.8% in local currency. In an already highly competitive market, the Christchurch earthquakes and regulated mobile price decreases contributed to this reduction.

A tightening of the business market and pressure from both competitor and regulated mobile price decreases has resulted in a 3.5% decrease in Business & Government revenues and a 5.7% decline in Consumer revenue compared to the prior corresponding period.

Operating expenses (excluding depreciation and amortisation) fell by 8.0% in local currency. This is as a result of targeted saving programmes however this was partly offset by an increase in bad and doubtful debts expense reflecting the challenging economic environment.

In A$, we saw a 3.8% reduction in total income to A$255 million. With adjustments on consolidation and the fall in operating costs, EBITDA contribution increased by 17.5% in the half to A$47 million.

The movement in the NZD/AUD cross exchange rate has not materially impacted either the consolidated total income or operating expenses (including depreciation and amortisation) for the period.

Capital expenditure grew by 2.8% in local currency and is mainly due to the investment required to rebuild the Christchurch network infrastructure following the earthquakes. In addition, there was an increase in new product development in readiness for the forthcoming UFB (Ultra Fast Broadband) environment.

On a standalone basis, adjusted for intercompany revenues, total income reduced by 4.0% and EBITDA increased by 11.3%.

TelstraClear standalone financial results

	Half-year ended 31 December		
	2011 NZ$m	2010 NZ$m	**Change %**
Total income	**339**	353	**(4.0)**
Operating expenses (excl. depreciation & amortisation)	**270**	291	**(7.2)**
EBITDA	**69**	62	**11.3**
Depreciation and amortisation	**68**	70	**(2.9)**
EBIT	**1**	(8)	**(112.5)**
Capital expenditure	**37**	36	**2.8**
EBITDA margin on sales revenue	**20.4%**	17.6%	**2.8 pp**

Half-year results and operations review - December 2011

Statement of financial position

- Given the strength of our balance sheet and debt maturity profile we continue to be able to borrow from the market on competitive terms

Statement of financial position

	As at			
	31 Dec 11 $m	30 Jun 11 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**3,035**	2,630	405	**15.4**
Other current assets	**5,291**	4,823	468	**9.7**
Total current assets	**8,326**	7,453	873	**11.7**
Non current assets				
Property, plant and equipment	**21,388**	21,790	(402)	**(1.8)**
Intangible assets	**7,631**	7,627	4	**0.1**
Other non current assets	**1,435**	1,043	392	**37.6**
Total non current assets	**30,454**	30,460	(6)	**(0.0)**
Total assets	**38,780**	37,913	867	**2.3**
Current liabilities				
Borrowings	**3,321**	1,990	1,331	**66.9**
Other current liabilities	**7,197**	7,000	197	**2.8**
Total current liabilities	**10,518**	8,990	1,528	**17.0**
Non current liabilities				
Borrowings	**11,579**	12,178	(599)	**(4.9)**
Other non current liabilities	**5,080**	4,453	627	**14.1**
Total non current liabilities	**16,659**	16,631	28	**0.2**
Total liabilities	**27,177**	25,621	1,556	**6.1**
Net assets	**11,603**	12,292	(689)	**(5.6)**
Equity				
Equity available to Telstra entity shareholders	**11,381**	12,074	(693)	**(5.7)**
Non-controlling interests	**222**	218	4	**1.8**
Total equity	**11,603**	12,292	(689)	**(5.6)**

Our balance sheet remains in a healthy state with net assets of $11,603 million. During the period we have refinanced several borrowings through a number of capital raisings in debt markets including a Euro public bond issue in November 2011 of A$1,002 million (€750 million) with a maturity of May 2022.

Major balance sheet movements included:

- other current assets increased by 9.7% partially due to an increase in trade debtors associated with international settlement payments and a variation to the standard contract length for voice customers in the Telstra International Group resulting in an increase in the level of outstanding debt. Increased customer acquisition activity also impacted trade debtors and has seen us holding a greater level of inventory to support sales;

- property, plant and equipment is lower mainly due to a reduction in our overall capital program expenditure compared with the peaks of our transformation program in recent years. Reductions include communication plant assets for our core, fixed and mobile access networks as ongoing depreciation and retirements exceed the level of additions;

- other non current assets increased as a result of an increase in the value of derivative assets, due to net foreign currency and other valuation impacts arising from measuring to fair value, together with an increase in trade and other receivables due to mobile and fixed repayment option debt associated with our higher sales activity;

- total current and non current borrowings increased by $732 million due to an increase of $839 million from refinancing and borrowing repayments, finance lease additions of $22 million and bank overdraft of $25 million. This was partly offset by net non-cash revaluation gains of $154 million (offset by revaluation losses on our derivative instruments which are included in other liabilities). The non-cash revaluation gains are due to net gains from foreign currency movements and also reflect revaluations to fair value on a portion of our borrowings in fair value hedges;

- other current liabilities increased due to higher trade creditors primarily associated with international settlement payments, increased tax liabilities due to the timing of instalments, increased revenues received

Half-year results and operations review - December 2011

in advance primarily related to the timing of recognition of the Sensis Perth Yellow Pages book revenue and an increase in employee leave provisions as a result of bond rate changes. This was partly offset by a decrease in derivative liabilities; and

- other non current liabilities increased due to higher defined benefit pension and derivative liabilities, partly offset by a decrease in tax liabilities mainly due to the recognition of a defined benefit superannuation loss.

In the period we have reclassified long service leave balances where we do not have an unconditional right to defer settlement from non current to current liabilities. We have restated our prior year comparative to reflect this change. Our current liabilities at 30 June 2011 increased by $452 million and our non current liabilities reduced by $452 million. Whilst this is how we are required to present the long service leave provision in the balance sheet we do expect $538 million of long service leave to be settled after 12 months.

Our gross debt position at 31 December 2011 was $17,108 million, an increase of $876 million from 30 June 2011. The increase is due to a net financing increase of $866 million, a net non-cash revaluation loss of $4 million and $22 million of finance lease additions, partly offset by other movements of $16 million. The net financing increase of $866 million comprises $1,409 million from the issue of long-term debt for refinancing purposes and a $39 million increase in short-term borrowings (unsecured promissory notes) and non-current bank deposits. This was offset by reductions of $557 million for long-term debt maturities and $25 million finance lease repayments.

The increase in cash and cash equivalents of $405 million includes a net gain of $16 million for the effect of exchange rate movements and reflects our general strategy to hold higher levels of liquidity. Also included in this cash movement is $7 million for the net cash portion of Adstream assets sold which was included in current assets held for sale in June 2011. There has also been a bank overdraft increase of $25 million in current liabilities. Adjusting for the cash portion of assets sold and the bank overdraft the net increase in cash and cash equivalents and bank overdraft is $373 million.

Net debt at 31 December 2011 was $14,098 million which reflects an increase of $503 million from 30 June 2011, consistent with our annual profiling where second half cash flows are typically stronger than the first half. The net debt increase comprises the net increase in cash and cash equivalents of $373 million, offset by higher gross debt of $876 million. Our net debt gearing ratio (net debt to capitalisation) increased from 52.5% as at 30 June 2011 to 54.9% as at 31 December 2011.

Half-year results and operations review - December 2011

Capital expenditure

- Accrued capex increased by 18.2% to $1,715 million driven by a higher first half program including an increase in demand driven programs following customer growth and demand for wireless data

Operating capex by investment driver on an accruals basis

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
New revenue/growth	**163**	126	37	**29.4**
Business improvement	**275**	237	38	**16.0**
Customer demand and experience	**996**	746	250	**33.5**
Lifecycle maintenance	**142**	187	(45)	**(24.1)**
Legal and regulatory compliance	**1**	4	(3)	**(75.0)**
Sensis	**52**	55	(3)	**(5.5)**
International	**86**	96	(10)	**(10.4)**
Operating capital expenditure	**1,715**	1,451	264	**18.2**

Our operating capital expenditure increased by 18.2% to $1,715 million as at 31 December 2011 with a higher first half program mainly due to the following categories:

- customer demand and experience increased by $250 million this year reflecting significant spend on network capacity upgrades to address increased wireless data traffic growth and on new initiatives designed to support emerging opportunities;

- business improvement spend increased by $38 million from the prior corresponding period principally due to a range of new products and IT initiatives relating to the NBN transition program that will enable our participation in an NBN environment; and

- new revenue/growth spend increased by $37 million due principally to the continued investment in our cloud network computing platform as part of our network applications and services strategy.

Partly offsetting the above are decreases in the following categories:

- lifecycle maintenance expenditure decreased by $45 million this year following the purchase of an enterprise licence agreement to cover our long term software requirements in the prior corresponding half not repeated in the current period; and

- the international program spend decreased by $10 million following significant transmission capacity acquisitions in fiscal 2011 and reduced spend in CSLNW on the long term evolution implementation program.

Half-year results and operations review - December 2011

Cash flow summary

- Free cashflow from operating and investing activities was $1,795 million for the half representing a decline of 11.1% driven by the prior year inclusion of net proceeds from the sale of investments after the sale of Soufun

Cashflow summary

	Half-year ended 31 December			
	2011 $m	2010 $m	Change $m	**Change %**
Cashflows from operating activities				
Receipts from customers (inclusive of GST)	**13,527**	13,487	40	**0.3**
Payments to suppliers and to employees (inclusive of GST)	**(8,909)**	(9,294)	385	**(4.1)**
Net cash generated by operations	**4,618**	4,193	425	**10.1**
Income taxes paid	**(800)**	(758)	(42)	**5.5**
Net cash provided by operating activities	**3,818**	3,435	383	**11.1**
Cashflows from investing activities				
Payments for property, plant and equipment	**(1,777)**	(1,385)	(392)	**28.3**
Payments for intangible assets	**(360)**	(446)	86	**(19.3)**
Capital expenditure	**(2,137)**	(1,831)	(306)	**16.7**
Proceeds from asset sales and finance leases	**34**	79	(45)	**(57.0)**
Proceeds from sale of shares in controlled entities	**(6)**	288	(294)	**(102.1)**
Repayments/loans to jointly controlled and associated entities	**(1)**	3	(4)	**(133.3)**
Interest received	**48**	35	13	**37.1**
Settlement of hedges of net investments	**39**	5	34	**680.0**
Dividends received from SouFun	**-**	6	(6)	**(100.0)**
Net cash used in investing activities	**(2,023)**	(1,415)	(608)	**43.0**
Operating cashflows less investing cashflows	**1,795**	2,020	(225)	**(11.1)**
Cashflows from financing activities				
Movements in borrowings	**891**	932	(41)	**(4.4)**
Repayment of finance lease principal amounts	**(25)**	(35)	10	**(28.6)**
Staff repayments of share loans	**2**	4	(2)	**(50.0)**
Finance costs paid	**(559)**	(547)	(12)	**2.2**
Dividends paid to equity holders of Telstra Entity	**(1,738)**	(1,737)	(1)	**0.1**
Dividends paid to non-controlling interests	**(9)**	(13)	4	**(30.8)**
Net cash used in financing activities	**(1,438)**	(1,396)	(42)	**3.0**
Net increase in cash and cash equivalents	**357**	624	(267)	**(42.8)**

Net cash provided by operating activities

Net cash from operating activities increased by $383 million or 11.1%.

Cash receipts from customers were higher this half by $40 million due mainly to strong mobile revenue growth as we realise returns from our investments made in half one of fiscal year 2011 to retain and grow our customer base.

Cash payments to suppliers have decreased this half by 4.1% from the prior corresponding period. The primary driver for the decrease in cash payments to suppliers is attributable to improved performance in the underlying cash expense combined with higher operating trade creditors.

Income taxes paid increased by 5.5% for the half primarily due to lower 2011 tax refunds.

Net cash used in investing activities

Total capital expenditure is 16.7% higher than the prior corresponding period as a result of the shift in the capital program to the first half of the year, driven predominantly by increased spend in network capacity to support increased customer demand and investment for further future growth. Our proceeds from sale of controlled entities have reduced by 102.1% from the prior half year following the sale of our Chinese SouFun investment, sale of our investment in Keycorp and of our UK voice business.

Full year results and operations review - December 2011

Net cash used in financing activities

Our net cash used in financing activities increased by $42 million over the prior corresponding period reflective of our net borrowing activity. The net inflow relating to borrowings in the current half was $891 million which comprised both long and short term debt raisings totalling $1,637 million (Euro borrowings A$1,100 million; Swiss Frank borrowing A$252 million; Australian dollar borrowings $57 million and inflow from short term borrowings of $228 million) offset by borrowing repayments totalling $746 million (domestic loan and Telstra bonds $440 million; New Zealand dollar borrowing $90 million; United States dollar borrowing $27 million and repayment of short-term borrowings of $189 million). Our borrowing repayments were funded by positive cash flows from the underlying business and refinancing from debt issuance. In the current half we pre-funded a larger proportion of debt maturities with new borrowings.

Our borrowing program reflects our general strategy to lengthen our average maturity profiles and to diversify debt issuance across a broad range of markets and investors to enhance funding access. This strategy also incorporates our objectives to hold higher levels of liquidity and prefund major payments earlier.

In addition to the net movement in cash for the half of $357 million, there was a net increase of $16 million for the effect of exchange rate movements due to the appreciation in the Australian dollar.

Half-year ended 31 December 2011

This schedule details the adjustments made to the reported results for the current year to reflect the performance of the business on the basis which we provided guidance to the market.
(Assumes wholesale product price stability and excludes any impairments to investments and proceeds on the sale of businesses.)

	REPORTED			ADJUSTMENTS		GUIDANCE BASIS		
				Dec-11				
	Dec-11	Dec-10	Growth	LMobile Group (i)	ACCC FAD (ii)	Dec-11	Dec-10	Growth
	$m	$m	%	$m	$m	$m	$m	%
Sales revenue	**12,405**	12,263	**1.2%**		14	**12,419**	12,263	**1.3%**
Total revenue	**12,419**	12,283	**1.1%**		14	**12,433**	12,283	**1.2%**
Total income (excl. finance income)	**12,501**	12,408	**0.7%**	(33)	14	**12,482**	12,408	**0.6%**
Labour	**2,099**	1,988	**5.6%**			**2,099**	1,988	**5.6%**
Goods and services purchased	**3,161**	3,148	**0.4%**			**3,161**	3,148	**0.4%**
Other expenses	**2,491**	2,693	**(7.5%)**	(56)		**2,435**	2,693	**(9.6%)**
Operating expenses	**7,751**	7,829	**(1.0%)**	(56)	0	**7,695**	7,829	**(1.7%)**
Share of net profit from jointly controlled and associated entities	**0**	(1)	**(100.0%)**	0	0	**0**	(1)	**(100.0%)**
EBITDA	**4,750**	4,580	**3.7%**	23	14	**4,787**	4,580	**4.5%**
Depreciation and amortisation	**2,186**	2,204	**(0.8%)**			**2,186**	2,204	**(0.8%)**
EBIT	**2,564**	2,376	**7.9%**	23	14	**2,601**	2,376	**9.5%**
Net finance costs	**396**	571	**(30.6%)**			**396**	571	**(30.6%)**
Profit before income tax expense	**2,168**	1,805	**20.1%**	23	14	**2,205**	1,805	**22.2%**
Income tax expense	**689**	598	**15.2%**	2	4	**695**	598	**16.2%**
Profit for the year	**1,479**	1,207	**22.5%**	21	10	**1,510**	1,207	**25.1%**
Attributable to:								
Equity holders of the Telstra Entity	**1,468**	1,194	**22.9%**	21	10	**1,499**	1,194	**25.5%**
Non controlling interests	**11**	13	**(15.4%)**			**11**	13	**(15.4%)**

This table has been subject to review by our auditors.

