21 February 2008

Office of the Company Secretary

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Australian Stock Exchange
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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Financial Results for the Half Year ended 31 December 2007

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

1. Appendix 4D – half yearly report;
2. Half year results and operations review – financial highlights;
3. Media release;
4. Half year financial report for the half year ended 31 Dec 2007; and
5. Directors' report.

Telstra's Chief Executive Officer Sol Trujillo and Telstra's Chief Financial Officer John Stanhope will present Telstra's Half Year Results to 31 December 2007 in Sydney. A webcast of the briefings will be available from 9.15 AM AEDT at http://www.telstra.com.au/abouttelstra/investor/calendar_event.cfm?ObjectID=1382 and transcripts will be lodged with the ASX when available.

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

Yours sincerely

C.Elliott

Claire Elliott
Acting Company Secretary

Telstra Corporation Limited
ACN 051 775 556
ABN 33 051 775 556

Telstra Corporation Limited and controlled entities

Appendix 4D

Half-year report

For the half-year ended 31 December 2007

Appendix 4D
Half-year report
31 December 2007
Telstra Corporation Limited
ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2007	2006	Movement	Movement
	$m	$m	$m	%
Extract from the income statement				
Revenue	**12,372**	11,645	727	6.2
Other income (including finance income)	**137**	181	(44)	(24.3)
Profit for the period	**1,942**	1,712	230	13.4
Profit for the period available to Telstra Entity shareholders	**1,926**	1,704	222	13.0

This report is to be read in conjunction with our Annual Financial Report as at 30 June 2007.

During the period we received a $100 million distribution from FOXTEL, which has been recorded in revenue in the Income Statement. Our unrecognised share of losses from FOXTEL as at 31 December 2007, after taking into account this distribution and FOXTEL's results for the period, is $144 million (30 June 2007: $83 million).

Appendix 4D
Half-year report
31 December 2007
Telstra Corporation Limited

Results for announcement to the market (continued)

Dividends per ordinary share to be paid

	Half-year ended 31 December	
	2007	2006
	¢	¢
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 2007 will have a record date of 7 March 2008 with payment to be made on 4 April 2008. Shares will trade excluding entitlement to the dividend on 3 March 2008.

Our final ordinary dividend in respect of the financial year ended 30 June 2007 was provided for and paid during the interim period. The final ordinary dividend had a record date of 24 August 2007 and payment was made on 21 September 2007.

Appendix 4D Half-year ended 31 December 2007

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 2007 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 7: Events after balance date in the 31 December 2007 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 2007

1. Net tangible assets per security

	Telstra Group	
	Half-year ended 31 December	
	2007	2006
	¢	¢
Net tangible assets per security	**45.4**	53.0

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

Entities where control has been gained during the period

- No entities have been acquired during the period.

Entities where control has been lost during the period

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

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

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

Refer to note 5 in the 31 December 2007 half-year financial report lodged with this document for further information.

3. Details of dividend or distribution reinvestment plans in operation

During July 2007 Telstra commenced a Dividend Reinvestment Plan ("DRP"). The last date for the receipt of an election notice for participation in any dividend reinvestment plan in relation to the interim dividend for the half-year ended 31 December 2007 is 7 March 2008. In accordance with the DRP rules, the Company has also determined, as a result of the reduced number of Trading Days which fall after the Record Date, to change the calculation of the allocation price for the DRP for this interim dividend only, being a reduction in the pricing period from 12 days to 11 days. The change is required to allow for sufficient processing time to cater for public holidays.

Appendix 4D

Half-year ended 31 December 2007

4. Details of investments in joint ventures and associated entities

		Telstra Group	
		Ownership interest	
		As at	
		31 Dec	30 June
		2007	2007
Name of entity	**Principal activities**	**%**	%
Jointly controlled entities			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Ltd	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (a)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (b)	Toll free number portability in New Zealand	**33.3**	33.3
3GIS Pty Ltd (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	**10.8**	10.8
m.Net Corporation Limited	Mobile phone content provider	**26.3**	26.3
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	**47.6**	47.6
Telstra Foundation Limited	Charitable trustee organisation	**100.0**	100.0
LinkMe Pty Ltd	Internet recruitment provider	**44.3**	41.3

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

(a) Balance date is 31 December.

(b) Balance date is 31 March.

5. Statement about the audit status

Our financial report for the half-year ended 31 December 2007, has been reviewed by Ernst & Young. It is not subject to review dispute or qualification. Refer to the 31 December 2007 half-year financial report for the independent review report provided to the members of Telstra Corporation Limited.

Telstra Corporation Limited and controlled entities
Results and operations review
Half-year ended 31 December 2007

Results ahead of consensus, operational momentum continues

Results

- **Sales revenue grew by 5.3% or $622 million to $12,252 million**
- **Total income (excl. finance income) grew by 5.8% or $682 million to $12,479 million**
- **Operating expenses (before depreciation and amortisation) grew by 6.2% or $427 million to $7,307 million**
- **EBIT grew by 6.2% or $182 million to $3,120 million**
- **EBIT grew by 1.5% to $2,983 million excluding a $100 million distribution from FOXTEL and $37 million gain on sale of our investment in eBusiness**
- **Profit for the period grew by 13.4% or $230 million to $1,942 million**

- **Accrued capital expenditure of $2,320 million, up 17.5%**
- **Free cashflow increased by 53.6% or $462 million to $1,324 million**
- **Basic earnings per share of 15.6 cents, up 13.0% or 1.8 cents**
- **Interim ordinary dividend of 14 cents per share, fully franked**

- **Mobiles revenue grew by 14.5% or $404 million to $3,186 million**
- **Retail Broadband revenue grew 65.2% or $333 million to $844 million**
- **Sensis sales revenue grew by 7.8% or $69 million to $954 million**
- **PSTN revenue declined by 2.1% or $72 million to $3,391 million**

Half-year results and operations review - December 2007

Financial Highlights

Half-year ended 31 December 2007

Results ahead of consensus, operational momentum continues

Telstra Corporation Limited and its controlled entities (Telstra) reported another strong result across its key products and customer segments for the half-year ended 31 December 2007 as the transformation continues to deliver on its operational and financial objectives. Profit after tax and minorities increased by 13.0% on the prior year to $1,926 million.

