11 February 2010

The Manager

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Office of the Company Secretary

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Financial Results for the Half Year ended 31 December 2009.

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

1. Appendix 4D – half yearly report;

2. Half year results and operations review – financial highlights;

3. Media release;

4. Directors' report; and

5. Half year financial report for the half year ended 31 Dec 2009.

Telstra's Chief Executive Officer David Thodey and Telstra's Chief Financial Officer John Stanhope will present Telstra's Half Year Results to 31 December 2009 in Sydney. The announcement may be viewed via webcast commencing at 9.15am either BigPond Live TV www.telstra.com.au/abouttelstra/investor/live-stream.cfm or, if you are experiencing trouble viewing the media stream, by webcast from the Telstra Investor Relations webpage www.telstra.com.au/abouttelstra/investor/calendar_event.cfm?ObjectID=1802.

Transcripts will be lodged with the ASX when available.

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

Yours sincerely

Carmel Mulhern
Company Secretary

Telstra Corporation Limited and controlled entities

Appendix 4D

Half-year report

For the half-year ended 31 December 2009

Appendix 4D
Half-year report
31 December 2009
Telstra Corporation Limited
ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2009	2008	Movement	Movement
	$m	$m	$m	%
Extract from the income statement				
Revenue	**12,342**	12,710	(368)	(2.9%)
Other income (including finance income)	**69**	90	(21)	(23.3%)
Profit for the period	**1,886**	1,921	(35)	(1.8%)
Profit for the period available to Telstra Entity shareholders	**1,853**	1,916	(63)	(3.3%)

This report is to be read in conjunction with our Half-Year Financial Report as at 31 December 2009.

The profit for the half-year ended 31 December 2009 includes $31 million of losses (31 December 2008: $248 million gains) in finance costs associated with the hedging of our borrowings.

Appendix 4D
Half-year report
31 December 2009
Telstra Corporation Limited

Results for announcement to the market (continued)

Dividends per ordinary share to be paid

	Half-year ended 31 December	
	2009	2008
	¢	¢
Dividends per ordinary share		
Interim dividend	**14.0**	14.0
Final dividends for the financial year ended 30 June provided for and paid during the interim period		
Final dividend	**14.0**	14.0

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

Our interim ordinary dividend in respect of the half-year ended 31 December 2009 will have a record date of 26 February 2010 with payment to be made on 26 March 2010. Shares will trade excluding entitlement to the dividend on 22 February 2010.

Our final ordinary dividend in respect of the financial year ended 30 June 2009 was provided for and paid during the interim period. The final ordinary dividend had a record date of 28 August 2009 and payment was made on 25 September 2009.

Appendix 4D Half-year ended 31 December 2009

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 2009 half-year financial report lodged with this document.
2. Results for announcement to the market.	Refer page 2 for "Results for announcement to the market".
3. Net tangible assets per security.	Refer item 1 on page 5 of this report.
4. Details of entities where control has been gained or lost during the period.	Refer item 2 on page 5 of this report.
5. Details of individual and total dividends or distributions and dividend or distribution payments.	Refer to the "Results for announcement to the market" on page 2 and 3 of this report. Also refer to note 3: Dividends and note 11: Events after balance date in the 31 December 2009 half-year financial report lodged with this document for additional information.
6. Details of dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in a dividend or distribution reinvestment plan.	Refer item 3 on page 5 of this report.
7. Details of our joint ventures and associated entities.	Refer item 4 on page 6 of this document for details on our jointly controlled and associated entities.
8. Accounting standards used in compiling reports by foreign entities (e.g. International Accounting Standards).	Not applicable.
9. If the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.	Not applicable.

Appendix 4D — Half-year ended 31 December 2009

1. Net tangible assets per security

	Telstra Group	
	As at	
	31 Dec 2009	30 June 2009
	¢	¢
Net tangible assets per security	**36.2**	32.2

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 2009 and 30 June 2009 was 12,443 million.

The increase in net tangible assets per security is due to the net tangible assets of the Telstra Group increasing from $4,002 million at 30 June 2009 to $4,502 million at 31 December 2009. The increase of $500 million is mainly due the decrease in net debt of $391 million.

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

Entities where control has been gained during the period

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

Entities where control has been lost during the period

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

3. Details of dividend or distribution reinvestment plans in operation

The Dividend Reinvestment Plan continues to be suspended.

Appendix 4D Half-year ended 31 December 2009

4. Details of investments in joint ventures and associated entities

		Telstra Group	
		Ownership interest As at	
		31 Dec	30 June
Name of entity	Principal activities	2009 %	2009 %
Jointly controlled entities			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Ltd	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (a)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (b)	Toll free number portability in New Zealand	**33.3**	33.3
3GIS Pty Limited (a)	Management services	**50.0**	50.0
3GIS Partnership (a)	3G network services	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (b)	Regional roaming provider	**10.0**	10.0
Mercury Mobility Ltd (formerly m.Net Corporation Limited)	Mobile phone content provider	**(c)**	25.2
Associated entities			
Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (a)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Keycorp Limited	Electronic transactions solutions	**48.2**	48.2
Telstra Foundation Ltd	Charitable trustee organisation	**100.0**	100.0

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

(a) Balance date is 31 December.

(b) Balance date is 31 March.

(c) During the period, m.Net Corporation Limited merged with Mercury Mobility Ltd and as a result our investment in Mercury Mobility Ltd is 12.7% at 31 December 2009. This investment is no longer classified as a jointly controlled entity.

5. Statement about the audit status

Our financial report for the half-year ended 31 December 2009 has been reviewed by Ernst & Young. It is not subject to review dispute or qualification. Refer to the 31 December 2009 half-year financial report for the independent review report provided to the members of Telstra Corporation Limited.

Financial Highlights
Half Year ended 31 December 2009

Costs controlled; dividend maintained; $6b FCF target re-affirmed

Reported Results

- **Sales revenue declined 2.5% or $321 million to $12,323 million**
- **Operating expenses fell 4.8% or $357m to $7,072 million**
- **EBITDA declined by 0.3% or $17 million to $5,317 million**
- **EBITDA margins increased 0.9 percentage points to 43.1%**
- **EBIT grew by 1.7% or $53 million to $3,132 million**
- **Reported earnings per share of 15.0 cents were down 3.5%**
- **Free cashflow grew 37.0% or $708 million to $2,619 million**
- **Interim dividend of 14 cents per share, fully franked**

Adjusted Results

(Adjusting for currency movements, the sale of KAZ, and fair value adjustments included in finance costs)

- **Sales revenue declined 0.7%**
- **EBITDA increased 0.2%**
- **Adjusted earnings per share increased 12.9%**

Reported results

Telstra Corporation Limited and its controlled entities (Telstra) are pleased to report strong growth in free cash flow and the maintenance of our dividend despite the challenging economic, regulatory and competitive conditions the company is facing.

Summary Financial Results ($ millions)

	Half-year ended 31 Dec 2009	Half-year ended 31 Dec 2008	YoY change %
Sales revenue	12,323	12,644	-2.5%
Total revenue	12,342	12,710	-2.9%
Operating expenses	7,072	7,428	-4.8%
EBITDA	5,317	5,334	-0.3%
Depreciation and Amortisation	2,185	2,255	-3.1%
EBIT	3,132	3,079	1.7%
Net finance costs	520	403	29.0%
Tax	726	755	-3.8%
PAT (post minorities)	1,853	1,916	-3.3%
EBITDA margin	43.1%	42.2%	0.9pp
Capital expenditure (accrued)	1,607	2,074	-22.5%
Free cash flow	2,619	1,911	37.0%

In the first half of fiscal 2010, sales revenue declined 2.5% to $12,323 million and total revenue declined by 2.9% to $12,342 million.

Operating Expenses (before D&A) in the half declined by 4.8% to $7,072 million as a result of the company's continued focus on cost control and productivity.

Labour expenses declined by 8.6% to $1,967 million while Goods and Services purchased declined by 0.6% to $2,615 million. This included a decrease in network payments of 8.0% to $898 million partly due to foreign exchange impacts. Other expenses decreased by 5.8% to $2,490 million. Service contracts and other agreements declined 3.8% to $1,125 million as Telstra moves out of the transformation programme.

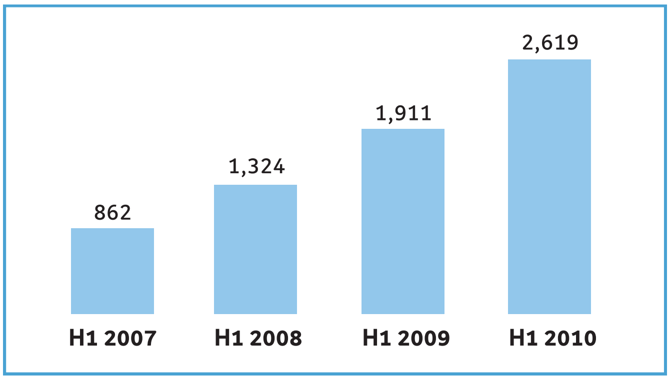
Earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 0.3% to $5,317 million, with EBITDA margins increasing by 0.9 of a percentage point to 43.1%. Earnings before interest and tax (EBIT) increased by 1.7% to $3,132 million.

Profit after tax and minority interest (PATMI) declined 3.3% to $1,853 million and basic earnings per share (EPS) decreased by 3.5% from 15.5 cents to 15.0 cents.

+37.0% **Free Cashflow growth**

Free cash flow of $2,619 million was generated, a significant increase of more than $700 million or 37.0% from the first half of fiscal 2009. Importantly, we continue to invest in the business with capex of $1,607 million in the half, or 13% of sales.

First Half Free Cash Flow Progression ($ millions)



On 11 February 2010, the Directors of Telstra resolved to pay a fully franked interim ordinary dividend of 14 cents per share. The record date of the dividend will be 26 February 2010 with payment on 26 March 2010. Shares will trade excluding entitlement to the dividend on 22 February 2010.

Financial Highlights
Half Year ended 31 December 2009

Adjusted Results

Adjusted for KAZ sale, currency movements and fair value adjustments to finance costs	YoY change, %
Domestic sales revenues	-1.0%
Offshore sales revenues	1.6%
Sales revenue	-0.7%
Total revenue	-1.1%
Operating expenses	-2.1%
EBITDA	0.2%
EBIT	2.0%
Net finance costs	-24.7%
PAT (post minorities)	13.0%

There are a number of one-off factors that have impacted our results in the first half of the year. In the preceding table we have normalised the results for three factors – the sale of the KAZ IT services business, the significant strengthening of the Australian Dollar and the fair value adjustments to finance costs - to present a more accurate view of the real performance of the business.

-0.7% **Adjusted sales revenue decline**

Adjusting for the revenues generated by the KAZ Group in the first half of fiscal 2009 ($132 million) and for the revaluation of the Australian Dollar in the period ($98 million), sales revenues in the first half of the year declined by 0.7% and total revenue by 1.1%.

The adjustments also have an impact on operating costs. On an adjusted basis operating expenses declined 2.1%, adjusted EBITDA increased 0.2% and EBIT increased 2.0% year-on-year. Finally, we have again adjusted for fair value adjustments at the finance cost line ($31 million loss in H1 2010 versus $248 million gain in H1 2009). On this adjusted basis, PATMI increased 13.0% in the half and basic EPS increased by 12.9%.

+13.0% **Increase in adjusted PAT (post minorities)**

Review of Adjusted Performance

All of our retail business segments have faced challenges in the first six months of the year. Total retail income, adjusted for the sale of KAZ fell by 0.5% in the half. Revenue in our wholesale business also declined by 3.3%. Our major retail segments reported negative growth in the first half, a significant slowdown on the first half of fiscal 2009 as competition has intensified.

Key Segment Income

	Half-year ended Dec 2009, $m	YoY change %
Telstra Consumer	5,193	-0.2%
Telstra Business	1,925	-0.4%
Telstra Enterprise and Government	2,230	-1.5%
Telstra Retail[1]	9,348	-0.5%
Telstra Wholesale	1,170	-3.3%
Sensis[2]	959	-7.3%

At a product level, performance in the first six months of the year has been mixed but overall our market shares have come under pressure. Mobile services revenue growth of 4.7% remains well above our global peer group, although we believe that our focus on profitable growth has come at a slight cost to revenue market share. Growth has also continued in fixed retail broadband and IP access, but offsetting this we have seen a significant slowdown in PSTN. We see strong demand growth in both mobile and IP, but significant pressure on price.

Key Product Revenue

	Half-year ended Dec 2009, $m	YoY change %
Mobile services	3,211	4.7%
PSTN	2,997	-6.9%
Fixed retail broad-band	777	1.4%
IP and data access	891	2.3%
Advertising and directories	975	-5.2%

Total fixed revenue declined by 4.8% to $5,145 million as the rate of PSTN revenue decline accelerated and the fixed broadband market continues to mature. The consumer popularity of wireless broadband has also led to an increasing trend to mobile-only households, which we estimate is now close to 10% of total households.

Total PSTN revenue declined by 6.9% during the half to $2,997 million. This is an acceleration on the 4.8% decline in PSTN revenues we recorded in the second half of fiscal 2009. There are several drivers of this decline including lower usage across all calling categories, most notably in local calls and national long distance. Retail PSTN SIOs declined as LSS and ULL uptake by competitors continued. The decline in total fixed telephony lines also accelerated as a result of an increase in mobile-only households and the trend to IP telephony in the Enterprise market.

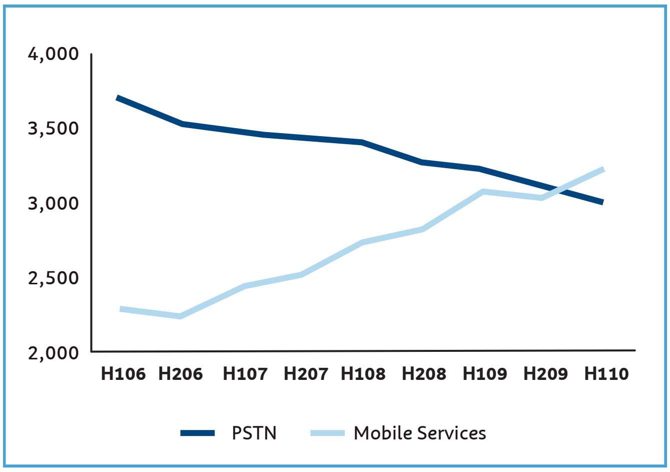
1. *Total retail revenue is calculated as the sum of Telstra Consumer, Telstra Business and Telstra Enterprise and Government.*
2. *Adjusting for the sale of Universal Publishers, transfer of the Trading Post® business to Telstra Media and currency, Sensis revenue fell 0.1% in the half*

Financial Highlights
Half Year ended 31 December 2009

In the first half of fiscal 2010, PSTN accounted for only 24% of total sales revenue compared to 30% three years ago. Whilst we expect new products such as Telstra T-Hub™ and Telstra T-Box™ to help mitigate the decline in fixed telephony in the coming years, they will not arrest it totally given the capabilities of mobile and IP-based services.

Fixed retail broadband revenue increased by 1.4% to $777 million. As the broadband market matures coupled with intense price competition, we have seen a decline of 30 thousand fixed broadband customers in the half year. We believe that new offers and products in the market should improve momentum in this business in the second half but overall the fixed broadband market is seeing a significant slowdown in growth as it matures and faces competition from wireless broadband. Pleasingly, fixed retail broadband average revenue per user (ARPU) continues to grow and is now at $57.33 per month, an increase of 2.2% on the prior year.

Inflection of mobile and PSTN revenue ($ millions)



Mobile revenue continues to grow well, a testament to our investment in the world leading Next G™ network. Mobile services revenue grew by 4.7% to $3,211 million for the half, however, blended mobile ARPU decreased in the half by 3.0%. The main drivers were declining voice ARPUs with mobile voice revenues down 4.1% and a mix shift in the wireless broadband base following the launch of prepaid wireless broadband in late 2008. Total mobile data revenue growth of 20.9% remains very strong and we now have more than 7.2 million 3GSM services which makes up 70% of our mobile customer base.

20.9% **Mobile data revenue growth**

With the popularity of our wireless broadband products continuing, wireless broadband (data card) revenue grew by 31.9% to $368 million. We now have more than 1.3 million wireless broadband SIOs, up from 1 million in June 2009.

IP and data access revenues continue to perform well as we manage our customers' migration from legacy products to IP and increased 2.3% to $891 million. Underpinning this growth was a 21.3% increase in IP access revenue to $393 million. Significant contract wins in the half include VISY, the NSW Department of Education and the Bank of Queensland.

As expected, the decline in legacy data products has accelerated in the half but we believe that IP access and managed network services opportunities can compensate.

-0.1% **Adjusted revenue decline at Sensis**

Reported Sensis sales revenue declined by 7.3% during the half in tough market conditions for advertisers. However, adjusting for the transfer of the Trading Post® business to Telstra Media, the sale of Universal Publishers and currency movements, adjusted sales revenues at Sensis were down 0.1% in the half. Sensis' online and Chinese businesses continue to grow strongly in a uniquely challenging market for advertisers.

The performance of CSL New World in Hong Kong continues to be a challenge in the highly competitive Hong Kong mobile market. However, during 2009, CSL launched its Next G™ high speed network and we expect its performance to improve.

Adjusted expense performance

-2.1% **Adjusted expenses declined as costs were controlled**

On an adjusted basis (normalising for the sale of KAZ and currency movement), operating expenses in the half declined by 2.1%.

Adjusted labour expenses declined by 4.0% driven by continued control of headcount and salary levels.

Adjusted goods and services purchased increased by 2.2% with cost of goods sold increasing by 12.1%. The major driver was the continued take-up of smartphones which have higher subscriber acquisition and retention costs (SARCs).

Other expenses decreased by 4.8% on an adjusted basis. Service contracts and other agreements declined 3.7% as the major transformation expenses are now behind us. Promotion and advertising expenses declined by 15.0% as we controlled marketing costs ahead of new tariff and product launches at the end of the period whilst General and Administration costs declined by 7.1% due to tight control over discretionary spending. Impairment costs rose 29.4% driven by an increase in bad and doubtful debts as consumer debt delinquency and business insolvency increased.

Financial Highlights
Half Year ended 31 December 2009

Financial position

(a) Capital Expenditure and cash flow

Accrued operating capital expenditure of $1,607 million was down $467 million or 22.5% on the first half of 2009, and is consistent with our guidance for capex less than $3.8 billion for the year. We expect a capex /sales ratio of around 14% to be sustainable going forward.

Free cash flow increased by $708 million to $2,619 million in the half driven largely by the lower capital expenditure and leaves us well positioned to meet our target of $6 billion of free cash flow in fiscal 2010.

(b) Debt position

We continue to look at executing long term borrowings across a diverse range of debt markets. Given the strength of Telstra's balance sheet and our debt maturity profile we are also able to borrow from the market on competitive terms. We have long-term debt maturities to finance in March 2010, when we will have $500m due for refinancing. This will be refinanced in the ordinary course of business.

The effective net debt position at 31 December 2009 was $15,240 million which represents a decrease over the six months of $415 million. Our effective interest rate (or average borrowing cost) on average net debt reduced from 7.5% in the first half of fiscal 2009 to 6.5% in the first half of fiscal 2010.

National Broadband Network (NBN)

The NBN remains an important issue for the company and we remain engaged in constructive talks with the Government and NBN Co. We remain committed to try to find a mutually acceptable outcome, but the path ahead remains immensely complex.

Throughout the talks, the best interests of our investors, our employees and our customers have remained paramount and we will continue to keep the market informed when significant developments occur.

Outlook for fiscal year 2010

Clearly our business is facing challenges on a number of fronts including:

- Strong domestic competition driving Unconditioned Local Loop growth and very competitive fixed and mobile broadband offers;
- An accelerated move to wireless-only homes which is impacting revenue in PSTN and fixed broadband products;
- Tough operating conditions in Hong Kong and
- The strength of the Australian dollar.

In the second half of the fiscal year we believe that we will see an improvement in a number of these dynamics with improving trends at CSL New World and an improving economic backdrop in the domestic market. Strategically we remain committed to investing in new and cutting edge products and services. We also need to continue efforts to improve the customer experience to achieve sustained and profitable growth in the business and regain market share. However, continued domestic price competition and currency strength continue to present challenges for us.

$6 billion Free cashflow in 2010

These market trends are reflected in our current expectations for a low single digit decline in reported sales revenue in the business for full fiscal 2010 versus flattish previously. However, we remain firmly focused on cost control and productivity to ensure that we continue to deliver on outcomes for our shareholders. We continue towards the target of $6 billion of free cash flow in fiscal 2010, which will still include around $500 million in cash contributions to the Telstra Superannuation Scheme. Achievement of this target provides us with significant strong free cash flow, and all the flexibility that this brings.

For fiscal 2010 we are maintaining our profitability targets of EBITDA and EBIT percentage growth of low single-digits, with EBITDA margins maintained and accrued capital expenditure of around 14% of sales revenue, equivalent to less than $3.8b. Our guidance is on a reported basis so is not adjusted for the sale of KAZ or currency movements.

Guidance Summary

Measure	2010 guidance on 2009 Levels
Sales revenue	Low single digit decline
EBITDA	Low single digit growth
EBITDA margin	Maintained
EBIT	Low single digit growth
Accrued capex to sales revenue	Around 14%
Free cash flow	$6 billion

For enquiries on these results contact:

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Telstra Corporation Limited

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Half-year results and operations review - December 2009

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for the half-year ended 31 December 2009

Half-year results and operations review - December 2009

Summary financial information

Results of operations

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Sales revenue	**12,323**	12,644	(321)	**(2.5%)**
Other revenue (i)	**19**	66	(47)	**(71.2%)**
Total revenue	**12,342**	12,710	(368)	**(2.9%)**
Other income (ii)	**47**	53	(6)	**(11.3%)**
Total income (excl. finance income)	**12,389**	12,763	(374)	**(2.9%)**
Labour	**1,967**	2,152	(185)	**(8.6%)**
Goods and services purchased	**2,615**	2,632	(17)	**(0.6%)**
Other expenses	**2,490**	2,644	(154)	**(5.8%)**
Operating expenses	**7,072**	7,428	(356)	**(4.8%)**
Share of net loss from jointly controlled and associated entities	**-**	1	(1)	**(100.0%)**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**5,317**	5,334	(17)	**(0.3%)**
Depreciation and amortisation	**2,185**	2,255	(70)	**(3.1%)**
Earnings before interest and income tax expense (EBIT)	**3,132**	3,079	53	**1.7%**
Net finance costs	**520**	403	117	**29.0%**
Profit before income tax expense	**2,612**	2,676	(64)	**(2.4%)**
Income tax expense	**726**	755	(29)	**(3.8%)**
Profit for the period	**1,886**	1,921	(35)	**(1.8%)**
Attributable to:				
Equity holders of the Telstra Entity	**1,853**	1,916	(63)	**(3.3%)**
Non-controlling interests	**33**	5	28	**560.0%**
	1,886	1,921	(35)	**(1.8%)**
Effective tax rate	**27.8%**	28.2%		**(0.4)**
EBITDA margin on sales revenue	**43.1%**	42.2%		**0.9**
EBIT margin on sales revenue	**25.4%**	24.4%		**1.0**
	cents	cents	Change cents	**Change %**
Basic earnings per share (iii)	**15.0**	15.5	(0.5)	**(3.5%)**
Diluted earnings per share (iii)	**14.9**	15.5	(0.6)	**(3.4%)**
Interim dividend	**14.0**	14.0	-	**-**