Note:

There are a number of factors that have impacted our results this half. In the table above, we have adjusted the results for:

(i) Lmobile Group impairment and writeback of deferred consideration:

Adjustments relating to the Lmobile Group after a review of future cashflows including the writeback of non current deferred consideration of $33m and impairment of goodwill $49m and other intangible assets $7m (total $56m).

(ii) ACCC Final Access Determination adjustment:

Adjustments for ACCC Final Access Determination (FAD) pricing for fixed services.

Telstra Corporation Limited

Product reconciliation to align previously released comparative figures with the current reported position
Half year ended 31 December 2011

Product hierarchy at Dec 10 as previously released	Previously released Dec 10 $m	New product hierarchy based on Dec 11 structure	Based on Dec 11 Structure $m	Movement since Dec 10 release $m	Description of movement since Dec 10 release
Fixed products		Fixed products			
PSTN products	2,743	PSTN products	2,736	(7)	($7m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product
Fixed internet	1,053	Fixed broadband	1,036	(17)	($6m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product; ($11m) Narrowband repointed out of Fixed Broadband and into Other fixed revenue
ISDN products	447	ISDN products	447	-	
Other fixed revenue	597	Other fixed revenue	608	11	$11m Narrowband repointed out of Fixed Broadband and into Other fixed revenue
Total fixed products	4,840	Total fixed products	4,827	(13)	($13m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product
Mobiles		Mobiles		-	
Postpaid handheld	2,214	Postpaid handheld	2,183	(31)	($13m) Realignment to recognise M2M revenue services; ($18m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product
Prepaid handheld	351	Prepaid handheld	351	-	
Mobile broadband	477	Mobile broadband	452	(25)	($19m) Realignment to recognise M2M revenue services; ($6m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product
Machine to Machine (M2M)		Machine to Machine (M2M)	32	32	$32m Realignment to recognise M2M revenue services
Mobile services - retail	3,042	Mobile services - retail	3,018	(24)	($24m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product
Mobile services - interconnection and wholesa	379	Mobile services - interconnection and wholesa	379	-	
Total mobile services	3,421	Total mobile services	3,397	(24)	($24m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product
Mobile hardware	566	Mobile hardware	566	-	
Total mobiles	3,987	Total mobiles	3,963	(24)	($24m) Realignment of customer rebates and welcome credits from miscellaneous revenue to product
IP access and data services		IP access and data services		-	
Specialised data	187	Specialised data	187	-	
Global products	58	Global products	58	-	
IP access	472	IP access	472	-	
Wholesale internet and data	174	Wholesale internet and data	174	-	
Total IP access and data services	891	Total IP access and data services	891	-	
Network applications and services	485	Network applications and services	485	-	
Offshore content and online content	47	Offshore content and online content	47	-	
Advertising and directories	793	Advertising and directories	804	11	$11m Royalties repointed to Advertising and Directories
CSL New World	424	CSL New World	424	-	
TelstraClear	265	TelstraClear	265	-	
Other offshore services revenue	130	Other offshore services revenue	130	-	
Pay TV bundling	286	Pay TV bundling	286	-	
Other sales revenue	115	Other sales revenue	141	26	$37m Realignment of customer rebates and welcome credits from miscellaneous revenue to product; ($11m) Royalties repointed to Advertising and Directories
Sales revenue	12,263	Sales revenue	12,263	-	
Other revenue	20	Other revenue	20	-	
Total revenue	**12,283**	**Total revenue**	**12,283**	**-**	

Telstra Corporation Limited
Half-yearly comparison
Half year ended 31 December 2011

Summary Reported Half-Yearly Data ($ millions)	Half 1 Dec-07	PCP Growth	Half 2 Jun-08	PCP Growth	Full year Jun-08	PCP Growth	Half 1 Dec-08	PCP Growth	Half 2 Jun-09	PCP Growth	Full year Jun-09	PCP Growth	Half 1 Dec-09	PCP Growth	Half 2 Jun-10	PCP Growth	Full year Jun-10	PCP Growth	Half 1 Dec-10	PCP Growth	Half 2 Jun-11	PCP Growth	Full year Jun-11	PCP Growth	Half 1 Dec-11	PCP Growth
Revenue																										
Fixed products																										
PSTN products																										
Basic access (i)	1,657	(0.4%)	1,621	(2.9%)	3,278	(1.7%)	1,592	(3.9%)	1,565	(3.5%)	3,157	(3.7%)	1,508	(5.3%)	1,470	(6.1%)	2,978	(5.7%)	1,434	(4.9%)	1,409	(4.1%)	2,843	(4.5%)	1,366	(4.7%)
Local calls	388	(10.2%)	348	(15.7%)	736	(12.9%)	328	(15.5%)	305	(12.4%)	633	(14.0%)	286	(12.8%)	252	(17.4%)	538	(15.0%)	228	(20.3%)	199	(21.0%)	427	(20.6%)	180	(21.1%)
PSTN value added services	134	7.2%	135	2.3%	269	4.7%	135	0.7%	132	(2.2%)	267	(0.7%)	128	(5.2%)	128	(3.0%)	256	(4.1%)	131	2.3%	132	3.1%	263	2.7%	132	0.8%
National long distance calls	385	(5.6%)	364	(9.0%)	749	(7.3%)	349	(9.4%)	331	(9.1%)	680	(9.2%)	315	(9.7%)	288	(13.0%)	603	(11.3%)	274	(13.0%)	260	(9.7%)	534	(11.4%)	236	(13.9%)
Fixed to mobile calls	615	1.3%	607	1.0%	1,222	1.2%	615	0.0%	599	(1.3%)	1,214	(0.7%)	580	(5.7%)	539	(10.0%)	1,119	(7.8%)	516	(11.0%)	486	(9.8%)	1,002	(10.5%)	450	(12.8%)
International direct	92	(2.1%)	89	(1.1%)	181	(1.6%)	90	(2.2%)	85	(4.5%)	175	(3.3%)	82	(8.9%)	70	(17.6%)	152	(13.1%)	67	(18.3%)	56	(20.0%)	123	(19.1%)	53	(20.9%)
Fixed interconnection	120	(9.1%)	111	(7.5%)	231	(8.3%)	109	(9.2%)	101	(9.0%)	210	(9.1%)	97	(11.0%)	89	(11.9%)	186	(11.4%)	86	(11.3%)	78	(12.4%)	164	(11.8%)	72	(16.3%)
Total PSTN products (i)	**3,391**	**(2.1%)**	**3,275**	**(4.4%)**	**6,666**	**(3.2%)**	**3,218**	**(5.1%)**	**3,118**	**(4.8%)**	**6,336**	**(5.0%)**	**2,996**	**(6.9%)**	**2,836**	**(9.0%)**	**5,832**	**(8.0%)**	**2,736**	**(8.7%)**	**2,620**	**(7.6%)**	**5,356**	**(8.2%)**	**2,489**	**(9.0%)**
Fixed Broadband																										
Fixed broadband retail and hardware (i)	650	32.4%	703	25.5%	1,353	28.7%	783	20.5%	785	11.7%	1,568	15.9%	791	1.0%	781	(0.5%)	1,572	0.3%	789	(0.3%)	794	1.7%	1,583	0.7%	835	5.8%
Wholesale broadband	272	1.9%	259	(5.8%)	531	(2.0%)	239	(12.1%)	230	(11.2%)	469	(11.7%)	226	(5.4%)	223	(3.0%)	449	(4.3%)	208	(8.0%)	197	(11.7%)	405	(9.8%)	185	(11.1%)
Spectrum sharing services	6	(45.5%)	17	30.8%	23	(4.2%)	14	133.3%	15	(11.8%)	29	26.1%	20	42.9%	20	33.3%	40	37.9%	17	(15.0%)	14	(30.0%)	31	(22.5%)	13	(23.5%)
Internet VAS	9	200.0%	11	175.0%	20	185.7%	13	44.4%	22	100.0%	35	75.0%	26	100.0%	23	4.5%	49	40.0%	22	(15.4%)	18	(21.7%)	40	(18.4%)	14	(36.4%)
Total Fixed broadband (i)	**937**	**21.4%**	**990**	**16.3%**	**1,927**	**18.7%**	**1,049**	**12.0%**	**1,052**	**6.3%**	**2,101**	**9.0%**	**1,063**	**1.3%**	**1,047**	**(0.5%)**	**2,110**	**0.4%**	**1,036**	**(2.5%)**	**1,023**	**(2.3%)**	**2,059**	**(2.4%)**	**1,047**	**1.1%**
ISDN products	495	(4.3%)	483	(2.8%)	978	(3.6%)	483	(2.4%)	459	(5.0%)	942	(3.7%)	463	(4.1%)	442	(3.7%)	905	(3.9%)	447	(3.5%)	430	(2.7%)	877	(3.1%)	420	(6.0%)
Premium calling products	223	0.0%	224	(2.2%)	447	(1.1%)	217	(2.7%)	212	(5.4%)	429	(4.0%)	204	(6.0%)	200	(5.7%)	404	(5.8%)	198	(2.9%)	191	(4.5%)	389	(3.7%)	185	(6.6%)
Payphones	36	(18.2%)	34	(17.1%)	70	(17.6%)	30	(16.7%)	29	(14.7%)	59	(15.7%)	26	(13.3%)	23	(20.7%)	49	(16.9%)	22	(15.4%)	18	(21.7%)	40	(18.4%)	15	(31.8%)
Customer premises equipment	74	(5.1%)	64	(21.0%)	138	(13.2%)	67	(9.5%)	65	1.6%	132	(4.3%)	53	(20.9%)	57	(12.3%)	110	(16.7%)	94	77.4%	77	35.1%	171	55.5%	76	(19.1%)
Intercarrier access services (includes ULL)	112	25.8%	149	55.2%	261	41.1%	171	52.7%	182	22.1%	353	35.2%	193	12.9%	206	13.2%	399	13.0%	222	15.0%	226	9.7%	448	12.3%	240	8.1%
Other fixed revenue	141	(20.8%)	124	(23.0%)	266	(21.5%)	119	(15.6%)	97	(21.8%)	216	(18.8%)	92	(22.7%)	81	(16.5%)	173	(19.9%)	72	(21.7%)	66	(18.5%)	139	(19.7%)	62	(13.9%)
Total fixed products (i)	**5,409**	**0.8%**	**5,344**	**(0.7%)**	**10,753**	**0.1%**	**5,354**	**(1.0%)**	**5,214**	**(2.4%)**	**10,568**	**(1.7%)**	**5,091**	**(4.9%)**	**4,891**	**(6.2%)**	**9,982**	**(5.5%)**	**4,827**	**(5.2%)**	**4,652**	**(4.9%)**	**9,479**	**(5.0%)**	**4,534**	**(6.1%)**
Mobiles																										
Postpaid handheld (i) (ii)	n/a	n/a	n/a	n/a	n/a	n/a	2,150	n/a	2,073	n/a	4,223	n/a	2,133	(0.8%)	2,155	4.0%	4,288	1.5%	2,183	2.3%	2,254	4.6%	4,438	3.5%	2,384	9.2%
Prepaid handheld	n/a	n/a	n/a	n/a	n/a	n/a	294	n/a	311	n/a	605	n/a	321	9.2%	303	(2.6%)	625	3.3%	351	9.3%	323	6.6%	674	7.8%	345	(1.7%)
Total handheld (i) (ii)	n/a	n/a	n/a	n/a	n/a	n/a	2,444	n/a	2,384	n/a	4,828	n/a	2,454	0.4%	2,458	3.1%	4,912	1.7%	2,534	3.3%	2,577	4.8%	5,112	4.1%	2,729	7.7%
Mobile broadband (i) (ii)	n/a	n/a	n/a	n/a	n/a	n/a	288	n/a	319	n/a	607	n/a	372	29.2%	422	32.3%	795	31.0%	452	21.5%	468	10.9%	919	15.6%	493	9.1%
Machine to Machine (M2M) (i) (ii)	n/a	n/a	n/a	n/a	n/a	n/a	0	n/a	0	n/a	0	n/a	31	n/m	31	n/m	62	n/m	32	3.2%	36	16.1%	69	11.3%	40	25.0%
Mobile services revenue - retail (i) (ii)	2,409	14.5%	2,507	14.4%	4,916	14.5%	2,732	13.4%	2,703	7.8%	5,435	10.6%	2,858	4.6%	2,911	7.7%	5,769	6.1%	3,018	5.6%	3,082	5.9%	6,100	5.7%	3,262	8.1%
Mobile interconnection	220	(14.1%)	222	(8.6%)	442	(11.4%)	245	11.4%	246	10.8%	491	11.1%	263	7.3%	270	9.8%	533	8.6%	306	16.3%	344	27.4%	650	22.0%	407	33.0%
Mobile services - wholesale resale	98	48.5%	92	17.9%	190	31.9%	89	(9.2%)	86	(6.5%)	175	(7.9%)	90	1.1%	69	(19.8%)	159	(9.1%)	73	(18.9%)	72	4.3%	145	(8.8%)	69	(5.5%)
Total mobile services	**2,727**	**12.5%**	**2,821**	**12.2%**	**5,548**	**12.3%**	**3,066**	**12.4%**	**3,035**	**7.6%**	**6,101**	**10.0%**	**3,211**	**4.7%**	**3,250**	**7.1%**	**6,461**	**5.9%**	**3,397**	**5.8%**	**3,499**	**7.7%**	**6,896**	**6.7%**	**3,738**	**10.0%**
Mobile hardware	477	31.4%	384	0.8%	861	15.7%	396	(17.0%)	381	(0.8%)	777	(9.8%)	413	4.3%	443	16.3%	856	10.2%	566	37.0%	594	34.1%	1,160	35.5%	655	15.7%
Total mobiles (i) (ii)	**3,204**	**14.9%**	**3,205**	**10.7%**	**6,409**	**12.8%**	**3,462**	**8.1%**	**3,416**	**6.6%**	**6,878**	**7.3%**	**3,624**	**4.7%**	**3,693**	**8.1%**	**7,317**	**6.4%**	**3,963**	**9.4%**	**4,093**	**10.8%**	**8,056**	**10.1%**	**4,393**	**10.9%**
IP access and data services																										
Specialised data	350	(7.4%)	340	(7.4%)	690	(7.4%)	328	(6.3%)	300	(11.8%)	628	(9.0%)	269	(18.0%)	213	(29.0%)	482	(23.2%)	187	(30.5%)	163	(23.5%)	350	(27.4%)	148	(20.9%)
Global products	49	4.3%	56	16.7%	105	10.5%	66	34.7%	69	23.2%	135	28.6%	64	(3.0%)	58	(15.9%)	122	(9.6%)	58	(9.4%)	51	(12.1%)	109	(10.7%)	58	0.0%
IP access	252	40.0%	283	19.9%	535	28.6%	324	28.6%	352	24.4%	676	26.4%	393	21.3%	442	25.6%	835	23.5%	472	20.1%	498	12.7%	970	16.2%	514	8.9%
Wholesale internet and data	137	7.9%	141	7.6%	278	7.8%	156	13.9%	152	7.8%	308	10.8%	168	7.7%	170	11.8%	338	9.7%	174	3.6%	168	(1.2%)	342	1.2%	181	4.0%
Total IP access and data services	**788**	**7.7%**	**820**	**4.7%**	**1,608**	**6.1%**	**874**	**10.9%**	**873**	**6.5%**	**1,747**	**8.6%**	**894**	**2.3%**	**883**	**1.1%**	**1,777**	**1.7%**	**891**	**(0.3%)**	**880**	**(0.3%)**	**1,771**	**(0.3%)**	**901**	**1.1%**
Network applications and services	611	6.1%	627	(2.9%)	1,238	1.3%	590	(3.4%)	612	(2.4%)	1,202	(2.9%)	480	(18.6%)	553	(9.6%)	1,033	(14.1%)	485	1.0%	660	19.3%	1,145	10.8%	579	19.4%
Offshore content and online content	7	0.0%	8	33.3%	15	15.4%	10	42.9%	60	650.0%	70	366.7%	89	790.0%	55	(8.3%)	144	105.7%	47	(47.2%)	37	(32.7%)	84	(41.7%)	37	(21.3%)
Advertising and directories	952	8.1%	1,173	9.0%	2,125	8.6%	1,033	8.5%	1,236	5.4%	2,269	6.8%	984	(4.7%)	1,196	(3.2%)	2,180	(3.9%)	804	(18.3%)	1,124	(6.0%)	1,928	(11.6%)	602	(25.1%)
CSL New World	485	(6.6%)	432	(10.2%)	917	(8.3%)	495	2.1%	494	14.4%	989	7.9%	374	(24.4%)	396	(19.8%)	770	(22.1%)	424	13.4%	390	(1.5%)	814	5.7%	436	2.8%
TelstraClear	287	0.0%	275	(3.8%)	562	(1.9%)	275	(4.2%)	272	(1.1%)	547	(2.7%)	269	(2.2%)	260	(4.4%)	529	(3.3%)	265	(1.5%)	251	(3.5%)	516	(2.5%)	255	(3.8%)
Other offshore services revenue	174	0.6%	172	(1.7%)	346	(0.6%)	195	12.1%	195	13.4%	390	12.7%	152	(22.1%)	141	(27.7%)	293	(24.9%)	130	(14.5%)	169	19.9%	299	2.0%	194	49.2%
Pay TV bundling	204	24.4%	222	23.3%	426	23.8%	233	14.2%	234	5.4%	467	9.6%	247	6.0%	264	12.8%	511	9.4%	286	15.8%	298	12.9%	584	14.3%	302	5.6%
Other sales revenue (i)	130	(5.8%)	128	(4.5%)	258	(5.1%)	123	(5.4%)	121	(5.5%)	244	(5.4%)	119	(3.3%)	158	30.6%	277	13.5%	141	18.5%	166	5.1%	307	10.8%	172	22.0%
Total sales revenue	**12,252**	**5.3%**	**12,405**	**3.0%**	**24,657**	**4.2%**	**12,644**	**3.2%**	**12,727**	**2.6%**	**25,371**	**2.9%**	**12,323**	**(2.5%)**	**12,490**	**(1.9%)**	**24,813**	**(2.2%)**	**12,263**	**(0.5%)**	**12,720**	**1.8%**	**24,983**	**0.7%**	**12,405**	**1.2%**
Other revenue	120	650.0%	51	155.0%	171	375.0%	66	(45.0%)	70	37.3%	136	(20.5%)	19	(71.2%)	85	21.4%	104	(23.5%)	20	5.3%	90	5.9%	110	5.8%	14	(30.0%)
Total revenue	**12,372**	**6.2%**	**12,456**	**3.2%**	**24,828**	**4.7%**	**12,710**	**2.7%**	**12,797**	**2.7%**	**25,507**	**2.7%**	**12,342**	**(2.9%)**	**12,575**	**(1.7%)**	**24,917**	**(2.3%)**	**12,283**	**(0.5%)**	**12,810**	**1.9%**	**25,093**	**0.7%**	**12,419**	**1.1%**
Other income	107	(29.6%)	67	(32.3%)	174	(31.0%)	53	(50.5%)	54	(19.4%)	107	(38.5%)	47	(11.3%)	65	20.4%	112	4.7%	125	166.0%	86	32.3%	211	88.4%	82	(34.4%)
Total income	**12,479**	**5.8%**	**12,523**	**3.0%**	**25,002**	**4.3%**	**12,763**	**2.3%**	**12,851**	**2.6%**	**25,614**	**2.4%**	**12,389**	**(2.9%)**	**12,640**	**(1.6%)**	**25,029**	**(2.3%)**	**12,408**	**0.2%**	**12,896**	**2.0%**	**25,304**	**1.1%**	**12,501**	**0.7%**
Expenses																										
Labour	2,092	4.8%	2,066	2.2%	4,158	3.5%	2,152	2.9%	1,979	(4.2%)	4,131	(0.6%)	1,967	(8.6%)	1,740	(12.1%)	3,707	(10.3%)	1,988	1.1%	1,936	11.3%	3,924	5.9%	2,099	5.6%
Goods and services purchased	2,676	4.3%	2,505	(3.1%)	5,181	0.6%	2,632	(1.6%)	2,681	7.0%	5,313	2.5%	2,615	(0.6%)	2,745	2.4%	5,360	0.9%	3,148	20.4%	3,035	10.6%	6,183	15.4%	3,161	0.4%
Other expenses	2,539	9.5%	2,707	3.9%	5,246	6.5%	2,644	4.1%	2,581	(4.7%)	5,225	(0.4%)	2,490	(5.8%)	2,627	1.8%	5,117	(2.1%)	2,693	8.2%	2,354	(10.4%)	5,047	(1.4%)	2,491	(7.5%)
Operating expense (before interest)	7,307	6.2%	7,278	0.9%	14,585	3.5%	7,428	1.7%	7,241	(0.5%)	14,669	0.6%	7,072	(4.8%)	7,112	(1.8%)	14,184	(3.3%)	7,829	10.7%	7,325	3.0%	15,154	6.8%	7,751	(1.0%)
Share of net (profit)/loss from jointly controlled and associated entities	0	(100.0%)	1	(83.3%)	1	(85.7%)	1	n/m	-4	(500.0%)	-3	(400.0%)	0	(100.0%)	-2	(50.0%)	-2	(33.3%)	-1	n/m	0	(100.0%)	-1	(50.0%)	0	(100.0%)
EBITDA	**5,172**	**5.2%**	**5,244**	**6.0%**	**10,416**	**5.6%**	**5,334**	**3.1%**	**5,614**	**7.1%**	**10,948**	**5.1%**	**5,317**	**(0.3%)**	**5,530**	**(1.5%)**	**10,847**	**(0.9%)**	**4,580**	**(13.9%)**	**5,571**	**0.7%**	**10,151**	**(6.4%)**	**4,750**	**3.7%**
Depreciation and amortisation	2,052	3.7%	2,138	1.6%	4,190	2.6%	2,255	9.9%	2,135	(0.1%)	4,390	4.8%	2,185	(3.1%)	2,161	1.2%	4,346	(1.0%)	2,204	0.9%	2,255	4.3%	4,459	2.6%	2,186	(0.8%)
EBIT	**3,120**	**6.2%**	**3,106**	**9.3%**	**6,226**	**7.7%**	**3,079**	**(1.3%)**	**3,479**	**12.0%**	**6,558**	**5.3%**	**3,132**	**1.7%**	**3,369**	**(3.2%)**	**6,501**	**(0.9%)**	**2,376**	**(24.1%)**	**3,316**	**(1.6%)**	**5,692**	**(12.4%)**	**2,564**	**7.9%**
Net finance costs	500	(3.8%)	586	3.4%	1,086	(0.1%)	403	(19.4%)	497	(15.2%)	900	(17.1%)	520	29.0%	443	(10.9%)	963	7.0%	571	9.8%	564	27.3%	1,135	17.9%	396	(30.6%)
Profit before income tax expense	**2,620**	**8.4%**	**2,520**	**10.8%**	**5,140**	**9.5%**	**2,676**	**2.1%**	**2,982**	**18.3%**	**5,658**	**10.1%**	**2,612**	**(2.4%)**	**2,926**	**(1.9%)**	**5,538**	**(2.1%)**	**1,805**	**(30.9%)**	**2,752**	**(5.9%)**	**4,557**	**(17.7%)**	**2,168**	**20.1%**
Income tax expense	678	(4.0%)	751	5.6%	1,429	0.8%	755	11.4%	827	10.1%	1,582	10.7%	726	(3.8%)	872	5.4%	1,598	1.0%	598	(17.6%)	709	(18.7%)	1,307	(18.2%)	689	15.2%
Profit for the period	**1,942**	**13.4%**	**1,769**	**13.2%**	**3,711**	**13.3%**	**1,921**	**(1.1%)**	**2,155**	**21.8%**	**4,076**	**9.8%**	**1,886**	**(1.8%)**	**2,054**	**(4.7%)**	**3,940**	**(3.3%)**	**1,207**	**(36.0%)**	**2,043**	**(0.5%)**	**3,250**	**(17.5%)**	**1,479**	**22.5%**