Earnings before interest and tax (EBIT) increased by 6.2% to $3,120 million on a reported basis. This result includes a $100 million distribution from FOXTEL[1] and a $37 million gain from the sale of our investment in eBusiness. Excluding these items, EBIT grew by 1.5% to $2,983 million.

Basic earnings per share increased 13.0% from 13.8 cents to 15.6 cents, with diluted earnings per share increasing by 13.1% to 15.5 cents.

Income

Total income grew 5.8% or $682 million in the half to $12,479 million and sales revenue grew 5.3% to $12,252 million. Revenue growth was strong across all products including mobiles, broadband, Sensis, and IP & data access, while the decline in PSTN revenue continued to slow and defy the trends of our global peers. See page 14 for full details. Total income benefited from an additional combined $137 million relating to the FOXTEL distribution and sale of eBusiness as highlighted above. Excluding these items, total income grew by 4.6%.

Mobiles was one of the main contributors to overall sales revenue growth with total mobile revenue growing 14.5% in the half to $3,186 million. Mobile services revenue grew 12.5% to $2,727 million with an increase in our share of market revenues. The total 3GSM subscribers at the end of the half were 3.3 million or 35.4% of the base which represents an increase in subscribers of 64.5% since June 2007.

Mobile data, a key contributor to mobile revenue growth, was up 46.1% in the half to $716 million. Wireless broadband and data pack revenue continues to drive the strong performance in mobile data growing 158.6% to $249 million. During the half, a further 136k wireless broadband subscribers (high value data packs $29 and above) were added to take the total wireless broadband subscribers (excluding low end browser packs) to 464k. Wireless Broadband subscribers constituted 15% of 3GSM subscribers and had an ARPU of approximately $90 per month.

Retail broadband was the major driver of internet revenues, up 65.2% to $844 million in the half. Retail broadband subscribers (including wireless broadband subscribers and data packs) increased 50.5% or 955k to 2.845 million. Despite the competitive environment, we were able to grow our retail broadband market share by a further percentage point in the half to 48% and ARPU by 6.8% to $53.57 per month as we increased the percentage of subscribers on higher value "Liberty" plans.

Sensis grew its sales revenue by 7.8% in the half to $954 million with the Yellow™ and White Pages® directories and emerging businesses all delivering strong results. Yellow™ revenue increased 3.2% to $543 million with print revenues returning to growth and Yellow™ online revenue up 21.5%, while White Pages® directories revenue grew over 10% to $161 million. SouFun's unaudited revenue grew by 79.2%.

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

Half-year results and operations review - December 2007

The PSTN revenue decline slowed to 2.1% in the half, the 4th consecutive half the PSTN revenue decline has slowed. PSTN revenue was $3,391 million and accounted for 27.7% of total sales revenue down from 32.2% two years ago. Our market-based management led initiatives such as subscription based pricing plans across both our consumer and business segments and win-backs from our competitors have helped retail lines grow 49k in the half. Total PSTN line loss was 202k or 3% of total lines as we see PSTN line loss to ULL services. At the end of the half there were 473k customers on HomeLine® subscription pricing plans, an increase of 30% from 30 June 2007.

IP & data access revenue grew by 8.3% or $66 million to $857 million. This was driven by growth of 40% or $72 million in IP access revenue.

Expenses

Total expenses (before interest and tax) grew by 5.6% to $9,359 million in the half. Expense growth was linked to transformation related activity, including higher redundancy, CDMA migration, strong growth in mobile and broadband volumes which increased cost of goods sold, and impairment charges relating to bad and doubtful debts and inventory write downs. Operating expenses (before depreciation and amortisation) increased 6.2% to $7,307 million. See page 34 for full details.

Labour (excluding redundancy) decreased 1% to $1,926 million. Redundancy costs increased to $166 million in the half with the planned redundancies, mainly in the operations area, being brought forward into the first half. The total workforce FTEs (excluding acquisition impacts) declined a further 1,768 to take the total workforce reduction since the beginning of the transformation to 7,875. Total labour expenses (including redundancy) increased 4.8% to $2,092 million.

Goods and services purchased increased by 4.3% to $2,676 million. The increase was driven largely by a 22.1% or $135 million increase in cost of goods sold (other than subsidy costs) associated with higher mobile and broadband volumes in the half. Offsetting this increase was lower subscriber acquisition and re-contracting costs (SARCs). For the half the blended SARC was $150, down from $175 in the prior corresponding period. Of note, was that the growth in these variable costs was below revenue growth.

Other expenses increased 9.5% to $2,539 million. IT related transformation costs pushed service contracts and other agreements (SCA) higher as the IT transformation continues. IT hardware/software costs also drove general and administrative expenses higher. Increased bad and doubtful debts driven by higher mobiles and broadband revenues and stock write-downs caused impairment costs to increase.

Depreciation and amortisation increased 3.7% to $2,052 million. The large transformation capital expenditure spend in the last fiscal year on the Next G™ and Next IP™ networks along with higher spend on IT systems contributed to a 6.7% increase in depreciation.

At the end of the half, $169 million of the $427 million redundancy and restructuring (R&R) provision raised in fiscal 2006 remains.

Net finance costs decreased by 3.8% to $500 million, primarily due to a favourable movement in the valuation of our hedging instruments. This has been partially offset by increased borrowing costs associated with higher net debt to meet capital cash demands for our transformation investment and the impact of recent interest rate rises.

Half-year results and operations review - December 2007

Income tax expense has decreased by 4% to $678 million despite the increase in earnings. The effective tax rate of 25.9% is lower than that in the prior corresponding period of 29.2% largely due to tax refunds resulting from amendments to prior period income tax returns and a non-assessable capital distribution from the FOXTEL partnership made during the year.