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

Half-year results and operations review - December 2009

Statement of financial position

	As at			
	31 Dec 09	30 Jun 09	Change	**Change**
	$m	$m	$m	%
Current assets				
Cash and cash equivalents	**1,550**	1,381	169	**12.2%**
Trade and other receivables	**3,939**	4,039	(100)	**(2.5%)**
Inventories	**300**	239	61	**25.5%**
Derivative financial assets	**31**	128	(97)	**(75.8%)**
Current tax receivables	**148**	101	47	**46.5%**
Prepayments	**250**	304	(54)	**(17.8%)**
Assets classified as held for sale	**528**	-	528	**n/m**
Total current assets	**6,746**	6,192	554	**8.9%**
Non current assets				
Trade and other receivables	**167**	163	4	**2.5%**
Inventories	**20**	18	2	**11.1%**
Investments - accounted for using the equity method	**15**	16	(1)	**(6.3%)**
Investments - other	**1**	-	1	**n/m**
Property, plant and equipment	**23,228**	23,895	(667)	**(2.8%)**
Intangible assets	**7,981**	8,416	(435)	**(5.2%)**
Derivative financial assets	**613**	1,073	(460)	**(42.9%)**
Non current tax receivables	**172**	172	-	**-**
Deferred tax assets	**-**	9	(9)	**(100.0%)**
Defined benefit assets	**9**	8	1	**12.5%**
Total non current assets	**32,206**	33,770	(1,564)	**(4.6%)**
Total assets	**38,952**	39,962	(1,010)	**(2.5%)**
Current liabilities				
Trade and other payables	**3,288**	3,734	(446)	**(11.9%)**
Provisions	**458**	495	(37)	**(7.5%)**
Borrowings	**1,925**	1,979	(54)	**(2.7%)**
Derivative financial liabilities	**89**	111	(22)	**(19.8%)**
Current tax liabilities	**327**	262	65	**24.8%**
Revenue received in advance	**1,144**	1,171	(27)	**(2.3%)**
Liabilities classified as held for sale	**97**	-	97	**n/m**
Total current liabilities	**7,328**	7,752	(424)	**(5.5%)**
Non current liabilities				
Trade and other payables	**211**	245	(34)	**(13.9%)**
Provisions	**756**	761	(5)	**(0.7%)**
Borrowings	**14,485**	15,344	(859)	**(5.6%)**
Derivative financial liabilities	**1,094**	819	275	**33.6%**
Deferred tax liabilities	**1,743**	1,593	150	**9.4%**
Defined benefit liability	**259**	414	(155)	**(37.4%)**
Revenue received in advance	**331**	353	(22)	**(6.2%)**
Total non current liabilities	**18,879**	19,529	(650)	**(3.3%)**
Total liabilities	**26,207**	27,281	(1,074)	**(3.9%)**
Net assets	**12,745**	12,681	64	**0.5%**
Equity				
Equity available to Telstra Entity shareholders	**12,483**	12,418	65	**0.5%**
Non-controlling interests	**262**	263	(1)	**(0.4%)**
Total equity	**12,745**	12,681	64	**0.5%**
Gross debt	**16,888**	17,036	(148)	**(0.9%)**
Net debt	**15,240**	15,655	(415)	**(2.7%)**
EBITDA interest cover (times)	**10.8**	9.6	1.2	**12.5%**
Net debt to EBITDA	**1.4**	1.4	-	**-**
Return on average assets	**16.6%**	17.4%		**(0.8)**
Return on average equity	**29.8%**	33.3%		**(3.5)**
Return on average investment	**22.2%**	23.4%		**(1.2)**
Net debt to capitalisation	**54.5%**	55.2%		**(0.7)**

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Statement of cash flows

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax (GST))	**13,662**	13,942	(280)	**(2.0%)**
Payments to suppliers and to employees (inclusive of GST)	**(8,458)**	(8,836)	378	**(4.3%)**
Net cash generated by operations	**5,204**	5,106	98	**1.9%**
Income taxes paid	**(595)**	(861)	266	**(30.9%)**
Net cash provided by operating activities	**4,609**	4,245	364	**8.6%**
Cash flows from investing activities				
Payments for:				
- property, plant and equipment	**(1,658)**	(1,756)	98	**(5.6%)**
- intangible assets	**(383)**	(726)	343	**(47.2%)**
Capital expenditure (before investments)	**(2,041)**	(2,482)	441	**(17.8%)**
- shares in controlled entities (net of cash acquired)	**(10)**	-	(10)	**n/m**
- payments for other investments	**-**	(1)	1	**(100.0%)**
Total capital expenditure	**(2,051)**	(2,483)	432	**(17.4%)**
Proceeds from:				
- sale of property, plant and equipment	**8**	16	(8)	**(50.0%)**
- sale of shares in controlled entities (net of cash disposed)	**11**	-	11	**n/m**
Proceeds from finance lease principal amounts	**27**	49	(22)	**(44.9%)**
Loans to jointly controlled and associated entities	**(3)**	(2)	(1)	**50.0%**
Interest received	**20**	36	(16)	**(44.4%)**
Settlement of hedges in net investments	**(2)**	-	(2)	**n/m**
Distributions received from FOXTEL	**-**	50	(50)	**(100.0%)**
Net cash used in investing activities	**(1,990)**	(2,334)	344	**(14.7%)**
Operating cash flows less investing cash flows	**2,619**	1,911	708	**37.0%**
Cash flows from financing activities				
Proceeds from borrowings	**52**	2,209	(2,157)	**(97.6%)**
Repayment of borrowings	**(98)**	(1,734)	1,636	**(94.3%)**
Repayment of finance lease principal amounts	**(34)**	(19)	(15)	**78.9%**
Staff repayments of share loans	**5**	7	(2)	**(28.6%)**
Finance costs paid	**(497)**	(673)	176	**(26.2%)**
Dividends paid to equity holders of Telstra Entity	**(1,737)**	(1,737)	-	**-**
Dividends paid to non-controlling interests	**(14)**	(21)	7	**(33.3%)**
Net cash used in financing activities	**(2,323)**	(1,968)	(355)	**18.0%**
Net increase/(decrease) in cash and cash equivalents	**296**	(57)	353	**(619.3%)**
Cash and cash equivalents at the beginning of the period	**1,381**	899	482	**53.6%**
Effects of exchange rate changes on cash and cash equivalents	**(29)**	67	(96)	**(143.3%)**
Cash and cash equivalents at the end of the period	**1,648**	909	739	**81.3%**

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Segment information

	Total external income Half-year ended 31 December			EBIT contribution Half-year ended 31 December		
	2009 $m	2008 $m	**Change %**	**2009 $m**	2008 $m	**Change %**
Telstra Consumer	**5,193**	5,201	**(0.2%)**	**3,119**	3,198	**(2.5%)**
Telstra Business	**1,925**	1,933	**(0.4%)**	**1,371**	1,387	**(1.2%)**
Telstra Enterprise and Government	**2,230**	2,265	**(1.5%)**	**1,597**	1,622	**(1.5%)**
Telstra Wholesale	**1,170**	1,210	**(3.3%)**	**1,086**	1,122	**(3.2%)**
Telstra Networks and Services	**41**	47	**(12.8%)**	**(1,447)**	(1,510)	**4.2%**
Sensis	**959**	1,034	**(7.3%)**	**437**	379	**15.3%**
CSL New World	**375**	495	**(24.2%)**	**64**	(67)	**195.5%**
TelstraClear	**269**	275	**(2.2%)**	**(10)**	(11)	**9.1%**
Other	**231**	120	**92.5%**	**(3,082)**	(3,087)	**0.2%**
Total Telstra segments (i)	**12,393**	12,580	**(1.5%)**	**3,135**	3,033	**3.4%**
Other items excluded from segment results (ii)	**(4)**	183	**(102.2%)**	**(3)**	46	**(106.5%)**
Total Telstra Group (reported)	**12,389**	12,763	**(2.9%)**	**3,132**	3,079	**1.7%**

(i) Internally, we monitor our segment performance excluding the impact of irregular revenue and expense items such as sales of major businesses and investments, sales of land and buildings, impairment write-offs and FOXTEL distributions.
(ii) Other items excluded from segment results for the half-year ended 31 December 2008 include the KAZ business which was sold in April 2009.

Revenue by business segment

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Telstra Consumer				
PSTN products	**1,815**	1,912	(97)	**(5.1%)**
Fixed internet	**639**	635	4	**0.6%**
Mobile services revenue	**1,963**	1,860	103	**5.5%**
Telstra Business				
PSTN products	**648**	690	(42)	**(6.1%)**
Fixed internet	**149**	139	10	**7.2%**
Mobile services revenue	**730**	711	19	**2.7%**
Telstra Enterprise and Government				
Mobile services revenue	**420**	400	20	**5.0%**
IP and data access	**591**	577	14	**2.4%**

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

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

Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period. On 30 November 2009 certain organisational changes were announced. These organisational changes are being reported internally from 1 January 2010 so our 30 June 2010 financial results will align to the new structure.

Further details about the performance of our business segments follows:

Telstra Consumer

Our consumer segment faced a challenging first half with revenue declining marginally by 0.2% and EBIT contribution declining by 2.5%.

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A decline in SIOs driven by strong ULL growth and the accelerated move to wireless-only homes has impacted PSTN revenue which declined by 5.1%. Fixed internet revenue was also impacted with the growth rate slowing to 0.6%.

Mobile services revenue grew by 5.5% driven by continued strong growth in wireless broadband which increased by 40.1%. Despite intense price competition, Telstra Consumer is experiencing robust prepaid and postpaid wireless broadband SIO growth. The continued growth reflects the quality of the speed and coverage customer's receive when using a wireless broadband card on our Next G™ network.

EBIT contribution declined by 2.5% with increases in handset subsidy expense to support current year initiatives and bad debt expenses driving an overall expense increase of 3.5%. Labour expenses declined by 5.7% due to the implementation of a program to simplify marketing activities in the prior corresponding period and the cessation of transformation related work.

Telstra Business

Revenue in this segment declined by 0.4% to $1,925 million while EBIT contribution declined by 1.2%.

The decline in PSTN revenue accelerated to 6.1% as usage and SIOs continue to decline. Growth was achieved across most other product portfolios with mobile services revenue growing by 2.7%, IP and data access by 10.0% and fixed internet by 7.2% as the penetration of Business Grade Broadband increases.

Wireless broadband customer growth remains very strong with services increasing by 16.9% from June 09. However, ARPU declined by 18.1% from the prior corresponding period due to price changes in response to the competitive intensity in the market. Mobile data revenue now accounts for 31.7% of mobile services revenue with mobile data revenue growing by 23.6%.

Expenses grew by 1.4% as goods and services purchased, which includes SARCs and network payments, increased by 5.1% as the increasing penetration of smartphone sales increases the costs of acquisition and retention. Tight control of labour productivity drove a reduction in labour and discretionary expenditure.

Telstra Enterprise and Government (excluding KAZ)

The underlying results for this segment show a revenue decline of 1.5% and EBIT contribution decline of 1.5%.

Fixed products revenue, which includes PSTN and ISDN revenue, decreased by 7.6% driven by a sharp decline in PSTN minutes of use.

Telstra Enterprise and Government (E&G) continues to deliver strong results in the mobiles and IP and data access portfolios. Mobile services revenue growth was 5.0% and total mobiles revenue growth was 8.1% inclusive of hardware sales. Mobile data accounted for 45.3% of mobile services revenue and continues to be stimulated by the growth in 3GSM services which increased by 42.9% from the prior corresponding period and now account for 51.5% of the total mobile services base.

The Next IP™ network continues to provide our corporate and government customers with premium IP solutions, underpinning a very strong 21.2% growth in IP access revenue to $346 million.

Expenses in E&G decreased by 1.7% with productivity initiatives delivering significant cost savings to other expenses which declined by 18.4%. Labour expenses and goods and services purchased increased marginally.

Telstra Wholesale

Revenue in our wholesale business declined by 3.3% as ULL/LSS build continues albeit at a slower rate than was being experienced a couple of years ago. Migration of on-net resale business to ULL/LSS based infrastructure is still driving the decline in revenue as the decreases in PSTN and internet revenues are not being fully compensated for by increases in ULL and other intercarrier access services revenue.

Total wholesale expenses declined by 5.5% due to a decline in mobile terminating volumes and a SMS rate decrease. Labour increased by 2.7% but goods and services purchased and other expenses declined due to savings across network payments and general and administration expenses.

Telstra Networks and Services

Telstra Networks and Services (TN&S) is primarily a cost centre responsible for our network infrastructure and customer solutions supporting the revenue generating activities of our other segments. In the first half of fiscal 2010 its negative EBIT contribution improved by 4.2% driven by decreases in labour expenses, goods and services purchased and other expenses. This reduction in expenses was driven by a continuous focus on productivity and efficiency throughout TN&S.

Labour expenses declined by 3.1% as we continue to improve our workforce productivity. In total, TN&S reduced its workforce by 646 full time equivalents (FTE) during the current half. Service contracts declined by 2.1% while other expenses as a whole fell by 5.5% due to lower installation and maintenance volumes, improvements in productivity, tight discretionary spending and a lower program of work.

Sensis, CSL New World and TelstraClear

Refer to more detailed discussion in the major subsidiaries section beginning on page 27.

Other

Our Other segment consists primarily of our corporate centre functions where we recognise the majority of our IT costs, 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. Our Telstra Media segment, which includes revenue from Trading Post®, China M and Sharp Point, is also included in the Other segment.

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Statistical data summary

Billable traffic data (i)

	Half-year ended			Dec 09 vs Dec 08		Dec 09 vs Jun 09	
	Dec 2009	Jun 2009	Dec 2008	Change	**Change**	Change	**Change**
	m	m	m	m	%	m	%
Fixed telephony							
Number of local calls	**2,176**	2,343	2,501	(325)	**(13.0%)**	(167)	**(7.1%)**
National long distance minutes	**3,053**	3,277	3,278	(225)	**(6.9%)**	(224)	**(6.8%)**
Fixed to mobile minutes	**1,611**	1,657	1,675	(64)	**(3.8%)**	(46)	**(2.8%)**
International direct minutes	**280**	282	278	2	**0.7%**	(2)	**(0.7%)**
Mobiles							
Mobile voice telephone minutes	**5,723**	5,435	5,570	153	**2.7%**	288	**5.3%**
Number of short messaging service (SMS) sent	**4,783**	4,590	4,353	430	**9.9%**	193	**4.2%**

Services in operation (i)

		As at		Dec 09 vs Dec 08		Dec 09 vs Jun 09	
				Change	**Change**	Change	**Change**
	Dec 2009	Jun 2009	Dec 2008		%		%
Fixed products							
Basic access lines in service (thousands)							
Residential	**5,309**	5,462	5,533	(224)	**(4.0%)**	(153)	**(2.8%)**
Business	**2,236**	2,271	2,296	(60)	**(2.6%)**	(35)	**(1.5%)**
Total retail customers	**7,545**	7,733	7,829	(284)	**(3.6%)**	(188)	**(2.4%)**
Domestic wholesale	**1,263**	1,285	1,341	(78)	**(5.8%)**	(22)	**(1.7%)**
Total basic access lines in service (thousands)	**8,808**	9,018	9,170	(362)	**(3.9%)**	(210)	**(2.3%)**
Fixed broadband SIOs - retail	**2,244**	2,274	2,297	(53)	**(2.3%)**	(30)	**(1.3%)**
Fixed broadband SIOs - wholesale	**1,726**	1,691	1,680	46	**2.7%**	35	**2.1%**
Total fixed broadband SIOs	**3,970**	3,965	3,977	(7)	**(0.2%)**	5	**0.1%**
Narrowband SIOs	**308**	363	435	(127)	**(29.2%)**	(55)	**(15.2%)**
Total fixed internet SIOs (thousands)	**4,278**	4,328	4,412	(134)	**(3.0%)**	(50)	**(1.2%)**
ISDN access (basic line equivalents) (thousands)	**1,305**	1,291	1,284	21	**1.6%**	14	**1.1%**
Unbundled local loop SIOs (thousands)	**770**	698	615	155	**25.2%**	72	**10.3%**
Spectrum sharing services (thousands) (ii)	**672**	580	501	171	**34.1%**	92	**15.9%**
Mobiles							
Mobile services in operation (thousands)	**10,387**	10,191	9,706	681	**7.0%**	196	**1.9%**
3GSM mobile SIOs (in thousands)	**7,249**	6,328	5,246	2,003	**38.2%**	921	**14.6%**
Total wireless broadband (data card) SIOs (thousands) (iii)	**1,325**	1,046	765	560	**73.2%**	279	**26.7%**
Total wholesale mobile SIOs (thousands)	**76**	72	75	1	**1.3%**	4	**5.6%**
Total pay TV bundling SIOs (thousands)	**479**	450	460	19	**4.1%**	29	**6.4%**
Employee data							
Domestic full time staff (iv)	**30,924**	31,662	33,191	(2,267)	**(6.8%)**	(738)	**(2.3%)**
Full time staff and equivalents (iv)	**39,763**	39,464	41,540	(1,777)	**(4.3%)**	299	**0.8%**
Total workforce (iv)	**43,332**	43,181	45,309	(1,977)	**(4.4%)**	151	**0.3%**

Note: statistical data represents management's best estimates.

(i) Refer to each product section for more detailed data.
(ii) Included in wholesale broadband SIOs.
(iii) Included in mobile SIOs.
(iv) Refer to the labour section on page 19 for definitions.

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Revenue

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Fixed products				
PSTN products	**2,997**	3,219	(222)	**(6.9%)**
Fixed internet	**1,083**	1,084	(1)	**(0.1%)**
ISDN products	**463**	483	(20)	**(4.1%)**
Other fixed revenue	**602**	616	(14)	**(2.3%)**
Total fixed products	**5,145**	5,402	(257)	**(4.8%)**
Mobiles				
Mobile services - retail and interconnection	**3,121**	2,977	144	**4.8%**
Mobile services - wholesale	**90**	89	1	**1.1%**
Total mobile services	**3,211**	3,066	145	**4.7%**
Mobile hardware	**413**	396	17	**4.3%**
Total mobiles	**3,624**	3,462	162	**4.7%**
IP and data access				
Specialised data	**269**	328	(59)	**(18.0%)**
Global products	**61**	63	(2)	**(3.2%)**
IP access	**393**	324	69	**21.3%**
Wholesale internet and data	**168**	156	12	**7.7%**
Total IP and data access	**891**	871	20	**2.3%**
Business services and applications	**429**	545	(116)	**(21.3%)**
Offshore content and online content	**89**	10	79	**790.0%**
Advertising and directories	**975**	1,028	(53)	**(5.2%)**
CSL New World	**374**	495	(121)	**(24.4%)**
TelstraClear	**269**	275	(6)	**(2.2%)**
Other offshore services revenue	**152**	195	(43)	**(22.1%)**
Pay TV bundling	**247**	233	14	**6.0%**
Other sales revenue (i)	**128**	128	-	**-**
Sales revenue	**12,323**	12,644	(321)	**(2.5%)**
Other revenue (ii)	**19**	66	(47)	**(71.2%)**
Total revenue	**12,342**	12,710	(368)	**(2.9%)**
Other income (iii)	**47**	53	(6)	**(11.3%)**
Total income	**12,389**	12,763	(374)	**(2.9%)**

(i) Other sales revenue includes $35 million relating to HFC cable usage (Dec 2008: $31 million).
(ii) Other revenue primarily consists of distributions from our FOXTEL partnership and rental income.
(iii) 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 6.9% to $2,997 million driven by falling SIOs and a continued reduction in call usage
- Retail revenue declined by 5.9% compared with a wholesale decline of 14.2%
- PSTN average revenue per user (ARPU) declined by 3.2% to $56.03 per month

PSTN

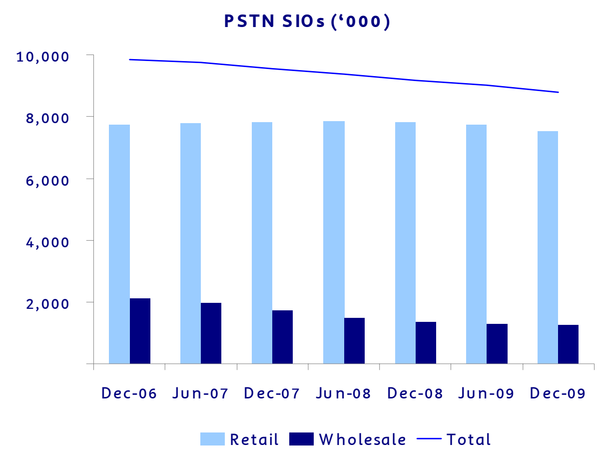
	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
PSTN revenue (i)	**2,997**	3,219	(222)	**(6.9%)**
PSTN retail versus wholesale revenue				
Retail	**2,664**	2,831	(167)	**(5.9%)**
Wholesale	**333**	388	(55)	**(14.2%)**
Basic access lines in service (thousands)				
Residential	**5,309**	5,533	(224)	**(4.0%)**
Business	**2,236**	2,296	(60)	**(2.6%)**
Total retail	**7,545**	7,829	(284)	**(3.6%)**
Domestic wholesale	**1,263**	1,341	(78)	**(5.8%)**
Total basic access lines in service	**8,808**	9,170	(362)	**(3.9%)**
Average revenue per user per month ($'s)	**56.03**	57.90	(1.87)	**(3.2%)**
Number of local calls (millions) (ii)	**2,176**	2,501	(325)	**(13.0%)**
National long distance minutes (millions) (ii)	**3,053**	3,278	(225)	**(6.9%)**
Fixed to mobile minutes (millions)	**1,611**	1,675	(64)	**(3.8%)**
International direct minutes (millions) (ii)	**280**	278	2	**0.7%**

Note: statistical data represents management's best estimates.

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

Total PSTN revenue declined by 6.9% during the half to $2,997 million. This is an acceleration on the 4.8% decline in PSTN revenues in the second half of 2009. This decline has been driven by lower usage across most calling categories, most notably in local calls and national long distance plus a continued decline in SIOs.

Retail PSTN SIOs declined as ULL uptake by competitors continued. Total fixed telephony lines also experienced an accelerated rate of decline as a result of an increase in mobile-only households and the trend to IP telephony in the Enterprise market. From 1 July 2009 to 31 December 2009 total PSTN SIOs fell by 210k driven by a fall in residential lines of 153k. With the continued strong uptake of LSS services, wholesale lines declined by only 22k in the half.



The decline in PSTN revenues has also been driven by lower usage. The number of local calls made in the half declined by 325 million or 13.0%. This is equivalent to around four calls per line per month. We are also seeing declines in call volumes and minutes in fixed-to-mobile, national long distance and international, although in each case the average call duration

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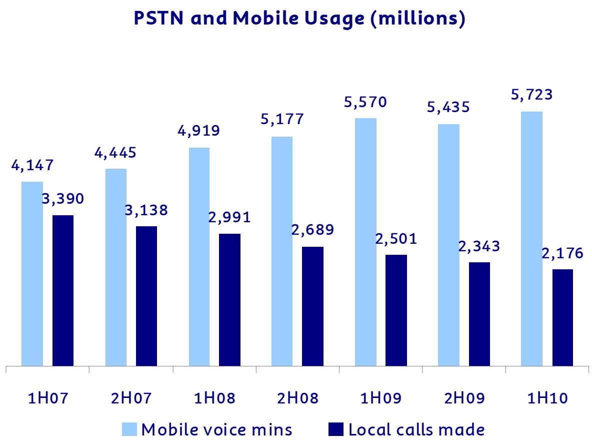
has increased slightly. This decline in call volumes is impacting calling revenue with local call revenue declining by 12.8% in the half and fixed-to-mobile revenue declining by 5.7% in the half.

With the fall in call usage, PSTN ARPU is also coming under pressure, falling by 3.2% to $56.03 in the half.

We believe customer behaviour continues to fundamentally shift with the increasing preference towards mobile voice, data messaging and internet based communications. In the first half of fiscal 2010, PSTN accounted for only 24% of total sales revenue compared to 30% three years ago. Whilst we expect new products such as Telstra T-Hub™ and Telstra T-Box™ to help mitigate the decline in fixed telephony, they will only slow it given the capabilities of mobile and IP-based services.



PSTN revenue - year-on-year change %

	Half-year ended					
	Dec 2009	Jun 2009	Dec 2008	Jun 2008	Dec 2007	Jun 2007
Total PSTN	**(6.9%)**	(4.8%)	(5.1%)	(4.3%)	(2.1%)	(2.9%)
Retail	**(5.9%)**	(3.2%)	(1.8%)	(0.6%)	0.3%	(1.7%)
Wholesale	**(14.2%)**	(15.4%)	(23.8%)	(23.3%)	(13.7%)	(8.4%)
Wholesale as a percentage of total PSTN revenue	**11.1%**	11.8%	12.1%	13.2%	15.0%	16.5%

PSTN basic access services in operation

	Half-year ended						
	Dec 2009 '000s	Jun 2009 '000s	Dec 2008 '000s	Jun 2008 '000s	Dec 2007 '000s	Jun 2007 '000s	Dec 2006 '000s
Retail	**7,545**	7,733	7,829	7,865	7,824	7,777	7,739
Wholesale	**1,263**	1,285	1,341	1,496	1,730	1,981	2,118

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Fixed internet

- Total fixed internet revenue declined by 0.1% largely driven by declines in narrowband and wholesale broadband revenue
- Fixed retail broadband revenue increased by 1.4% with ARPU growth offsetting SIO declines

Fixed internet

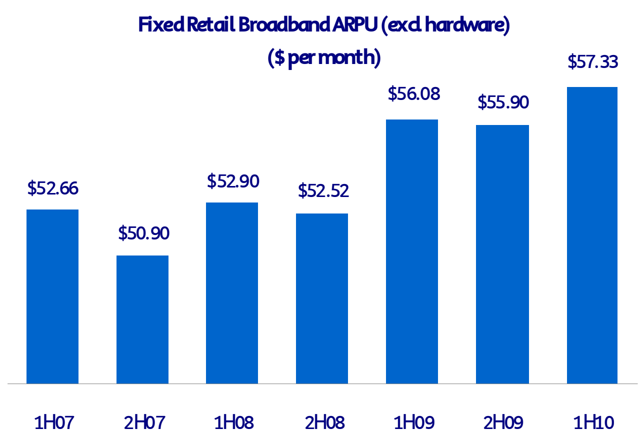
	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Fixed broadband - retail	**777**	766	11	**1.4%**
Fixed broadband - hardware	**14**	17	(3)	**(17.6%)**
Wholesale broadband	**246**	253	(7)	**(2.8%)**
Narrowband	**20**	35	(15)	**(42.9%)**
Internet VAS	**26**	13	13	**100.0%**
Total fixed internet revenue	**1,083**	1,084	(1)	**(0.1%)**
Total fixed broadband SIOs - retail (thousands)	**2,244**	2,297	(53)	**(2.3%)**
Average fixed broadband retail revenue per SIO per month (excl hardware) ($'s)	**57.33**	56.08	1.25	**2.2%**
Broadband SIOs - wholesale (thousands)	**1,726**	1,680	46	**2.7%**
Average broadband wholesale revenue per SIO per month ($'s)	**24.02**	24.88	(0.86)	**(3.5%)**
Spectrum sharing services (thousands) (included in wholesale SIOs)	**672**	501	171	**34.1%**

Note: statistical data represents management's best estimates.