(i) PSTN, Fixed Broadband, Mobiles and Other revenue have been impacted by the realignment of customer rebates and welcome credits from miscellaneous revenue to the relevant product category. The adjustment has been processed in half 1 and half 2 in fiscal 2011.
Impacts prior to fiscal 2011 were considered immaterial and therefore have not been adjusted.
(ii) All mobiles growth rates (excl Prepaid) have been impacted by the re-categorisation and separate recognition of M2M revenue services. This restatement extends only to the FY10 and FY11 financial years as we have not sparated this revenue for periods prior to fiscal 2010.

Summary Reported Half-Yearly Data	Half 1 Dec-07	PCP Growth	Half 2 Jun-08	PCP Growth	Full year Jun-08	PCP Growth	Half 1 Dec-08	PCP Growth	Half 2 Jun-09	PCP Growth	Full year Jun-09	PCP Growth	Half 1 Dec-09	PCP Growth	Half 2 Jun-10	PCP Growth	Full year Jun-10	PCP Growth	Half 1 Dec-10	PCP Growth	Half 2 Jun-11	PCP Growth	Full year Jun-11	PCP Growth	Half 1 Dec-11	PCP Growth
Selected statistical data																										
PSTN																										
Retail basic access lines in service (thousands)	7,826	1.1%	7,865	1.1%	7,865	1.1%	7,829	0.0%	7,733	(1.7%)	7,733	(1.7%)	7,545	(3.6%)	7,407	(4.2%)	7,407	(4.2%)	7,298	(3.3%)	7,158	(3.4%)	7,158	(3.4%)	7,034	(3.6%)
Wholesale basic access lines in service (thousands)	1,730	(18.3%)	1,496	(24.5%)	1,496	(24.5%)	1,341	(22.5%)	1,285	(14.1%)	1,285	(14.1%)	1,263	(5.8%)	1,253	(2.5%)	1,253	(2.5%)	1,235	(2.2%)	1,212	(3.3%)	1,212	(3.3%)	1,200	(2.8%)
Total basic access lines in service (thousands)	**9,556**	**(3.1%)**	**9,361**	**(4.1%)**	**9,361**	**(4.1%)**	**9,170**	**(4.0%)**	**9,018**	**(3.7%)**	**9,018**	**(3.7%)**	**8,808**	**(3.9%)**	**8,660**	**(4.0%)**	**8,660**	**(4.0%)**	8,533	**(3.1%)**	**8,370**	**(3.3%)**	**8,370**	**(3.3%)**	8,234	**(3.5%)**
Unconditioned local loop services in operation (thousands)	391	139.4%	527	120.1%	527	120.1%	615	57.3%	698	32.4%	698	32.4%	770	25.2%	831	19.1%	831	19.1%	914	18.7%	1,001	20.5%	1,001	20.5%	1,061	16.1%
Number of local calls (millions)	2,991	(11.8%)	2,689	(14.3%)	5,680	(13.0%)	2,501	(16.4%)	2,343	(12.9%)	4,844	(14.7%)	2,176	(13.0%)	1,958	(16.4%)	4,134	(14.7%)	1,872	(14.0%)	1,698	(13.3%)	3,570	(13.6%)	1,576	(15.8%)
National long distance minutes (millions)	3,530	(1.8%)	3,417	(3.4%)	6,947	(2.6%)	3,278	(7.1%)	3,277	(4.1%)	6,555	(5.6%)	3,053	(6.9%)	2,862	(12.7%)	5,915	(9.8%)	2,770	(9.3%)	2,638	(7.8%)	5,408	(8.6%)	2,420	(12.6%)
Fixed to mobile minutes (millions)	1,714	1.1%	1,696	0.2%	3,410	0.6%	1,675	(2.3%)	1,657	(2.3%)	3,332	(2.3%)	1,611	(3.8%)	1,522	(8.1%)	3,133	(6.0%)	1,562	(3.0%)	1,560	2.5%	3,122	(0.4%)	1,503	(3.8%)
International direct minutes (millions)	273	3.4%	275	4.2%	548	3.8%	278	1.8%	282	2.5%	560	2.2%	280	0.7%	261	(7.4%)	541	(3.4%)	260	(7.1%)	250	(4.2%)	510	(5.7%)	241	(7.3%)
Average PSTN revenue per user per month ($'s) (iv)	58.51	0.4%	57.71	(0.8%)	58.11	(0.3%)	57.89	(1.1%)	57.14	(1.0%)	57.46	(1.1%)	56.03	(3.2%)	54.12	(5.3%)	54.99	(4.3%)	53.04	(5.3%)	51.66	(4.5%)	52.41	(4.7%)	49.97	(5.8%)
Fixed broadband																										
Fixed retail broadband SIOs (thousands)	2,103	26.1%	2,254	18.0%	2,254	18.0%	2,297	9.2%	2,274	0.9%	2,274	0.9%	2,244	(2.3%)	2,255	(0.8%)	2,255	(0.8%)	2,394	6.7%	2,413	7.0%	2,413	7.0%	2,519	5.2%
Broadband wholesale SIOs (thousands)	1,376	(1.1%)	1,272	(12.8%)	1,272	(12.8%)	1,179	(14.3%)	1,110	(12.7%)	1,110	(12.7%)	1,053	(10.7%)	1,003	(9.6%)	1,003	(9.6%)	919	(12.7%)	869	(13.4%)	869	(13.4%)	815	(11.3%)
Wholesale spectrum site sharing SIOs (thousands)	377	63.6%	436	43.3%	436	43.3%	501	32.9%	580	33.0%	580	33.0%	672	34.1%	735	26.7%	735	26.7%	741	10.3%	725	(1.4%)	725	(1.4%)	717	(3.2%)
Average fixed retail BB revenue per SIO per month (incl h/ware) ($'s) (iv)	54.00	2.6%	53.82	3.2%	54.18	3.7%	57.32	6.1%	57.24	6.4%	57.70	6.5%	58.40	1.9%	57.85	1.1%	57.86	0.3%	56.54	(3.2%)	55.07	(4.8%)	56.52	(2.3%)	56.42	(0.2%)
Average fixed retail BB revenue per SIO per month (excl h/ware) ($'s) (iv)	52.90	0.5%	52.52	3.2%	52.97	2.6%	56.08	6.0%	55.90	6.4%	56.41	6.5%	57.33	2.2%	57.02	2.0%	56.92	0.9%	55.97	(2.4%)	53.95	(5.4%)	55.66	(2.2%)	55.39	(1.0%)
ISDN																										
ISDN access (basic access line equivalents) (thousands)	1,288	0.3%	1,298	5.6%	1,298	5.6%	1,284	(0.3%)	1,291	(0.5%)	1,291	(0.5%)	1,305	1.6%	1,308	1.3%	1,308	1.3%	1,318	1.0%	1,315	0.5%	1,315	0.5%	1,313	(0.4%)
ISDN average revenue per user per month ($'s)	67.02	(0.8%)	62.12	(5.8%)	66.02	(6.7%)	62.39	(6.9%)	59.37	(4.4%)	60.64	(8.1%)	59.46	(4.7%)	56.40	(5.0%)	58.05	(4.3%)	56.76	(4.5%)	54.41	(3.5%)	55.71	(4.0%)	53.24	(6.2%)
Mobiles																										
Total retail mobile SIOs (thousands)	9,319	4.8%	9,335	1.3%	9,335	1.3%	9,706	4.2%	10,191	9.2%	10,191	9.2%	10,386	7.0%	10,555	3.6%	10,555	3.6%	11,482	10.6%	12,223	15.8%	12,223	15.8%	13,181	14.8%
Postpaid handheld mobile SIOs (in thousands) (ii)	5,438	n/a	5,562	n/a	5,562	n/a	5,673	4.3%	5,727	3.0%	5,727	3.0%	5,394	(4.9%)	5,427	(5.2%)	5,427	(5.2%)	5,728	6.2%	6,062	11.7%	6,062	11.7%	6,400	11.7%
Mobile broadband (data cards) SIOs (in thousands) (ii)	392	312.6%	526	195.5%	526	195.5%	765	95.2%	1,046	98.9%	1,046	98.9%	1,210	58.2%	1,498	43.2%	1,498	43.2%	1,970	62.8%	2,310	54.2%	2,310	54.2%	2,746	39.4%
Prepaid mobile handheld unique users (thousands) (i)	1,800	n/a	1,801	n/a	1,801	n/a	1,915	6.4%	1,951	8.4%	1,951	8.4%	1,921	0.3%	1,889	(3.2%)	1,889	(3.2%)	1,943	1.2%	1,921	1.7%	1,921	1.7%	1,988	2.3%
Machine to Machine (M2M) (thousands) (ii)													484	n/m	539	n/m	539	n/m	577	19.0%	658	22.1%	658	22.1%	744	28.9%
Total wholesale SIOs (thousands)	71	(44.9%)	74	(43.6%)	74	(43.5%)	75	5.6%	72	(2.7%)	72	(2.7%)	76	1.3%	81	12.0%	81	12.0%	80	5.4%	74	(8.3%)	74	(8.2%)	65	(18.8%)
Mobile voice telephone minutes (millions)	4,919	18.6%	5,177	16.5%	10,096	17.5%	5,570	13.2%	5,435	5.0%	11,005	9.0%	5,723	2.7%	5,801	6.7%	11,524	4.7%	6,416	12.1%	7,096	22.3%	13,512	17.3%	8,063	25.7%
Number of SMS sent (millions)	3,224	44.8%	3,749	40.1%	6,973	42.2%	4,353	35.0%	4,590	22.4%	8,943	28.3%	4,783	9.9%	4,611	0.5%	9,394	5.0%	4,810	0.6%	5,095	10.5%	9,905	5.4%	5,882	22.3%
Blended average revenue per user (incl interconnection) ($'s) (iv)	47.28	4.7%	48.78	8.8%	48.15	6.9%	52.11	10.2%	49.41	1.3%	50.58	5.0%	50.55	(3.0%)	50.64	2.5%	50.61	0.1%	50.29	(0.5%)	48.16	(4.9%)	49.39	(2.4%)	48.14	(4.3%)
Average postpaid handheld revenue per user ($'s) (ii) (iv)	n/a	n/a	n/a	n/a	n/a	n/a	63.77	n/a	60.64	n/a	62.35	n/a	65.65	2.9%	66.38	9.5%	65.78	5.5%	65.23	(0.6%)	63.72	(4.0%)	64.37	(2.1%)	63.76	(2.3%)
Average prepaid handheld revenue per user ($'s)	n/a	n/a	n/a	n/a	n/a	n/a	15.04	n/a	15.53	n/a	15.14	n/a	15.93	5.9%	15.80	1.7%	16.00	5.7%	18.58	16.7%	16.82	6.5%	17.87	11.7%	17.74	(4.5%)
Average mobile broadband revenue per user per month ($'s) (ii) (iv)	n/a	n/a	n/a	n/a	n/a	n/a	74.48	n/a	58.50	n/a	64.29	n/a	58.82	(21.0%)	51.94	(11.2%)	55.30	(14.0%)	43.44	(26.1%)	36.45	(29.8%)	40.22	(27.3%)	32.50	(25.2%)
Pay TV bundling																										
Total pay TV bundling SIOs (thousands)	426	22.8%	450	15.4%	450	15.4%	460	8.0%	450	0.0%	450	0.0%	479	4.1%	504	12.0%	504	12.0%	513	7.1%	508	0.8%	508	0.8%	504	(1.8%)
Labour																										
Domestic full time employees	34,236	(5.4%)	33,982	(4.8%)	33,982	(4.8%)	33,191	(3.1%)	31,662	(6.8%)	31,662	(6.8%)	30,924	(6.8%)	31,157	(1.6%)	31,157	(1.6%)	29,970	(3.1%)	30,121	(3.3%)	30,121	(3.3%)	30,405	1.5%
Full time employees and employed equivalents	42,308	(3.8%)	42,784	(1.4%)	42,784	(1.4%)	41,540	(1.8%)	39,464	(7.8%)	39,464	(7.8%)	39,763	(4.3%)	41,690	5.6%	41,690	5.6%	35,729	(10.1%)	35,790	(14.2%)	35,790	(14.2%)	36,472	2.1%
Total workforce, including contractors and agency staff (iii)	**48,148**	**(4.6%)**	**48,261**	**(2.3%)**	**48,261**	**(2.3%)**	**46,826**	**(2.7%)**	**44,671**	**(7.4%)**	**44,671**	**(7.4%)**	**44,814**	**(4.3%)**	**46,801**	**4.8%**	**46,801**	**4.8%**	41,404	**(7.6%)**	**40,630**	**(13.2%)**	**40,630**	**(13.2%)**	41,183	**(0.5%)**