Transformation

In late October 2007, the first release of the IT transformation went into production and we are in the process of migrating more than 5 million customers across to the new billing systems - a procedure that is aimed to be completed before the end of this fiscal year. The second release - or TR2 - is scheduled to be in production by the end of this calendar year.

During the half, we expanded our world-leading Next G™ national wireless broadband network by a further 300 base stations to take the total base stations to 6,400. Our coverage now extends to 99% of the Australian population and more than 2 million square kilometres, making it the largest and most advanced national 3GSM wireless broadband network in the world.

In September 2007 we launched 7.2 Mbps peak download speed rated and 1.9 Mbps upload peak speed wireless data cards and in November 2007 we launched handsets which are also 7.2 Mbps download peak speed capable [1].

The transformation extends beyond building new networks or IT systems; it also includes our retail operations. In November 2007 we opened our first interactive T[life]™ concept retail store in Sydney. At the same time, we opened the state-of-the-art Telstra Experience Centre. The Experience Centre is dedicated to giving business and government customers a hands-on experience using Telstra's products and technologies.

CDMA

In January 2008, the Minister for Broadband, Communications and the Digital Economy announced the postponement of the closure of the CDMA network for 3 months. The closure is now scheduled for 28 April 2008, subject to approval from the Minister. The Minister agreed with ACMA that the Next G™ footprint was equivalent to the CDMA network but raised issues with devices. Telstra accepts the Minister's decision and is committed to assisting the remaining CDMA customers to make the transition to the Next G™ network and choose the right device for their needs. We have introduced a series of measures to make the transition easier for CDMA customers including a dedicated 1800 hotline, appointment of customer advocates and a proactive mobile performance health check program.

Segments

Our business is organised on a customer segmented basis, and we use our unique customer knowledge to improve the customer experience, loyalty and revenues. The retail business units[2] performed strongly across the key products in the half, with retail revenue growing 7%.

Telstra Consumer Marketing and Channels (TC&C) sales revenue grew 8.5% in the half and EBIT contribution was up 8.9%. Within TC&C, mobile revenue grew strongly at 11.4% and there are now nearly 2.4 million 3GSM subscribers. Consumer PSTN revenue growth was 1.2% - the 8th consecutive month of positive PSTN revenue growth. Consumer Internet revenue grew 45.6% driven by ADSL and wireless broadband.

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1. *Peak network download and upload speed. Actual speeds are less and vary due to congestion, distance from base station, local conditions, hardware, software and other conditions.*
2. *Retail business units include Telstra Consumer Marketing and Channels, Telstra Business and Telstra Enterprise and Government.*

Half-year results and operations review - December 2007

Telstra Business (TB) sales revenue increased 9.3% in the half with Business mobile subscribers up 15.9% and 50.5% of Business mobile subscribers now on 3GSM. TB fixed revenue grew 0.8% helped by market based management activities.

Telstra Enterprise and Government (TE&G) sales revenue grew 4.5%. Mobiles growth was strong in the half with mobile subscribers up 20% and total mobiles revenue up 24.2%. Non-SMS mobile data revenue grew 74% and now represents 29% of enterprise and government mobile service revenues. Data and IP access revenue grew by 6.3%, driven by strong demand for access services, which grew by over 28% on the prior corresponding period.

Our strategies of market-based management, product integration and value pricing are all contributing to the strong segment performance.

See page 10 for full details.

Cash flow

Operating cash flow less investing cash flow (free cash flow) increased by 53.6% to $1,324 million for the half-year ended 31 December 2007. This result was driven by an increase in net cash from operating activities driven by strong revenue performance offset by higher cash used in investing activities primarily associated with higher IT transformation spend. See page 51 for full details.

Capital expenditure

Accrued capital expenditure for the half increased 17.5% to $2,320 million. With the transformation focus now shifting to the IT environment, IT capital expenditure increased $328 million and was the largest contributor to the increase in accrued capital expenditure. Transmission capital expenditure increased $108 million as we increase international capacity via the construction of the Sydney to Hawaii cable (as announced in March 2007) and purchase additional international capacity. Offsetting these increases was a 14.2% decrease in wireless access and a 13.1% decrease in network core capital expenditure after the successful roll out of the Telstra Next G® and Telstra Next IP® networks in fiscal 2007.

See page 49 for full details.

Treasury operations

Telstra's financial position remains strong with current long-term credit ratings as of December 2007 of A, A2 and A from S&P, Moody's and Fitch respectively. S&P and Moody’s have Telstra on a "negative outlook" and Fitch has provided a “stable outlook” with major factors being uncertainty surrounding the regulatory environment, intensifying competition, technological advances, PSTN revenue declines and risk associated with the company transformation.

The net debt position was $15,464 million, a $1,131 million increase on the equivalent balance at 31 December 2006, largely driven by lower net cash produced from the ongoing operations of the business and the higher capital cash demands from our transformation investment. The balance sheet continues to have strong capital settings.

Half-year results and operations review - December 2007

Dividend

A fully franked interim ordinary dividend of 14 cents per share will be paid on 4 April 2008, representing a total payment of $1,740 million. Telstra shares will commence trading excluding entitlement to the dividend on 3 March 2008 and the record date will be 7 March 2008.

In accordance with the Dividend Reinvestment Plan (DRP) rules, the company also determined, as a result of the reduced number of Trading Days which fall after Record Date, to change the calculation of the allocation price for the DRP for this interim dividend only, being a reduction in the pricing period from 12 days to 11 days. The change is required to allow sufficient processing time to cater for the public holidays.

Outlook

Telstra's transformation is delivering strong operational and financial performance across all areas of the business.

We've continued to accelerate the top line despite strong price competition. This momentum has continued into the second half. Our integrated and innovative value-based offers are winning in the market.

As a result we remain confident in the outlook for the business and raise previous fiscal 2008 guidance. We now expect total reported revenue growth of 3% to 4%, EBITDA growth of 4% to 5% and EBIT growth of 6% to 8%. We continue to forecast total accrued capex in FY08 of $4.6b - 4.9b.