Total fixed internet revenue decreased by 0.1% or $1 million to $1,083 million in the half. Declining revenues in narrowband and wholesale broadband were partly offset by fixed retail broadband growth.

Fixed retail broadband revenue increased by 1.4% to $777 million in the half. We have seen a decline of 30k fixed retail broadband services in the half-year since 30 June 2009, continuing the trend of negative SIO growth that we reported in the second half of fiscal 2009. This reflects a number of factors including the maturing of the fixed broadband market, the continued substitution to wireless broadband and the impact of low price competitive offers in the market. In the second half of the year we believe that our new pricing options, innovative products and unique content should improve momentum in this business.

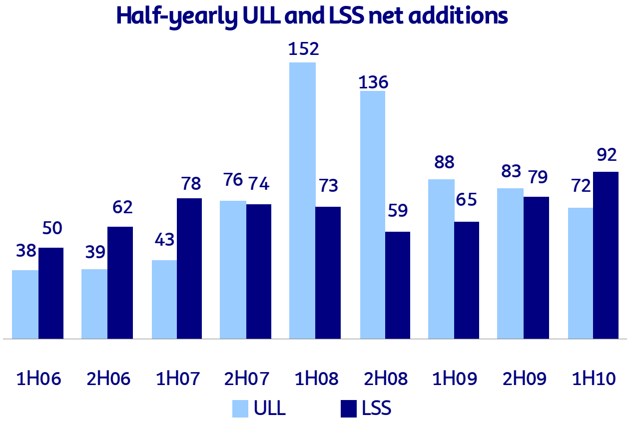
Fixed retail broadband average revenue per user (ARPU) continues to grow and is now at $57.33 per month. This is an increase of 2.2% on the prior corresponding period, offsetting the decline in SIOs. ADSL ARPU has now increased for the last seven consecutive halves driven by the increased take-up of premium high speed ADSL2+ plans. This is evidenced by the proportion of ADSL 2+ revenues to total ADSL now at 13.9% which is up from 9.1% in the prior corresponding half.



ARPU growth has been positively impacted by the number of retail customers on fixed high-speed plans (20Mbps or greater) which is now at 291k, increasing by 38.5% in the first half of 2010. This includes 186k ADSL and 105k cable SIOs. In the period, we also completed the upgrade of our Melbourne hybrid fibre coaxial (HFC) cable network to DOCSIS 3.0 technology, delivering network download speeds of up to 100Mbps to share across multiple users and devices within the household on our Cable Ultimate plans.

On the wholesale side, wholesale DSL customers continue to migrate to ULL and LSS services, with wholesale broadband revenue falling by 2.8% to $246 million. As carriers continue to build their own networks, volumes in ULL (revenues included within the other fixed revenue category) and LSS (low ARPU revenue within wholesale broadband) have increased, which in turn reduced wholesale broadband revenue.

Half-year results and operations review - December 2009



Internet VAS revenues are still experiencing strong growth led by BigPond® security bundle revenues which increased to $16 million this half.

ISDN and other fixed revenue

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
ISDN revenue	**463**	483	(20)	**(4.1%)**
Other fixed revenue (i)	**602**	616	(14)	**(2.3%)**
ISDN average revenue per user per month ($'s)	**59.46**	62.39	(2.93)	**(4.7%)**
ISDN access lines (basic access line equivalents) (thousands)	**1,305**	1,284	21	**1.6%**
Unbundled local loop SIOs (thousands)	**770**	615	155	**25.2%**

Note: statistical data represents management's best estimates.

(i) Refer to page 36 for a more detailed breakdown of other fixed revenue.

Ongoing product substitution away from ISDN 2 services (including the emergence of IP voice alternatives), together with the migration of Consumer customers from ISDN home services to a combination of PSTN and broadband offerings, has driven the decline in ISDN revenue. However, ISDN SIOs have increased marginally due to strong demand for ISDN 10/20/30 primary rate services from Business and Enterprise and Government customers.

Other fixed revenue decreased by 2.3% driven by declines in premium calling products, customer premises equipment and other fixed telephony, partially offset by an increase of 12.7% in intercarrier access services.

The increase in intercarrier access services revenue was mainly due to the increase in ULL SIOs of 155k as Wholesale customers continue to migrate their customer bases onto their own infrastructure partly as a result of the low rental charges in metro Australia.

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Mobiles

- Mobile services revenue growth of 4.7% in tough market conditions
- Strong retail mobile SIO growth of 7.0% to 10.4 million services
- 3GSM SIOs have now reached 7.2 million, 69.8% of total retail mobile SIOs
- Mobile data revenue growth of 20.9% driven by wireless broadband and handheld non-messaging revenues
- Wireless broadband revenue increased by 31.9% and SIOs grew by 73.2%
- Blended ARPU declined due to prepaid wireless broadband growth

Mobiles

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Calling and access charges (i)	**1,674**	1,753	(79)	**(4.5%)**
Mobile data				
- Messaging	**499**	437	62	**14.2%**
- Non-messaging (handheld)	**317**	263	54	**20.5%**
- Wireless broadband (data cards)	**368**	279	89	**31.9%**
Total mobile data	**1,184**	979	205	**20.9%**
Mobiles interconnection	**263**	245	18	**7.3%**
Total mobile services revenue - retail and interconnection	**3,121**	2,977	144	**4.8%**
Mobile services revenue - wholesale resale	**90**	89	1	**1.1%**
Total mobile services revenue	**3,211**	3,066	145	**4.7%**
Mobile hardware	**413**	396	17	**4.3%**
Total mobile revenue	**3,624**	3,462	162	**4.7%**
Mobile services retail postpaid and prepaid revenue				
Postpaid	**2,489**	2,434	55	**2.3%**
Prepaid	**369**	298	71	**23.8%**
Postpaid mobile SIOs (thousands)	**6,738**	6,371	367	**5.8%**
Prepaid mobile SIOs (thousands)	**3,649**	3,335	314	**9.4%**
Total retail mobile SIOs (thousands)	**10,387**	9,706	681	**7.0%**
3GSM postpaid mobile SIOs (thousands)	**5,252**	4,362	890	**20.4%**
3GSM prepaid mobile SIOs (thousands)	**1,997**	884	1,113	**125.9%**
3GSM total mobile SIOs (thousands)	**7,249**	5,246	2,003	**38.2%**
Wireless broadband (data card) SIOs (thousands) (ii)	**1,325**	765	560	**73.2%**
Wholesale SIOs (thousands)	**76**	75	1	**1.3%**
Blended average revenue per user (including interconnection) ($'s)	**50.55**	52.11	(1.56)	**(3.0%)**
Postpaid average revenue per user ($'s)	**62.35**	65.12	(2.77)	**(4.3%)**
Prepaid average revenue per user ($'s)	**16.91**	15.08	1.83	**12.1%**
3GSM average revenue per user ($'s)	**59.14**	69.12	(9.98)	**(14.4%)**
3GSM postpaid average revenue per user ($'s)	**72.22**	76.76	(4.54)	**(5.9%)**
Data average revenue per user ($'s)	**19.17**	17.14	2.03	**11.8%**
Number of SMS sent (millions)	**4,783**	4,353	430	**9.9%**
Mobile voice telephone minutes (millions)	**5,723**	5,570	153	**2.7%**
Deactivation rate	**12.3%**	12.7%		**(0.4)**

Note: statistical data represents management's best estimates.

(i) Includes $195 million of international roaming (Dec 2008: $215 million) and $139 million of mobile messagebank (Dec 2008: $140 million).
(ii) Included in total mobile SIOs.

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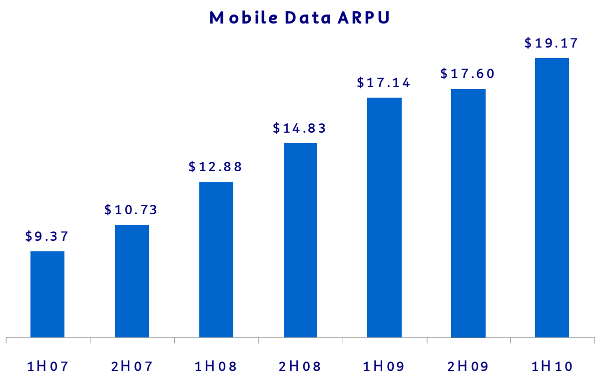
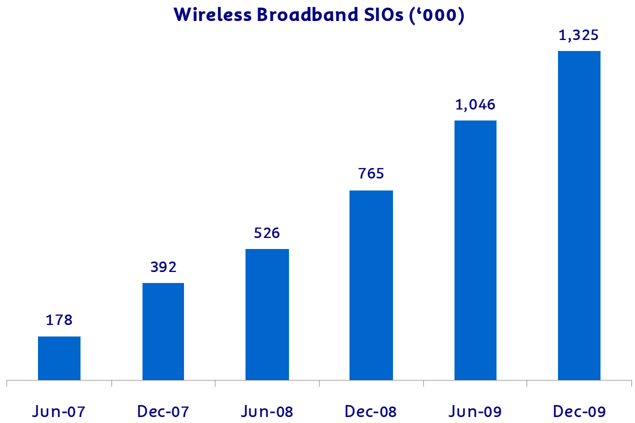
Total domestic mobile revenue grew by 4.7% to $3,624 million. This included a 4.7% growth in mobile services revenue to $3,211, million and a 4.3% increase in mobile hardware revenue.

The Australian mobile market remains fiercely competitive with consumers continuing to benefit from our ongoing commitment to expanding the coverage and quality of service provided by the Next G™ network. The combination of intense competition and some substitution of voice minutes to wireless messaging, as well as the increase in take up of capped plans, has resulted in a decline in mobile voice and access charges revenue as well as a softening of the total mobile services revenue growth rate.

Voice and access revenue declined by 4.5% in the half as price-based competition continues to intensify. Mobile growth has again been driven by mobile data. Total mobile data revenue grew by 20.9%. Mobile data ARPU has more than doubled in 3 years and is now just over $19 per user per month driven by the take up of wireless broadband offerings. Within messaging revenue, SMS revenues grew by 12.8% and MMS revenues surged by 61.7% to $24 million. Mobile non-messaging (handheld) revenue grew by 20.5% to $317 million driven by the increasing use of handsets as mobile modems.



Within mobile data, wireless broadband continues to grow strongly with wireless broadband revenue growing by 31.9% to $368 million. This has been driven by continued customer growth with SIOs up 279k in the half to 1.325 million and 73.2% from the prior corresponding period, driven by consumer demand for prepaid wireless broadband which was only launched in September 2008. Offsetting this SIO growth, wireless broadband ARPU continues to decline as the mix of prepaid SIOs increases and prices continue to fall.



Total retail mobile SIOs grew strongly by 7.0% to nearly 10.4 million. Prepaid SIO growth was 9.4% benefitting from healthy take up of our prepaid wireless broadband product.

Blended ARPU declined by 3.0% to $50.55 driven by a slightly higher mix of prepaid customers in our base, the already mentioned intensely competitive market and some softening in voice minutes of use driven by substitution to wireless data products.

Our 3GSM SIO base is now 7.249 million and accounts for 69.8% of our mobile SIO base.

Managing mobile SARCs continues to be a focus for each of the retail business segments. Our blended SARC rate increased by 12.6% to $152 driven by the increasing popularity of smartphones which accounted for 23.4% of new network connections in the half.

Half-year results and operations review - December 2009

IP and data access

- IP access revenue grew by 21.3% with the increase in IP access revenue more than offsetting the decrease in legacy data access revenue
- IP MAN and IP WAN revenue and SIOs grew strongly as more customers are leveraging the capabilities of our Next IP™ network

IP and data access

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Specialised data	**269**	328	(59)	**(18.0%)**
Global products	**61**	63	(2)	**(3.2%)**
IP access	**393**	324	69	**21.3%**
Wholesale internet and data	**168**	156	12	**7.7%**
Total IP and data access revenue	**891**	871	20	**2.3%**
Domestic frame access ports (thousands)	**21**	24	(3)	**(12.5%)**
Hyperconnect retail services in operation (thousands)	**32**	24	8	**33.3%**
Symmetrical HDSL services in operation (thousands)	**25**	22	3	**13.6%**
IP MAN services in operation (thousands)	**19**	15	4	**26.7%**
IP WAN services in operation (thousands)	**93**	69	24	**34.8%**

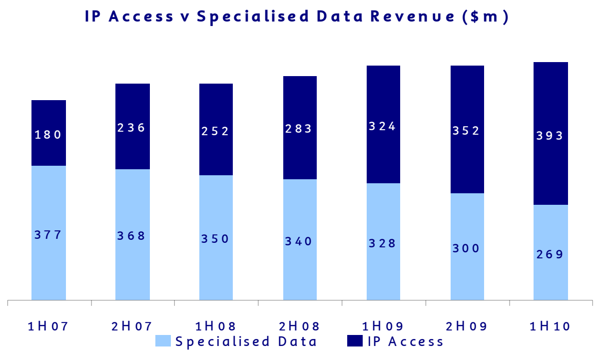
Note: statistical data represents management's best estimates.

IP and data access revenue increased by 2.3% to $891 million predominantly due to IP access revenue which grew by 21.3% to $393 million.

As a result of the implementation of the Next IP™ network, legacy data networks and other data products are being exited with customers migrating to IP access technologies. The Next IP™ network enables integrated voice, data and video on one network reducing duplication and complexity. It also provides scaleability, improved security and reliability for our customers. Beyond these factors, the Next IP™ network integrates with the Next G™ network allowing advanced applications and solutions to be seamlessly integrated, and in return, providing Telstra with further revenue opportunities.

Within the IP access portfolio, IP MAN remains the largest contributor with $201 million of revenue, growing by 32.3%. IP MAN provides customers with their own virtual private network using the IP protocol across a metropolitan area which can link 2 or more sites into the virtual private network, thus allowing all sites to network with each other offering access speeds of 2Mbps to 1,000Mbps. IP MAN growth is particularly driven by demand and bandwidth upgrades by customers (predominantly in the Government sector). IP WAN experienced revenue growth of 5.8% to $109 million. IP WAN allows businesses to use a single data connection in each location and then rely on the built-in intelligence and security of our Next IP™ network to manage the routing and delivery of data between locations within Australia and internationally.

Specialised data revenue declined by 18.0% to $269 million during the current half-year due to the continued migration to IP based products. Frame relay, digital data services and leased lines were the main sources for the decline. As previously mentioned, the fall in specialised data revenue has been more than offset by increases in IP access revenue.



Wholesale internet and data grew by 7.7% driven by higher demand for capacity and backhaul while global products declined by 3.2%.

Half-year results and operations review - December 2009

Business services and applications

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Business services and applications revenue	**429**	545	(116)	**(21.3%)**

The decline in business services and applications revenue was predominantly due to the sale of the KAZ business in April 2009. Excluding KAZ from the prior corresponding period, business services and applications revenue grew by 3.8% partly due to additional relocation works activity driven by several large projects in Queensland, an improvement in margins and the change of accounting treatment for the recognition of deferred revenue for construction work now being recognised up front. This was originally being amortised over the life of the contract or the life of the asset being built. In addition, there has been strong growth in managed network services revenue driven by an increase in the value of managed WAN equipment being financed.

Partly offsetting the above improvements has been a fall in IT services revenue due to the exit of a major desktop contract and lower activity in managed voice products.

Advertising and directories

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Advertising and directories revenue	**975**	1,028	(53)	**(5.2%)**

Our advertising and directories revenue is predominantly derived from our wholly owned company Sensis (Australia's leading information resource) and its controlled entities. For a detailed description of the performance of Sensis please refer to the financial summary on page 27.

Please note that our advertising and directories revenue no longer aligns with the Sensis results due to the Trading Post® business being transferred from Sensis to our Telstra Media segment on 1 April 2009. This has resulted in $26 million of advertising and directories revenue being recorded in Telstra Media in the current half. Trading Post® is now exclusively an online and mobile classifieds service as the final printed editions were published on 29 October 2009. This has resulted in a decline of $21 million in our classifieds revenue from the prior corresponding period.

Half-year results and operations review - December 2009

Offshore controlled entities

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
CSL New World	**374**	495	(121)	**(24.4%)**
TelstraClear	**269**	275	(6)	**(2.2%)**
Other offshore controlled entities revenue	**152**	195	(43)	**(22.1%)**
Total offshore controlled entities revenue	**795**	965	(170)	**(17.6%)**

For further details regarding the performance of CSL New World (CSLNW) and TelstraClear, please refer to their respective business summaries commencing on page 28.

Other offshore controlled entities revenue was impacted by the strength of the AUD with $23 million of the $43 million decline attributable to foreign currency translation. Excluding foreign exchange impacts, revenue in Europe has declined by $18 million impacted by churn in data and voice products. Our Asian businesses in Singapore, Hong Kong and Japan continue to experience sales and revenue growth due to our shorter provisioning cycles. Revenue in the USA business decreased by $3 million impacted by the loss of an outsourcing contract.

Pay TV bundling

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Pay TV bundling revenue	**247**	233	14	**6.0%**
Total pay TV bundling SIOs (thousands)	**479**	460	19	**4.1%**
Total FOXTEL pay TV SIOs (excl wholesale) (thousands)	**1,500**	1,424	76	**5.3%**

Note: statistical data represents management's best estimates.

Pay TV bundling revenue increased by $14 million or 6.0% due to increased FOXTEL[1] pay TV bundled revenue with our AUSTAR[2] agreement ceasing in fiscal 2009. Growth this half has been driven by campaigns including the introduction of 12 month contracts and strong introductory offers, strong sales of platinum packages and an 18.1 percentage point increase in FOXTEL iQ[1] penetration.

FOXTEL bundled pay TV SIOs increased by 10.6% or 46k from the prior corresponding period as a result of targeted marketing and sales campaigns. The end of the agreement to supply AUSTAR bundled services resulted in the loss of 27k SIOs from December 2008, hence the total pay TV SIO increase is only 19k.

Other revenue

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Distributions received	**-**	50	(50)	**(100.0%)**
Rental income	**19**	16	3	**18.8%**
Total other revenue	**19**	66	(47)	**(71.2%)**

No distributions from our FOXTEL partnership were received this half.

1. *FOXTEL marks are used under licence by FOXTEL Management Pty Ltd*
2. *Trade mark of AUSTAR Entertainment Pty Ltd*

Half-year results and operations review - December 2009

Other income

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Proceeds from sale of property, plant and equipment	**13**	11	2	**18.2%**
Proceeds from sale of investments	**3**	-	3	**n/m**
Asset and investment sales	**16**	11	5	**45.5%**
Cost of property, plant and equipment	**8**	9	(1)	**(11.1%)**
Cost of investments	**12**	-	12	**n/m**
Cost of asset and investment sales	**20**	9	11	**122.2%**
Net gain on assets/investment sales	**(4)**	2	(6)	**(300.0%)**
USO levy receipts and subsidies	**35**	33	2	**6.1%**
Miscellaneous income	**16**	18	(2)	**(11.1%)**
Other income	**51**	51	-	**-**
Total other income	**47**	53	(6)	**(11.3%)**

The proceeds from sale of investments and cost of investments sold relate to the sale of Universal Publishers Pty Ltd (publishers of the UBD and Gregory's street directories) in August 2009 which resulted in a net loss of $9 million.

Half-year results and operations review - December 2009

Expenses

Labour

- Labour expenses fell by 8.6% driven by the successful implementation of productivity improvements, reduced long service leave provisions, lower redundancy activity, foreign currency movements and the sale of KAZ
- On an adjusted basis (excluding KAZ and foreign currency movements), labour expenses declined by 4.0%
- Exceeded our 5 year target of 10,000 to 12,000 FTE reductions ahead of schedule with 12,142 completed since 1 July 2005 (excluding investments and divestments)

Labour

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Labour	**1,967**	2,152	(185)	**(8.6%)**
Domestic full time employees (whole numbers) (i)	**30,924**	33,191	(2,267)	**(6.8%)**
Full time employees and employed equivalents (whole numbers) (ii)	**39,763**	41,540	(1,777)	**(4.3%)**
Total workforce, including contractors and agency staff (whole numbers) (iii)	**43,332**	45,309	(1,977)	**(4.4%)**
Current half-year reduction in total workforce excluding acquisition/divestment activity (iv)	**(477)**			
Reduction in total workforce to June 2009 excluding acquisition/divestment activity against November 2005 announcement (iv)	**(11,665)**			
Total reduction in workforce	**(12,142)**			

Note: statistical data represents management's best estimates.

(i) Our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities.
(ii) Our full time employees and equivalents include domestic full time employees plus casual and part time employees and employees in our offshore subsidiary entities.
(iii) Our total workforce includes full time employees and equivalents plus contractors and staff employed through agency arrangements measured on an equivalent basis.
(iv) The reduction in total workforce against our 10,000 to 12,000 FTE (full time equivalent) 5 year reduction target excludes the ongoing impacts of SouFun Holdings Ltd and the Chinese entities Norstar Media, Autohome/PCPop, China M and Sharp Point, our divestments of Telstra eBusiness Group, KAZ, Australian Administration Services Pty Ltd and Universal Publishers as well as the impact of CSL's merger with NewWorld PCS Mobility. All of these transactions have taken place since the announcement of the 5 year target.

Reported labour expenses declined by 8.6%. After adjusting for KAZ and the impacts of foreign currency translation (please refer to page 34 for further information in relation to these adjustments), labour expenses declined by 4.0%.

Lower headcount across the business continues to drive cost savings. Savings are directly attributable to the headcount reduction program undertaken in previous years as part of the 5 year target effective from July 2005 whilst the disposal of the KAZ business also resulted in an $87 million decline in labour costs from the prior corresponding period. In addition, foreign exchange movements also reduced the Australian dollar labour cost of staff in our offshore businesses.

Labour costs are also impacted by changes in the 10 year government bond rate as this causes a revaluation of long service leave balances. A higher bond rate means a higher discount rate is used to calculate the present value of our long service leave obligations which reduces the provision. During the half, the changes in the bond rate caused a $48 million reduction or a 2.2% decrease in labour costs from the prior corresponding period.

Redundancy costs declined by 21.4% to $103 million as redundancy activity reduced after our marketing simplification program in the prior corresponding period.

We have continued the program to simplify our business and processes and so, excluding acquisition and divestment activity, we reduced our workforce by 477 full time equivalent staff since June 2009. In total, including the sale of KAZ, there was a decrease in the total workforce of 1,977 full time equivalent staff and contractors since December 2008. These reductions were primarily due to:

- a focus on increasing efficiencies and streamlining our field workforce and call centres as part of our transformation, particularly in our service delivery, network services and network construction units, resulting in our networks and services segment reducing its total workforce by 812;
- workforce numbers decreasing by 1,198 as a result of the sale of the KAZ business; offset by
- an increase in our offshore workforce which has increased by 1,080 in the past 12 months. The acquisition of China M and Sharp Point in February 2009 has resulted in an increase of 514 whilst expansion of SouFun has also contributed to the increase in staff over the past 12 months.

We've continued making cash contributions to the Telstra Superannuation Scheme (Telstra Super) with $230 million of contributions paid in the half. It should be noted that the cash contributions paid have no profit and loss impact and only impact the asset or liability recognised in the statement of financial position and the company's free cash flow. Contributions in the second half of fiscal 2010 will depend on market conditions, however we expect the full cash flow impact (inclusive of payroll tax) to total around $480 million for the full year.