Note: statistical data represents management's best estimates.

(i) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.
(ii) All categories of mobiles SIOs (excl. Prepaid) have been adjusted for the separate recognition of Telemetry services back to fiscal 2010.
(iii) December 2010 total workforce Full Time Equivalents (FTEs) has been adjusted to reflect an additional 593 agency staff within the CSLNW business not previously recognised in our reported results. Additionally, we have included 979 IT professional services staff in our December 2010 total workforce FTE number (June 2011: 230).
These staff have progressively had their employee instruments converted since the prior corresponding period. Expenses for these staff were captured within service contracts and agreements in the other expenses category for the half-year ending December 2010.
(iv) PSTN, Fixed Broadband and Mobiles ARPU's have been impacted by the realignment of customer rebates and welcome credits from miscellaneous revenue to the relevant product category. The adjustment has been processed in half 1 and half 2 in fiscal 2011.
Impacts prior to fiscal 2011 were considered immaterial and therefore have not been adjusted.

MEDIA RELEASE

Telstra delivers revenue, profit and customer growth; guidance confirmed

9 February 2012 – Telstra today announced that its strategy continues to deliver financial benefits. Results for the six months to 31 December 2011 show growth in revenue, EBITDA and net profit and strong growth in the number of customers. The company also confirmed guidance for fiscal 2012 and announced a 14 cent interim dividend.

"Last year we recorded one of our best years for customer growth. This momentum has continued into the first half of fiscal 2012," Chief Executive Officer David Thodey said today.

"Our superior networks and competitive offers are being recognised and valued by new and existing customers. We are also seeing improvement in Telstra's customer service with TIO complaints down 24% over the year, though we still have more work to do," he said.

The **reported results** for the six months to December 2011 were:

- **Total revenue** increased by 1.1% or $136 million to $12,419 million
- **EBITDA** increased by 3.7% or $170 million to $4,750 million
- **Net Profit After Tax** increased by 22.9% or $274 million to $1,468 million
- **Capex to sales ratio** of 13.8%, with accrued capital expenditure of $1,715 million
- **Free cash flow** of $1,795 million

On a **guidance basis**[1] (adjusted for the LMobile impairment and ACCC Final Access Determination), results for the six months to December 2011 were:

- **Total revenue** increased by 1.2%
- **EBITDA** increased by 4.5%

Telstra continued to attract new customers in the half year, adding:

- 958,000 domestic mobile customers, including 338,000 postpaid handheld and 436,000 mobile broadband customers
- 106,000 fixed broadband customers
- 166,000 T-Box® and T-Hub® services
- 206,000 customers on bundled multi-product plans, with the total bundled base now more than 1.2 million.

Telstra's domestic mobile business delivered mobile revenue growth of 10.9% in the half to $4,393 million. Targeted offers and simplified processes have also helped to control costs.

In other key product categories, fixed line (PSTN) voice revenues declined by 9.0% to $2,489 million. Retail fixed broadband revenues increased by 5.8% to $835 million. IP access revenues grew by 8.9% to $514 million.

In our strategic growth businesses:

1. **Network Applications and Services (NAS)** revenue grew by 19.4% to $579 million as the company benefited from improved capabilities and major contract wins in the half.

2. **Telstra International** includes our international managed services division (incorporating Reach), CSL New World and our Chinese digital media assets. Overall the portfolio achieved double-digit growth in the half and will be a key driver of growth for Telstra in the future.

3. We have now also established our new Digital Media business unit. Within this portfolio, Sensis sales revenue declined by 24.0% in the half to $528 million. First half results were impacted by the upfront

[1] The guidance basis has been subject to review by our auditors

costs of implementing the three year digital strategy and an acceleration in the decline of Yellow print revenues as the market evolved more rapidly than expected. Sensis' first half results were also impacted by the movement of the recognition of the Perth Yellow Pages book into the second half.

Telstra's simplification programme remains on track to deliver incremental benefits in fiscal 2012 in excess of the $622 million delivered in fiscal 2011 and in the first half of the year achieved benefits of $456 million, driven by improved labour productivity and simplified processes.

National Broadband Network (NBN)

We believe we are close to finalising the NBN transaction. Shareholder approval of the National Broadband Network transaction at the company's Annual General Meeting in late 2011 was a key milestone. Telstra has now lodged a revised Structural Separation Undertaking for approval by the ACCC. The company is working towards satisfying this last key requirement and implementing its agreements with NBN Co and the Government.

Outlook

"Our strategy is unchanged. We will continue to focus on improving customer satisfaction, growing customer numbers, simplifying the business and taking advantage of new growth opportunities." Mr Thodey said.

Telstra has confirmed fiscal 2012 guidance of low single digit revenue and EBITDA growth, with free cashflow of between $4.5 and $5.0 billion. In addition, the company expects capital expenditure to continue to be around 14% of sales. The NBN transaction is not expected to have a material impact on Telstra's underlying financial results in fiscal 2012.

As announced in October 2011, it is the company's intention to maintain a 28 cent fully-franked dividend for fiscal 2012 and 2013. This is subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

Telstra's Board has re-affirmed its intention to consider a broader capital management strategy upon implementation of the NBN agreements, following ACCC acceptance of Telstra's Structural Separation Undertaking.

Media contacts: Jason Laird (0488 126823), Nicole McKechnie (0429 004617)
Email: media@team.telstra.com
www.telstra.com.au/abouttelstra/media-centre/
Reference: 040 / 2012

IT'S HOW WE CONNECT

Telstra Corporation Limited and controlled entities

Directors' Report

For the half-year ended 31 December 2011

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 2011. Financial comparisons used in this report are of results for the half-year ended 31 December 2011 compared with the half-year ended 31 December 2010 for income statement analysis, and 31 December 2011 compared to 30 June 2011 for statement of financial position analysis.

Strategy update

Telstra continues to implement its strategy to improve customer satisfaction, increase our customer base, simplify the business and to invest in new growth businesses. The strategic initiatives implemented last fiscal year continue to deliver financial benefits with growth in revenue, earnings before interest, tax, depreciation and amortisation (EBITDA) and net profit for the six months to 31 December 2011 and strong growth in the number of customers.

The company is seeing improvement in customer service with TIO complaints down 24% over the year, though there is still further work to do. Customer service improvements introduced over the last six months include the launch of a new consumer bill format which makes it much simpler and clearer for customers to understand their charges, and the introduction of extended 24-hour customer support via social media including Twitter and Facebook, allowing customers to interact with us live online.

Telstra continued to attract new customers in the half-year, adding:

- 958,000 domestic mobile customers, including 338,000 postpaid handheld and 436,000 mobile broadband customers;
- 106,000 fixed broadband customers;
- 166,000 T-Box® and T-Hub® services;
- 206,000 customers on bundled multi-product plans, with the total bundled base now more than 1.2 million; and
- 167,000 customers at CSL New World.

Telstra's simplification programme remains on track to deliver incremental benefits this fiscal year in excess of the benefits delivered in fiscal 2011. In the first half of the year the company achieved benefits driven by improved labour productivity and simplified processes.

We also have a strategic priority to invest in new growth businesses which centres around network applications and services (NAS), Asia and media assets. In these areas:

- Network Applications and Services (NAS) revenue grew by 19.4% to $579 million as the company benefited from improved capabilities and major contract wins in the half;
- Telstra International includes our international managed services division (incorporating Reach), CSL New World and our Chinese digital media assets. Overall the portfolio achieved double-digit growth in the half and will be a key driver of growth for Telstra in the future; and
- we established our new Digital Media business unit. Within this portfolio, Sensis sales revenue declined by 24.0% in the half to $528 million. First half results were impacted by the upfront costs of implementing the three year digital strategy.

National Broadband Network ('NBN')

We believe we are close to finalising the NBN transaction. Shareholder approval of the National Broadband Network transaction at the company's Annual General Meeting in late 2011 was a key milestone. Telstra has now lodged a revised Structural Separation Undertaking for approval by the ACCC. The company is working towards satisfying this last key requirement and implementing its agreements with NBN Co and the Government.

Financial performance

Results for the first half of the year were in line with our expectations despite the difficult macro economic backdrop. Sales revenue rose by 1.2% to $12,405 million in the first half of fiscal 2012. Total revenue rose by 1.1% to $12,419 million.

Operating Expenses (before depreciation and amortisation) in the half decreased by 1.0% or $78 million to $7,751 million. This compares favourably to the first half of fiscal 2011 when the company undertook a number of strategic investments to improve customer satisfaction, acquire customers and simplify the business.

Labour expenses in the half increased by 5.6% to $2,099 million. This was driven by higher salary and associated costs and includes a $126 million impact from increases in the valuation of employee provisions as a result of the lower bond rate, offset by lower redundancy charges which fell by 48.4% to $83 million. Excluding the bond rate impacts, total labour costs declined in the half.

Directly variable costs (DVCs) or goods and services purchased increased by 0.4% to $3,161 million. This supports the growth in sales revenue in the half.

Other expenses decreased by 7.5% or $202 million to $2,491 million with a reduction in service contracts as we continue to simplify the business and a lower impairment charge compared to the prior period.

EBITDA increased by 3.7% to $4,750 million, with EBITDA margins increasing by 1.0 percentage point to 38.3%.

Depreciation and Amortisation declined by 0.8% to $2,186 million while Earnings before interest and tax (EBIT) increased by 7.9% to $2,564 million.

Finance costs decreased by 30.6% to $396 million largely as a result of fair value adjustments.

Reported profit after tax to controlling interests increased by 22.9% to $1,468 million. Basic earnings per share (EPS) increased by 22.9% from 9.6 cents to 11.8 cents.

Free cashflow of $1,795 million was generated in the half. Accrued capital expenditure was $1,715 million in the half, or 13.8% of sales.

The interim dividend per ordinary share remains at 14 cents per share fully franked.

The historical financial information included in this Directors' Report that has been extracted from the Half-Year Report accompanying this Directors' Report has been subject to review by our Auditors.

Directors' Report

Review and results of operations

The benefits from the investments we have made in mobile customer growth is reflected in strong mobile revenue growth of 10.9% in the half. 958,000 customers were also added in the six months to 31 December 2011.