We are also starting to see productivity improvements flow through at the expense line. Transformation benefits will grow in time driven by reduced systems complexity and lower headcount.

Our long term management objectives remain unchanged and will be reviewed at the full year announcement.

For enquiries on these results contact:

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Telstra Corporation Limited

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Half-year results and operations review - December 2007

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Half-year results and operations review - December 2007

Summary financial information

Results of operations

Results of operations

	Half-year ended 31 December			
	2007 **$m**	2006 $m	Change $m	**2007/2006** (% change)
Sales revenue	**12,252**	11,630	622	**5.3%**
Other revenue	**120**	15	105	**700.0%**
Total revenue	**12,372**	11,645	727	**6.2%**
Other income	**107**	152	(45)	**(29.6%)**
Total income (excl. finance income)	**12,479**	11,797	682	**5.8%**
Labour	**2,092**	1,996	96	**4.8%**
Goods and services purchased	**2,676**	2,566	110	**4.3%**
Other expenses	**2,539**	2,318	221	**9.5%**
Operating expenses	**7,307**	6,880	427	**6.2%**
Share of net losses from jointly controlled and associated entities	**-**	1	(1)	**(100.0%)**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**5,172**	4,916	256	**5.2%**
Depreciation and amortisation	**2,052**	1,978	74	**3.7%**
Earnings before interest and income tax expense (EBIT)	**3,120**	2,938	182	**6.2%**
Net finance costs	**500**	520	(20)	**(3.8%)**
Profit before income tax expense	**2,620**	2,418	202	**8.4%**
Income tax expense	**678**	706	(28)	**(4.0%)**
Profit for the period	**1,942**	1,712	230	**13.4%**
Attributable to:				
Equity holders of the Telstra Entity	**1,926**	1,704	222	**13.0%**
Minority interest	**16**	8	8	**100.0%**
	1,942	1,712	230	**13.4%**
Effective tax rate	**25.9%**	29.2%		**(3.3)**
EBITDA margin on sales revenue	**42.2%**	42.3%		**(0.1)**
EBIT margin on sales revenue	**25.5%**	25.3%		**0.2**
	cents	cents	Change cents	**% change**
Basic earnings per share (i)	**15.6**	13.8	1.8	**13.0%**
Diluted earnings per share (i)	**15.5**	13.7	1.8	**13.1%**
Dividends:				
Interim dividend	**14.0**	14.0		

(i) 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.

Half-year results and operations review - December 2007

Statement of financial position

Statement of financial position

	As at 31 Dec 07 $m	30 Jun 07 $m	Change $m	2007/2006 (% change)
Current assets				
Cash and cash equivalents	**931**	823	108	**13.1%**
Trade and other receivables	**4,077**	3,891	186	**4.8%**
Inventories	**391**	318	73	**23.0%**
Derivative financial assets	**59**	41	18	**43.9%**
Prepayments	**237**	266	(29)	**(10.9%)**
Total current assets	**5,695**	5,339	356	**6.7%**
Non current assets				
Trade and other receivables	**197**	190	7	**3.7%**
Inventories	**17**	17	-	**0.0%**
Investments	**18**	19	(1)	**(5.3%)**
Property, plant and equipment	**24,436**	24,607	(171)	**(0.7%)**
Intangibles	**6,899**	6,639	260	**3.9%**
Deferred tax assets	**-**	1	(1)	**(100.0%)**
Derivative financial assets	**485**	249	236	**94.8%**
Defined benefit assets	**832**	814	18	**2.2%**
Total non current assets	**32,884**	32,536	348	**1.1%**
Total assets	**38,579**	37,875	704	**1.9%**
Current liabilities				
Trade and other payables	**3,593**	4,221	(628)	**(14.9%)**
Borrowings	**3,652**	2,743	909	**33.1%**
Current tax liabilities	**297**	449	(152)	**(33.9%)**
Provisions	**642**	614	28	**4.6%**
Derivative financial liabilities	**156**	177	(21)	**(11.9%)**
Revenue received in advance	**1,284**	1,230	54	**4.4%**
Total current liabilities	**9,624**	9,434	190	**2.0%**
Non current liabilities				
Trade and other payables	**187**	195	(8)	**(4.1%)**
Borrowings	**12,363**	11,619	744	**6.4%**
Deferred tax liabilities	**1,539**	1,513	26	**1.7%**
Provisions	**783**	834	(51)	**(6.1%)**
Derivative financial liabilities	**932**	1,328	(396)	**(29.8%)**
Revenue received in advance	**390**	372	18	**4.8%**
Total non current liabilities	**16,194**	15,861	333	**2.1%**
Total liabilities	**25,818**	25,295	523	**2.1%**
Net assets	**12,761**	12,580	181	**1.4%**
Equity				
Equity available to Telstra entity shareholders	**12,544**	**12,329**	215	**1.7%**
Minority interest	**217**	251	(34)	**(13.5%)**
Total equity	**12,761**	12,580	181	**1.4%**
Gross debt	**16,420**	15,440	980	**6.3%**
Net debt	**15,464**	14,586	878	**6.0%**
EBITDA interest cover (times)	**10.3**	9.1	1.2	**13.2%**
Net debt to EBITDA - annualised	**1.5**	1.5	0.0	**0.0%**
Return on average assets	**16.7%**	15.9%		**0.8**
Return on average equity	**31.0%**	26.1%		**4.9**
Return on average investment	**22.5%**	21.8%		**0.7**
Net debt to capitalisation	**54.8%**	53.7%		**1.1**