In the first half of fiscal 2010, we have recognised $127 million of pension costs in our labour expenses compared to $113 million for the prior corresponding period. There are a number of variables that impact the defined benefit expense and the current year movement is a combination of changes in plan asset values, changes in membership numbers and changes in assumptions used in the calculation.

Half-year results and operations review - December 2009

Goods and services purchased

- On an adjusted basis (excluding KAZ and foreign currency movements), goods and services purchased increased by 2.2%
- Network payments decreased by 8.0% (or 5.5% excluding foreign exchange impacts) mainly due to lower mobile roaming expenses
- Managed services decreased by 31.7% mainly due to the sale of KAZ and the completion of major desktop contracts
- Cost of goods sold increased by 8.9% or $82 million, including a 17.8% increase in handset subsidies. Retail domestic subscriber acquisition and recontracting costs (SARC) increased by 20.7% due to higher postpaid subsidised volumes and a higher subsidy rate per handset

Goods and services purchased

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Cost of goods sold - handset subsidies (postpaid)	**317**	269	48	**17.8%**
Cost of goods sold - other	**683**	649	34	**5.2%**
Usage commissions	**178**	165	13	**7.9%**
Network payments	**898**	976	(78)	**(8.0%)**
Service fees	**268**	255	13	**5.1%**
Managed services	**69**	101	(32)	**(31.7%)**
Dealer performance commissions	**50**	63	(13)	**(20.6%)**
Paper purchases and printing	**54**	63	(9)	**(14.3%)**
Other	**98**	91	7	**7.7%**
Total goods and services purchased	**2,615**	2,632	(17)	**(0.6%)**
Retail domestic subscriber acquisition and recontracting costs (SARC) (i)	**368**	305	63	**20.7%**

(i) Domestic subscriber acquisition and recontract costs include $306 million of domestic handset subsidy costs (Dec 2008: $241 million) and other go to market costs included within cost of goods sold-other and other goods and services purchased.

Reported goods and services purchased declined by 0.6%. After adjusting for KAZ and the impacts of foreign currency translation (please refer to page 34 for further information in relation to these adjustments), goods and services purchased increased by 2.2%.

Network payments decreased by 8.0% (or by 5.5% on an adjusted basis) mostly due to:

- offshore outpayments which decreased by $91 million predominately in CSLNW ($55 million decline) driven by an adjustment for backhaul interconnect charges following a favourable dispute settlement, lower outbound roaming revenue and foreign exchange impacts. Our offshore outpayments were also lower in Europe by $25 million mainly due to reductions in voice and data revenue; partly offset by
- domestic network outpayments which grew by $10 million with the increase driven by rising SMS offnet volumes which increased offnet costs by 18.5% or $15 million this half-year. Our revenue from data messaging has also increased due to 22.1% more SMS offnet messages being sent by our customers this half.

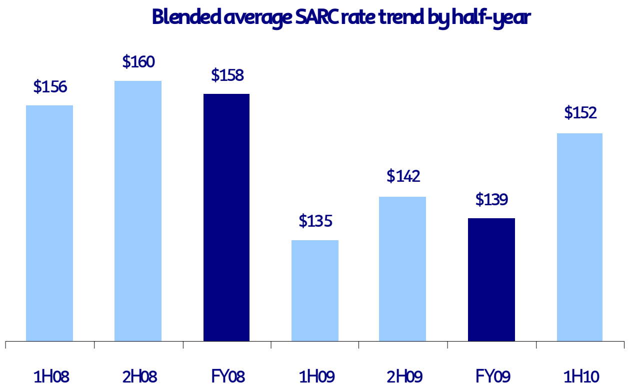
Managed services decreased by 31.7% mainly due to the sale of KAZ in April 2009 and the exit of major desktop contracts which were still in place in the prior corresponding half. Furthermore, dealer performance commissions fell by 20.6% linked to lower sales relating to our personal calling program.

Total cost of goods sold increased by 8.9% (or by 12.1% on an adjusted basis) as both handset subsidies and other cost of goods sold increased driven by the increasing popularity of smartphones which also contributed to an increase in mobile hardware revenue.

Our retail domestic SARC increased by $63 million of which domestic handset subsidies was the largest component with an increase of $65 million. This resulted from an increase in the number of postpaid handsets being subsidised and increased subsidised rates as customers took a higher proportion of smartphones. SARC as a proportion of mobile services domestic retail revenue therefore increased by 1.5% this half-year. This increase in the blended SARC rate was attributable to:

- the blended SARC rate per phone sold increasing by 12.6% over the half-year to $152 driven by increasing demand for smart phones such as the iPhone 3GS; and
- an increase in postpaid subsidised volumes (which have increased as a proportion of postpaid handsets sold by 1.9%) due to a competitive market environment.

Half-year results and operations review - December 2009



Our cost of goods sold - other category increased this half-year by $34 million mainly due to an increase in the average cost per postpaid handset sold mostly from an increased take up of smartphones as well as higher total volumes. This was partly offset by savings in the average rate of our prepaid handsets and more efficient procurement.

Usage commissions rose by $13 million as growth in our postpaid mobile and wireless broadband products resulted in higher commissions payable to dealers and licensed shops. In addition, service fees increased by $13 million broadly in line with higher FOXTEL bundling customers and revenue this half-year.

Half-year results and operations review - December 2009

Other expenses

- Total other expenses accelerated its decline to 5.8% this half
- On an adjusted basis (excluding KAZ and foreign currency movements), other expenses declined by 4.8%
- Service contracts and agreements declined by $45 million as we move out of the transformation program
- Bad and doubtful debts increased by 50.8% due to the prevailing economic conditions and deteriorating debt portfolio

Other expenses

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Property, motor vehicle and IT rental expense	**287**	311	(24)	**(7.7%)**
Net foreign currency conversion losses / (gains)	**(5)**	18	(23)	**(127.8%)**
Service contracts and other agreements	**1,125**	1,170	(45)	**(3.8%)**
Promotion and advertising	**183**	219	(36)	**(16.4%)**
General and administration	**476**	530	(54)	**(10.2%)**
Other operating expenses	**218**	236	(18)	**(7.6%)**
Impairment and diminution expenses	**206**	160	46	**28.8%**
Total other expenses	**2,490**	2,644	(154)	**(5.8%)**

Reported other expenses declined by 5.8%. After adjusting for KAZ and the impacts of foreign currency translation (please refer to page 34 for further information in relation to these adjustments), other expenses declined by 4.8%.

As we move out of the transformation program, service contracts and agreements decreased by 3.8% from the prior December half and were 7.7% lower than the second half of fiscal 2009. Additionally, lower IT professional services fees for software application and IT infrastructure support were achieved via contract re-negotiations with our major vendors. Consultancy costs also reduced by 27.8% this half as the prior period included outsourced productivity programs of work that in turn has assisted in the reduction of costs across the company in this half.

Promotion and advertising contributed $36 million of savings this half. This was primarily from reduced advertising campaigns for BigPond® ADSL and wireless products as we controlled marketing costs ahead of new tariffs and product plans launched at the end of the period. Savings were also made following the cessation of the print editions of Trading Post® as well as our Olympic Games promotions incurred in the prior corresponding period.

Our IT rental expenses declined this half due to the purchase of servers which replaced certain leasing costs. Property rental expenses reduced by 4.3% this half which reflected the benefits of our office property consolidation in Sydney and Brisbane and the exit of a Perth office lease.

General and administration expenses were significantly lower in many categories this half driven mainly by tighter control of discretionary travel expenditure, lower levels of transformation training costs following last year's peak and controlled property outgoing costs from lower non-essential network building works.

The rise in the value of the Australian dollar to the US dollar this half has resulted in a $23 million turnaround in net foreign currency conversion losses associated with our unhedged exposure arising from the timing of purchases and payments made in US dollars.

Impairment and diminution expenses was the only category to increase this half where the increase in bad and doubtful debts more than offset the reduction in our inventory and non-inventory impairments. Bad and doubtful debts rose by 50.8% or $63 million to $187 million as consumer debt delinquency continued to rise in difficult economic conditions driving an increase in write-offs and larger provisions required for aged debt. Higher business customer insolvency was also a driver of this half's increase in expense.

Half-year results and operations review - December 2009

Share of net loss from jointly controlled and associated entities

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Share of net loss from jointly controlled and associated entities	**-**	1	(1)	**(100.0%)**

Our share of net loss from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments. We have not had any significant losses/(gains) during the reported period. The $1 million movement was partly a result of LinkMe Pty Limited which was sold in the second half of fiscal 2009.

In respect to FOXTEL, REACH and Australia-Japan Cable, as the carrying value of our investments in each entity 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. At 31 December 2009, our share of FOXTEL carried forward losses amounted to $121 million (June 2009: $164 million). The decrease of $43 million in the current half-year is due to our share of FOXTEL's profit for the period.

Our share of carried forward losses in REACH and Australia-Japan Cable at 31 December 2009 amounted to $594 million and $161 million respectively.

Depreciation and amortisation

	Half-year ended 31 December			
	2009	2008	Change	**Change**
	$m	$m	$m	**%**
Depreciation	**1,735**	1,837	(102)	**(5.6%)**
Amortisation	**450**	418	32	**7.7%**
Total depreciation and amortisation	**2,185**	2,255	(70)	**(3.1%)**

Reported depreciation and amortisation declined by 3.1%. After adjusting for KAZ and the impacts of foreign currency translation (please refer to page 34 for further information in relation to these adjustments), depreciation and amortisation declined by 2.4%.

The absence of accelerated depreciation in CSLNW, together with the decommissioning of their legacy network, were the key drivers behind the decline in the depreciation and amortisation expense this half. Accelerated depreciation of $103 million was recognised in the prior corresponding period. Partially offsetting these declines was higher depreciation as a result of asset additions in Australia including further investments in the Next G™ network.

Amortisation of the Trading Post® masthead (which commenced in July 2009) together with software additions were the major reasons for the 7.7% increase in amortisation. Major software additions during the half were in product applications, customer relationship management applications and billing systems. The additional amortisation was partially offset by reductions in Sensis amortisation, mainly due to the IT transformation build - the old core platform was fully written down just after December 2008 whereas the new platform only commenced amortisation in December 2009. There was also an extension to the service life of some software asset classes.

Half-year results and operations review - December 2009

Net finance costs

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Borrowing costs	**508**	664	(156)	**(23.5%)**
Finance leases	**5**	5	-	**-**
Capitalised interest (i)	**(18)**	-	(18)	**n/m**
Unwinding of discount on liabilities recognised at present value	**8**	12	(4)	**(33.3%)**
(Gain)/loss on fair value hedges - effective	**28**	(146)	174	**119.2%**
Gain on cash flow hedges - ineffective	**(1)**	(6)	5	**83.3%**
(Gain)/loss on transactions not in a designated hedge relationship or de-designated from a fair value hedge relationship	**4**	(96)	100	**104.2%**
Other	**8**	7	1	**14.3%**
Finance costs	**542**	440	102	**23.2%**
Finance income	**(22)**	(37)	15	**40.5%**
Net finance costs	**520**	403	117	**29.0%**

(i) From 1 July 2009, as a result of changes to accounting standards, certain borrowing costs must be capitalised including borrowing costs incurred on funds borrowed specifically for the purpose of constructing assets that take a substantial period of time to be ready for their intended use.

Reported net finance costs increased by 29.0%. After adjusting for KAZ, the impacts of foreign currency translation and IFRS fair value adjustments (please refer to page 34 for further information in relation to these adjustments), net finance costs declined by 24.7%.

The reduction in net interest on borrowings of $141 million (borrowing costs less finance income) in the half-year arises from a reduction in the average yield on debt (7.46% in the prior corresponding period to 6.46% in the current half) and a marginal reduction in the average volume of debt over the period. The net reduction in interest costs has been somewhat offset by higher interest costs arising from the replacement of short term borrowings with long term debt in the prior corresponding period. The reduction in the average yield is principally due to reductions in short term market base interest rates compared to the prior corresponding period which resulted in lower costs on the floating rate debt component of our debt portfolio.

The movement in the (gain)/loss on fair value hedges - effective of $174 million (moving from a gain to a loss) represents a net unrealised loss on our Australian dollar pay floating interest rate positions relating to our fair value hedges. In the prior corresponding period, we saw significant volatility in the financial markets which resulted from significant deterioration in global economic conditions. As a consequence, our borrowing margins increased significantly with the outcome that unrealised gains of $146 million were recognised. In the current half-year, we have seen our borrowing margins contract reflecting an improvement in financial markets resulting in a partial reversal of previously recognised gains represented by the $28 million loss for the current half-year. In addition to a reduction in our borrowing margins, the following factors have also contributed to the net valuation loss of $28 million in the current half-year:

- an increase in Australian base market rates since June 2009;
- a reduction in the number of future interest flows as we approach maturity of the financial instruments; and
- the discount factor unwinding as the time to maturity shortens.

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

The movement in the (gain)/loss on transactions not in a designated hedge relationship or de-designated from hedge relationships of $100 million (moving from a gain to a loss) is due to a combination of the following factors:

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

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

Overall, the fair value adjustments to finance costs in the first half of fiscal 2010 amount to a loss $31 million, compared to a gain of $248 million in the prior corresponding period.

Half-year results and operations review - December 2009

Income tax expense and franking account

- Income tax expense decreased mainly due to prior years' research and development deductions received this half
- Our effective tax rate of 27.8% is lower than the Australian company tax rate due to a number of tax effect adjustments arising during the half

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Income tax expense	**726**	755	(29)	**(3.8%)**
Effective tax rate	**27.8%**	28.2%		**(0.4)**

Reported income tax expense declined by 3.8%. After adjusting for KAZ, the impacts of foreign currency translation and IFRS fair value adjustments in finance costs (please refer to page 34 for further information in relation to these adjustments), income tax expense declined by 3.4%.

Income tax expense reduced by 3.8% to $726 million while reported profit before income tax reduced by 2.4% to $2,612 million. In addition to lower profit, the following factors contributed to the decrease in income tax expense:

- additional research and development deductions of $491 million relating to claims from the 2007 and 2008 fiscal years had a tax effect reduction of $148 million;
- an investment allowance deduction of $137 million with a tax effect reduction of $41 million; and
- the effects of different rates of tax on overseas income reduced tax expense by $11 million;

partly offset by:

- the impact on the tax base from the change in accounting policy of our Trading Post® masthead which increased income tax expense by $91 million (after the tax effect of amortisation); and
- an amendment of prior period income tax expense resulting in an increase of $78 million to income tax expense.

The effective tax rate was 27.8% for the half-year which was relatively consistent with the rate of 28.2% in the prior corresponding period, and is 2.2 percentage points lower than the Australian company tax rate of 30.0%. This represents a difference of $58 million to the notional income tax expense and was largely as a result of the tax effect adjustments described above.

During the current half-year, we have paid a total of $755 million of tax instalments for the Telstra tax consolidated group relating to the last quarter of fiscal 2009 and the first quarter of fiscal 2010. Franking credits of $747 million were used when we paid our final 2009 dividend. In addition, the 2009 income tax return refund and prior years' tax amendment refunds have resulted in a further reduction of $185 million in our franking credits.

Following the above movements, our franking account balance was $1 million as at 31 December 2009. Our exempting account balance is $24 million, however there are statutory restrictions placed on the distribution of credits from this account. Consequently, it is unlikely that we will be able to distribute our exempting credits. We believe that our current balance of franking credits, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our interim dividend.

Half-year results and operations review - December 2009

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

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Total income	**950**	1,034	(84)	**(8.1%)**
Operating expenses (excl. depreciation and amortisation)	**479**	569	(90)	**(15.8%)**
EBITDA contribution	**471**	465	6	**1.3%**
Depreciation and amortisation	**43**	86	(43)	**(50.0%)**
EBIT contribution	**428**	379	49	**12.9%**
Capital expenditure	**45**	116	(71)	**(61.2%)**
EBITDA margin on sales revenue	**49.1%**	45.0%		**4.1**

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

Sensis total income is split into the following categories:

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
- Yellow™ revenue	**540**	565	(25)	**(4.4%)**
- White Pages® revenue	**184**	184	-	**-**
- Classified revenue	**-**	47	(47)	**(100.0%)**
- Digital marketing services	**44**	54	(10)	**(18.5%)**
- Chinese online businesses (i)	**115**	101	14	**13.9%**
- Voice	**65**	65	-	**-**
- Other advertising and directories	**2**	12	(10)	**(83.3%)**
Total Sensis advertising and directories	**950**	1,028	(78)	**(7.6%)**
Other sales revenue	**9**	6	3	**50.0%**
Total Sensis sales revenue	**959**	1,034	(75)	**(7.3%)**
Other income	**(9)**	-	(9)	**n/m**
Sensis total income	**950**	1,034	(84)	**(8.1%)**

(i) The Chinese online businesses results are from unaudited management accounts converted from local currency into Australian Dollars.

Sensis is Telstra's advertising and directories subsidiary. Sensis helps you find, buy and sell through service offerings including Yellow Pages®, White Pages®, 1234, Citysearch®, Whereis® and our MediaSmart digital display advertising business. Sensis also manages the group's advertising assets in China through interests in SouFun, Norstar Media and Autohome/PCPop.

Reported sales revenue at Sensis declined by 7.3% in the half but with EBITDA margins increasing by 4.1 percentage points, EBITDA grew by 1.3% in the half.

However, Trading Post®, our classifieds business, was transferred to our Telstra Media operating segment on 1 April 2009 so the comparative half-year ending 31 December 2009 includes 6 months of Trading Post® revenue and expenses. Universal Publishers was sold in August 2009 also impacting the comparisons between the half-years. Adjusting for these two businesses and for currency movements, the sales revenue decline was 0.1% for the half and EBITDA growth was 4.8%.

This adjusted result demonstrates how Sensis' new revenue streams compensated for a uniquely challenging period for all print advertisers.

With many companies scaling back their advertising spend across all media through the global financial crisis, print directories revenue declined. In the first half Yellow Pages® print revenue declined by 8.7%.

However, our White Pages® and Yellow Pages® online businesses experienced growth for the half year of 44.3% and 11.1% respectively, as our overall customer base and yields continue to grow. The yield growth is driven by increases in rates and greater upselling of existing customers in the Yellow Pages® online product suite.

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China delivered solid revenue growth of 13.9%, although this A$ result was impacted by currency movements. SouFun operates the leading real estate and home-related internet portal in China[1]. Our Sequel businesses Autohome and CHE168 are number one in online auto, while PCPop and IT168 are number two in online consumer electronics. Site usage across our Chinese assets grew to 4.3 billion average monthly page views; reflecting strong growth in China's online population and our focus on providing a 'best in class' customer experience.

The decline in digital marketing services was driven by location and navigation digital products which declined as the total market volume has slowed for portable navigation devices, with average yield also declining.

Sensis operating expenses (before depreciation and amortisation) declined by 15.8% to $479 million mainly due to the following:

- The Trading Post® transfer and Universal Publishers sale resulted in a $56 million decline; and
- a reduction in domestic expenses driven by efficiency and productivity improvements across the core business and a decrease in directly variable costs due to lower sales volumes; partly offset by
- China organic growth of $14 million to support revenue growth.

Depreciation and amortisation declined by $43 million mainly due to the IT transformation build, as the old core platform was fully written down just after December 2008, whereas the new platform only commenced amortisation in December 2009. There was also an extension to the service life of some software asset classes.

Capex has declined by $71 million as the bulk of the IT transformation was incurred in fiscal 2008 and fiscal 2009.

CSL New World financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2009 A$m	2008 A$m	**Change %**	**2009 HK$m**	2008 HK$m	**Change %**
Total income	**375**	495	**(24.2%)**	**2,514**	2,976	**(15.5%)**
Operating expenses (excl. depreciation & amortisation)	**263**	367	**(28.3%)**	**1,763**	2,187	**(19.4%)**
EBITDA contribution	**112**	128	**(12.5%)**	**751**	789	**(4.8%)**
Depreciation and amortisation	**48**	195	**(75.4%)**	**298**	1,034	**(71.2%)**
EBIT contribution	**64**	(67)	**195.5%**	**453**	(245)	**284.9%**
Capital expenditure	**39**	64	**(39.1%)**	**268**	348	**(23.0%)**
EBITDA margin on sales revenue	**29.9%**	25.9%	**4.0**	**29.9%**	26.5%	**3.4**
Mobile SIOs (thousands)	n/a	n/a	n/a	**2,571**	2,401	**7.1%**

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 and an alignment of accounting policy for pension assets from a corridor approach to a full recognition approach to be consistent with Telstra policy. EBITDA margin differences arise mainly from the alignment of accounting policies as well as from monthly average rates used for conversion from HK$ to A$.

In local currency, CSL New World revenue declined by 15.5% in the half. The revenue decline experienced during the half-year ending 31 December 2009 was driven by a 29.2% decline in handset sales and 18.5% decline in voice revenue offsetting 3.0% growth in mobile data revenues. Handset revenue was adversely impacted by relatively weak demand for device renewals and upgrades. Price competition for both local and international voice calls/services continued to intensify, reducing yields and consequently revenue.

Despite the challenging market CSLNW increased its customer base by 120k SIOs in the six month period from 1 July 2009 to 31 December 2009.

Operating expenses, excluding depreciation and amortisation, declined due to the company's strong focus on cost management, productivity enhancements and lower goods and services purchased associated with reduced revenue.

EBITDA margins in local currency increased by 3.4 percentage points in the half to 29.9%. However, despite the improvement in EBITDA margin on sales revenue, the EBITDA contribution declined by 4.8%. The decline in high margin international roaming was the major cause of this decline.

With the completion of the Next G™ network and the corresponding decommissioning and accelerated depreciation of the legacy network having concluded during the last fiscal year, the depreciation and amortisation expense during the half has decreased substantially. This was the principal driver of the significant growth in EBIT contribution.

As most of the capital expenditure associated with the build out of the Next G™ network was incurred during the prior fiscal year, capital expenditure for the current period returned to a more usual level, thereby producing substantial savings relative to the prior comparative period.

1. *Based on independent research on the number of total page views and visitors to our website as of January 2010.*

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The half-on-half change in the HK$/AU$ exchange rate resulted in a decrease in consolidated revenue of A$49 million which was offset by a decrease in expenses (including depreciation and amortisation) of A$42 million.

TelstraClear financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2009	2008	**Change**	**2009**	2008	**Change**
	A$m	A$m	**%**	**NZ$m**	NZ$m	**%**
Total income	**269**	275	**(2.2%)**	**334**	331	**0.9%**
Operating expenses (excl. depreciation & amortisation)	**220**	225	**(2.2%)**	**273**	270	**1.1%**
EBITDA contribution	**49**	50	**(2.0%)**	**61**	61	**-**
Depreciation and amortisation	**59**	61	**(3.3%)**	**70**	70	**-**
EBIT contribution	**(10)**	(11)	**9.1%**	**(9)**	(9)	**-**
Capital expenditure	**32**	39	**(17.9%)**	**40**	47	**(14.9%)**
EBITDA margin on sales revenue	**18.2%**	18.2%	**-**	**18.3%**	18.4%	**(0.1)**

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

For the half-year ended 31 December 2009, revenue in local currency has grown by 0.9% in a subdued economic environment.

The tightening in the business market has been offset by consumer services, which achieved revenue growth of 14.2%.

Operating expenses (excluding depreciation and amortisation) increased by 1.1%, with the growth in consumer services increasing network costs, partially offset by a reduction in labour costs and other operating costs. These savings were delivered by targeted operational efficiencies including the utilisation of shared services within the wider Telstra group.

Capex has decreased by 14.9% with the completion of two major projects, namely the upgrade of the billing platform and the build out of access via Unbundled Local Loop in which TelstraClear is the country's largest investor.

The half-on-half change in the NZ$/AUD$ exchange rate resulted in a decrease in consolidated revenue of A$9 million which was offset by a decrease in expenses (including depreciation and amortisation) of A$9 million so there was no impact on EBIT.

TelstraClear also supports our trans-Tasman revenue generating activities which are not directly reflected in the consolidated view shown above. The following table adjusts the TelstraClear financials for this trans-Tasman revenue and therefore represents a more accurate view of TelstraClear as a standalone business.