Mobile services revenue grew by 10.0%, the strongest growth in six halves, while mobile hardware revenue was up 15.7% to $655 million. While we continue to refresh mobile plans to remain competitive, our superior network coverage and reliability continues to be recognised by our customers.

The continued popularity of our bundled offers (many of which include the Telstra T-Hub® and T-Box®) and competitive broadband plans led to growth in fixed retail broadband revenue (including hardware) of 5.8% this half to $835 million. The growth in fixed retail broadband customers was also strong with 106,000 added in the half.

Total PSTN revenue declined by 9.0% during the half to $2,489 million. This decline is consistent with previous periods and is a result of lower usage across all calling categories. There was a 136,000 net decline in PSTN lines during the half compared to 163,000 lines in the second half of fiscal year 2011. However, local call revenue fell by 21.1% and national long distance revenue declined by 13.9%, an acceleration on the prior half.

IP Access and Data Services revenue increased by 1.1% to $901 million. Within this category, growth in IP Access revenue offset the decline from legacy technologies. IP Access revenue grew by 8.9% or $42 million to $514 million.

Growth in our NAS business has accelerated, increasing by 19.4% to $579 million. It remains a strategic growth driver for Telstra. We have a dedicated business unit for network applications and services to ensure we continue to grow this business profitably. Growth in the half was driven by unified communications and managed data networks. Telstra acquired iVision Pty Ltd in March 2011. Revenue from this business contributed $34 million to total NAS revenue in the half.

We have signed a number of major customers to our NAS offerings, including Origin Energy and SA Health.

Telstra International is focussed on Asia and is predominantly made up of the Asian Reach network assets, the CSL New World mobile business in Hong Kong and a number of online businesses in China.

Since the completion of the Reach acquisition last year we have undertaken a significant expansion of our presence across the region, with new carrier licences in India, Singapore and Japan to support our corporate customers. Overall, our Telstra International revenues grew by 19.8% to $823 million on a reported basis, and 11.4% to $765 million after adjusting for intercompany revenue as a result of the Reach transaction.

CSL New World grew revenue by 2.8% to $436 million and added 167,000 new customers in the half.

In the half we announced the establishment of a Digital Media business unit to drive growth from our media assets and manage the transition to digital at our Sensis directories business.

Within the Digital Media portfolio, Sensis is in the first year of implementing its three year digital strategy. Since launching the strategy in March 2011, it has made progress in restructuring its operations to adapt to the challenges of the directories market. First half results were impacted by the upfront costs of the restructuring and an acceleration in the decline of Yellow print revenues as the market evolves more rapidly than expected. As previously indicated, Sensis first half results were also impacted by the movement of the recognition of the Perth Yellow Pages book into the second half. This has put pressure on Sensis' first half results, with income declining by 24.1% and EBITDA declining by 54.9%. Adjusting for the movement of the recognition of the Perth Yellow Pages, Sensis total income declined by 16.5% and EBITDA declined by 38.6%.

Financial position

Our financial position remains solid with net assets of $11.6 billion, down from $12.3 billion at 30 June 2011. The decrease in net assets of $689 million is largely a result of a reduction in property, plant and equipment due to a reduction in capital programme expenditure following the peaks of our transformation programme in recent years. In addition, net debt in the current half from 30 June 2011 increased, which is consistent with our annual profiling where second half cash flows are typically stronger than the first half.

Cash flow and financial condition

Our cash flow before financing activities (free cashflow) has decreased by $225 million to $1,795 million in the current half-year. Cash used in financing activities was $1,438 million for the half-year, which represents a decrease of $42 million over the prior corresponding period. The decrease reflects our debt re-financing programmes.

A number of successful borrowings in the period lengthened our debt maturity profile. These included a €750 million/$A1,002 million 10.5 year bond issue in November and a Swiss Franc 225 million/ A$252 million seven year borrowing in December.

Our net debt at 31 December 2011 was $14,098 million compared to $14,395 million at 31 December 2010. Net debt in the current half from 30 June 2011 increased by $503 million which is consistent with our annual profiling where second half cash flows are typically stronger than the first half.

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

	Telstra Group	
	As at	
	31 Dec 2011	30 June 2011
Net debt ($m)	**14,098**	13,595
Total equity ($m)	**11,603**	12,292
Gearing ratio (%)	**54.9**	52.5
EBITDA interest cover (times) (i)	**9.3**	9.6
Net debt to EBITDA (annualised)	**1.5**	1.3

(i) Interest cover is based on interest on borrowings and finance leases, and excludes other finance costs.

Directors' Report

This position, combined with our borrowing programme, will continue to support our ongoing operating and investing activities within our target financial parameters of gearing between 50 and 70 per cent; interest cover of more than seven times and debt servicing of 1.5-1.9 times.

Dividends

The directors have resolved to pay an interim dividend of 14 cents per ordinary share. The dividend will be fully franked at a tax rate of 30%. The record date for the interim dividend will be 24 February 2012, with payment to be made on 23 March 2012.

Our final dividend for the financial year ended 30 June 2011 of 14 cents per ordinary share ($1,738 million) was paid during the half-year ended 31 December 2011. This dividend was fully franked at a tax rate of 30%. The final dividend paid had a record date of 26 August 2011 and payment was made on 23 September 2011.

The Dividend Reinvestment Plan continues to be suspended.

Sustainability

Over the last six months, we have focussed on building a more strategic approach to sustainability. We have established a Chief Sustainability Office and appointed a Chief Sustainability Officer, and we are concentrating our efforts on four key pillars of sustainability - Customers, People, Community and Environment.

In particular, we are bringing a sharper focus to our community investment efforts, with digital inclusion becoming a strategic foundation. Access to telecommunications is critical to full participation in economic and community life and we are well positioned to play a major role. Our focus includes continuing to work with the Low Income Measures Assessment Committee (LIMAC) to ensure our Access for Everyone products and services meet the needs of our low income customers and customers with disability. In 2012, we celebrate 10 years of our Access for Everyone programme. In addition, a focus on digital inclusion will inform the future operations of the Telstra Foundation, bringing congruence across all our community investment activities.

Our sustainability achievements over the last six months include:

- becoming a signatory to the United Nations Global Compact (UNGC), reinforcing the company's commitment to responsible business practice and sustainability;
- introducing paid volunteer leave for Telstra employees, strengthening the company's connection to the community;
- carbon intensity has reduced by an estimated 17% as at 1 December 2011; and
- releasing our 2011 Sustainability Report.

An integrated and strategic sustainability programme is not only essential to protect and enhance our reputation, but will also provide long term cultural and commercial benefit to the organisation.

Outlook

Our strategy is unchanged. The company will continue to focus on improving customer satisfaction, growing customer numbers, simplifying the business and taking advantage of new growth opportunities.

Telstra has confirmed fiscal 2012 guidance of low single digit revenue and EBITDA growth, with free cashflow of between $4.5 and $5.0 billion. In addition, the company expects capital expenditure to continue to be around 14% of sales. The NBN transaction is not expected to have a material impact on Telstra's underlying financial results in fiscal 2012.

As announced in October 2011, it is the company's intention to maintain a 28 cent fully franked dividend for fiscal 2012 and 2013. This is subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

Telstra's Board has reaffirmed its intention to consider a broader capital management strategy upon implementation of the NBN agreements, following ACCC acceptance of Telstra's Structural Separation Undertaking.

Guidance Summary (*)

Measure	Fiscal 2012 guidance
Total revenue	**Low single digit growth**
EBITDA	**Low single digit growth**
Capex/sales	**14%**
Free Cashflow	**$4.5-$5.0 billion**
Dividend	**28 cents fully-franked**

**Guidance assumes wholesale product price stability, no further impairments to investments and excludes any proceeds on the sale of businesses.*

Directors' Report

Directors

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

Catherine B Livingstone AO	- Chairman since 2009, Director since 2000
David I Thodey	- Chief Executive Officer and Executive Director since 2009
Geoffrey A Cousins	- a Director since 2006
Russell A Higgins AO	- a Director since 2009
John P Mullen	- a Director since 2008
Nora L Scheinkestel	- a Director since 2010
John V Stanhope	- a Director until retirement on 30/12/2011
John M Stewart	- a Director until 18/10/2011
John W Stocker AO	- a Director since 1996
Steven M Vamos	- a Director since 2009
John D Zeglis	- a Director since 2006

Auditor's independence declaration

The independence declaration of our auditors is on page 6 and forms part of this report.

Rounding of amounts

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

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

Catherine B Livingstone AO
Chairman
9 February 2012

David I Thodey
Chief Executive Officer and Executive Director
9 February 2012

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

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

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

In relation to our review of the financial report of Telstra Corporation Limited for the half-year ended 31 December 2011, 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

SJ Ferguson
Partner
Melbourne, Australia
9 February 2012

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 2011

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Income Statement

for the half-year ended 31 December 2011

	Note	Telstra Group Half-year ended 31 December 2011 $m	2010 $m
Income			
Revenue (excluding finance income)		**12,419**	12,283
Other income		**82**	125
		12,501	12,408
Expenses			
Labour		**2,099**	1,988
Goods and services purchased		**3,161**	3,148
Other expenses		**2,491**	2,693
		7,751	7,829
Share of net (profit) from jointly controlled and associated entities		**-**	(1)
		7,751	7,828
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**4,750**	4,580
Depreciation and amortisation		**2,186**	2,204
Earnings before interest and income tax expense (EBIT)		**2,564**	2,376
Finance income		**53**	46
Finance costs	6	**449**	617
Net finance costs		**396**	571
Profit before income tax expense		**2,168**	1,805
Income tax expense		**689**	598
Profit for the period		**1,479**	1,207
Attributable to:			
Equity holders of Telstra Entity		**1,468**	1,194
Non-controlling interests		**11**	13
		1,479	1,207
Earnings per share (cents per share)		**cents**	cents
Basic		**11.8**	9.6
Diluted		**11.8**	9.6

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 2011

	Telstra Group Half-year ended 31 December	
	2011	2010
	$m	$m
Profit for the period		
Attributable to equity holders of Telstra Entity	**1,468**	1,194
Attributable to non-controlling interests	**11**	13
	1,479	1,207
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Retained profits:		
- actuarial (loss)/gain on defined benefit plans attributable to equity holders of Telstra Entity	**(693)**	244
- income tax on actuarial (loss)/gain on defined benefit plans	**205**	(71)
- actuarial (loss)/gain on defined benefit plans attributable to non-controlling interests	**(3)**	2
	(491)	175
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation reserve:		
- translation differences of foreign operations attributable to equity holders of Telstra Entity	**51**	(281)
- income tax on movements in the foreign currency translation reserve	**5**	(39)
- translation differences transferred to income statement on disposal of SouFun	**-**	11
- income tax on translation differences transferred to income statement on disposal of SouFun	**-**	4
- translation differences of foreign operations attributable to non-controlling interests	**12**	(40)
Cash flow hedging reserve:		
- changes in fair value of cash flow hedges	**(230)**	(792)
- changes in fair value transferred to other expenses	**79**	543
- changes in fair value transferred to goods and services purchased	**2**	37
- changes in fair value transferred to finance costs	**135**	139
- changes in fair value transferred to property, plant and equipment	**9**	-
- income tax on movements in the cash flow hedging reserve	**1**	21
	64	(397)
Total other comprehensive income	**(427)**	(222)
Total comprehensive income for the period	**1,052**	985
Total comprehensive income attributable to equity holders of Telstra Entity	**1,032**	1,010
Total comprehensive income attributable to non-controlling interests	**20**	(25)

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

Statement of Financial Position

as at 31 December 2011

		Telstra Group as at	
	Note	31 Dec 2011 $m	30 June 2011 $m
Current assets			
Cash and cash equivalents		**3,035**	2,630
Trade and other receivables		**4,584**	4,137
Inventories		**371**	283
Derivative financial assets		**36**	83
Current tax receivables		**3**	4
Prepayments		**297**	275
Assets classified as held for sale	9	**-**	41
Total current assets		**8,326**	7,453
Non current assets			
Trade and other receivables		**480**	340
Inventories		**15**	22
Investments - accounted for using the equity method		**2**	2
Investments - other		**1**	1
Property, plant and equipment		**21,388**	21,790
Intangible assets		**7,631**	7,627
Derivative financial assets		**552**	285
Non current tax receivables		**382**	382
Deferred tax assets		**3**	-
Defined benefit assets	7	**-**	11
Total non current assets		**30,454**	30,460
Total assets		**38,780**	37,913
Current liabilities			
Trade and other payables		**3,943**	4,093
Provisions	1	**944**	846
Borrowings		**3,321**	1,990
Derivative financial liabilities		**573**	634
Current tax payables		**571**	404
Revenue received in advance		**1,166**	1,018
Liabilities classified as held for sale	9	**-**	5
Total current liabilities		**10,518**	8,990
Non current liabilities			
Other payables		**175**	177
Provisions	1	**280**	244
Borrowings		**11,579**	12,178
Derivative financial liabilities		**2,248**	1,799
Deferred tax liabilities		**1,235**	1,730
Defined benefit liability	7	**839**	205
Revenue received in advance		**303**	298
Total non current liabilities		**16,659**	16,631
Total liabilities		**27,177**	25,621
Net assets		**11,603**	12,292
Equity			
Share capital		**5,623**	5,610
Reserves		**(794)**	(843)
Retained profits		**6,552**	7,307
Equity available to Telstra Entity shareholders		**11,381**	12,074
Non-controlling interests		**222**	218
Total equity		**11,603**	12,292

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 2011

	Note	Telstra Group Half-year ended 31 December 2011 $m	2010 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**13,527**	13,487
Payments to suppliers and to employees (inclusive of GST)		**(8,909)**	(9,294)
Net cash generated by operations		**4,618**	4,193
Income taxes paid		**(800)**	(758)
Net cash provided by operating activities		**3,818**	3,435
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(1,777)**	(1,385)
- intangible assets		**(360)**	(446)
Total capital expenditure		**(2,137)**	(1,831)
Proceeds from:			
- sale of property, plant and equipment		**9**	6
- sale of shares in controlled entities (net of cash disposed)	5	**(6)**	288
- sale of businesses (net of cash disposed)	5	**(2)**	10
- sale of associates	5	**-**	23
Proceeds from finance lease principal amounts		**27**	40
Repayment of loans to jointly controlled and associated entities		**-**	3
Loans to jointly controlled and associated entities		**(1)**	-
Interest received		**48**	35
Settlement of hedges of net investments		**39**	5
Dividends received from SouFun		**-**	6
Net cash used in investing activities		**(2,023)**	(1,415)
Operating cash flows less investing cash flows		**1,795**	2,020
Cash flows from financing activities			
Proceeds from borrowings		**1,637**	999
Repayment of borrowings		**(746)**	(67)
Repayment of finance lease principal amounts		**(25)**	(35)
Staff repayments of share loans		**2**	4
Finance costs paid		**(559)**	(547)
Dividends paid to equity holders of Telstra Entity	3	**(1,738)**	(1,737)
Dividends paid to non-controlling interests		**(9)**	(13)
Net cash used in financing activities		**(1,438)**	(1,396)
Net increase in cash and cash equivalents		**357**	624
Cash and cash equivalents at the beginning of the period		**2,637**	2,105
Effects of exchange rate changes on cash and cash equivalents		**16**	(53)
Cash and cash equivalents at the end of the period	5	**3,010**	2,676

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 2011

Telstra Group

		Reserves							
	Share capital $m	Foreign currency transla-tion (i) $m	Cash flow hedging (ii) $m	Consolid-ation fair value (iii) $m	General reserve (iv) $m	Retained profits $m	Total $m	Non-controll-ing interests $m	Total equity $m
Balance at 1 July 2011	**5,610**	**(837)**	**(14)**	**4**	**4**	**7,307**	**12,074**	**218**	**12,292**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**1,468**	**1,468**	**11**	**1,479**
Other comprehensive income	**-**	**56**	**(4)**	**-**	**-**	**(488)**	**(436)**	**9**	**(427)**
Total comprehensive income for the period	**-**	**56**	**(4)**	**-**	**-**	**980**	**1,032**	**20**	**1,052**
Dividends	**-**	**-**	**-**	**-**	**-**	**(1,738)**	**(1,738)**	**(9)**	**(1,747)**
Non-controlling interests on disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**
Transfers to retained profits	**-**	**-**	**-**	**(3)**	**-**	**3**	**-**	**-**	**-**
Amounts repaid on share loans provided to employees	**2**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Share based payments	**11**	**-**	**-**	**-**	**-**	**-**	**11**	**6**	**17**
Balance at 31 December 2011	**5,623**	**(781)**	**(18)**	**1**	**4**	**6,552**	**11,381**	**222**	**11,603**
Balance at 1 July 2010	5,590	(482)	157	9	4	7,418	12,696	312	13,008
Profit for the period	-	-	-	-	-	1,194	1,194	13	1,207
Other comprehensive income	-	(305)	(52)	-	-	173	(184)	(38)	(222)
Total comprehensive income for the period	-	(305)	(52)	-	-	1,367	1,010	(25)	985
Dividends	-	-	-	-	-	(1,737)	(1,737)	(13)	(1,750)
Non-controlling interests on disposals	-	-	-	-	-	-	-	(51)	(51)
Transfers to retained profits	-	-	-	(3)	-	3	-	-	-
Amounts repaid on share loans provided to employees	4	-	-	-	-	-	4	-	4
Share based payments	12	-	-	-	-	-	12	-	12
Balance at 31 December 2010	5,606	(787)	105	6	4	7,051	11,985	223	12,208

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

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

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

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

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

Notes to the Half-Year Financial Statements

1. Basis of preparation

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited. Telstra Entity is a company limited by shares incorporated in Australia and whose shares are publicly traded on the Australian Securities Exchange.