Half-year results and operations review - December 2007

Cash flow summary

Statement of Cash flows

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	**(% change)**
Receipts from customers (inclusive of goods and services tax GST)	**13,522**	12,736	786	**6.2%**
Payments to suppliers and employees (inclusive of GST)	**(8,474)**	(8,339)	(135)	**1.6%**
Net cash generated by operations	**5,048**	4,397	651	**14.8%**
Income taxes paid	**(891)**	(966)	75	**(7.8%)**
Net cash provided by operating activities	**4,157**	3,431	726	**21.2%**
Payments for property, plant and equipment	**(2,268)**	(2,132)	(136)	**6.4%**
Payments for intangible assets	**(742)**	(395)	(347)	**87.8%**
Capital expenditure (before investments)	**(3,010)**	**(2,527)**	**(483)**	**19.1%**
Investment in shares in controlled entities (net of cash acquired)	**-**	(314)	314	**(100.0%)**
Adjustment to net proceeds from CSL New World Mobility Group merger	**-**	(21)	21	**(100.0%)**
Payments for other investments	**(1)**	(2)	1	**(50.0%)**
Total capital expenditure	**(3,011)**	**(2,864)**	**(147)**	**5.1%**
Distribution received	**100**	-	100	**100.0%**
Interest Received	**30**	30	-	**0.0%**
Proceeds from finance lease principal amounts	**28**	18	10	**55.6%**
Proceeds from sale of property, plant and equipment	**19**	25	(6)	**(24.0%)**
Proceeds from sale of shares in controlled entities (net of cash disposed)	**1**	222	(221)	**(99.5%)**
Net cash used in investing activities	**(2,833)**	(2,569)	(264)	**10.3%**
Operating cash flows less investing cash flows	**1,324**	862	462	**53.6%**
Proceeds from borrowings	**3,746**	2,810	936	**33.3%**
Proceeds from Telstra bonds and domestic loans	**-**	373	(373)	**(100.0%)**
Repayment of borrowings	**(2,489)**	(1,987)	(502)	**25.3%**
Repayment of finance lease principal amounts	**(10)**	(17)	7	**(41.2%)**
Staff repayments of share loans	**8**	11	(3)	**(27.3%)**
Purchase of shares for employee share plans	**(129)**	-	(129)	**-**
Finance costs paid	**(583)**	(540)	(43)	**8.0%**
Dividends paid to company's shareholders	**(1,740)**	(1,739)	(1)	**0.1%**
Dividends paid to minority interests	**(18)**	-	(18)	**-**
Net cash used in financing activities	**(1,215)**	(1,089)	(126)	**11.6%**
Net increase/(decrease) in cash and cash equivalent	**109**	**(227)**	336	**(148.0%)**
Cash and cash equivalent at the beginning of the period	**823**	**689**	134	**19.4%**
Effect of exchange rate changes on cash and cash equivalent	**(1)**	**(5)**	4	**(80.0%)**
Cash and cash equivalents at the end of the period	**931**	457	474	**103.7%**

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Segment information

Segment information (i)

	Total Income			EBIT Contribution		
	Half-year ended 31 December			Half-year ended 31 December		
	2007	2006	Change	**2007**	2006	Change
	$m	$m	%	**$m**	$m	%
Telstra Consumer Marketing and Channels	**5,054**	4,707	**7.4%**	**3,194**	2,933	**8.9%**
Telstra Business	**1,815**	1,658	**9.5%**	**1,297**	1,209	**7.3%**
Telstra Enterprise and Government	**2,291**	2,194	**4.4%**	**1,353**	1,247	**8.5%**
Telstra Wholesale	**1,263**	1,330	**(5.0%)**	**1,235**	1,298	**(4.9%)**
Telstra Operations	**135**	130	**3.8%**	**(2,001)**	(1,968)	**1.7%**
Sensis	**953**	886	**7.6%**	**390**	390	**0.0%**
CSL New World	**485**	519	**(6.6%)**	**44**	35	**25.7%**
Telstra Clear	**287**	287	**0.0%**	**(12)**	(20)	**(40.0%)**
Other	**58**	34	**70.6%**	**(2,515)**	(2,234)	**12.6%**
Total Telstra	**12,341**	11,745	**5.1%**	**2,985**	2,890	**3.3%**

(i) As detailed in our half-year financial statements, we have early adopted AASB 8 "Operating Segments" for the half-year ended 31 December 2007. Under this new standard, we now report our segment information on the same basis as our internal management reporting structure. This is different to prior reporting periods where certain adjustments and reallocations were made to our internal reporting structure pursuant to requirements of the applicable segment standard.

The total company segment results as shown above differ to the total Telstra financial results. Internally, we monitor our segment performance excluding the impact of non repetitive revenue and expense items such as sales of businesses, investments, and land and buildings, impairment write offs, and in the current half, the impact of the FOXTEL distribution. The Telstra financial result for the half-year ending 31 December 2007 for total income is $12,479 million whilst the total Telstra EBIT is $3,120 million compared with the above.

When assessing the results of our business segments, it is important to note that we do not monitor the results of the business units on a fully allocated basis. Of particular note is that Telstra Operations includes the costs associated with the operation of the majority of our networks and IT costs associated with the supply and delivery of solutions to support our range of products and services. Depreciation and amortisation costs associated with the Telstra entity's fixed assets are also recorded centrally in the corporate centre (included in the "other" category above).

Further details about the performance of our business segments follows:

Telstra Consumer Marketing and Channels

Our consumer segment results have been strong for the half with 7.4% growth in total income, 8.5% growth in sales revenues and 8.9% growth in EBIT contribution.

Sales growth has been led by impressive results in PSTN where we have seen 1.2% growth year on year and an increase in basic access SIOs by 0.5% as the retail business has won back customers from the wholesale business. Total mobiles revenues have grown by 11.4% with services revenue growing 9.0% due to the increased customer take up of our Next G™ offering. Consumer now has nearly 2.4 million 3GSM subscribers which makes up 34.2% of the total consumer base. Internet revenues have also grown by 45.6% driven by 57.5% growth in broadband revenues as ADSL and wireless broadband continue to add subscribers.

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Total external costs for consumer have increased on the prior corresponding half by 4.8%. This has primarily been driven by higher service contractor costs associated with higher volumes of traffic relating to sales activity and CDMA migration. The consumer business has also incurred higher service fees associated with incremental pay TV bundling revenues and higher promotions and advertising costs offset by lower labour costs. Cost of goods sold has decreased half on half due to lower volumes of handsets subsidised together with a lower subsidy rate offset by higher costs of handsets sold driven by increased activity.