TelstraClear standalone financial results

	Half-year ended 31 December		
	2009	2008	**Change**
	NZ$m	NZ$m	**%**
Total income	**348**	346	**0.6%**
Operating expenses (excl. depreciation & amortisation)	**274**	272	**0.7%**
EBITDA contribution	**74**	74	**-**
Depreciation and amortisation	**70**	70	**-**
EBIT contribution	**4**	4	**-**
EBITDA margin on sales revenue	**21.3%**	21.4%	**(0.1)**

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Statement of financial position

- Our financial position remains strong and this is recognised by the credit rating agencies
- Given the strength of our balance sheet and our debt maturity profile we continue to be able to borrow from the market at competitive terms

Statement of financial position

	As at			
	31 Dec 09 $m	30 Jun 09 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**1,550**	1,381	169	**12.2%**
Other current assets	**5,196**	4,811	385	**8.0%**
Total current assets	**6,746**	6,192	554	**8.9%**
Non current assets				
Property, plant and equipment	**23,228**	23,895	(667)	**(2.8%)**
Intangible assets	**7,981**	8,416	(435)	**(5.2%)**
Other non current assets	**997**	1,459	(462)	**(31.7%)**
Total non current assets	**32,206**	33,770	(1,564)	**(4.6%)**
Total assets	**38,952**	39,962	(1,010)	**(2.5%)**
Current liabilities				
Borrowings	**1,925**	1,979	(54)	**(2.7%)**
Other current liabilities	**5,403**	5,773	(370)	**(6.4%)**
Total current liabilities	**7,328**	7,752	(424)	**(5.5%)**
Non current liabilities				
Borrowings	**14,485**	15,344	(859)	**(5.6%)**
Other non current liabilities	**4,394**	4,185	209	**5.0%**
Total non current liabilities	**18,879**	19,529	(650)	**(3.3%)**
Total liabilities	**26,207**	27,281	(1,074)	**(3.9%)**
Net assets	**12,745**	12,681	64	**0.5%**
Equity				
Equity available to Telstra entity shareholders	**12,483**	12,418	65	**0.5%**
Minority interests	**262**	263	(1)	**(0.4%)**
Total equity	**12,745**	12,681	64	**0.5%**

Our balance sheet remains in a healthy state with net assets of $12,745 million, an increase of 0.5%. There were no new long term debt raisings or long term maturities during the period. Our short term borrowings have reduced in size post the global financial crisis and comprise unsecured promissory notes used principally to support working capital and short term liquidity, as well as hedging offshore investments.

Major balance sheet movements included:

- other current assets grew by 8.0% mainly due to the reclassification of $528 million relating to the carrying value of SouFun assets and goodwill which are now treated as held for sale. This follows from the announcement that the shareholders of SouFun have commenced a process to prepare SouFun for an IPO in 2010 and Telstra's announcement that it proposes to sell down its shareholding as part of that process;
- property, plant and equipment declined mainly due to the reduction in the level of property, plant and equipment under construction as we come out of the company's transformation program;
- intangible assets decreased by 5.2% due to the reclassification of SouFun as mentioned above and foreign exchange movements, partly offset by an increase in software intangibles as a result of continued investment in our billing systems;
- other non current assets decreased primarily due to the $460 million decrease in the value of our non current derivative assets discussed below;
- total current and non current borrowings, excluding derivatives, decreased by $913 million primarily due to revaluation gains resulting from foreign exchange movements. Offsetting this decrease, is an increase in our net derivative position of $810 million;
- other current liabilities decreased driven by a reduction of $446 million in trade and other payables due to a reduction in capital expenditure as we come out of the peak spend periods associated with transformation;
- excluding derivatives, other non current liabilities were also impacted by an improvement in the defined benefit

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liability of $155 million primarily due to an increase in cash contributions and an actuarial gain of $104 million (before tax), offset by an increase in the deferred tax liability of $150 million; and

- equity attributable to Telstra Entity shareholders increased by 0.5% for the half-year due to an increase in retained earnings.

Our gross debt position at 31 December 2009 was $16,888 million, a reduction of $148 million from 30 June 2009. The reduction is mainly due to a net revaluation gain of $108 million, offset by a decrease of $39 million due to finance lease additions and a net cash outflow of $79 million in relation to short term borrowings, bank deposits with maturities greater than 90 days and finance lease repayments.

Net debt decreased by $415 million to $15,240 million driven by the decrease in gross debt and an increase of $267 million in cash and cash equivalents as a result of capital and operational activities returning to normal levels as the transformation enters the final stages. This has resulted in an improved free cash flow position compared to the prior corresponding period which, following payments of dividends and interest, is reflected in the increase in cash and cash equivalents. The decrease in net debt resulted in our gearing ratio improving slightly from 55.2% as at 30 June 2009 to 54.5% as at 31 December 2009.

Capital expenditure

- Declined by 22.5% to $1,607 million driven significantly by lower IT spend as transformation programs were substantially completed in the prior fiscal year

Operating capex by technology on an accruals basis

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Fixed access	**275**	377	(102)	**(27.1%)**
IT	**343**	530	(187)	**(35.3%)**
Land and buildings	**96**	104	(8)	**(7.7%)**
Network core	**243**	248	(5)	**(2.0%)**
Products	**98**	97	1	**1.0%**
Sensis domestic	**43**	113	(70)	**(61.9%)**
Transmission	**118**	221	(103)	**(46.6%)**
Wireless access	**157**	173	(16)	**(9.2%)**
International	**78**	120	(42)	**(35.0%)**
Other	**156**	91	65	**71.4%**
Operating capital expenditure	**1,607**	2,074	(467)	**(22.5%)**

Our operating capital expenditure declined by $467 million or 22.5% to $1,607 million in the half-year ended 31 December 2009 due to a decline in several categories:

- IT spend reduced by $187 million primarily driven by the completion of significant components of the IT transformation program relating to improved functionality and migration of customers to the new Customer Care and Billing System;
- transmission spend was lower by $103 million due to the completion of two major programs in the prior fiscal year, the Sydney-Hawaii cable and the Asia-America Gateway;
- fixed access spend decreased by $102 million due principally to a reduction across several demand driven programs and following the delivery of the optical fibre route in Arnhem Land in the prior corresponding period;
- Sensis domestic decreased by $70 million due to the completion of the bulk of the transformation program to upgrade IT systems and improve business processes across the Sensis core product chain; and
- international spend was lower by $42 million due partially to the completion of the CSLNW 3GSM network build and the completion of the Sydney-Hawaii cable.

Partly offsetting the above was an increase of $65 million in other capital expenditure driven by an initiative to accelerate revenue growth in the management of customer IP networks and systems. Also contributing to the increased capital expenditure was the delivery of a new Point-of-Sale system in retail stores.

Half-year results and operations review - December 2009

Cash flow summary

- Free cash flow continued to increase strongly by 37.0% or $708 million to $2,619 million
- Reduced capital expenditure is the primary driver of our improving free cash flow position

Cash flow summary

	Half-year ended 31 December			
	2009 $m	2008 $m	Change $m	**Change %**
Cash flows from operating activities				
Receipts from customers (inclusive of GST)	**13,662**	13,942	(280)	**(2.0%)**
Payments to suppliers and to employees (inclusive of GST)	**(8,458)**	(8,836)	378	**(4.3%)**
Net cash generated by operations	**5,204**	5,106	98	**1.9%**
Income taxes paid	**(595)**	(861)	266	**(30.9%)**
Net cash provided by operating activities	**4,609**	4,245	364	**8.6%**
Cash flows from investing activities				
Payments for property, plant and equipment	**(1,658)**	(1,756)	98	**(5.6%)**
Payments for intangible assets	**(383)**	(726)	343	**(47.2%)**
Capital expenditure (before investments)	**(2,041)**	(2,482)	441	**(17.8%)**
Payments for investments	**(10)**	(1)	(9)	**900.0%**
Total capital expenditure	**(2,051)**	(2,483)	432	**(17.4%)**
Proceeds from asset sales and finance leases	**35**	65	(30)	**(46.2%)**
Proceeds from sale of shares in controlled entities	**11**	-	11	**n/m**
Loans to jointly controlled and associated entities	**(3)**	(2)	(1)	**50.0%**
Distributions received from FOXTEL	**-**	50	(50)	**(100.0%)**
Interest received	**20**	36	(16)	**(44.4%)**
Settlement of hedges in net investments	**(2)**	-	(2)	**n/m**
Net cash used in investing activities	**(1,990)**	(2,334)	344	**(14.7%)**
Operating cash flows less investing cash flows	**2,619**	1,911	708	**37.0%**
Cash flows from financing activities				
Movements in borrowings	**(46)**	475	(521)	**(109.7%)**
Repayment of finance lease principal amounts	**(34)**	(19)	(15)	**78.9%**
Staff repayments of share loans	**5**	7	(2)	**(28.6%)**
Finance costs paid	**(497)**	(673)	176	**(26.2%)**
Dividends paid to equity holders of Telstra Entity	**(1,737)**	(1,737)	-	**-**
Dividends paid to minority interests	**(14)**	(21)	7	**(33.3%)**
Net cash used in financing activities	**(2,323)**	(1,968)	(355)	**18.0%**
Net increase/(decrease) in cash and cash equivalents	**296**	(57)	353	**(619.3%)**

Net cash provided by operating activities

Net cash generated by operations increased by 1.9% from the prior corresponding period to $5,204 million. Working capital movements drove the increase of $98 million including:

- significant movements in both trade and other receivables and trade and other payables. Current receivables are down as a result of the revenue decline, reversing the increasing trend seen in the prior corresponding half. We have also seen a lower movement in trade and other payables associated with decreases in operating expenses; offset by
- a decrease in revenue received in advance largely driven by Sensis with a decline in revenue from the delivery of the larger metro Yellow Pages® print;
- an increase of $187 million in cash contributions paid to Telstra Super.

Income taxes paid were significantly lower in the current half-year predominantly due to tax refunds received from the ATO for prior year amended assessments ($100 million) associated with research and development claims. A refund of $85 million was also received from the ATO for the 2009 income tax return while there was a decrease in the quarterly instalment payments made during the period due to a reduced instalment rate being applied on lower instalment income.

Net cash used in investing activities

Cash capital expenditure before investments continues to decline, down by 17.8% from the prior corresponding period, as we move out of our transformation program. Lower spend has principally been driven by lower IT spend associated with substantial completion of customer migration to the new

Half-year results and operations review - December 2009

customer care and billing platforms and lower transmission spend. Additionally, reduced spend in fixed access was due to lower demand driven programs and the completion of the Arnhem Land optical fibre cable.

The $10 million payment for investments in the current half-year is part of the earn-out consideration payments which were contingent upon the performance of the subsidiaries of Octave Investments Holdings Limited which we acquired in February 2009.

Proceeds from the sale of shares in controlled entities ($11 million) partly relates to the deferred consideration proceeds from the sale of KAZ Group Limited and KAZ Technology Services Pty Limited in April 2009 for a total amount of $8 million. We also received $3 million from the sale of Universal Publishers in August 2009.

No capital distribution was received from FOXTEL during the period resulting in a decline of $50 million from the prior corresponding half.

Net cash used in financing activities

Net cash used in financing activities increased by 18.0% to $2,323 million due to:

- a significant reduction in the net cash movements in borrowings with no significant long-term borrowings or maturities occurring during the period. The $46 million net repayment of borrowings in the current half-year relates to promissory notes for short term borrowings and derivatives. Higher borrowing levels in the prior corresponding half were largely a result of the challenging economic conditions where new long-term funding arrangements were executed to support our working capital requirements; partly offset by
- a 26.2% reduction in finance costs paid due to a decrease in net debt, combined with a decrease in short term market base interest rates during the period. Refer to the discussion on net finance costs on page 25 for further details.

Telstra Corporation Limited

Half-year ended 31 December 2009

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

	REPORTED			ADJUSTMENTS				ADJUSTED		
	Dec-09 $m	Dec-08 $m	Growth %	FX (Dec 09) $m	KAZ (Dec 08) $m	FVA (Dec 09) $m	FVA (Dec 08) $m	Dec-09 $m	Dec-08 $m	Growth %
Sales revenue	**12,323**	12,644	**(2.5%)**	98	(132)			**12,421**	12,512	**(0.7%)**
Total revenue	**12,342**	12,710	**(2.9%)**	98	(132)			**12,440**	12,578	**(1.1%)**
Total income (excl. finance income)	**12,389**	12,763	**(2.9%)**	98	(132)			**12,487**	12,631	**(1.1%)**
Labour	**1,967**	2,152	**(8.6%)**	16	(87)			**1,983**	2,065	**(4.0%)**
Goods and services purchased	**2,615**	2,632	**(0.6%)**	40	(33)			**2,655**	2,599	**2.2%**
Other expenses	**2,490**	2,644	**(5.8%)**	19	(9)			**2,509**	2,635	**(4.8%)**
Operating expenses	**7,072**	7,429	**(4.8%)**	74	(130)			**7,146**	7,299	**(2.1%)**
EBITDA	**5,317**	5,334	**(0.3%)**	23	(2)			**5,340**	5,332	**0.2%**
Depreciation and amortisation	**2,185**	2,255	**(3.1%)**	10	(5)			**2,195**	2,250	**(2.4%)**
EBIT	**3,132**	3,079	**1.7%**	13	3			**3,145**	3,082	**2.0%**
Net finance costs	**520**	403	**29.0%**	1	0	(31)	248	**490**	651	**(24.7%)**
Profit before income tax expense	**2,612**	2,676	**(2.4%)**	11	3	31	(248)	**2,654**	2,431	**9.2%**
Income tax expense	**726**	755	**(3.8%)**	3	0	0	0	**729**	755	**(3.4%)**
Profit for the year	**1,886**	1,921	**(1.8%)**	8	3	31	(248)	**1,925**	1,676	**14.9%**
Attributable to:										
Minority interests	**33**	5	**560.0%**	3	0	0	0	**36**	5	**620.0%**
Equity holders of the Telstra Entity	**1,853**	1,916	**(3.3%)**	5	3	31	(248)	**1,889**	1,671	**13.0%**

Note:

There are a number of one-off factors that have impacted our results in the first half of the year. In the preceding table, we have adjusted the results for three factors:

(i) the sale of the KAZ IT service business;

On 30 April 2009, our controlled entity Telstra Service Solutions Holdings sold its 100% shareholding in KAZ Group Pty Limited and KAZ Technology Services Pty Limited. In the table above, we have adjusted the prior corresponding half results to exclude the impact of the KAZ business.

(ii) the significant strengthening of the Australian Dollar;

The FX adjustments reflect the impact of exchange rate movements on the AUD performance of our offshore subsidiaries in relation to the prior corresponding half; and

(iii) the IFRS fair value adjustments in net finance costs.

Unrealised revaluation gains and losses will be recognised in net finance costs over the life of our financial instruments and will progressively unwind out to nil at maturity. In general, it is our intention to hold our borrowings and associated derivative instruments to maturity.

Telstra Corporation Limited

Product reconciliation to align previously released comparative figures with the current reported position
Half-year ended 31 December 2009

Product hierarchy at Dec 08 as previously released	Previously released Dec 08 $m	New product hierarchy based on Dec 09 structure	Based on new hierarchy Dec08 $m	Movement since Dec 08 release $m	Description of movement since Dec 08 release
FIXED TELEPHONY		FIXED PRODUCTS			
Basic access	1,592	Basic access	1,592	-	
Local calls	328	Local calls	328	-	
PSTN value added services	135	PSTN value added services	135	-	
National long distance calls	349	National long distance calls	349	-	
Fixed to mobile	615	Fixed to mobile	615	-	
International direct	90	International direct	90	-	
Fixed interconnection	110	Fixed interconnection	110	-	
Total PSTN products	3,219	PSTN products	3,219	-	
	-	Fixed internet	1,084	1,084	$783m fixed retail broadband moved from retail broadband within internet; $253m wholesale broadband moved from wholesale broadband within internet; $35m narrowband moved from narrowband within internet; $13m internet VAS moved from VAS and content within internet.
ISDN products	483	ISDN products	483	-	
Premium calling products	217	Premium calling products	217	-	
Payphones	30	Payphones	30	-	
Customer premises equipment	161	Customer premises equipment	113	(48)	($48m) PBX (Private Branch Exchange) products moved to business services and applications.
Intercarrier access services	173	Intercarrier access services	173	-	
Other fixed telephony	88	Other fixed telephony	83	(5)	($5m) IP telephony moved to business services and applications.
		Other fixed revenue	616	(53)	
Total fixed telephony	4,371	Total fixed products	5,402	1,031	
MOBILES		MOBILES			
Mobile services - retail and interconnection	3,050	Mobile services - retail and interconnection	2,977	(73)	($73m) wholesale domestic roaming moved to mobile services - wholesale.
Mobile services - wholesale	16	Mobile services - wholesale	89	73	$73m wholesale domestic roaming moved from mobiles services - retail and interconnection.
Total mobile services	3,066	Total mobile services	3,066	-	
Mobile handsets	387	Mobile hardware	396	9	$9m wireless installation and hardware moved from retail broadband.
Total mobiles	3,453	Total mobiles	3,462	9	
INTERNET					
Narrowband	35		-	(35)	($35m) narrowband moved to fixed internet within fixed products.
Retail broadband	1,204		-	(1,204)	($783m) fixed retail broadband moved to fixed internet within fixed products; ($412m) wireless broadband removed from internet so it is now included in mobiles only; ($9m) wireless installation and hardware moved to mobile hardware.
Wholesale broadband	253		-	(253)	($253m) wholesale broadband moved to fixed internet within fixed products.
VAS and content	23		-	(23)	($10m) internet content moved to offshore content and online content; ($13m) internet VAS moved to fixed internet within fixed products.
Total internet	1,515		-	(1,515)	
IP AND DATA ACCESS		IP AND DATA ACCESS			
Specialised data	328	Specialised data	328	-	
Global products	63	Global products	63	-	
IP access	323	IP access	324	1	$1m remote telemetry, Telstra secure and remote working moved from business services and applications.
Wholesale internet and data	156	Wholesale internet and data	156	-	
Total IP and data access	870	Total IP and data access	871	1	
Business services and applications	490	Business services and applications	545	55	$48m PBX products moved from customer premises equipment; $3m facilities access (non carrier) moved from other sales revenue; $5m IP telephony moved from other fixed telephony; ($1m) remote telemetry, Telstra secure and remote working moved to IP access.
	-	Offshore content and online content	10	10	$10m internet content moved from VAS and content within internet.
Advertising and directories	1,028	Advertising and directories	1,028	-	
CSL New World	495	CSL New World	495	-	
TelstraClear	275	TelstraClear	275	-	
Other offshore services revenue	195	Other offshore services revenue	195	-	
Pay TV bundling	233	Pay TV bundling	233	-	
Other minor items	131	Other sales revenue	128	(3)	($3m) facilities access (non carrier) moved to business services and applications.
Elimination for wireless broadband	(412)			412	$412m wireless broadband elimination removed so wireless broadband is now included in mobiles only.
Sales revenue	**12,644**	**Sales revenue**	**12,644**	-	