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 2011. It should also be read together with any public announcements made by us in accordance with the continuous disclosure obligations arising under Australian Securities Exchange listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

1.1 Basis of preparation of the half-year financial report

This half-year financial report has been prepared by a for-profit entity, in accordance with the requirements of the Corporations Act 2001 and AASB 134: "Interim Financial Reporting".

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

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

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

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

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

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

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

1.2 Clarification of terminology used in our income statement

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

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the period prior to including the effect of interest (net finance costs), income taxes, depreciation and amortisation. Depreciation and amortisation are calculated in accordance with AASB 116: "Property, Plant and Equipment" and AASB 138: "Intangible Assets" respectively. We believe that EBITDA is a relevant and useful financial measure used by management to measure our operating performance.

Our management uses EBITDA and earnings before interest and income tax expense (EBIT), in combination with other financial measures, primarily to evaluate 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 profit in understanding cash flows generated from operations and available for payment of income taxes, debt servicing and capital expenditure. In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

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

1.3 Rounding

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

1.4 Comparative information

Current and non current provision balances reported as at 30 June 2011 have been restated to reflect that for some of our long service leave balances, we do not have an unconditional right to defer the settlement of these long service leave liabilities for more than 12 months. The reclassification has no impact on profit, equity or earnings per share calculations.

If the reclassification had been performed as at 30 June 2010 our non current provisions and non current liabilities would have reduced by $424 million and our current provisions and current liabilities would have increased by $424 million.

Notes to the Half-Year Financial Statements (continued)

1. Basis of preparation (continued)

1.4 Comparative information (continued)

The table below provides further details regarding the opening and closing balances of the prior period:

Statement of Financial Position line	Telstra Group		
	30 June 2011		
	Reported	Adjustment	Restated
	$m	$m	$m
Current provisions	394	452	846
Non current provisions	696	(452)	244
	30 June 2010 (1 July 2010)		
	Reported	Adjustment	Restated
	$m	$m	$m
Current provisions	389	424	813
Non current provisions	727	(424)	303

The restated current provision includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. These amounts are presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts have been determined in accordance with an actuarial assessment and reflect long service leave that is not expected to be taken or paid within the next 12 months:

	Telstra Group	
	As at	
	31 Dec 2011	30 June 2011
	$m	$m
Long service leave obligations expected to be settled after 12 months	**538**	452

Notes to the Half-Year Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements

2.1 Accounting policies

Our accounting policies are consistent with those disclosed in the Annual Financial Report as at 30 June 2011.

(a) Presentation of items of Other Comprehensive Income (OCI)

We have elected to early adopt and apply AASB 2011-9: "Amendments to Australian Accounting Standards - Presentation of items of Other Comprehensive income" in our 31 December 2011 half-year financial report.

AASB 2011-9 was issued by the AASB in September 2011 and amends AASB 101: "Presentation of Financial Statements" to require entities to group items presented in OCI on the basis of whether they are subsequently expected to be reclassified to profit or loss.

The amendments from this standard have resulted in a change in the presentation of Telstra's Statement of Comprehensive Income so that items of OCI that may be reclassified to profit or loss in subsequent periods are grouped separately from items of OCI that will not. This standard impacts disclosure requirements only and does not change the way we recognise or measure items of OCI.

(b) Other

Other accounting standards that are applicable for the half-year ended 31 December 2011, that do not have any material impact on our financial results, are as follows:

- AASB 124: "Related Party Disclosures (Revised)";
- AASB 2009-12: "Amendments to Australian Accounting Standards";
- AASB 2009-14: "Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement";
- AASB 2010-4: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2010-5: "Amendments to Australian Accounting Standards";
- AASB 2010-6: "Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets"; and
- AASB 2010-9: "Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters".

2.2 Estimates, assumptions and judgements

(a) Property, plant and equipment

Depreciation

The service lives and residual values of our assets are reviewed each year. We apply management judgement in determining the service lives of our assets. This assessment includes a comparison with international trends for telecommunications companies and, in relation to communications assets, includes a determination of when the asset may be superseded technologically or made obsolete.

Based on our assessments at 30 June 2011 and the fact that no significant changes have occurred since then, there are no known measurement implications on service lives resulting from the National Broadband Network (NBN) transaction for the half-year ended 31 December 2011. Our assessment continues to show that the weighted average remaining service life (WARSL) for the existing network assets impacted by the disconnection obligations that will apply under the Definitive Agreements, if they come into full force and effect, falls within the anticipated rollout period of 10 years. As such, we have concluded that no further adjustments are required for the half-year ended 31 December 2011, in addition to our normal service life reassessment, the results of which are noted below. Refer to note 8 for further discussion on the NBN.

The net effect of the reassessment of service lives for the half-year ended 31 December 2011 was a decrease in our depreciation expense of $97 million (31 December 2010: $15 million increase) for the Telstra Group.

(b) Software assets

Amortisation

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

There has been no change in service lives during the half-year 31 December 2011 and hence no impact on amortisation expense in the current period (31 December 2010: $57 million decrease) for the Telstra Group.

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

The accounting standards that have not been early adopted during the half-year ended 31 December 2011, but will be applicable to the Telstra Group in future reporting periods are detailed below.

(a) Consolidated Financial Statements

AASB 10: "Consolidated Financial Statements" was released in August 2011 by the AASB and replaces both the existing AASB 127: "Consolidated and Separate Financial Statements" and Interpretation 112: "Consolidation - Special Purpose Entities". AASB 2011-7: "Amendments to Australian Standards arising from the Consolidation and Joint Arrangement Standards" was also released by the AASB to update the requirements in other accounting standards as a result of the amendments to the entire suite of consolidation and related standards.

AASB 10 revises the definition of control and related application guidance so that a single control model can be applied to all entities.

These standards will apply to Telstra from 1 July 2013 on a retrospective basis, with early adoption permitted provided that the entire suite of consolidation and related standards are adopted at the same time.

Notes to the Half-Year Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.3 Recently issued accounting standards to be applied in future reporting periods (continued)

(a) Consolidated Financial Statements (continued)

Based on our assessments, it is anticipated that the revised definition of control will have no significant impact to Telstra's current accounting for investments held. Investments currently accounted for as subsidiaries would continue to meet the revised definition of control and therefore continue to be consolidated in the group's financial statements. Investments currently accounted for as associates have been assessed against the revised control definition and there would be no changes in the accounting treatment for these investments. Therefore, Telstra will continue to equity account for them.

(b) Joint Arrangements

AASB 11: "Joint Arrangements" was also released by the AASB in August 2011 and replaces the existing AASB 131: "Interests in Joint Ventures". This new standard has revised the definition types of joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form. The definition types have been consolidated into two, joint ventures (currently referred to as jointly controlled entities) and joint operations (currently referred to as jointly controlled assets and jointly controlled operations). Furthermore, the accounting treatment options for joint venture arrangements have been removed to eliminate inconsistent treatments, where equity accounting is mandatory for joint ventures and proportionate consolidation can no longer be used.

This standard is applicable to Telstra from 1 July 2013 on a retrospective basis, with early adoption permitted provided that the entire suite of consolidation and related standards are adopted at the same time.

Based on management's current assessments, the revised definition types of joint arrangements will have no impact on Telstra's current joint arrangement classifications. The assessment of Telstra's material jointly controlled entities shows there are no jointly controlled entities that give Telstra direct rights over assets or obligations to settle liabilities, such that they should be classified as joint operations. As such, all of these jointly controlled entities would be classified as joint ventures and given that Telstra's current accounting policy for jointly controlled entities is to use the equity accounting method, these joint ventures will remain equity accounted for under AASB 11. There will be no impact on the measurement of any of Telstra's existing joint arrangements.

(c) Disclosures of Interests in Other Entities

AASB 12: "Disclosure of Interests in Other Entities" was issued by the AASB in August 2011 and is a new standard on disclosure requirements for all forms of interests in investments, including subsidiaries, associates, joint arrangements and consolidated and unconsolidated structured entities.

This standard is applicable to Telstra from 1 July 2013 on a retrospective basis, with early adoption permitted provided that the entire suite of consolidation and related standards are adopted at the same time.

Based on our current assessments, there will be extra disclosures required by Telstra as a result of AASB 12, specifically in the following areas:

- controlled entities with non-controlling interests that are material to Telstra;
- interests in consolidated structured entities; and
- unconsolidated structured entities.

(d) Separate Financial Statements

AASB 127: "Separate Financial Statements" has been released by the AASB in August 2011 to replace the current AASB 127 standard, now only containing the accounting requirements for preparation of separate financial statements of the parent.

This standard is applicable from 1 July 2013, with early adoption permitted provided that the entire suite of consolidation and related standards are adopted at the same time. There is no impact to Telstra's financial statements as we already comply with the requirements in the standard.

(e) Investments in Associates and Joint Ventures

AASB 128: "Investments in Associates and Joint Ventures" was issued by AASB in August 2011 and replaces the current AASB 128 standard. Limited amendments have been made to AASB 128 including, the application of AASB 5: "Non-current assets held for sale and discontinued operations" to interests in associates and joint ventures and how to account for changes in interests in joint ventures and associates.

This standard is applicable from 1 July 2013, with early adoption permitted provided that the entire suite of consolidation and related standards are adopted at the same time.

We have assessed that there will be no impact to Telstra's financial statements as a result of this standard.

(f) Fair Value Measurement

AASB 13: "Fair Value Measurement" was released by the AASB in August 2011 and is a new standard providing a single source of guidance for all fair value measurements and a precise definition of fair value. It replaces all fair value measurement guidance in Australian Accounting Standards and Interpretations, but does not replace existing standards requirements on when fair values should be used. A related omnibus standard AASB 2011-8: "Amendments to Australian Accounting Standards arising from AASB 13" makes a number of definition and guidance amendments to other accounting standards as a result of the amendments in AASB 13 and must be adopted at the same time.

This standard is applicable to Telstra from 1 January 2013, with early adoption permitted.

Notes to the Half-Year Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.3 Recently issued accounting standards to be applied in future reporting periods (continued)

(f) Fair Value Measurement (continued)

Based on our assessment of this new standard, the predominant impact will be extra disclosures required by Telstra, specifically in the following areas:

- investments or assets held for sale, where the fair value less costs to sell is lower than the carrying amount;
- as part of a business combination, any assets and liabilities measured at fair value in the statement of financial position after initial recognition; and
- financial instruments, where the carrying amount differs from the fair value.

(g) Employee Benefits

AASB 119: “Employee Benefits” was released by the AASB in September 2011 and replaces the existing employee benefits standard. A related omnibus standard AASB 2011-10: “Amendments to Australian Accounting Standards arising from AASB 119” makes a number of amendments to other accounting standards and an Interpretation as a result of the amendments in AASB 119.

Both standards are applicable from 1 July 2013, with early adoption permitted.

Based on management’s assessment, AASB 119 will have an impact to Telstra’s financial statements, specifically in the following areas:

- the defined benefit expense will no longer contain the component of expected returns on planned assets, instead this will be replaced by a net interest income or expense number calculated using a discount rate (based on government bonds) that is applied to the net defined benefit asset or liability;
- presentation of the defined benefit cost will be disaggregated into three components; service cost to be presented in profit or loss, net interest on the net defined benefit asset or liability in the profit or loss as part of finance costs and remeasurements to be presented in other comprehensive income; and
- additional disclosures about the characteristics and risks arising from our defined benefit plans.

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

Notes to the Half-Year Financial Statements (continued)

3. Dividends

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

	Telstra Entity Half-year ended 31 December	
	2011	2010
	$m	$m
Dividends paid		
Previous year final dividend paid	**1,738**	1,737
Dividends paid per ordinary share	**cents**	cents
Previous year final dividend paid	**14.0**	14.0

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

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

	Telstra Entity Half-year ended 31 December	
	2011	2010
	cents	cents
Dividends per ordinary share to be paid		
Interim dividend fully franked	**14.0**	14.0

As the interim dividend for the half-year ended 31 December 2011 was not determined or publicly recommended by the Board as at 31 December 2011, no provision for dividend has been raised in the statement of financial position. The interim dividend has been reported as an event subsequent to reporting date. Refer to note 11 for further details.

Notes to the Half-Year Financial Statements (continued)

4. Segment information

Operating segments

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

For a description of our reportable segments and other business units, refer to note 5 of the 30 June 2011 Annual Financial Report.

During the half-year ended 31 December 2011, the following changes were made to our operating segments:

- a new business unit "Telstra Customer Sales and Service" (TCS&S) was created in fiscal 2012, headed by the Chief Customer Officer. It consolidates the results of all domestic retail business units, i.e. Telstra Business (TB), Telstra Consumer and Country Wide (TC&CW) and Telstra Enterprise and Government (TE&G), which all continue to be reported as individual segments. The Chief Customer Officer has also assumed the responsibility for our New Zealand retail unit, TelstraClear (TClear) which also continues to be disclosed as a separate reportable segment. The TCS&S business unit (excluding the domestic retail business units and TelstraClear results) has been included in the "All Other" category;
- a new business unit "Telstra Applications and Ventures" (TA&V) was created in fiscal 2012 to invest and partner with other companies and government agencies at the forefront of innovation to provide a new range of digital services for business and consumers, including in health and education. TA&V has been included in the "All Other" category;
- the financial results of the Reach operations acquired in fiscal 2011 and previously reported as a reconciling item to underlying results, are now included in the Telstra International (TI) reportable segment; and
- SouFun's financial results, previously included in the "All Other" category, are now excluded from underlying results (following its disposal in fiscal 2011).