Telstra Business

Our business segment has also shown strong growth with total income growing at 9.5%, sales revenue growth of 9.3% and EBIT contribution growth of 7.3%.

Whilst total PSTN revenues declined by 1.8%, Telstra Business experienced 0.9% growth in basic access SIOs and 0.8% growth in total fixed revenues. Of particular note though has been the growth rates in the mobile business which has seen total mobiles revenue grow by 23.3% and services revenue increase by 21.7% as customers move to our Next G™ network. 3GSM subscribers now represent 50.5% of the total SIO base in the business segment.

Growth in broadband revenues and IP & data access revenues have also been strong increasing by 55.2% and 21.5% respectively driven by continued growth in customers, and in the former strong growth in wireless data.

Total external expenses in Telstra Business grew by 15.5% on the prior corresponding half with increases across all major expense categories as this business segment has continued to establish itself as a more recently formed operational unit within the company.

Telstra Enterprise and Government

Our enterprise and government segment has shown improved growth with total income growing 4.4%, sales revenue growing 4.5% and EBIT contribution growth of 8.5%.

Similarly to the Telstra Business segment, Telstra Enterprise and Government has also experienced strong growth rates in both mobiles and broadband with total mobiles revenues growing by 24.2% and broadband growing at 93.8%. PSTN revenues continue to decline but also at a reducing rate from that experienced in recent reporting periods.

Of particular note though in this segment is the accelerating revenue growth in our data and IP access revenues since the launch of our Next IP™ network. Revenue growth for enterprise and government was 6.3% as customers move from our traditional specialised data products to our new IP access products. Business services and applications revenues within this segment have also grown in this half-year after experiencing declines in the prior fiscal year.

Overall expenses in the enterprise and government segment decreased from the prior half-year driven by lower labour costs offset by higher goods and services purchased, particularly cost of goods sold. Labour costs have decreased as we have taken staff out of the business, specifically after a review of services offerings, whilst cost of goods sold increased due to higher mobile activity and the cost of sale associated with the one off sale of leased assets.

Telstra Wholesale

Our Telstra Wholesale business unit results have declined from the prior half with total income decreasing by 5.1%, sales revenue declining by 4.6% and a decline in EBIT of 4.9%.

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Total income has reduced primarily driven by fixed revenues, and particularly basic access where there has been a 15.1% revenue decline half on half. The wholesale business is currently being impacted by increased ULL build activity by our competitors reducing the need for our wholesale basic access service. These decreases have not been offset by the higher volumes of ULL and facilities access revenues where low regulatory pricing with backdated determinations has had a significant impact.

Total Wholesale expenses have declined by 14.0% mainly driven by the impact of lower network payments where lower mobile terminating access rates than the prior year have been agreed with wholesale customers. On a segment basis, Telstra Wholesale holds the impact of price variances year on year whilst the customer facing business units hold the volume impact of this cost category.

Telstra Operations

Telstra Operations has experienced a 1.7% decline in EBIT contribution for the period driven by higher other expenses offset by lower labour costs.

The other expense category for Telstra Operations increased by 4.4% from the prior half primarily driven by higher IT professional service costs as we proceed through the first and second stages of our IT transformation program. This was offset by lower service contract expenses across a number of program areas including improved efficiency in field productivity and lower build activity in our 3GIS partnership.

Labour costs decreased by 3.3% as we have focussed on taking staff out of the business as transformation initiatives continue to take place. Since 30 June 2007, full time equivalent staff, contractors and agency staff have reduced within Telstra Operations by 1,145 from initiatives such as rationalising the number of depots.

Sensis, CSL NewWorld and Telstra Clear

Refer to more detailed discussion in the major subsidiaries section within this document.

Other

Our other segment primarily includes the Corporate centre functions of our business where we recognise the depreciation and amortisation on fixed assets and redundancy expense for the Telstra Entity. Refer to the detailed discussion on these expense categories throughout the half-year results and operations review.

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Statistical data summary

Statistical data summary (i)

	Half-year ended 31 December				Year ended 30 June		
	2007 $m	2006 $m	Change	Change %	2007 $m	Change	Change %
Fixed telephony statistical data							
Basic access lines in service (in millions)							
Residential	**5.53**	5.50	0.03	**0.5%**	5.56	(0.03)	**(0.5%)**
Business	**2.29**	2.24	0.05	**2.2%**	2.22	0.07	**3.2%**
Total retail customers	**7.82**	7.74	0.08	**1.0%**	7.78	0.04	**0.5%**
Domestic wholesale	**1.73**	2.12	(0.39)	**(18.4%)**	1.98	(0.25)	**(12.6%)**
Total basic access lines in services (in millions)	**9.55**	9.86	(0.31)	**(3.1%)**	9.76	(0.21)	**(2.2%)**
Billable traffic data (in millions)							
Local calls (number of calls)	**2,991**	3,390	(399)	**(11.8%)**			
National long distance minutes	**3,530**	3,594	(64)	**(1.8%)**			
Fixed to mobile minutes	**1,714**	1,696	18	**1.1%**			
International direct minutes	**273**	264	9	**3.4%**			
ISDN access (basic lines equivalents) (in thousands)	**1,204**	1,226	(22)	**(1.8%)**	1,172	32	**2.7%**
Mobile services in operation (in thousands)	**9,319**	8,892	427	**4.8%**	9,212	107	**1.2%**
3 GSM mobile subscribers	**3,295**	1,024	2,271	**221.8%**	2,003	1,292	**64.5%**
Total wholesale mobile SIOs (in thousands)	**71**	129	(58)	**(45.0%)**	131	(60)	**(45.8%)**
Billable traffic data (in millions)							
Mobile voice telephone minutes	**4,919**	4,147	772	**18.6%**			
Number of short messaging service (SMS) sent	**3,224**	2,227	997	**44.8%**			
Internet statistical data							
Online subscribers (in thousands)							
Broadband subscribers - retail	**2,845**	1,890	955	**50.5%**	2,406	439	**18.2%**
Broadband subscribers - wholesale	**1,753**	1,622	131	**8.1%**	1,762	(9)	**(0.5%)**
Total broadband subscribers	**4,598**	3,512	1,086	**30.9%**	4,168	430	**10.3%**
Narrowband subscribers	**595**	819	(224)	**(27.4%)**	654	(59)	**(9.0%)**
Total online subscribers (in thousands)	**5,193**	4,331	862	**19.9%**	4,822	371	**7.7%**
Unbundled Local Loop Subscribers (in thousands)	**391**	163	228	**139.9%**	239	152	**63.6%**
Spectrum Share Service Subscribers (in thousands)	**377**	230	147	**63.9%**	304	73	**24.0%**
Total FOXTEL subscribers (exc wholesale) (in thousands)	**1,331**	1,183	148	**12.5%**	1,265	66	**5.2%**
Employee data							
Domestic full time staff	**34,236**	36,184	(1,948)	**(5.4%)**			
Full time staff and equivalents	**42,308**	43,989	(1,681)	**(3.8%)**			
Total workforce	**46,561**	48,991	(2,430)	**(5.0%)**			