Summary Reported Half Yearly Data ($ millions)	Half 1 Dec-05	Year on Year Growth	Half 2 Jun-06	Year on Year Growth	Full year Jun-06	Year on Year Growth	Half 1 Dec-06	Year on Year Growth	Half 2 Jun-07	Year on Year Growth	Full year Jun-07	Year on Year Growth	Half 1 Dec-07	Year on Year Growth	Half 2 Jun-08	Year on Year Growth	Full year Jun-08	Year on Year Growth	Half 1 Dec-08	Year on Year Growth	Half 2 Jun-09	Year on Year Growth	Full year Jun-09	Year on Year Growth	Half 1 Dec-09	Year on Year Growth
Revenue																										
Fixed products																										
PSTN products																										
Basic access	1,658	(2.5%)	1,659	(0.2%)	3,317	(1.3%)	1,663	0.3%	1,670	0.7%	3,333	0.5%	1,657	(0.4%)	1,621	(2.9%)	3,278	(1.7%)	1,592	(3.9%)	1,565	(3.5%)	3,157	(3.7%)	1,508	(5.3%)
Local calls	553	(19.7%)	470	(20.9%)	1,023	(20.3%)	432	(21.9%)	413	(12.1%)	845	(17.4%)	388	(10.2%)	348	(15.7%)	736	(12.9%)	328	(15.5%)	305	(12.4%)	633	(14.0%)	286	(12.8%)
PSTN value added services	123	(1.6%)	123	(0.8%)	246	(1.6%)	125	1.6%	132	7.3%	257	4.5%	134	7.2%	135	2.3%	269	4.7%	135	0.7%	132	(2.2%)	267	(0.7%)	128	(5.2%)
National long distance calls	470	(10.8%)	442	(9.1%)	913	(9.9%)	408	(13.2%)	400	(9.5%)	808	(11.5%)	385	(5.6%)	364	(9.0%)	749	(7.3%)	349	(9.4%)	331	(9.1%)	680	(9.2%)	315	(9.7%)
Fixed to mobile calls	621	(6.5%)	595	(4.6%)	1,215	(5.7%)	608	(2.1%)	600	0.8%	1,208	(0.6%)	615	1.2%	607	1.2%	1,222	1.2%	615	0.0%	599	(1.3%)	1,214	(0.7%)	580	(5.7%)
International direct	106	(14.5%)	96	(12.7%)	201	(14.1%)	94	(11.3%)	90	(6.3%)	184	(8.5%)	92	(2.1%)	89	(1.1%)	181	(1.6%)	90	(2.2%)	85	(4.5%)	175	(3.3%)	82	(8.9%)
Fixed interconnection	146	(8.2%)	140	(6.7%)	286	(7.4%)	133	(8.9%)	119	(15.0%)	252	(11.9%)	120	(9.8%)	111	(6.7%)	231	(8.3%)	110	(8.3%)	101	(9.0%)	211	(8.7%)	98	(10.9%)
Total PSTN products	3,677	(7.8%)	3,525	(6.0%)	7,201	(7.0%)	3,463	(5.8%)	3,424	(2.9%)	6,887	(4.4%)	3,391	(2.1%)	3,275	(4.4%)	6,666	(3.2%)	3,219	(5.1%)	3,118	(4.8%)	6,337	(4.9%)	2,997	(6.9%)
Fixed internet																										
Fixed broadband retail and hardware	357	40.0%	413	39.5%	770	39.7%	491	37.5%	560	35.6%	1,051	36.5%	650	32.4%	703	25.5%	1,353	28.7%	783	20.5%	785	11.7%	1,568	15.9%	791	1.0%
Wholesale broadband	208	90.8%	260	64.6%	468	75.3%	278	33.7%	287	10.4%	565	20.7%	278	0.0%	276	(3.8%)	554	(1.9%)	253	(9.0%)	245	(11.2%)	498	(10.1%)	246	(2.8%)
Narrowband	117	(17.6%)	102	(23.3%)	220	(20.0%)	79	(32.5%)	65	(36.3%)	144	(34.5%)	52	(34.2%)	41	(36.9%)	93	(35.4%)	35	(32.7%)	24	(41.5%)	59	(36.6%)	20	(42.9%)
Internet VAS	3	200.0%	3	0.0%	5	0.0%	3	0.0%	4	33.3%	7	40.0%	9	200.0%	11	175.0%	20	185.7%	13	44.4%	22	100.0%	35	75.0%	26	100.0%
Total fixed internet	685	35.1%	778	31.6%	1,463	33.2%	851	24.2%	916	17.7%	1,767	20.8%	989	16.2%	1,031	12.6%	2,020	14.3%	1,084	9.6%	1,076	4.4%	2,160	6.9%	1,083	(0.1%)
ISDN products	553	(5.6%)	513	(9.4%)	1,066	(7.5%)	517	(6.5%)	497	(3.1%)	1,014	(4.9%)	495	(4.3%)	483	(2.8%)	978	(3.6%)	483	(2.4%)	459	(5.0%)	942	(3.7%)	463	(4.1%)
Premium calling products	224	(3.0%)	219	1.4%	443	(0.9%)	223	(0.4%)	229	4.6%	452	2.0%	223	0.0%	224	(2.2%)	447	(1.1%)	217	(2.7%)	212	(5.4%)	429	(4.0%)	204	(6.0%)
Payphones	50	(13.8%)	46	(14.8%)	96	(14.3%)	44	(12.0%)	41	(10.9%)	85	(11.5%)	36	(18.2%)	34	(17.1%)	70	(17.6%)	30	(16.7%)	29	(14.7%)	59	(15.7%)	26	(13.3%)
Customer premises equipment	92	4.5%	97	9.0%	189	6.8%	100	8.7%	110	13.4%	210	11.1%	108	8.0%	104	(5.5%)	212	1.0%	113	4.6%	106	1.9%	219	3.3%	104	(8.0%)
Intercarrier access services (includes ULL)	84	31.3%	90	26.8%	174	29.9%	91	8.3%	99	10.0%	190	9.2%	114	25.3%	151	52.5%	265	39.5%	173	51.8%	184	21.9%	357	34.7%	195	12.7%
Other fixed revenue	108	(6.9%)	101	(5.6%)	210	(5.8%)	99	(8.3%)	96	(5.0%)	195	(7.1%)	89	(10.1%)	84	(12.5%)	173	(11.3%)	83	(6.7%)	74	(11.9%)	157	(9.2%)	73	(12.0%)
Total fixed products	5,473	(2.9%)	5,369	(1.4%)	10,842	(2.2%)	5,388	(1.6%)	5,412	0.8%	10,800	(0.4%)	5,445	1.1%	5,386	(0.5%)	10,831	0.3%	5,402	(0.8%)	5,258	(2.4%)	10,660	(1.6%)	5,145	(4.8%)
Mobiles																										
Calling and access charges	1,633	1.2%	1,520	(3.9%)	3,153	(1.3%)	1,613	(1.2%)	1,609	5.9%	3,222	2.2%	1,693	5.0%	1,677	4.2%	3,370	4.6%	1,753	3.5%	1,652	(1.5%)	3,405	1.0%	1,674	(4.5%)
Mobile data																										
- Messaging	235	2.2%	244	11.9%	479	6.9%	294	25.1%	321	31.6%	615	28.4%	356	21.1%	384	19.6%	740	20.3%	437	22.8%	459	19.5%	896	21.1%	499	14.2%
- Non-messaging (handheld)	75	78.6%	141	176.5%	216	132.3%	175	133.3%	197	39.7%	372	72.2%	221	26.3%	238	20.8%	459	23.4%	263	19.0%	284	19.3%	547	19.2%	317	20.5%
- Wireless broadband (data cards)	2	n/m	8	n/m	10	n/m	21	950.0%	65	712.5%	86	760.0%	139	561.9%	208	220.0%	347	303.5%	279	100.7%	308	48.1%	587	69.2%	368	31.9%
Total mobile data	312	14.7%	393	46.1%	705	30.3%	490	57.1%	583	48.3%	1,073	52.2%	716	46.1%	830	42.4%	1,546	44.1%	979	36.7%	1,051	26.6%	2,030	31.3%	1,184	20.9%
Mobiles interconnection	293	6.9%	275	9.6%	568	8.0%	256	(12.6%)	243	(11.6%)	499	(12.1%)	220	(14.1%)	222	(8.6%)	442	(11.4%)	245	11.4%	246	10.8%	491	11.1%	263	7.3%
Mobile services - retail and interconnection	2,238	3.6%	2,188	4.1%	4,426	3.8%	2,359	5.4%	2,435	11.3%	4,794	8.3%	2,629	11.4%	2,729	12.1%	5,358	11.8%	2,977	13.2%	2,949	8.1%	5,926	10.6%	3,121	4.8%
Mobile services - wholesale	41	105.0%	50	100.0%	91	102.2%	66	61.0%	79	58.0%	145	59.3%	98	48.5%	92	16.5%	190	31.0%	89	(9.2%)	86	(6.5%)	175	(7.9%)	90	1.1%
Total mobile services	2,279	4.6%	2,238	5.2%	4,517	4.9%	2,425	6.4%	2,514	12.3%	4,939	9.3%	2,727	12.5%	2,821	12.2%	5,548	12.3%	3,066	12.4%	3,035	7.6%	6,101	10.0%	3,211	4.7%
Mobile hardware	213	7.6%	256	39.1%	469	23.1%	364	70.9%	380	48.4%	744	58.6%	477	31.0%	384	1.1%	861	15.7%	396	(17.0%)	381	(0.8%)	777	(9.8%)	413	4.3%
Total mobiles	2,492	4.8%	2,494	7.9%	4,986	6.4%	2,789	11.9%	2,894	16.0%	5,683	14.0%	3,204	14.9%	3,205	10.7%	6,409	12.8%	3,462	8.1%	3,416	6.6%	6,878	7.3%	3,624	4.7%
IP and data access																										
Specialised data	424	(9.2%)	397	(8.5%)	821	(8.9%)	377	(11.1%)	368	(7.3%)	745	(9.3%)	350	(7.2%)	340	(7.6%)	690	(7.4%)	328	(6.3%)	300	(11.8%)	628	(9.0%)	269	(18.0%)
Global products	46	7.0%	49	19.5%	95	13.1%	45	(2.2%)	46	(6.1%)	91	(4.2%)	47	4.4%	54	17.4%	101	11.0%	63	34.0%	67	24.1%	130	28.7%	61	(3.2%)
IP access	148	59.1%	172	38.7%	320	47.5%	180	21.6%	236	37.2%	416	30.0%	252	40.0%	283	19.9%	535	28.6%	324	28.6%	352	24.4%	676	26.4%	393	21.3%
Wholesale internet and data	108	25.6%	126	27.3%	234	27.2%	127	17.6%	131	4.0%	258	10.3%	137	7.9%	141	7.6%	278	7.8%	156	13.9%	152	7.8%	308	10.8%	168	7.7%
Total IP and data access	726	5.4%	744	6.7%	1,470	6.1%	729	0.4%	781	5.0%	1,510	2.7%	786	7.8%	818	4.7%	1,604	6.2%	871	10.8%	871	6.5%	1,742	8.6%	891	2.3%
Business services and applications [(i)]	560	2.4%	598	5.3%	1,158	3.9%	554	(1.1%)	618	3.3%	1,172	1.2%	577	4.2%	587	(5.0%)	1,164	(0.7%)	545	(5.5%)	570	(2.9%)	1,115	(4.2%)	429	(21.3%)
Offshore content and online content [(ii)]	6	200.0%	6	20.0%	12	71.4%	7	16.7%	6	0.0%	13	8.3%	7	0.0%	8	33.3%	15	15.4%	10	42.9%	60	650.0%	70	366.7%	89	790.0%
Advertising and directories [(iii)]	996	5.4%	818	9.1%	1,814	7.0%	879	(11.7%)	1,075	31.4%	1,954	7.7%	948	7.8%	1,168	8.7%	2,116	8.3%	1,028	8.4%	1,231	5.4%	2,259	6.8%	975	(5.2%)
CSL New World [(iv)]	373	(1.8%)	457	29.5%	830	13.1%	519	39.1%	481	5.3%	1,000	20.5%	485	(6.6%)	432	(10.2%)	917	(8.3%)	495	2.1%	494	14.4%	989	7.9%	374	(24.4%)
TelstraClear	321	5.6%	298	(6.9%)	620	(0.8%)	286	(10.9%)	287	(3.7%)	573	(7.6%)	287	0.3%	275	(4.2%)	562	(1.9%)	275	(4.2%)	272	(1.1%)	547	(2.7%)	269	(2.2%)
Other offshore services revenue	139	16.8%	156	17.3%	295	17.1%	173	24.5%	175	12.2%	348	18.0%	174	0.6%	172	(1.7%)	346	(0.6%)	195	12.1%	195	13.4%	390	12.7%	152	(22.1%)
Pay TV bundling	156	28.9%	164	15.5%	320	21.7%	164	5.1%	180	9.8%	344	7.5%	204	24.4%	222	23.3%	426	23.8%	233	14.2%	234	5.4%	467	9.6%	247	6.0%
Other sales revenue	179	17.0%	187	16.1%	365	17.4%	142	(20.7%)	134	(28.3%)	276	(24.4%)	135	(4.9%)	132	(1.5%)	267	(3.3%)	128	(5.2%)	126	(4.5%)	254	(4.9%)	128	0.0%
Total sales revenue	11,421	1.3%	11,291	3.7%	22,712	2.5%	11,630	1.8%	12,043	6.7%	23,673	4.2%	12,252	5.3%	12,405	3.0%	24,657	4.2%	12,644	3.2%	12,727	2.6%	25,371	2.9%	12,323	(2.5%)
Other revenue	10	(9.1%)	12	33.3%	22	10.0%	15	50.0%	21	75.0%	36	63.6%	120	700.0%	51	142.9%	171	375.0%	66	(45.0%)	70	37.3%	136	(20.5%)	19	(71.2%)
Total revenue	11,431	1.3%	11,303	3.7%	22,734	2.5%	11,645	1.9%	12,064	6.7%	23,709	4.3%	12,372	6.2%	12,456	3.2%	24,828	4.7%	12,710	2.7%	12,797	2.7%	25,507	2.7%	12,342	(2.9%)
Other income	128	73.0%	200	7.0%	328	25.7%	152	18.8%	99	(50.5%)	251	(23.5%)	107	(29.6%)	67	(32.3%)	174	(30.7%)	53	(50.5%)	54	(19.4%)	107	(38.5%)	47	(11.3%)
Total income	11,559	1.7%	11,503	3.8%	23,062	2.8%	11,797	2.1%	12,163	5.7%	23,960	3.9%	12,479	5.8%	12,523	3.0%	25,002	4.3%	12,763	2.3%	12,851	2.6%	25,614	2.4%	12,389	(2.9%)
Expenses																										
Labour	2,053	9.1%	2,311	17.0%	4,364	13.1%	1,996	(2.8%)	2,021	(12.5%)	4,017	(8.0%)	2,092	4.8%	2,066	2.2%	4,158	3.5%	2,152	2.9%	1,979	(4.2%)	4,131	(0.6%)	1,967	(8.6%)
Goods and services purchased	2,200	2.8%	2,502	20.9%	4,701	11.6%	2,566	16.6%	2,585	3.3%	5,151	9.6%	2,676	4.3%	2,505	(3.1%)	5,181	0.6%	2,632	(1.6%)	2,681	7.0%	5,313	2.5%	2,615	(0.6%)
Other expenses	2,011	8.4%	2,415	23.2%	4,427	16.0%	2,318	15.3%	2,606	7.9%	4,924	11.2%	2,539	9.5%	2,707	3.9%	5,246	6.5%	2,644	4.1%	2,581	(4.7%)	5,225	(0.4%)	2,490	(5.8%)
Operating expense (before interest)	6,264	6.6%	7,228	20.4%	13,492	13.5%	6,880	9.8%	7,212	(0.2%)	14,092	4.4%	7,307	6.2%	7,278	0.9%	14,585	3.5%	7,428	1.7%	7,241	(0.5%)	14,669	0.6%	7,072	(4.8%)
Share of net (profit)/loss from jointly controlled and associated entities	1	(200.0%)	(6)	(106.3%)	(5)	(105.3%)	1	0.0%	6	(200.0%)	7	(240.0%)	0	(100.0%)	1	(83.3%)	1	(85.7%)	1	n/m	(4)	(500.0%)	(3)	(400.0%)	0	(100.0%)
EBITDA	5,294	(3.4%)	4,281	(14.1%)	9,575	(8.5%)	4,916	(7.1%)	4,945	15.5%	9,861	3.0%	5,172	5.2%	5,244	6.0%	10,416	5.6%	5,334	3.1%	5,614	7.1%	10,948	5.1%	5,317	(0.3%)
Depreciation and amortisation	1,805	4.2%	2,273	26.5%	4,078	15.6%	1,978	9.6%	2,104	(7.4%)	4,082	0.1%	2,052	3.7%	2,138	1.6%	4,190	2.6%	2,255	9.9%	2,135	(0.1%)	4,390	4.8%	2,185	(3.1%)
EBIT	3,489	(7.0%)	2,008	(36.9%)	5,497	(20.7%)	2,938	(15.8%)	2,841	41.5%	5,779	5.1%	3,120	6.2%	3,106	9.3%	6,226	7.7%	3,079	(1.3%)	3,479	12.0%	6,558	5.3%	3,132	1.7%
Net finance costs	441	4.0%	492	7.9%	933	6.0%	520	17.9%	567	15.2%	1,087	16.5%	500	(3.8%)	586	3.4%	1,086	(0.1%)	403	(19.4%)	497	(15.2%)	900	(17.1%)	520	29.0%
Profit before income tax expense	3,048	(8.4%)	1,516	(44.4%)	4,564	(24.6%)	2,418	(20.7%)	2,274	50.0%	4,692	2.8%	2,620	8.4%	2,520	10.8%	5,140	9.5%	2,676	2.1%	2,982	18.3%	5,658	10.1%	2,612	(2.4%)
Income tax expense	904	(4.0%)	477	(40.7%)	1,381	(20.9%)	706	(21.9%)	711	49.1%	1,417	2.6%	678	(4.0%)	751	5.6%	1,429	0.8%	755	11.4%	827	10.1%	1,582	10.7%	726	(3.8%)
Profit for the period	2,144	(10.1%)	1,039	(46.0%)	3,183	(26.1%)	1,712	(20.1%)	1,563	50.4%	3,275	2.9%	1,942	13.4%	1,769	13.2%	3,711	13.3%	1,921	(1.1%)	2,155	21.8%	4,076	9.8%	1,886	(1.8%)

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

Summary Reported Half Yearly Data	Half 1 Dec-05	Year on Year Growth	Half 2 Jun-06	Year on Year Growth	Full year Jun-06	Year on Year Growth	Half 1 Dec-06	Year on Year Growth	Half 2 Jun-07	Year on Year Growth	Full year Jun-07	Year on Year Growth	Half 1 Dec-07	Year on Year Growth	Half 2 Jun-08	Year on Year Growth	Full year Jun-08	Year on Year Growth	Half 1 Dec-08	Year on Year Growth	Half 2 Jun-09	Year on Year Growth	Full year Jun-09	Year on Year Growth	Half 1 Dec-09	Year on Year Growth
Selected statistical data																										
PSTN																										
Retail basic access lines in service (thousands)	7,885	(4.0%)	7,781	(3.3%)	7,781	(3.3%)	7,739	(1.9%)	7,777	(0.0%)	7,777	(0.0%)	7,826	1.1%	7,865	1.1%	7,865	1.1%	7,829	0.0%	7,733	(1.7%)	7,733	(1.7%)	7,545	(3.6%)
Wholesale basic access lines in service (thousands)	2,143	8.2%	2,160	4.2%	2,160	4.2%	2,118	(1.2%)	1,981	(8.3%)	1,981	(8.3%)	1,730	(18.3%)	1,496	(24.5%)	1,496	(24.5%)	1,341	(22.5%)	1,285	(14.1%)	1,285	(14.1%)	1,263	(5.8%)
Total basic access lines in service (thousands)	**10,028**	**(1.6%)**	**9,941**	**(1.8%)**	**9,941**	**(1.8%)**	**9,857**	**(1.7%)**	**9,758**	**(1.8%)**	**9,758**	**(1.8%)**	**9,556**	**(3.1%)**	**9,361**	**(4.1%)**	**9,361**	**(4.1%)**	**9,170**	**(4.0%)**	**9,018**	**(3.7%)**	**9,018**	**(3.7%)**	**8,808**	**(3.9%)**
Unbundled local loop services in operation (thousands)	82	170.4%	120	172.4%	120	172.4%	163	100.0%	239	99.2%	239	98.9%	391	139.4%	527	120.1%	527	120.5%	615	57.3%	698	32.4%	698	32.4%	770	25.2%
Number of local calls (millions)	3,882	(12.0%)	3,550	(12.5%)	7,432	(12.2%)	3,390	(12.7%)	3,138	(11.6%)	6,528	(12.2%)	2,991	(11.8%)	2,689	(14.3%)	5,680	(13.0%)	2,501	(16.4%)	2,343	(12.9%)	4,844	(14.7%)	2,176	(13.0%)
National long distance minutes (millions)	3,666	(7.8%)	3,549	(5.8%)	7,215	(6.8%)	3,594	(2.0%)	3,536	(0.4%)	7,130	(1.2%)	3,530	(1.8%)	3,417	(3.4%)	6,947	(2.6%)	3,278	(7.1%)	3,277	(4.1%)	6,555	(5.6%)	3,053	(6.9%)
Fixed to mobile minutes (millions)	1,663	(2.7%)	1,667	1.6%	3,329	(0.6%)	1,696	2.0%	1,693	1.6%	3,389	1.8%	1,714	1.1%	1,696	0.1%	3,410	0.6%	1,675	(2.3%)	1,657	(2.3%)	3,332	(2.3%)	1,611	(3.8%)
International direct minutes (millions)	273	(10.2%)	261	(5.4%)	534	(7.9%)	264	(3.3%)	264	1.1%	528	(1.1%)	273	3.4%	275	4.2%	548	3.8%	278	1.8%	282	2.5%	560	2.2%	280	0.7%
PSTN average revenue per user per month ($'s)	60.83	(6.4%)	58.84	(4.4%)	59.83	(5.4%)	58.29	(4.2%)	58.18	(1.1%)	58.26	(2.6%)	58.51	0.4%	57.71	(0.8%)	58.11	(0.3%)	57.90	(1.0%)	57.15	(1.0%)	57.47	(1.1%)	56.03	(3.2%)
Fixed internet																										
Fixed retail broadband SIOs (thousands)	1,169	n/a	1,441	n/a	1,441	65.6%	1,668	42.7%	1,910	32.5%	1,910	32.5%	2,103	26.1%	2,254	18.0%	2,254	18.0%	2,297	9.2%	2,274	0.9%	2,274	0.9%	2,244	(2.3%)
Broadband wholesale SIOs (thousands)	1,164	90.3%	1,427	60.6%	1,427	60.5%	1,622	39.3%	1,762	23.5%	1,762	23.5%	1,753	8.1%	1,708	(3.1%)	1,708	(3.1%)	1,680	(4.2%)	1,691	(1.0%)	1,691	(1.0%)	1,726	2.7%
Total fixed broadband SIOs (thousands)	**2,333**	**n/a**	**2,868**	**n/a**	**2,868**	**63.0%**	**3,290**	**41.0%**	**3,672**	**28.0%**	**3,672**	**28.0%**	**3,856**	**17.2%**	**3,962**	**7.9%**	**3,962**	**7.9%**	**3,977**	**3.1%**	**3,965**	**0.1%**	**3,965**	**0.1%**	**3,970**	**(0.2%)**
Wholesale spectrum site sharing SIOs (thousands) (in wholesale SIOs)	90	304.2%	152	281.0%	152	281.0%	230	155.2%	304	99.6%	304	99.6%	377	63.6%	436	43.3%	436	43.3%	501	32.9%	580	33.0%	580	33.0%	672	34.1%
Narrowband SIOs (thousands)	1,143	(4.9%)	1,027	(14.8%)	1,027	(14.8%)	819	(28.3%)	654	(36.3%)	654	(36.3%)	595	(27.3%)	530	(19.0%)	530	(19.0%)	435	(26.9%)	363	(31.5%)	363	(31.5%)	308	(29.2%)
Average fixed retail BB revenue per SIO per month (incl hardware) ($'s)	58.76	(7.0%)	52.74	(2.5%)	55.71	(3.5%)	52.62	(10.4%)	52.16	(1.1%)	52.27	(6.2%)	54.00	2.6%	53.82	3.2%	54.18	3.7%	57.32	6.1%	57.24	6.4%	57.70	6.5%	58.40	1.9%
Average fixed retail BB revenue per SIO per month (excl hardware) ($'s)	60.31	n/m	54.49	(18.2%)	57.38	(18.1%)	52.66	(12.7%)	50.90	(6.6%)	51.61	(10.1%)	52.90	0.5%	52.52	3.2%	52.97	2.6%	56.08	6.0%	55.90	6.4%	56.41	6.5%	57.33	2.2%
ISDN																										
ISDN access (basic access line equivalents) (thousands)	1,235	2.9%	1,270	2.8%	1,270	2.8%	1,283	3.9%	1,229	(3.2%)	1,229	(3.2%)	1,288	0.3%	1,298	5.6%	1,298	5.6%	1,284	(0.3%)	1,291	(0.5%)	1,291	(0.5%)	1,305	1.6%
ISDN average revenue per user per month ($'s)	74.63	(9.6%)	68.23	(11.9%)	70.91	(11.3%)	67.55	(9.5%)	65.94	(3.4%)	70.76	(0.2%)	67.02	(0.8%)	62.12	(5.8%)	66.02	(6.7%)	62.39	(6.9%)	59.37	(4.4%)	60.64	(8.1%)	59.46	(4.7%)
Mobiles																										
3GSM mobile SIOs (thousands)	20	n/m	317	n/m	317	n/m	1,024	n/m	2,003	531.9%	2,003	531.9%	3,295	221.8%	4,352	117.3%	4,352	117.3%	5,246	59.2%	6,328	45.4%	6,328	45.4%	7,249	38.2%
Total retail mobile SIOs (thousands)	**8,582**	**7.5%**	**8,529**	**3.7%**	**8,529**	**3.7%**	**8,892**	**3.6%**	**9,212**	**8.0%**	**9,212**	**8.0%**	**9,319**	**4.8%**	**9,335**	**1.3%**	**9,335**	**1.3%**	**9,706**	**4.2%**	**10,191**	**9.2%**	**10,191**	**9.2%**	**10,387**	**7.0%**
Total wireless broadband (data cards) SIOs (in thousands)	0	n/m	39	n/m	39	n/m	95	n/m	178	351.7%	178	351.7%	392	312.6%	526	195.5%	526	195.5%	765	95.2%	1,046	98.9%	1,046	98.9%	1,325	73.2%
Total wholesale SIOs (thousands)	101	46.4%	119	43.1%	119	43.1%	129	27.5%	131	10.4%	131	10.3%	71	(44.9%)	74	(43.6%)	74	(43.5%)	75	5.6%	72	(2.7%)	72	(2.7%)	76	1.3%
Mobile voice telephone minutes (millions)	3,612	6.1%	3,700	10.7%	7,311	8.4%	4,147	14.8%	4,445	20.1%	8,591	17.5%	4,919	18.6%	5,177	16.5%	10,096	17.5%	5,570	13.2%	5,435	5.0%	11,005	9.0%	5,723	2.7%
Number of SMS sent (millions)	1,318	15.4%	1,700	48.2%	3,019	31.9%	2,227	68.9%	2,675	57.3%	4,902	62.4%	3,224	44.8%	3,749	40.1%	6,973	42.2%	4,353	35.0%	4,590	22.4%	8,943	28.3%	4,783	9.9%
Average 3GSM revenue per user per month ($'s)	n/a	n/a	n/a	n/a	n/a	n/a	75.73	n/m	81.15	n/m	74.83	n/m	75.34	(0.5%)	71.56	(11.8%)	74.46	(0.5%)	69.12	(8.3%)	61.59	(13.9%)	64.43	(13.5%)	59.14	(14.4%)
Average mobile revenue per user per month (incl. interconnection) $'s	44.32	(4.0%)	42.63	(1.4%)	44.00	(1.9%)	45.14	1.8%	44.84	5.2%	45.04	2.4%	47.28	4.7%	48.78	8.8%	48.15	6.9%	52.11	10.2%	49.41	1.3%	50.58	5.0%	50.55	(3.0%)
Average postpaid revenue per user per month ($'s)	60.29	0.9%	57.86	(0.6%)	58.74	(0.5%)	60.30	0.0%	59.87	3.5%	60.32	2.7%	62.88	4.3%	62.74	4.8%	62.97	4.4%	65.12	3.6%	60.88	(3.0%)	63.17	0.3%	62.35	(4.3%)
Average prepaid revenue per user per month ($'s)	10.81	(17.5%)	10.15	(9.8%)	10.85	(11.4%)	11.94	10.5%	11.61	14.4%	11.74	8.2%	12.46	4.3%	13.05	12.4%	12.78	8.9%	15.08	21.0%	16.28	24.8%	15.47	21.0%	16.91	12.1%
Average data revenue per user per month ($'s)	6.19	6.6%	7.15	28.9%	6.75	18.6%	9.37	51.5%	10.73	50.1%	10.07	49.1%	12.88	37.4%	14.83	38.3%	13.89	37.9%	17.14	33.1%	17.60	18.7%	17.32	24.7%	19.17	11.8%
Deactivation rate	8.8%	(0.9)	13.9%	4.1	23.4%	3.4	10.4%	1.5	9.6%	(4.4)	20.4%	(3.0)	13.9%	3.5	14.9%	5.3	29.0%	8.6	12.7%	(1.2)	9.9%	(5.0)	23.0%	(6.0)	12.3%	(0.4)
Pay TV bundling																										
Total pay TV bundling SIOs (thousands)	340	10.6%	344	2.6%	344	2.6%	347	1.9%	390	13.5%	390	13.5%	426	22.8%	450	15.4%	450	15.4%	460	8.0%	450	0.0%	450	0.0%	479	4.1%
Labour																										
Domestic full time employees	39,115	(1.3%)	37,599	(5.2%)	37,599	(5.2%)	36,184	(7.5%)	35,706	(5.0%)	35,706	(5.0%)	34,236	(5.4%)	33,982	(4.8%)	33,982	(4.8%)	33,191	(3.1%)	31,662	(6.8%)	31,662	(6.8%)	30,924	(6.8%)
Full time employees and employed equivalents	45,456	(1.6%)	44,452	(3.8%)	44,452	(3.8%)	43,989	(3.2%)	43,411	(2.3%)	43,411	(2.3%)	42,308	(3.8%)	42,784	(1.4%)	42,784	(1.4%)	41,540	(1.8%)	39,464	(7.8%)	39,464	(7.8%)	39,763	(4.3%)
Total workforce, including contractors and agency staff	**51,057**	**n/a**	**49,443**	**(6.2%)**	**49,443**	**(6.2%)**	**48,991**	**(4.0%)**	**47,840**	**(3.2%)**	**47,840**	**(3.2%)**	**46,561**	**(5.0%)**	**46,649**	**(2.5%)**	**46,649**	**(2.5%)**	**45,309**	**(2.7%)**	**43,181**	**(7.4%)**	**43,181**	**(7.4%)**	**43,332**	**(4.4%)**

Telstra

Media release

Telstra reports 37% free cash flow growth despite revenue decline in tougher market conditions

11 February 2010 - Telstra today announced strong growth of 37% in free cash flow for the six months to December 2009 and reaffirmed its profit guidance for fiscal 2010 despite challenging market conditions.