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 Innovation, Products and Marketing (TIPM);
- TCS&S (excluding the domestic retail business units and TelstraClear);
- TA&V;
- Telstra Cable; and
- our Corporate areas.

Changes in the organisational structure subsequent to reporting date

On 18 November 2011, Telstra announced further changes to its organisational structure. Effective from January 2012, Telstra's media businesses will be consolidated into a single division, "Telstra Digital Media" (TDM). The new division will be responsible for managing Telstra's end-to-end media capabilities including Sensis®, Trading Post®, IPTV, FOXTEL and other content arrangements. Following finalisation of the new reporting structure, changes will be made to our reportable segments in the second half of fiscal 2012.

Segment results

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on its "underlying earnings before interest, income tax expense, depreciation and amortisation (EBITDA) contribution" and "underlying earnings before interest and income tax expense (EBIT) contribution" to the Telstra Group. The underlying EBITDA contribution and underlying EBIT contribution excludes the effects of inter-segment balances and transactions apart from network revenues and costs associated with our acquired Reach business. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance. Such items include gain/loss on disposal of non-current assets, controlled entities, associated entities, and businesses, and the impairment of goodwill and intangibles. These are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBIT and profit before income tax expense in the financial statements.

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

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

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

- sales revenue associated with mobile handsets for TC&CW, TB and TE&G are mainly allocated to the TC&CW segment along with the associated costs of goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&CW, TB and TE&G depending on the type of customer serviced;
- Telstra Operations (TOps) recognise certain expenses in relation to the installation and running of the hybrid fibre coaxial (HFC) cable network;
- the domestic promotion and advertising expense for Telstra Entity is recorded centrally in TIPM; and
- call centre costs associated with TB and TE&G are included in the TC&CW segment as a result of the creation of our retail business unit, TCS&S, in the six months to 31 December 2011.

Notes to the Half-Year Financial Statements (continued)

4. Segment information (continued)

Segment results (continued)

The following tables detail the underlying results of our segments, based on the reporting structure as at 31 December 2011:

Telstra Group

Half-year ended 31 December 2011	TC&CW $m	TB $m	TE&G $m	TOps $m	TW $m	Sensis $m	TI $m	TClear $m	All Other $m	Total $m
Revenue from external customers for operating segments (i)	**5,160**	**2,361**	**2,101**	**26**	**1,069**	**528**	**821**	**255**	**85**	**12,406**
Other non-operating segment revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**13**
Other income	**27**	**4**	**(2)**	**5**	**-**	**-**	**2**	**-**	**15**	**51**
Total income	**5,187**	**2,365**	**2,099**	**31**	**1,069**	**528**	**823**	**255**	**113**	**12,470**
Labour expenses	**268**	**62**	**112**	**730**	**34**	**209**	**122**	**48**	**513**	**2,098**
Goods and services purchased (i)	**1,678**	**519**	**286**	**95**	**39**	**42**	**409**	**117**	**(24)**	**3,161**
Other expenses	**492**	**40**	**21**	**1,046**	**8**	**147**	**145**	**43**	**493**	**2,435**
Share of equity accounted profits	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Underlying EBITDA contribution	**2,749**	**1,744**	**1,680**	**(1,840)**	**988**	**130**	**147**	**47**	**(869)**	**4,776**
Depreciation and amortisation	**-**	**-**	**4**	**39**	**-**	**59**	**64**	**56**	**1,964**	**2,186**
Underlying EBIT contribution	**2,749**	**1,744**	**1,676**	**(1,879)**	**988**	**71**	**83**	**(9)**	**(2,833)**	**2,590**

Telstra Group

Half-year ended 31 December 2010	TC&CW $m	TB $m	TE&G $m	TOps $m	TW $m	Sensis $m	TI $m	TClear $m	All Other $m	Total $m
Revenue from external customers for operating segments	4,896	2,375	2,014	37	1,127	680	686	265	67	12,147
Other non-operating segment revenue	-	-	-	-	-	-	-	-	78	78
Other income	33	3	1	3	(1)	-	1	-	14	54
Total income	4,929	2,378	2,015	40	1,126	680	687	265	159	12,279
Labour expenses	298	57	101	660	32	215	89	50	457	1,959
Goods and services purchased	1,668	487	261	119	38	54	373	132	25	3,157
Other expenses	578	35	18	1,098	7	130	117	43	500	2,526
Share of equity accounted profits	-	-	(1)	-	-	-	-	-	-	(1)
Underlying EBITDA contribution	2,385	1,799	1,636	(1,837)	1,049	281	108	40	(823)	4,638
Depreciation and amortisation	-	-	8	38	-	60	66	57	1,975	2,204
Underlying EBIT contribution	2,385	1,799	1,628	(1,875)	1,049	221	42	(17)	(2,798)	2,434

(i) Revenue from external customers in Telstra International (TI) includes $58 million (2010: nil) of inter-segment revenue treated as external expenses in our Retail units which is eliminated in the “All Other” category. External expenses in TI also includes $18 million (2010: nil) of inter-segment expenses treated as external revenue in Telstra Wholesale and eliminated in the “All Other” category.

Notes to the Half-Year Financial Statements (continued)

4. Segment information (continued)

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

		Telstra Group	
		Half-year ended 31 December	
	Note	**2011 $m**	2010 $m
Underlying EBIT contribution for reportable segments		**5,423**	5,232
All other		**(2,833)**	(2,798)
Total all segments		**2,590**	2,434
Amounts excluded from underlying results:			
- net (loss)/gain on disposal of non current assets		**(1)**	11
- net gain on disposal of controlled entities (a)	5	**-**	69
- net gain on disposal of associated entities (b)	5	**-**	8
- net loss on disposal of businesses (c)	5	**(1)**	(18)
- impairment in value of goodwill and intangibles (d)	8	**(56)**	(133)
- gain from derecognition of contingent consideration (e)		**33**	-
- EBIT contribution from SouFun operations (f)		**-**	5
- Other		**(1)**	-
Telstra Group EBIT (reported)		**2,564**	2,376
Net finance costs		**(396)**	(571)
Telstra Group profit before income tax expense (reported)		**2,168**	1,805

(a) On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of $24 million, resulting in a nil profit or loss on disposal.

On 17 September 2010, our controlled entity Telstra International Holdings sold its 50.6% shareholding in SouFun, resulting a net gain of $69 million.

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

(c) On 21 October 2011, our controlled entity Octave Investments Holdings Limited sold its ChinaM business for a total consideration of $5 million, resulting in a loss on disposal of $1 million.

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

(d) The impairment of goodwill and intangibles of $56 million relates to the LMobile Group.

The 2010 impairment of goodwill and intangibles of $133 million relates to the Octave Group.

(e) The $33 million gain from derecognition of contingent consideration relates to the fiscal 2010 acquisition of LMobile.

(f) Revenue of $58 million and EBIT contribution of $5 million related to SouFun, which was disposed of on 17 September 2010.

Notes to the Half-Year Financial Statements (continued)

5. Notes to the statement of cash flows

Reconciliation of cash and cash equivalents

	Telstra Group	
	Half-year ended 31 December	
	2011 $m	2010 $m
Cash at bank and on hand	280	256
Bank deposits, bills of exchange and promissory notes	2,755	2,420
Total cash and cash equivalents	3,035	2,676
Reconciliation to the statement of cash flows		
Bank overdraft	(25)	-
Cash and cash equivalents in the statement of cash flows	3,010	2,676

Acquisitions

Current period acquisitions

There were no acquisitions made during the half-year ended 31 December 2011.

Prior year acquisitions

On 1 February 2011, our controlled entity Sensis Pty Ltd acquired 100% of the issued capital of Life Events Media Pty Limited (Life Events), an Australian entity in the emerging “Request for Quote” market for a total consideration of $5 million.

On 28 February 2011, our wholly controlled entity, Telstra Holdings Pty Ltd acquired 100% of the issued capital of Reach Asia Limited, Reach Global Holdings Limited and Reach Network Services Korea Limited. On the same day, our wholly controlled entity, Telstra New Zealand Holdings Limited acquired 100% of the issued capital of Reach Network Services NZ Limited. In addition, we acquired an intercompany loan due from Reach Global Services Limited. We paid $39 million for these transactions, all of which formed part of the restructure of Reach, Telstra’s joint venture with PCCW. As part of this restructure of Reach network assets, we also acquired other assets from Reach totalling $108 million, bringing the total purchase consideration to $147 million. The consideration was offset against Telstra’s shareholder loan due from Reach. The balance of this loan at 31 December 2011 is $5 million and has been fully provided for.

On 31 March 2011, Telstra Corporation Limited acquired 100% of the issued capital of iVision Pty Ltd (iVision), an Australian entity primarily involved in the design and implementation of audio visual and video conferencing solutions. Total consideration was $41 million with $5 million of this contingent upon the entity achieving certain pre-determined integration targets by 31 December 2012.

Disposals

Current period disposals

Adstream

On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of $24 million. Payment of the consideration has been deferred for a period of up to two years.

ChinaM

On 21 October 2011, our controlled entity Octave Investments Holdings Limited sold its ChinaM business for a total consideration of $5 million.

The effect of these two disposals is detailed below:

	Total disposals
	Half-year ended 31 December
	2011 $m
Consideration for disposal - net of cash disposed	
Total consideration for disposal	29
Cash and cash equivalents disposed	(13)
	16
Deferred consideration for disposal	(24)
Outflow of cash on disposal	(8)
Total consideration for disposal	29
Assets/(liabilities) at disposal date	
Cash and cash equivalents	13
Trade and other receivables	8
Property, plant and equipment	2
Intangibles	30
Other assets	1
Trade and other payables	(4)
Current tax liabilities	(1)
Provisions	(1)
Deferred tax liabilities	(1)
Other liabilities	(4)
Net assets	43
Adjustment for non-controlling interests	(13)
Loss on disposal	(1)

Notes to the Half-Year Financial Statements (continued)

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

Disposals (continued)

Prior year disposals

SouFun

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

The effect of this disposal is detailed below:

	SouFun Half-year ended 31 December 2010 $m
Consideration for disposal - net of cash disposed	
Cash consideration for disposal	458
Realised net investment hedge gain	12
Interest on net investment hedge	2
Underwriting fees	(15)
Cash and cash equivalents disposed	(169)
Inflow of cash on disposal	288
Consideration for disposal	
Cash consideration for disposal	458
Realised net investment hedge gain	12
Interest on net investment hedge	2
Underwriting fees	(15)
Total consideration for disposal	457
Assets/(liabilities) at disposal date	
Cash and cash equivalents	169
Trade and other receivables	9
Inventories	8
Other assets	4
Property, plant and equipment	8
Intangibles	316
Trade and other payables	(35)
Current tax liabilities	(18)
Provisions	(1)
Deferred tax liabilities	(12)
Other liabilities	(36)
Net assets	412
Adjustment for non-controlling interests	(51)
Foreign currency translation reserve disposed	23
Deferred tax on net investment hedge gain	4
Gain on disposal	69

Other

On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business for a total cash consideration of $14 million ($10 million cash received and $2 million receivable at 31 December 2010 and an additional $2 million in the second half of fiscal 2011), resulting in a loss on disposal of $16 million ($18 million recorded at 31 December 2010 and reduced by $2 million in the second half of fiscal 2011 resulting from additional consideration received). The carrying value of the intangible assets disposed of amounted to $26 million and Telstra Limited recognised a provision for restructuring of $4 million on disposal of the business.

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

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management

Finance costs

Our finance costs for the half-year ended 31 December 2011 are detailed below:

TABLE A	Telstra Group	
	Half-year ended 31 December	
	2011 $m	2010 $m
Interest on borrowings (i)	**558**	571
Interest on finance leases	**6**	6
Unwinding of discount on liabilities recognised at present value	**8**	11
(Gain)/loss on fair value hedges - effective (ii)	**(27)**	32
(Gain)/loss on cash flow hedges - ineffective	**(2)**	4
(Gain)/loss on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (iii)	**(34)**	75
Other	**4**	8
	513	707
Less: borrowing costs capitalised (iv)	**(64)**	(90)
	449	617

(i) The net decrease in interest on borrowings principally arises from a reduction in the volume of average net debt in the current period compared to the prior period.

The average yield on average net debt during the six months to 31 December 2011 was 6.95% (31 December 2010: 6.94%). The net movement in yield reflects a combination of an increase in refinancing margins on term debt issued during the period offset by reductions in short-term market base interest rates period on 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.

The $27 million unrealised gain for the current period (2010: loss of $32 million) reflects the following valuation impacts:

- movement in base market rates and Telstra's borrowing margins as at the 31 December valuation date;
- reduction in the number of future interest flows as we approach maturity of the financial instruments; and
- discount factor unwinding as borrowings move closer to maturity.

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

(iii) A combination of the following factors has resulted in a net unrealised gain of $34 million (2010: loss of $75 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:

- the valuation impacts described at (ii) for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of $10 million for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

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

(iv) Interest on borrowings has been capitalised using a capitalisation rate of 6.88% (2010: 7.48%). The $26 million reduction in capitalised interest from prior period (increase in finance costs) is due to a combination of a lower qualifying asset base for which borrowing costs are capitalised and a lower capitalisation rate.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management (continued)

Gearing and net debt

We monitor capital 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 (excluding finance lease receivables) and financial liabilities, including derivative financial instruments, less cash and cash equivalents. Total capital is calculated as total equity, as shown in the statement of financial position, plus net debt.

During fiscal 2011 we reduced our target range for the net debt gearing ratio from 55 to 75 per cent to 50 to 70 per cent after taking account of market and business considerations. The gearing ratios and carrying value of our net debt are shown in Table B below:

TABLE B	Telstra Group	
	As at	
	31 Dec 2011 $m	30 June 2011 $m
Net debt	**14,098**	13,595
Total equity	**11,603**	12,292
Total capital	**25,701**	25,887
Gearing ratio	**54.9%**	52.5%

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

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

We are not subject to any externally imposed capital requirements.

Long term debt that will mature during the next 12 months totals $3,261 million. This represents the contractual face value amount after hedging. Included in this amount are offshore borrowings which were swapped into Australian dollars at inception of the borrowing through to maturity through the use of cross currency and interest rate swaps, creating synthetic Australian dollar obligations. These post hedge obligations are reflected in our total contractual Australian dollar liability at maturity of $3,261 million.

This amount of $3,261 million is different to the carrying amount of $2,714 million which is included in current borrowings (along with promissory notes of $538 million, finance leases of $44 million and bank overdraft of $25 million) in the statement of financial position. The carrying amount reflects the amount of our borrowings due to mature within 12 months prior to netting offsetting risk positions of associated derivative financial instruments hedging these borrowings. This carrying amount reflects a mixed measurement basis with part of the borrowing portfolio recorded at fair value and the remaining part at amortised cost which is compliant with the requirements under Australian Accounting Standards.

Our short term borrowings comprise unsecured promissory notes principally to support working capital and short term liquidity, as well as hedging certain offshore investments. These unsecured promissory notes are supported by liquid financial assets and ongoing credit standby lines.