(i) Refer detail of data included in each product section.
(ii) The movement in mobile SIOs includes the disconnection of 252k inactive prepaid customers in July that were flagged as at 30 June 2007.

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Income

Income

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Fixed telephony				
Basic access	**1,657**	1,663	(6)	**(0.4%)**
Local calls	**388**	432	(44)	**(10.2%)**
PSTN value added services	**134**	125	9	**7.2%**
National long distance calls	**385**	408	(23)	**(5.6%)**
Fixed to mobile	**615**	608	7	**1.2%**
International direct	**92**	94	(2)	**(2.1%)**
Fixed interconnection	**120**	133	(13)	**(9.8%)**
Total PSTN products	**3,391**	3,463	(72)	**(2.1%)**
ISDN products	**495**	517	(22)	**(4.3%)**
Premium calling products	**220**	220	-	**0.0%**
Payphones	**36**	44	(8)	**(18.2%)**
Customer premises equipment	**180**	154	26	**16.9%**
Intercarrier access services	**114**	91	23	**25.3%**
Other fixed telephony	**100**	110	(10)	**(9.1%)**
Total fixed telephony	**4,536**	4,599	(63)	**(1.4%)**
Mobiles				
Mobile services - retail and interconnection	**2,701**	2,399	302	**12.6%**
Mobile services - wholesale	**26**	26	-	**0.0%**
Total mobile services	**2,727**	2,425	302	**12.5%**
Mobile handsets	**459**	357	102	**28.6%**
Total mobiles	**3,186**	2,782	404	**14.5%**
Internet				
Narrowband	**52**	79	(27)	**(34.2%)**
Retail broadband	**844**	511	333	**65.2%**
Wholesale broadband	**278**	278	-	**0.0%**
Other	**16**	10	6	**60.0%**
Total internet	**1,190**	878	312	**35.5%**
IP & data access				
Internet direct	**73**	62	11	**17.7%**
Specialised data	**350**	377	(27)	**(7.2%)**
Global products	**45**	45	-	**0.0%**
IP access	**252**	180	72	**40.0%**
Wholesale internet & data	**137**	127	10	**7.9%**
Total IP & data access	**857**	791	66	**8.3%**
Business services and applications	**501**	499	2	**0.4%**
Advertising and directories	**948**	879	69	**7.8%**
CSL New World	**485**	519	(34)	**(6.6%)**
TelstraClear	**287**	286	1	**0.3%**
Offshore services revenue	**174**	173	1	**0.6%**
Pay TV bundling	**204**	164	40	**24.4%**
Other minor items	**133**	135	(2)	**(1.5%)**
Elimination for wireless broadband	**(249)**	(75)	(174)	**232.0%**
Sales revenue	**12,252**	11,630	622	**5.3%**
Other revenue	**120**	15	105	**700.0%**
Total revenue	**12,372**	11,645	727	**6.2%**
Other income	**107**	152	(45)	**(29.6%)**
Total income	**12,479**	11,797	682	**5.8%**

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Income Summary

In the following discussion, we analyse revenue for each of our major products and services. The principal areas of revenue growth for the half-year ended 31 December 2007 were:

- mobiles, with revenue growing at a double digit rate driven by strong growth in data revenue, as we continue to gain revenue market share. The growth in our 3GSM customer base, in particular our Next G™ network customers, resulted in non-SMS data revenue exceeding SMS data revenue in the half;

- broadband due to continued customer growth resulting in market share growth of 1 percentage point to 48%. ARPU also increased as the proportion of customers on high value 'liberty' plans continues to grow;

- advertising and directories as there was continued strong online and emerging business growth, together with the return to positive growth of Yellow™ directories print;

- IP and data access where there was increased use of IP services by business customers; and

- pay TV bundling as the number of FOXTEL IQ[1] (FOXTEL's digital interactive service), customers increased and now represents 21.6% of total subscriptions;

partially offset by a decline in:

- PSTN products revenue where the decline continued to slow, with our market-based management initiatives helping drive retail revenue and retail line growth offset by wholesale line losses to ULL services;

- narrowband due to continued migration to broadband;

- specialised data as products enters into mature phase of their product life cycle and customers migrate to IP access products and solutions for their business needs; and

- CSL New World driven by unfavourable foreign exchange impact despite the Hong Kong business growing revenue in local currency.

Our strong revenue growth from next generation products (such as mobiles and broadband) continued in the half, and we continued to slow the decline in our traditional product revenues (such as PSTN). The additional revenue from retail broadband significantly exceeds the revenue lost from the slower PSTN decline, an inflection point many incumbents around the world are yet to reach. Our market-based management initiatives, customer knowledge, value-based pricing, integration of products and services, and world-class networks have helped grow our revenues. This growth is across all our retail business segments as detailed throughout the financial highlights.