Chief Executive Officer David Thodey said free cash flow increased by $708 million to $2,619 million for the first half of fiscal 2010, and that the company is on track to achieve its target of $6 billion of free cash flow by the end of fiscal 2010, although it now expects a low single digit decline in reported sales revenue for the year.

“Telstra has largely completed its major investments in new networks and operating systems. It is now crucial that we generate returns that reward our shareholders. We are pleased to report that our shareholders will receive a fully franked interim dividend of 14 cents per share for the half year,” Mr Thodey said.

Mr Thodey said the competitive challenges highlighted at the company’s annual investor update in October remained, with an increase in the rate of decline in fixed products and a further slowing in the take-up of fixed broadband. He said a strong Australian dollar continued to affect revenue from overseas subsidiaries.

“Overall, we have seen a decline in adjusted revenues in the first half despite good performances in mobile data, wireless broadband and IP data. This reflects challenging market conditions due to changing calling behaviors and stronger price competition.”

The company reported –

- Sales revenue declined by 2.5% or $321 million to $12,323 million
- EBITDA declined by 0.3% or $17 million to $5,317 million
- Basic earnings per share declined by 3.5% to 15.0 cents
- A capex to sales ratio of 13%, meaning strong free cash flow had not come at the expense of investment

On an adjusted basis, normalising for the sale of the enterprise service provider KAZ, currency movements and fair value adjustments to finance costs to reflect the real performance of the business, the company reported -

- Sales revenue declined by 0.7%
- Operating expenses were reduced by 2.1%
- EBITDA increased by 0.2%
- Basic earnings per share rose 12.9%

Highlights included wireless broadband revenue growth of 32% to $368 million (with customer numbers increasing to 1.3 million) and IP access revenue growth of 21% to $393 million as major corporate and government customers migrated from legacy to IP systems, offering Telstra the opportunity to provide additional managed services.

“Telstra will continue to invest in new products and services and improved customer service so we can return to revenue growth, and regain the market share that we have lost in this half,” Mr Thodey said.

"A key part of our strategy is to offer new products and services. We will continue to invest in a string of new products like Telstra T-Box™ and Telstra T-Hub™ that differentiate us in the market. These new products, along with ongoing upgrades to our Next G™ network, will help us regain momentum through fiscal 2011.

"New product bundles and competitive pricing offers introduced by Telstra over the past few months have already been well received by our customers, as well as attracting interest from new customers."

Outlook for fiscal 2010

Mr Thodey said Telstra faced strong price competition, acceleration in the number of homes without fixed lines, a stronger Australian dollar, and continuing tough operating conditions in the Hong Kong market.

"Despite these challenges, we expect a modest improvement in the trends in the second half of fiscal 2010 with our new offerings, new pricing plans, and new revenues from major contract wins," he said.

He said these trends were reflected in expectations for revenue in the business, with the company expecting a low single digit decline in reported sales revenue for the full fiscal year. The company will remain firmly focused on controlling costs and boosting productivity to ensure that our profitability targets are met. We will do what is necessary to be competitive in the market.

The company's guidance for 2009/10 is for –

- Free cash flow of $6 billion, including around $500 million in cash contributions to the Telstra Superannuation Scheme
- A low single digit decline in sales revenue compared to fiscal 2009 levels
- EBITDA and EBIT percentage growth of low single-digits
- EBITDA margins maintained and accrued capital expenditure of around 14% of sales revenue.

All targets are based on reported, not adjusted results.

National Broadband Network (NBN) update

Mr Thodey provided an update on the progress of negotiations with the Federal Government and NBN Co.

"We remain engaged in constructive talks with the Government and NBN Co. We remain committed to try to find a mutually acceptable outcome, but the path ahead remains immensely complex," Mr Thodey said. "Throughout these talks, the best interests of our investors, our employees and our customers have remained paramount and we will continue to keep the market informed when significant developments occur."

Media Contact – Andrew Butcher 0400 841 088 or andrew.butcher@team.telstra.com

Telstra Corporation Limited and controlled entities

Directors' Report

For the half-year ended 31 December 2009

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 2009. Financial comparisons used in this report are of results for the half-year ended 31 December 2009 compared with the half-year ended 31 December 2008.

Business highlights

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

Our major achievements in the past half-year include:

- Delivering Australia's first national emergency warning system – Emergency Alert – to State and Federal Governments;
- Launching Australia's fastest cable broadband network, known as Cable Ultimate, with the completion of an upgrade to the hybrid fibre coaxial ('HFC') broadband network in Melbourne. Cable Ultimate enables nearly one million Melbourne homes to benefit from increased download capacity to up to 100Mbps for sharing between multiple simultaneous users within the household, and upload capacity to up to 2Mbps;
- Completing one of the largest optic fibre and broadband infrastructure projects undertaken in recent times – the Arnhem Land Fibre Project which saw 800km of fibre optic cable laid between Jabiru and Nhulunbuy; and
- Unveiling the Security Operations Centre (SOC) in Canberra which is designed to provide managed security services to enterprise and government customers across Australia. The SOC will be fully integrated with our existing network monitoring facilities.

Other business highlights over the six months include:

- Entering into strategic partnerships with Catholic Education and the NSW Government to provide improved broadband services to thousands of different education premises;
- Opening another 49 T[life]® stores, bringing the total to 105 stores opened during 2009;
- Unveiling innovative fixed-line devices like Telstra T-Hub™ and a new digital set top box called Telstra T-Box™ which we expect to start benefitting results in the next fiscal year;
- Continued strong growth in wireless broadband, with customers growing by 73% to 1.3 million;
- Growing total mobile data revenue by 21%; and
- Growing our mobile customer base by 7% to almost 10.4 million, with 70% of these services being 3G.

A key priority for the company is a significant improvement in the customer experience and there are many projects and initiatives going on right across the business aimed at this. We are doing things at a cross-company, business unit and local level to help improve the customer experience. This focus includes such processes and events as complaint handling, improving the experience for our customers when they move premises, BigPond® email address reactivation and portability and improvements to our automated customer service using speech recognition technology.

National Broadband Network ('NBN')

On 18 December 2009, Telstra announced it had formalised Terms of Engagement with NBN Co to facilitate negotiation of Telstra's potential participation in the roll out of the National Broadband Network (NBN).

At present Telstra and the NBN Co are continuing to work through a range of complex issues, in an effort to reach an agreement between the parties.

Review and results of operations

We are facing challenges on a number of fronts including:

- Strong domestic competition driving Unconditioned Local Loop (ULL) growth and very competitive fixed and mobile broadband offers;
- An accelerated move to wireless-only homes which is impacting revenue in PSTN and fixed broadband products;
- Tough operating conditions in Hong Kong; and
- The strength of the Australian dollar.

Despite these challenges, the business is generating increasing cash flows and our financial position remains strong. We continue to focus on the delivery of our strategy aimed at leveraging and growing our core business, primarily our domestic business.

Our net profit for the half-year was $1,886 million (2008: $1,921 million). This result was after deducting:

- Net finance costs of $520 million (2008: $403 million); and
- Income tax expense of $726 million (2008: $755 million).

Earnings before interest and income tax expense was $3,132 million, representing a 1.7% or $53 million increase on the prior corresponding period result of $3,079 million.

This increase was due to lower operating expenses and depreciation and amortisation expenses associated with continued cost control and productivity improvements. Excluding depreciation and amortisation expense, earnings decreased by $17 million or 0.3% to $5,317 million.

Our basic earnings per share is down slightly on the prior period at 15.0 cents (2008: 15.5 cents).

Financial performance (reported)

Our total reported revenue for the half-year (excluding finance income) decreased by 2.9% or $368 million to $12,342 million (2008: $12,710 million).

The decline in total revenue was mainly attributable to the PSTN revenue decline of 6.9% which accelerated from the 4.8% revenue decline recorded in the second half of fiscal 2009. The drivers of this decline include:

- lower usage across all calling categories;
- retail SIO decline as ULL uptake by competitors continued;
- the trend to IP telephony in the Enterprise market; and
- an increase in mobile-only households which we estimate is now close to 10% of households.

Directors' Report

Fixed retail broadband revenue increased by 1.4% to $777 million. Coupled with intense price competition, we have seen a decline of 30 thousand fixed broadband customers in the half-year as the fixed broadband market matures. Fixed retail broadband average revenue per user (ARPU) continues to grow and is now $57.33 per month, an increase of 2.2% on the prior corresponding period.

Mobile revenue continues to grow well, a testament to our investment in the world leading Next G™ network. Mobile services revenue grew by 4.7% to $3,211 million for the half. Customer growth of 7% remains strong whilst mobile ARPU declined slightly by 3% to $50.55 per month. This ARPU decline is driven by a 4.1% fall in voice revenues. Mobile data ARPU grew by 11.8% to be $19.17 per month.

IP and data access revenues continue to perform well as we manage our customers' migration from legacy products to IP, increasing by 2.3% to $891 million. Underpinning this growth was a 21.3% increase in IP access revenue to $393 million. Significant contract wins in the half include VISY, the NSW Department of Education and the Bank of Queensland, in addition to major wins in the latter half of fiscal 2009 such as the Commonwealth Bank.

Total reported operating expenses (before depreciation and amortisation, finance costs and income tax expense) decreased by 4.8% or $356 million to $7,072 million for the half-year (2008: $7,428 million). This decrease was attributable to:

- labour expenses - $1,967 million, down 8.6%;
- goods and services purchased - $2,615 million, down 0.6%; and
- other expenses - $2,490 million, down 5.8%.

Labour expenses decreased by $185 million, driven primarily by a reduction in full time staff from the implementation of productivity initiatives in a post transformation operating environment. Full time and equivalent staff decreased by 1,777 to 39,763 at 31 December 2009.

Goods and services purchased declined $17 million. This included a decrease in network payments of 8.0% to $898 million, partly due to foreign exchange impacts. Cost of goods sold increased by 8.9% to $1,000 million.

Other expenses decreased by $154 million. Within this category, service contracts and other agreements declined 3.8% to $1,125 million as we move out of the transformation programme. Impairment costs rose 28.8% to $206 million, driven by an increase in bad and doubtful debts.

Depreciation and amortisation expenses decreased by $70 million or 3.1% to $2,185 million.

Financial performance (adjusted)

For a view of real financial performance it is necessary to adjust the reported results for the sale of the KAZ IT services business in April 2009, the impact of the strengthening Australian dollar and the fair value adjustments included in finance costs.

Adjusting for the revenues generated by the KAZ Group in the first half of fiscal 2009 ($132 million) and for the revaluation of the Australian Dollar in the period ($98 million), sales revenues in the first half of the year declined only 0.7% and total revenue by 1.1%.

The adjustments also reduce reported operating costs. On an adjusted basis operating expenses declined 2.1%, with adjusted EBITDA increasing 0.2% and EBIT increasing 2.0% on the prior corresponding period. Finally, it is important to adjust for fair value adjustments at the finance cost line ($31 million loss in H1 2010 versus $248 million gain in H1 2009). On this adjusted basis, net profit after tax and non-controlling interests increased by 13.0% and basic earnings per share increased by 12.9%.

Financial position

Our financial position remains in a healthy state with net assets of $12,745 million, up from $12,681 million at 30 June 2009. The increase in net assets of $64 million is largely a result of a reduction in net debt, partly offset by declines in property, plant and equipment and intangible assets.

Financial condition

Our cash flow before financing activities (free cash flow) has increased by $708 million to $2,619 million in the current half-year. This position, combined with our borrowing program, will continue to support our ongoing operating and investing activities within our target financial parameters of gearing between 55 and 75 per cent; interest cover of more than seven times and debt servicing of 1.7- 2.1 times.

Cash used in financing activities was $2,323 million for the half-year, which represents an increase of $355 million over the prior corresponding period. The increase is due to a lower level of net borrowing undertaken in the half.

Given our relatively strong liquidity and balance sheet, we did not need to access the term debt markets during the half. We have long-term debt maturities to finance in March 2010, when we will have $500 million due for refinancing. This will be refinanced in the ordinary course of business.

Our net debt at 31 December 2009 was $15,240 million, down $415 million from 30 June 2009. This decrease comprises a decrease in gross debt of $148 million and an increase in cash and cash equivalents of $267 million.

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

	Telstra Group	
	As at	
	31 Dec 2009	30 June 2009
Net debt ($m)	**15,240**	15,655
Total equity ($m)	**12,745**	12,681
Gearing ratio (%)	**54.5**	55.2
EBITDA interest cover (times) (i)	**10.8**	9.6
Net debt to EBITDA (annualised)	**1.4**	1.4

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

Directors' Report

Dividends

The directors have resolved to pay an interim ordinary 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 26 February 2010, with payment to be made on 26 March 2010.

Our final ordinary dividend for the financial year ended 30 June 2009 of 14 cents per share ($1,737 million) was provided for, and paid during the half-year ended 31 December 2009. These dividends were fully franked at a tax rate of 30%. The final dividend paid had a record date of 28 August 2009 and payment was made on 25 September 2009.

The Dividend Reinvestment Plan continues to be suspended.

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 8 May 2009, director since 2000
David I Thodey	- chief executive officer and executive director since 19 May 2009
Geoffrey A Cousins	- a director since 2006
Russell Higgins AO	- appointed non-executive director on 15 September 2009
Charles Macek	- a director until 4 November 2009
John P Mullen	- a director since 2008
John V Stanhope	- executive director since 8 May 2009
John M Stewart	- a director since 2008
John W Stocker AO	- a director since 1996
Steve Vamos	- appointed non-executive director on 15 September 2009
Peter J Willcox	- a director until his resignation on 27 August 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.

C B Livingstone

Catherine B Livingstone AO

Chairman

11 February 2010

D. Thodey

David I Thodey

Chief Executive Officer and Executive Director

11 February 2010

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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 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Sean C Van Gorp
Partner
Melbourne, Australia
11 February 2010

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 2009

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Half-Year Financial Statements

Notes to the Half-Year Financial Statements

Income Statement

for the half-year ended 31 December 2009

		Telstra Group Half-year ended 31 December	
	Note	2009 $m	2008 $m
Income			
Revenue (excluding finance income)		**12,342**	12,710
Other income		**47**	53
		12,389	12,763
Expenses			
Labour		**1,967**	2,152
Goods and services purchased		**2,615**	2,632
Other expenses		**2,490**	2,644
		7,072	7,428
Share of net loss from jointly controlled and associated entities		**-**	1
		7,072	7,429
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**5,317**	5,334
Depreciation and amortisation		**2,185**	2,255
Earnings before interest and income tax expense (EBIT)		**3,132**	3,079
Finance income		**22**	37
Finance costs	6	**542**	440
Net finance costs		**520**	403
Profit before income tax expense		**2,612**	2,676
Income tax expense		**726**	755
Profit for the period		**1,886**	1,921
Attributable to:			
Equity holders of Telstra Entity		**1,853**	1,916
Non-controlling interests		**33**	5
		1,886	1,921
Earnings per share (cents per share)		**cents**	cents
Basic		**15.0**	15.5
Diluted		**14.9**	15.5

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

Statement of Comprehensive Income

for the half-year ended 31 December 2009

	Note	Telstra Group Half-year ended 31 December 2009 $m	2008 $m
Profit for the period		**1,886**	1,921
Foreign currency translation reserve			
Translation of financial statements of non-Australian controlled entities		**(186)**	506
Income tax on movements in the foreign currency translation reserve		**(19)**	77
		(205)	583
Cash flow hedging reserve			
Changes in fair value of cash flow hedges	6	**(481)**	570
Changes in fair value transferred to other expenses		**421**	(1,211)
Changes in fair vale transferred to goods and services purchased		**61**	(23)
Changes in fair value transferred to finance costs		**80**	25
Changes in fair value transferred to property, plant and equipment	6	**7**	(10)
Income tax on movements in the cash flow hedging reserve	6	**(27)**	195
		61	(454)
Retained profits			
Actuarial gain/(loss) on defined benefit plans	7	**104**	(1,254)
Income tax on actuarial gain/(loss) on defined benefit plans		**(32)**	363
		72	(891)
Non-controlling interests			
Translation of financial statements of non-Australian controlled entities		**(25)**	84
Actuarial gain/(loss) on defined benefit plans	7	**-**	(18)
		(25)	66
Total comprehensive income for the period		**1,789**	1,225
Attributable to:			
Profit for the period attributable to equity holders of Telstra Entity		**1,853**	1,916
Actuarial gain/(loss) on defined benefit plans (after tax) recognised in retained profits		**72**	(891)
Total comprehensive income recognised in retained profits		**1,925**	1,025
Other comprehensive income recognised in foreign currency translation reserve		**(205)**	583
Other comprehensive income recognised in cash flow hedging reserve		**61**	(454)
Total comprehensive income attributable to equity holders of Telstra Entity		**1,781**	1,154
Profit for the period attributable to non-controlling interests		**33**	5
Other comprehensive income attributable to non-controlling interests		**(25)**	66
Total comprehensive income attributable to non-controlling interests		**8**	71

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

Statement of Financial Position

as at 31 December 2009

	Note	Telstra Group as at 31 Dec 2009 $m	Telstra Group as at 30 June 2009 $m
Current assets			
Cash and cash equivalents	5	**1,550**	1,381
Trade and other receivables		**3,939**	4,039
Inventories		**300**	239
Derivative financial assets		**31**	128
Current tax receivables		**148**	101
Prepayments		**250**	304
Assets classified as held for sale		**528**	-
Total current assets		**6,746**	6,192
Non current assets			
Trade and other receivables		**167**	163
Inventories		**20**	18
Investments - accounted for using the equity method		**15**	16
Investments - other		**1**	-
Property, plant and equipment		**23,228**	23,895
Intangible assets		**7,981**	8,416
Derivative financial assets		**613**	1,073
Non-current tax receivables		**172**	172
Deferred tax assets		**-**	9
Defined benefit assets	7	**9**	8
Total non current assets		**32,206**	33,770
Total assets		**38,952**	39,962
Current liabilities			
Trade and other payables		**3,288**	3,734
Provisions		**458**	495
Borrowings		**1,925**	1,979
Derivative financial liabilities		**89**	111
Current tax liabilities		**327**	262
Revenue received in advance		**1,144**	1,171
Liabilities classified as held for sale		**97**	-
Total current liabilities		**7,328**	7,752
Non current liabilities			
Trade and other payables		**211**	245
Provisions		**756**	761
Borrowings		**14,485**	15,344
Derivative financial liabilities		**1,094**	819
Deferred tax liabilities		**1,743**	1,593
Defined benefit liability	7	**259**	414
Revenue received in advance		**331**	353
Total non current liabilities		**18,879**	19,529
Total liabilities		**26,207**	27,281
Net assets		**12,745**	12,681
Equity			
Share capital		**5,597**	5,576
Reserves		**(420)**	(273)
Retained profits		**7,306**	7,115
Equity available to Telstra Entity shareholders		**12,483**	12,418
Non-controlling interests		**262**	263
Total equity		**12,745**	12,681

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 2009

		Telstra Group	
		Half-year ended 31 December	
		2009	2008
	Note	**$m**	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**13,662**	13,942
Payments to suppliers and to employees (inclusive of GST)		**(8,458)**	(8,836)
Net cash generated by operations		**5,204**	5,106
Income taxes paid		**(595)**	(861)
Net cash provided by operating activities		**4,609**	4,245
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(1,658)**	(1,756)
- intangible assets		**(383)**	(726)
Capital expenditure (before investments)		**(2,041)**	(2,482)
- shares in controlled entities (net of cash acquired)	5	**(10)**	-
- payments for other investments		**-**	(1)
Total capital expenditure		**(2,051)**	(2,483)
Proceeds from:			
- sale of property, plant and equipment		**8**	16
- sale of shares in controlled entities (net of cash disposed)	5	**11**	-
Proceeds from finance lease principal amounts		**27**	49
Loans to jointly controlled and associated entities		**(3)**	(2)
Interest received		**20**	36
Settlement of hedges in net investments		**(2)**	-
Distributions received from FOXTEL		**-**	50
Net cash used in investing activities		**(1,990)**	(2,334)
Operating cash flows less investing cash flows		**2,619**	1,911
Cash flows from financing activities			
Proceeds from borrowings		**52**	2,209
Repayment of borrowings		**(98)**	(1,734)
Repayment of finance lease principal amounts		**(34)**	(19)
Staff repayments of share loans		**5**	7
Finance costs paid		**(497)**	(673)
Dividends paid to equity holders of Telstra Entity	3	**(1,737)**	(1,737)
Dividends paid to non-controlling interests		**(14)**	(21)
Net cash used in financing activities		**(2,323)**	(1,968)
Net increase/(decrease) in cash and cash equivalents		**296**	(57)
Cash and cash equivalents at the beginning of the period		**1,381**	899
Effects of exchange rate changes on cash and cash equivalents		**(29)**	67
Cash and cash equivalents at the end of the period	5	**1,648**	909

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 2009

Telstra Group

		Reserves						
	Share capital $m	Foreign currency translation (i) $m	Cash flow hedging (ii) $m	Consolid-ation fair value (iii) $m	General reserve (iv) $m	Retained profits $m	Non-con-trolling interests $m	Total $m
Balance at 1 July 2009	5,576	(384)	93	14	4	7,115	263	12,681
- total comprehensive income for the period	**-**	**(205)**	**61**	**-**	**-**	**1,925**	**8**	**1,789**
- dividends	**-**	**-**	**-**	**-**	**-**	**(1,737)**	**(9)**	**(1,746)**
- transfers to retained profits	**-**	**-**	**-**	**(3)**	**-**	**3**	**-**	**-**
- amounts repaid on share loans provided to employees	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
- share-based payments	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**
Balance at 31 December 2009	**5,597**	**(589)**	**154**	**11**	**4**	**7,306**	**262**	**12,745**
Balance at 1 July 2008	5,534	(598)	164	20	4	6,893	228	12,245
- total comprehensive income for the period	-	583	(454)	-	-	1,025	71	1,225
- dividends	-	-	-	-	-	(1,737)	(10)	(1,747)
- transfers to retained profits	-	-	-	(3)	-	3	-	-
- amounts repaid on share loans provided to employees	6	-	-	-	-	-	-	6
- prior year labour expense settled in equity	2	-	-	-	-	-	-	2
- share-based payments	14	-	-	-	-	-	-	14
Balance at 31 December 2008	5,556	(15)	(290)	17	4	6,184	289	11,745

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

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

(ii) The cash flow hedging reserve represents the effective portion of gains or losses that arise on remeasuring the fair value of financial instruments designated as cash flow hedges. These gains or losses are transferred to the income statement when the underlying hedged item affects income, or in the case of forecast transactions, are included in the measurement of the initial cost of property, plant and equipment or inventory. Refer to note 6 for details regarding the significant movement in the cash flow hedging reserve since 30 June 2009.

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

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

Notes to the Half-Year Financial Statements

1. Basis of preparation

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

Our half-year financial report is a condensed general purpose financial report and is to be read in conjunction with our Annual Financial Report as at 30 June 2009. This should also be read together with any public announcements made by us in accordance with the continuous disclosure obligations arising under Australian Securities Exchange listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

1.1 Basis of preparation of the financial report

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

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

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

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

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

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

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

1.2 Further clarification of terminology used in our income statement

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

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

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the company's operating performance before financing costs, income tax and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for payment of income taxes, debt service and capital expenditure.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

1.3 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars ($m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998 (amended by ASIC 05/641), issued under section 341(1) of the Corporations Act 2001.

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies

2.1 Accounting policies

Our accounting policies are consistent with those disclosed in the Annual Financial Report as at 30 June 2009, with the exception of those disclosed below.

(i) Borrowing Costs

AASB 123: “Borrowing Costs” became applicable to annual reporting periods beginning on or after 1 January 2009. We have applied this standard in our half-year financial report for the half-year ended 31 December 2009.

The revised AASB 123 now requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

We have applied the revised AASB 123 prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009. For the half-year ended 31 December 2009, we have capitalised $18 million of borrowing costs directly attributable to qualifying assets.

(ii) Business Combinations

AASB 3: “Business Combinations” (revised 2008) and AASB 127: “Consolidated and Separate Financial Statements” (revised 2008) became applicable to annual reporting periods beginning on or after 1 July 2009.