The increase in the carrying amount of our net debt during the six months to 31 December 2011 of $503 million (31 December 2010: increase of $469 million) is represented by the movements shown in Table C below:

TABLE C	Telstra Group	
	Half-year ended 31 December	
	2011 $m	2010 $m
Offshore and domestic loans	**1,409**	969
Bank deposits greater than 90 days and short term borrowings	**39**	10
Repayment of offshore loans, Telstra bonds and domestic loans	**(557)**	(47)
Finance lease repayments	**(25)**	(35)
Net cash inflow	**866**	897
Revaluation losses affecting cash flow hedging reserve	**5**	73
Revaluation losses/(gains) affecting foreign currency translation reserve	**56**	(109)
Revaluation (gains)/losses affecting other expenses in income statement	**(1)**	34
Revaluation (gains)/losses affecting finance costs in income statement (i)	**(72)**	116
Finance lease additions	**22**	29
	10	143
Total increase in gross debt	**876**	1,040
Net movement in cash, cash equivalents and overdraft	**(373)**	(571)
Total increase in net debt	**503**	469

(i) The net revaluation gain of $72 million includes:

- a gain of $62 million (2010: loss of $116 million) affecting other finance costs comprising a gain of $27 million from fair value hedges (2010: loss of $32 million); a gain of $34 million (2010: loss of $75 million) from transactions either not designated or de-designated from hedge relationships; and a gain of $1 million (2010: loss of $9 million) relating to other hedge accounting adjustments; and
- a gain of $10 million (2010: nil) affecting interest on borrowings comprising a gain of $16 million (2010: gain of $9 million) relating to cross currency swap discounts on new borrowings which will be amortised to interest in the income statement over the life of the borrowing; and a loss of $6 million (2010: loss of $9 million) comprising the amortisation of discounts.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management (continued)

Gearing and net debt (continued)

We have issued the following long term debt during the period for refinancing purposes (Australian dollar equivalent):

- $1,002 million Euro public bond issue in November 2011, matures 16 May 2022;
- $98 million Euro private placement in December 2011, matures 20 December 2023;
- $252 million Swiss Franc bond in December 2011, matures 14 December 2018;
- $50 million Australian dollar private placement in December 2011, matures 19 December 2023; and
- $7 million other domestic loan in December 11, matures 30 July 2018.

We repaid the following long term debt during the period (Australian dollar equivalent):

- $5 million Telstra bonds, matured in July 2011;
- $435 million domestic loan, matured in September 2011;
- $90 million New Zealand dollar bond, matured in November 2011; and
- $27 million United States dollar private placement, matured in December 2011.

Cash flow hedging reserve

TABLE D

	Telstra Group	
	Half-year ended 31 December	
	2011	2010
	$m	$m
Opening balance	**(14)**	157
Changes in fair value of cash flow hedges	**(230)**	(792)
Changes in fair value transferred to income statement for the period	**216**	719
Changes in fair value transferred to property, plant and equipment	**9**	-
	(5)	(73)
Income tax on movements in the cash flow hedging reserve	**1**	21
Closing balance	**(18)**	105

The net decrease in our cash flow hedge reserve (before tax) of $5 million comprises:

- net revaluation losses of $230 million before tax on our cross currency and interest rate swaps hedging future payments on our offshore borrowings in cash flow hedges and our forward foreign currency contracts hedging forecast purchases denominated in foreign currency. This net revaluation loss represents the effective portion on remeasuring the fair value of these hedging instruments; and
- transfer to the income statement of $216 million before tax and to property, plant and equipment of $9 million before tax, representing hedging losses previously recognised in the cash flow hedge reserve which offset gains on translation of the underlying hedged borrowings and purchases at the applicable spot exchange rate and also includes a transfer to finance costs for interest incurred.

The before tax net movement in the cash flow hedge reserve of $5 million is included in the net increase in gross debt (2010: net increase in gross debt of $73 million) (refer to Table C).

The net revaluation loss (before tax) of $230 million reflects valuation impacts from:

- movement in base market rates and Telstra's borrowing margins as at the 31 December valuation date;
- discount factor unwinding as borrowings move closer to maturity;
- reduction in the number of future interest flows as we approach maturity of the financial instruments; and
- a strengthening of the Australian dollar against the Euro and Swiss Francs which resulted in valuation losses on the receive legs of our foreign currency derivatives; partly offset by valuation gains on receive legs of our foreign currency derivatives from a weakening of the Australian dollar against the United States dollar, Japanese Yen and Great British Pound.

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.

Details of the defined benefit plans that we participate in or sponsor are set out in note 24 of the 30 June 2011 Annual Financial Report.

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

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

	Telstra Group		
		As at	
	31 Dec 2011 $m	30 June 2011 $m	31 Dec 2010 $m
Fair value of defined benefit plan assets	**2,520**	2,599	2,564
Present value of the defined benefit obligation	**3,235**	2,762	2,705
Net defined benefit liability before adjustment for contributions tax	**(715)**	(163)	(141)
Adjustment for contributions tax	**(124)**	(31)	(27)
Net defined benefit liability	**(839)**	(194)	(168)
Comprising:			
Defined benefit asset	**-**	11	16
Defined benefit liability (i)	**(839)**	(205)	(184)
Net defined benefit liability	**(839)**	(194)	(168)

(i) The increase in our defined benefit liability from 30 June 2011 of $634 million is mainly a result of a $682 million actuarial loss being recognised directly in equity for our Telstra Super defined benefit plan (total actuarial loss attributable to equity holders of Telstra Entity is $693 million for the half-year ended 31 December 2011, which includes our share of HK CSL's retirement scheme's actuarial loss, of $11 million). The actuarial loss in Telstra Super arose due to a significant decrease in the discount rate from 5.2% at 30 June 2011 to 3.7% at 31 December 2011.

(b) Principal actuarial assumptions

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

	Telstra Super		HK CSL Retirement Scheme	
	Half-year ended 31 December		Half-year ended 31 December	
	2011 %	2010 %	**2011 %**	2010 %
Discount rate	**5.6**	5.1	**2.5**	2.4
Expected rate of return on plan assets (ii)	**8.0**	8.0	**6.6**	6.4
Expected rate of increase in future salaries (iv)	**4.0**	4.0	**4.2 - 4.5**	2.5 - 4.0

Notes to the Half-Year Financial Statements (continued)

7. Post employment benefits (continued)

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

	Telstra Super		HK CSL Retirement Scheme	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	%	%	**%**	%
Discount rate (iii)	**3.7**	5.5	**1.5**	3.1
Expected rate of increase in future salaries (iv)	**4.0**	4.0	**4.2 - 4.5**	2.5 - 4.0

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

(iii) 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 from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat, implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years.

For the HK CSL Retirement Scheme we have extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange Fund Notes to 12 years to match the term of the defined benefit obligations.

(iv) Our assumption for the salary inflation rate for Telstra Super is 4.0%, which is reflective of our long term expectation for salary increases. The salary inflation rate for HK CSL Retirement Scheme is 4.5% in fiscal 2012, 2013 and 2014 and 4.2% thereafter which reflects the long term expectations for salary increases.

(c) Employer contributions

For the six months to 31 December 2011, the total cash payments made by us in relation to contributions to the Telstra Superannuation Scheme was $233 million (2010: $240 million). This consists of the following:

- employer cash contributions of $167 million (2010: $177 million);
- employees pre and post-tax salary sacrifice contributions of $54 million (2010: $51 million); and
- payroll tax of $12 million (2010: $12 million).

The vested benefits index (VBI), 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 assesses the short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

The average VBI for the quarter ended 31 December 2011 was 88% (2010: 89%). As per the funding deed, we are required to make contributions when the VBI falls to 103% or below in a calendar quarter. We expect to make total cash payments for the year ending 30 June 2012 of $468 million which includes contributions to the defined benefit divisions at a contribution rate of 24% for the first half of fiscal 2012 and 27% from 1 January 2012 (inclusive of payroll tax of $25 million).

Notes to the Half-Year Financial Statements (continued)

8. Impairment

Cash generating units

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

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

	Goodwill		Intangible assets with indefinite useful lives	
	As at		As at	
	31 Dec 2011 $m	30 June 2011 $m	**31 Dec 2011 $m**	30 June 2011 $m
CGUs				
CSL New World Group*	**783**	740	**-**	-
Telstra Europe Group*	**55**	54	**-**	-
Sensis Group (a)	**215**	215	**-**	-
Location Navigation	**14**	14	**8**	8
1300 Australia Pty Ltd	**16**	16	**12**	12
Sequel Group* (b)	**-**	100	**-**	-
Autohome* (b)	**96**	-	**-**	-
Sequel Media* (b)	**12**	-	**-**	-
Octave Group* (c)	**-**	-	**-**	-
iVision	**36**	36	**-**	-
LMobile Group* (d)	**-**	45	**-**	-
TelstraClear Group* (e)	**127**	129	**-**	-
Other	**66**	66	**2**	1
	1,420	1,415	**22**	21

* These CGUs operate in overseas locations, therefore the goodwill allocated to these CGUs will fluctuate in line with movements in applicable foreign exchange rates during the period.

(a) Our assessment of the Sensis Group CGU excludes the Location Navigation Group that forms part of the Sensis reportable segment. This CGU is assessed separately.

(b) We have completed an internal restructure of the Sequel Group by transferring all the shares in China Topside Limited and Norstar Advertising Media Holdings Limited from Autohome Inc. (formally Sequel Limited) to Sequel Media. This restructure has resulted in two CGUs at 31 December 2011 as compared to a single CGU at 30 June 2011.

(c) During fiscal 2011, the carrying value of our assets in the Octave Group CGU was tested for impairment based on value in use. This resulted in an impairment charge of $133 million against goodwill ($94 million) and other intangible assets ($39 million) being recognised in the Telstra Group financial statements. The carrying amount of the Octave Group goodwill has been reduced to nil.

(d) As at 31 December 2011, the carrying value of our assets in the LMobile Group CGU was tested for impairment based on value in use. This resulted in an impairment charge of $56 million against goodwill ($49 million) and other intangible assets ($7 million) being recognised in the Telstra Group financial statements. The impairment arose as a result of competitive market pressure in all segments, which contributed to significant uncertainty around future cash flows from the LMobile Group. We have also estimated that the pre-determined revenue and EBITDA targets for the year ended 31 December 2010 will not be met. As such, we have derecognised $33 million of the contingent consideration liability recognised at the date of acquisition of LMobile. The $33 million gain on the derecognition of the contingent consideration liability has been recorded as other income.

(e) On 24 May 2011, the New Zealand Government announced it had reached agreements to progress the rollout of a new ultra-fast broadband (UFB) network to cover 75% of premises in New Zealand. The UFB is supplementary to the Rural Broadband Initiative (RBI) intended to cover rural areas.

On 4 July 2011, the Telecommunications (TSO, Broadband, and Other Matters) Amendment Act 2011 came into force. The new law provides the framework for the new UFB regime and for Telecom New Zealand's structural separation, a condition of Telecom's participation in the UFB build. On 30 November 2011, Telecom New Zealand formally structurally separated into Telecom New Zealand and Chorus a separately publicly listed entity.

Notes to the Half-Year Financial Statements (continued)

8. Impairment (continued)

Cash generating units (continued)

Despite the structural separation of Telecom New Zealand, there continues to be significant uncertainty as to the full future impact of the UFB on the business of TelstraClear. We have used a terminal growth rate of 3% for TelstraClear. If we used a 1% terminal growth rate, the carrying value of the CGU would equal the recoverable amount. The discount rate used for TelstraClear was 10.4%. If the discount rate increased to 12%, the carrying value of the CGU would equal the recoverable amount.

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

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

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

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

The ubiquitous telecommunications network and the HFC cable network are only reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

On 23 June 2011, Telstra entered into Definitive Agreements (DAs) with NBN Co Limited (NBN Co) and the Commonwealth Government for its participation in the rollout of the National Broadband Network (NBN). On 18 October 2011, Telstra obtained shareholder approval to participate in the roll out of the National Broadband Network (NBN). ACCC acceptance of our Structural Separation Undertaking (SSU) and the associated approval of our draft Migration Plan is the key remaining condition precedent to be satisfied before the proposed transaction for our participation in the NBN will come into force.

If all of the conditions precedent are satisfied or waived and the proposed transaction proceeds, we expect our discounted future cash flows to more than support the recoverable amount of both networks. This is based on:

- the consideration we expect to receive under the DAs for:
  - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (but not Pay TV services on the HFC cable network) provided to premises in the NBN fibre footprint;
  - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts; and
  - the sale of lead-in-conduits; and
- forecast cash flows for continuing to:
  - provide Pay TV services via the HFC cable network into the future; and
  - use the core network.

In addition, the NBN build is expected to take 10 years and the weighted average remaining service lives for the existing network assets impacted by the disconnection obligations that will apply under the NBN DAs, if they come into full force and effect, falls within this anticipated NBN rollout period.

Given this, the results of our impairment testing for both networks based on the DAs show that the carrying amounts are recoverable for the period ended 31 December 2011. Further, if all the conditions precedent in the DAs are not satisfied or waived and the proposed transaction does not proceed, the results of impairment testing under this scenario as at 31 December 2011 also support the carrying amounts of both of our networks. Refer to note 2 for further discussion on the NBN.

Impairment testing

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

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

Notes to the Half-Year Financial Statements (continued)

8. Impairment (continued)

Impairment testing (continued)

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 (f)		Terminal value growth rate (g)	
	As at		As at	
	31 Dec 2011 %	30 June 2011 %	**31 Dec 2011 %**	30 June 2011 %
CSL New World Group	**10.2**	10.6	**2.0**	2.0
Telstra Europe Group	**7.1**	9.6	**3.0**	3.0
Sensis Group	**12.4**	13.2	**3.0**	3.0
Location Navigation	**11.1**	11.8	**3.0**	3.0
1300 Australia Group	**11.1**	12.6	**3.0**	3.0
Sequel Group	**n/a**	18.2	**n/a**	5.0
Autohome	**17.7**	n/a	**5.0**	n/a
Sequel Media	**17.7**	n/a	**5.0**	n/a
Octave Group	**18.7**	21.2	**5.0**	5.0
iVision	**14.4**	17.6	**3.0**	3.0
LMobile Group	**17.0**	20.1	**5.0**	5.0
TelstraClear Group	**10.4**	11.1	**3.0**	3.0

n/a - not applicable

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

(g) 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 CGU's long term performance in its respective markets. The terminal growth rates for the Australian CGUs are aligned at three percent.

Notes to the Half-Year Financial Statements (continued)

9. Non current assets held for sale

At 30 June 2011, we were committed to dispose of our 64.4% shareholding in Adstream (Aust) Pty Ltd (Adstream). The disposal was subsequently completed on 21 July 2011. Refer to note 5 for further details.

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

10. Contingent liabilities, contingent assets and expenditure commitments

Contingent liabilities and contingent assets

We have no significant contingent assets as at 31 December 2011.

Common law claims

There have been no significant changes from 30 June 2011 to our contingent liabilities arising from our common law claims.

Indemnities, performance guarantees and financial support

There have been no significant changes from 30 June 2011 to our indemnities, performance guarantees and financial support.

Expenditure commitments

There have been no significant changes to our expenditure commitments from 30 June 2011.

Notes to the Half-Year Financial Statements (continued)

11. Events after reporting date

We are not aware of any matter or circumstance that has occurred since 31 December 2011 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than:

Interim dividend

On 9 February 2012, the directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 14 cents per ordinary share, amounting to $1,738 million. The record date for the interim dividend is 24 February 2012 with payment to be made on 23 March 2012. Shares will trade excluding entitlement to the dividend on 20 February 2012.

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 2011.

Director's Declaration

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

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

(b) in the directors' opinion, the financial statements and notes of the Telstra Group for the half-year ended 31 December 2011, as set out on pages 2 to 27, 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 2011.

For and on behalf of the Board

C B Livingstone   David Thodey

Catherine B Livingstone AO	David I Thodey
Chairman	**Chief Executive Officer and Executive Director**

9 February 2012
Melbourne, Australia

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

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

Report on the Half-Year Financial Report

To the members of Telstra Corporation Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited, which comprises the statement of financial position as at 31 December 2011, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other selected explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report 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 consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Telstra Corporation Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 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

SJ Ferguson
Partner

Melbourne, Australia
9 February 2012