These standards make a number of amendments to the accounting for business combinations and consolidations, including requiring acquisition costs to be expensed, the clarification of the accounting treatment for changes in ownership interests and the fair value measurement of contingent consideration in the statement of financial position at acquisition date with subsequent changes reflected in the income statement.

These accounting standards are applied prospectively on acquisitions completed on or after 1 July 2009. During the half-year ended 31 December 2009, there were no acquisitions and these accounting standards did not have any impact on Telstra.

(iii) Financial Instrument disclosures

AASB 2009-2 "Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments” became applicable to Telstra on 1 July 2009.

AASB 2009-2 requires enhanced disclosures about fair value measurements and liquidity risk and in particular, introduces a three-level hierarchy for making fair value measurements.

These disclosures are not applicable for the half-year, and as such, this standard did not have any impact on our financial results for the half-year ended 31 December 2009.

2.2 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 2009, but will be applicable to the Telstra Group and Telstra Entity in future reporting periods, apart from those already disclosed in our 30 June 2009 Annual Financial Report, are detailed below.

(i) Financial Instruments - Classification and Measurement

AASB 9: “Financial Instruments” was issued by the AASB in December 2009 and is applicable to annual reporting periods beginning on or after 1 January 2013, with early adoption permitted. A related omnibus standard AASB 2009-11: “Amendments to Australian Accounting Standards arising from AASB 9” makes a number of amendments to other accounting standards as a result of AASB 9 and must be adopted at the same time.

AASB 9 introduces new classification and measurement models for financial assets. For financial assets, there are only two models, amortised cost and fair value. To be classified and measured at amortised cost, the asset must satisfy the business model test and have contractual cash flow characteristics. All other instruments are to be classified and measured at fair value.

The accounting for financial liabilities will continue to be performed under AASB 139 until further amendments are made by the International Accounting Standards Board. We are currently assessing the impact of these standards.

Apart from these standards, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to 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	
	2009	2008
	$m	$m
Dividends paid		
Previous year final dividend paid	**1,737**	1,737
Dividends paid per ordinary share	**¢**	¢
Previous year final dividend paid	**14.0**	14.0

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

Dividends per ordinary share to be paid

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

	Telstra Entity	
	Half-year ended 31 December	
	2009	2008
	¢	¢
Dividends per ordinary share		
Interim dividend (a)	**14.0**	14.0

(a) As the interim dividend for the half-year ended 31 December 2009 was not determined or resolved to be paid by the Board as at 31 December 2009, no provision for dividend has been raised in the statement of financial position. The decision to pay an interim dividend is reported as an event after balance date (refer to note 11 for further information).

Notes to the Half-Year Financial Statements (continued)

4. Segment information

Operating segments

We report our segment information on the same basis as our internal management reporting structure, which drives how our company is organised and managed. Segment comparatives are restated to reflect any changes in our reporting structure which have occurred since the prior reporting period to present a like-for-like view. As KAZ Group Pty Limited was sold on 7 May 2009, we have excluded it from the Telstra Enterprise and Government segment prior period results for internal management reporting.

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

- Telstra Country Wide;
- Telstra Media;
- Telstra Cable;
- Strategic Marketing; and
- our Corporate areas.

For a description of our reportable segments and other business units, refer to note 5 of the 30 June 2009 Annual Financial Report.

Segment financial results

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

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. Instead our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- information technology costs for the Telstra Entity.

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

- sales revenue associated with mobile handsets for Telstra Consumer (TC), Telstra Business (TB) and Telstra Enterprise & Government (TE&G) are mainly allocated to the TC segment along with the associated goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC, TB and TE&G depending on the type of customer serviced;
- revenue derived from our Telstra Media Internet products and its related segment assets are recorded in the customer facing business segments of TC, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments;
- Telstra Networks and Services recognise certain expenses in relation to the installation and running of the broadband cable network; and
- revenue derived from our Telstra Country Wide customers is recorded in our TC, TB and TE&G segments. Direct costs associated with this revenue is also recorded in TC, TB and TE&G.

Notes to the Half-Year Financial Statements (continued)

4. Segment information (continued)

The following tables detail the underlying results of our business segments, based on the reporting structure as at 31 December 2009:

Telstra Group

	Telstra Consumer	Telstra Business	Telstra Enterprise & Govern-ment	Telstra Networks & Services	Telstra Wholesale	Sensis	CSL New World	Telstra Clear	All other	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2009										
Revenue from external customers	**5,161**	**1,920**	**2,228**	**38**	**1,170**	**959**	**374**	**269**	**223**	**12,342**
Other income	**32**	**5**	**2**	**3**	**-**	**-**	**1**	**-**	**8**	**51**
Total income	**5,193**	**1,925**	**2,230**	**41**	**1,170**	**959**	**375**	**269**	**231**	**12,393**
Labour expenses	**217**	**93**	**191**	**623**	**35**	**231**	**34**	**48**	**495**	**1,967**
Goods and services purchased	**1,324**	**377**	**362**	**111**	**39**	**73**	**138**	**132**	**59**	**2,615**
Other expenses	**533**	**84**	**63**	**717**	**10**	**175**	**91**	**40**	**778**	**2,491**
Depreciation and amortisation	**-**	**-**	**17**	**37**	**-**	**43**	**48**	**59**	**1,981**	**2,185**
EBIT contribution	**3,119**	**1,371**	**1,597**	**(1,447)**	**1,086**	**437**	**64**	**(10)**	**(3,082)**	**3,135**
Total assets	**1,668**	**459**	**1,321**	**1,781**	**404**	**2,226**	**1,841**	**1,042**	**28,210**	**38,952**

Telstra Group

	Telstra Consumer	Telstra Business	Telstra Enterprise & Govern-ment	Telstra Networks & Services	Telstra Wholesale	Sensis	CSL New World	Telstra Clear	All other	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2008										
Revenue from external customers	5,171	1,927	2,265	44	1,210	1,034	495	275	107	12,528
Other income	30	6	-	3	-	-	-	-	13	52
Total income	5,201	1,933	2,265	47	1,210	1,034	495	275	120	12,580
Labour expenses	230	103	191	643	34	265	41	53	504	2,064
Goods and services purchased	1,254	358	359	120	44	92	233	129	10	2,599
Other expenses	519	85	76	758	10	212	93	43	837	2,633
Share of equity accounted losses	-	-	-	-	-	-	-	-	1	1
Depreciation and amortisation	-	-	17	36	-	86	195	61	1,855	2,250
EBIT contribution	3,198	1,387	1,622	(1,510)	1,122	379	(67)	(11)	(3,087)	3,033
Total assets	1,626	450	1,579	2,098	407	2,862	2,401	1,147	28,286	40,856

Notes to the Half-Year Financial Statements (continued)

4. Segment information (continued)

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

	Telstra Group	
	Half-year ended 31 December	
	2009 $m	2008 $m
EBIT contribution for reportable segments	**6,217**	6,120
All other	**(3,082)**	(3,087)
	3,135	3,033
Amounts excluded from underlying results:		
- distribution from FOXTEL	**-**	50
- net gain on disposal of non current assets	**5**	1
- net loss on disposal of non current assets	**(9)**	-
- reversal of impairment in value of investments	**1**	(2)
- EBIT contribution from KAZ Group Pty Limited	**-**	(3)
Telstra Group EBIT (reported)	**3,132**	3,079

Recent organisational changes

On 30 November 2009, some organisational changes were announced as follows:

- creation of two new product units to enable Telstra to compete effectively in fixed and mobile markets;
- formation of a new International unit, which will take geographic and operational responsibility for CSL, Reach, Telstra's business in China, international sales and business development;
- consolidation of network, technology and IT functions to further drive Telstra's network and technology excellence; and
- creation of a new Customer Satisfaction, Simplification & Productivity unit responsible for improving customer service.

These organisational changes are being reported internally from 1 January 2010. As such, our segment information in our 30 June 2010 full year financial statements will align to the new organisation structure.

Notes to the Half-Year Financial Statements (continued)

5. Notes to the statement of cash flows

Reconciliation of cash balances

	Telstra Group Half-year ended 31 December	
	2009	2008
	$m	$m
Cash at bank and on hand	**305**	417
Cash equivalents (bank deposits, bills of exchange and promissory notes)	**1,245**	497
Cash and cash equivalents	**1,550**	914
Reconciliation to the cash flow statement		
Bank overdraft	**(17)**	(5)
Cash and cash equivalents included in assets classified as held for sale (refer note 9)	**115**	-
Cash and cash equivalents in the cash flow statement	**1,648**	909

Acquisitions

During the half-year ended 31 December 2009 there were no acquisitions made.

Prior year acquisitions

On 9 February 2009, our controlled entity Telstra Octave Holdings Limited acquired 67% of the issued capital of Octave Investments Holdings Limited for a total consideration of $292 million including acquisition costs. Of this consideration, $103 million is deferred and contingent upon the subsidiaries achieving certain pre-determined financial targets for the year ending 31 December 2009, which are subject to audit, and certain non-financial targets to be achieved in the financial year ending 30 June 2011.

On 28 August 2009 we paid $10 million of the deferred consideration balance.

Disposals

	Total disposals Half-year ended 31 December
	2009
	$m
Consideration on disposal	
Cash consideration for disposal	3
Deferred consideration received during the period for prior year disposals	8
Inflow of cash on disposal	11

Universal Publishers

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

Prior year disposals

On 30 April 2009, our controlled entity Telstra Service Solutions Holdings sold its 100% shareholding in KAZ Group Pty Limited and KAZ Technology Services Pty Limited for a total consideration of $205 million (net of cash balances of the disposed entities), with $8 million of this consideration deferred. This deferred consideration was received during the period.

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 2009 are detailed below:

TABLE A

	Telstra Group	
	Half-year ended 31 December	
	2009	2008
	$m	$m
Finance costs		
- interest on borrowings (i)	508	664
- interest on finance leases	5	5
- unwinding of discount on liabilities recognised at present value	8	12
- loss / (gain) on fair value hedges - effective (ii)	28	(146)
- gain on cash flow hedges - ineffective	(1)	(6)
- loss / (gain) on transactions not in a designated hedge relationship or de-designated from fair value hedge relationships (iii)	4	(96)
- other	8	7
	560	440
- less borrowing costs capitalised	(18)	-
	542	440

(i)The period-on-period decrease in interest on borrowings arises from a reduction in the average yield on debt and a marginal reduction in the average volume of debt over the period. The net reduction in interest costs has been somewhat offset by higher interest costs arising from the replacement of short term borrowings with long term debt in the prior period.

The average yield on average net debt during the 6 months to 31 December 2009 was 6.46% (31 December 2008: 7.46%). The reduction in the average yield is principally due to reductions in short term market base interest rates compared to the prior period which resulted in lower costs on the floating rate debt component of our debt portfolio.

The effective yield (effective interest rate) on our net debt at 31 December 2009 was 6.95% (30 June 2009: 6.67%) for the Telstra Group. This yield is a weighted average yield calculated on the interest rates and net debt as at 31 December 2009. It should be noted that these yields are calculated based on interest rates applicable as at balance date.

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

In the prior period, we saw significant volatility in the financial markets which resulted from a deterioration in global economic conditions. As a consequence, our borrowing margins increased significantly with the outcome that unrealised gains of $146 million were recognised in the prior half-year period. In the current half-year, we have seen our borrowing margins contract reflecting an improvement in financial markets, resulting in a partial reversal of previously recognised gains represented by the $28 million loss for the current period.

In addition to a reduction in Telstra's long term borrowing margins, the following factors have also contributed to the net revaluation loss of $28 million:

- An increase in Australian base market rates since 30 June 2009;
- A reduction in the number of future interest flows as we approach maturity of the financial instrument; and
- Discount factor unwinding as the time to maturity shortens.

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

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

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

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

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management (continued)

Gearing and net debt

One measure of our capital structure is the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets and financial liabilities, (including derivative financial instruments) less cash and cash equivalents. Total capital is calculated as equity (as shown in the statement of financial position) plus net debt.

During the half-year ended 31 December 2009, our strategy was to target the net debt gearing ratio within 55 to 75 per cent (30 June 2009: 55 to 75 per cent). The gearing ratios were as follows:

TABLE B	Telstra Group	
	As at	
	31 Dec 2009 $m	30 June 2009 $m
Net debt	**15,240**	15,655
Total equity	**12,745**	12,681
Total capital	**27,985**	28,336
Gearing ratio	**54.5%**	55.2%

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

The following movements occurred in net debt during the six months to 31 December 2009:

TABLE C	Telstra Group	
	Half-year ended 31 December	
	2009 $m	2008 $m
New offshore and domestic loans	**-**	1,342
Net maturities	**(79)**	(876)
Net cash (outflow) / inflow	**(79)**	466
Revaluations affecting cash flow hedging reserve	**(95)**	649
Revaluations affecting foreign currency translation reserve	**(63)**	258
Revaluation gains taken to property, plant and equipment	**-**	(10)
Revaluation losses / (gains) taken to income statement	**50**	(229)
Non-cash revaluation (gains) / losses on gross debt	**(108)**	668
Finance lease additions	**39**	12
Total (reduction) / increase in gross debt	**(148)**	1,146
Net movement in cash, cash equivalents and overdraft	**(267)**	(10)
Total (reduction) / increase in net debt	**(415)**	1,136

There were no new long term debt raisings or long term maturities during the period. Net maturities during the current period relate to short term borrowings, bank deposits with maturities greater than 90 days and finance lease repayments. Our short term borrowings comprise unsecured promissory notes principally to support working capital and short term liquidity, as well as hedging offshore investments.

We have no long-term debt maturities to refinance until March 2010 and June 2010 and our short term unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

As noted in our 30 June 2009 Annual Report, we revised the definition of our net debt to exclude interest bearing receivables which are non-derivative financial instruments comprising finance lease debtors. This has resulted in a restatement of our comparatives in Table C above.

Notes to the Half-Year Financial Statements (continued)

6. Finance costs and capital management (continued)

Cash flow hedging reserve

TABLE D	Telstra Group	
	Half-year ended	
	31 Dec 2009 $m	31 Dec 2008 $m
Opening balance	**93**	164
Changes in fair value of cash flow hedges	**(481)**	570
Changes in fair value transferred to profit for the period	**562**	(1,209)
Changes in fair value transferred to property, plant and equipment	**7**	(10)
	88	(649)
Income tax on movements in the cash flow hedging reserve	**(27)**	195
Closing balance	**154**	(290)

The net increase in our cash flow hedge reserve of $88 million before tax comprises:

- Revaluation losses of $481 million before tax on our cross currency and interest rate swaps hedging future payments on our offshore borrowings in cash flow hedges, and revaluation losses on our forward foreign currency contracts hedging forecast purchases denominated in foreign currency. These revaluation losses represent the effective portion on remeasuring the fair value of these hedging instruments; and
- Transfer to the income statement and plant and equipment of $569 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.

The net revaluation loss of $481 million on our derivatives in cash flow hedges comprises valuation impacts from:

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

Included in the before tax net movement in the cash flow hedge reserve of $88 million is a net reduction in gross debt of $95 million (refer Table C) offset by $7 million realised foreign exchange losses on our forward foreign currency contracts to be allocated against future purchases.

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 we participate in are set out in Note 24 of the 30 June 2009 Annual Financial Report.

(a) Net defined benefit plan asset / liability

The net defined benefit plan liability recognised in the statement of financial position for the current and previous periods is determined as follows:

	Telstra Group		
		As at	
	31 Dec 2009 $m	30 June 2009 $m	31 Dec 2008 $m
Fair value of defined benefit plan assets	**2,557**	2,503	2,697
Present value of the defined benefit obligation	**2,769**	2,847	3,696
Net defined benefit liability before adjustment for contributions tax	**(212)**	(344)	(999)
Adjustment for contributions tax	**(38)**	(62)	(170)
Net defined benefit liability	**(250)**	(406)	(1,169)
Comprising:			
Telstra Superannuation Scheme	**(259)**	(414)	(1,131)
HK CSL Retirement Scheme	**9**	8	(38)
Net defined benefit liability	**(250)**	(406)	(1,169)

(b) Reconciliation of net defined benefit liability

	Telstra Group	
	Half-year ended	
	31 Dec 2009 $m	31 Dec 2008 $m
Net defined benefit (liability)/asset at beginning of period	**(406)**	182
Defined benefit expense - recognised in the income statement	**(127)**	(113)
Actuarial gain/(loss) - recognised directly in equity	**104**	(1,272)
Employer cash contributions	**179**	30
Foreign exchange differences	**-**	4
Net defined benefit liability at end of period	**(250)**	(1,169)

Notes to the Half-Year Financial Statements (continued)

7. Post employment benefits (continued)

(c) Principal actuarial assumptions

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

	Telstra Super		HK CSL Retirement Scheme	
	Half-year ended		Half-year ended	
	31 Dec 2009 %	31 Dec 2008 %	**31 Dec 2009 %**	31 Dec 2008 %
Discount rate	**5.52**	5.5	**3.0**	3.8
Expected rate of return on plan assets	**8.0**	8.0	**6.3**	7.4
Expected rate of increase in future salaries	**2.9 - 4.0**	4.0	**2.0 - 4.0**	4.5

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

	Telstra Super		HK CSL Retirement Scheme	
	As at		As at	
	31 Dec 2009 %	30 Jun 2009 %	**31 Dec 2009 %**	30 Jun 2009 %
Discount rate (i)	**5.65**	5.52	**2.4**	3.0
Expected rate of increase in future salaries	**2.9 - 4.0**	2.9- 4.0	**2.0 - 4.0**	1.0-4.0

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

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

(d) Employer contributions

For the six months to 31 December 2009, the total cash payments made by us in relation to contributions to the Telstra Superannuation Scheme was $245 million (2008: $43 million). This consists of the following:

- Employer cash contributions of $179 million (2008: $30 million);
- Employees pre-tax salary sacrifice contributions of $51 million (2008: $11 million); and
- Payroll tax of $15 million (2008: $2 million).

The average VBI for the quarter ended 31 December 2009 was 84.28% (2008: 91%). 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, including payroll tax, for the year ending 30 June 2010 of $480 million.

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

Notes to the Half-Year Financial Statements (continued)

8. Impairment

Cash generating units

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

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

	Goodwill		**Intangible assets with indefinite useful lives**	
	As at		**As at**	
	31 Dec 2009 $m	30 June 2009 $m	**31 Dec 2009 $m**	30 June 2009 $m
CGUs				
CSL New World Group	**1,048**	1,160	**-**	-
TelstraClear Group	**135**	134	**-**	-
Telstra Europe Group	**81**	93	**-**	-
Sensis Group (a)	**215**	215	**-**	-
Location Navigation (formerly Location Publishing Group)	**14**	15	**10**	10
Adstream Group	**24**	24	**-**	-
SouFun Group (b)	**-**	342	**-**	-
1300 Australia Pty Ltd	**16**	16	**12**	12
Sequel Group	**113**	126	**-**	-
Octave Group	**132**	158	**-**	-
Telstra Entity CGU (c)(d)	**63**	63	**-**	337
	1,841	2,346	**22**	359

(a) Our assessment of the Sensis Group CGU excludes Adstream Group, SouFun Group, Sequel Group and Location Navigation that form part of the Sensis reportable segment. These CGU's are assessed separately.

(b) As discussed in note 9, the SouFun Group has been classified as held for sale as at 31 December 2009. As such, the SouFun Group goodwill balance of $309 million has been reclassified as part of assets classified as held for sale in the statement of financial position.

(c) The Telstra Entity CGU consists of our ubiquitous telecommunications infrastructure network in Australia, excluding the Hybrid Fibre Coaxial cable network (HFC network) that we consider not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications 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.

(d) From 1 July 2009 the Trading Post® mastheads have been assigned a finite life and are being amortised over a period of 5 years. As such, they are no longer subject to impairment testing unless an indication of impairment exists and are therefore excluded from the table above.

Notes to the Half-Year Financial Statements (continued)

8. Impairment (continued)

Impairment testing

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

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

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

	Discount rate (a)		Terminal value growth rate (b)	
	As at		As at	
	31 Dec 2009 %	30 June 2009 %	**31 Dec 2009 %**	30 June 2009 %
CSL New World Group	**11.1**	11.2	**2.0**	2.0
TelstraClear Group	**12.2**	13.0	**3.0**	3.0
Telstra Europe Group	**9.8**	9.5	**3.0**	3.0
Sensis Group	**14.0**	13.0	**3.0**	3.0
Location Navigation	**13.0**	13.9	**3.0**	3.0
Adstream Group	**13.6**	13.2	**3.0**	3.0
SouFun Group (c)	**-**	15.0	**-**	5.0
1300 Australia Group	**13.7**	13.6	**3.0**	3.0
Sequel Group	**17.1**	17.3	**5.0**	5.0
Octave Group	**19.5**	19.5	**5.0**	5.0

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

(b) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs long term performance in their respective markets. Despite recent changes in global economic conditions, the terminal growth rates remain unchanged to reflect the long term outlook of the economies we operate in.

(c) As discussed in note 9, the SouFun Group has been classified as held for sale as at 31 December 2009.

Telstra Entity CGU and HFC Network

Our impairment testing of the Telstra Entity CGU as at 31 December 2009 compares the carrying value of the CGU with its recoverable amount determined using a value in use calculation. We have applied a pre tax discount rate of 14.3% to the cash flow projections of the CGU. The discount rate reflects the market determined, risk adjusted, discount rate which was adjusted for specific risks relating to the CGU. The cash flows have been extrapolated over the weighted average remaining service life of our ubiquitous network of 8.42 years.

The cashflow projections and discount rate used in the impairment testing of the Telstra Entity CGU, and our assessment of the HFC network, are based on Telstra's current operating model. As such, they exclude any potential impact of the proposed National Broadband Network (NBN) and the proposed Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Bill 2009. While Telstra has formalised its Terms of Engagement with NBN Co, many issues still remain to be addressed and no commercial terms have been agreed. Furthermore, the proposed legislation is yet to be passed by the Senate of the Australian Federal Parliament.

Given the significant level of uncertainty that currently exists, the potential impacts of NBN on the Telstra Entity CGU and the HFC network are unknown at this time.

Notes to the Half-Year Financial Statements (continued)

9. Non current assets held for sale

SouFun

On 1 December 2009 the shareholders of SouFun decided to commence a process to prepare SouFun for an offer of the shares in that company to the public in 2010. At that time Telstra announced that we intend to sell down our shareholding as part of the process.

In accordance with AASB 5 "Non-current Assets Held for Sale and Discontinued Operations" the carrying value of assets and liabilities of SouFun have been classified as held for sale. SouFun is included in the Sensis reportable segment in our segment information disclosures in note 4.

10. Contingent liabilities and expenditure commitments

Contingent liabilities

There have been no significant changes from 30 June 2009 to our contingent liabilities other than:

Common law claims

The appeal brought by Seven Network Limited and C7 Pty Limited ('Seven') in the proceedings against us and various other parties as described in Note 23 to our 30 June 2009 Annual Financial Report was dismissed on 2 December 2009 and no further appeal is now possible. The case has now been concluded subject to our recovery of costs for the appeal.

Exchange capping

We have accepted liability in relation to a number of the allegations made by the ACCC in these proceedings. We remain in dispute with the ACCC over the declarations, pecuniary penalties and injunctions sought by the ACCC and the case is proceeding to a hearing on those matters. The case is continuing and is not expected to have a material impact.

Expenditure commitments

There have been no significant changes from 30 June 2009 to our expenditure commitments, apart from a contract entered with Australia Japan Cable Limited for the purchase of international submarine cable capacity and related operations and maintenance charges. This contract gave rise to total new commitments of $259 million.

Notes to the Half-Year Financial Statements (continued)

11. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 31 December 2009 that, in their opinion, has significantly affected or may significantly affect in future years:

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

other than:

Interim dividend

On 11 February 2010, the directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 14 cents per ordinary share, amounting to $1,737 million. The record date for the interim dividend is 26 February 2010 with payment to be made on 26 March 2010. Shares will trade excluding entitlement to the dividends on 22 February 2010.

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 2009.

Directors' Declaration

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

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

(b) in the directors' opinion, the financial statements and notes of the Telstra Group for the half-year ended 31 December 2009, as set out on pages 2 to 22, 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 2009.

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

C B Livingstone

D. Thodey

Catherine B Livingstone AO
Chairman

David I Thodey
Chief Executive Officer and Executive Director

11 February 2010
Melbourne, Australia

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Independent Review 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 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year (the Telstra Group).

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Telstra Group's financial position as at 31 December 2009 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 the Telstra Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(i) giving a true and fair view of the Telstra Group's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and

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

Ernst & Young

Sean C Van Gorp
Partner

11 February 2010
Melbourne, Australia