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

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Fixed telephony

Fixed telephony

	Half-year ended 31 December			
	2007 $m	2006 $m	Change $m	**2007/2006 (% change)**
PSTN products	**3,391**	3,463	(72)	**(2.1%)**
ISDN products	**495**	517	(22)	**(4.3%)**
Premium calling products	**220**	220	-	**0.0%**
Payphones	**36**	44	(8)	**(18.2%)**
Customer premises equipment	**180**	154	26	**16.9%**
Intercarrier access services	**114**	91	23	**25.3%**
Other fixed telephony	**100**	110	(10)	**(9.1%)**
Total fixed telephony revenue	**4,536**	4,599	(63)	**(1.4%)**

PSTN products

PSTN products

	Half-year ended 31 December			
	2007 $m	2006 $m	Change $m	**2007/2006 (% change)**
Basic access revenue:				
- Retail	**1,331**	1,278	53	**4.1%**
- Domestic wholesale	**326**	385	(59)	**(15.3%)**
Total basic access revenue	**1,657**	1,663	(6)	**(0.4%)**
Local call revenue	**388**	432	(44)	**(10.2%)**
PSTN value added services revenue	**134**	125	9	**7.2%**
National long distance call revenue	**385**	408	(23)	**(5.6%)**
Fixed to mobile revenue	**615**	608	7	**1.2%**
International direct revenue	**92**	94	(2)	**(2.1%)**
Fixed interconnection	**120**	133	(13)	**(9.8%)**
Total PSTN products revenue	**3,391**	3,463	(72)	**(2.1%)**
PSTN retail versus wholesale				
Retail	**2,882**	2,873	9	**0.3%**
Wholesale	**509**	590	(81)	**(13.7%)**
Basic access lines in service (in millions)				
Residential	**5.53**	5.50	0.03	**0.5%**
Business	**2.29**	2.24	0.05	**2.2%**
Total retail	**7.82**	7.74	0.08	**1.0%**
Domestic wholesale	**1.73**	2.12	(0.39)	**(18.4%)**
Total access lines in service	**9.55**	9.86	(0.31)	**(3.1%)**
Average revenue per user per month $'s	**58.51**	58.29	0.22	**0.4%**
Number of local calls (in millions)	**2,991**	3,390	(399)	**(11.8%)**
National long distance minutes (in millions) (i)	**3,530**	3,594	(64)	**(1.8%)**
Fixed to mobile minutes (in millions)	**1,714**	1,696	18	**1.1%**
International direct minutes (in millions)	**273**	264	9	**3.4%**

Note: statistical data represents management's best estimates.

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

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PSTN remains a key component of Telstra's revenues, representing 27.7% of the total revenue as of December 2007. Although this proportion has fallen from 32.2% in the first half of fiscal 2005, it remains an important part of our business where we have seen the mitigation of line loss and a continued slowing of revenue decline during the first half of fiscal 2008.

During the first half-year ending 31 December 2007, our total PSTN products showed an improving half on half decline of 2.1% to $3,391 million compared to the fiscal half ending December 2006 and 2005 which had declines of 5.8% and 7.8% respectively. In our retail PSTN business, we achieved a half on half revenue growth of 0.3%. Throughout the retail segments revenue performance has improved significantly with Consumer contributing growth of 1.2%, Business has contributed a decline of 1.8% and Enterprise and Government a decline of 6.3%. In particular, total retail access lines in service have stopped declining and have actually increased for the first time in many years particularly within the Consumer segment.

In the second half of fiscal 2007, we reported a PSTN decline of 2.5% which included our total fixed to mobile category. We have improved our disclosures this year by splitting the ISDN component of fixed to mobile and including this with the ISDN product category. On an equivalent basis to this disclosure, our PSTN revenue decline would have been 2.9% in the second half of fiscal 2007.

In terms of lines, total services in operation have decreased by 203k or 3.0% of our total base since 30 June 2007. Retail lines have increased in the half by 48k, boosted by:

- continued win-backs from our competitors;
- the success of our subscription price plans; and
- our competitors' reducing off-net customers outside their ULL footprint as they focus on migrating their on-net customer base.

At a wholesale level we continue to see significant PSTN line loss to ULL services. We have lost 251k wholesale access lines since 30 June 2007 which is partially offset by the 152k increase in ULL lines. This loss of wholesale access lines reached 18.4% in the current half, compared with the decline of 0.9% in the half-year ending 2006.

During the first half of fiscal 2008 we have continued to use subscription pricing plan offerings to our PSTN customers, which offer choice and value from the home phone. They include untimed national long distance calls and low or no charge local calls. Overall, these plans have helped our PSTN revenue performance for the current fiscal half, as evidenced by the significantly slowed decline in PSTN revenue and the number of retail access lines increasing marginally. Retail PSTN revenue is now actually increasing and we have reversed the declining trend in fixed to mobile revenue showing growth of 1.2%, compared with a decline of 2.2% during the prior corresponding period. Our PSTN retail churn which turned positive for the first time in fiscal 2007 has remained positive for all of the first half of fiscal 2008. We are also seeing complementary benefits from our significant broadband growth as customers who take up broadband services often remain with us for their fixed line service.

Challenges still exist in the PSTN market. With the exception of fixed to mobile minutes, there has been a general reduction in PSTN volumes, with a reduction across local calls, national long distance calls, international direct calls and fixed interconnection. Offsetting this are yields which have increased in local calls, PSTN value added services and fixed to mobile categories.

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Our revenue from *basic access* services has decreased slightly by 0.4% to $1,657 million. Retail revenues have actually increased by 4.1% from December 2006 whilst the decline has been driven by our Wholesale business as these customers move their resale base to ULL and we continue to win back customers to our Retail business.

The penetration of higher value HomeLine® plans including HomeLine® and BusinessLine® plans has contributed positively by containing and growing retail access lines and generating a fixed amount of return per basic access line. The number of residential services on the HomeLine® subscription based plans is now 364k, representing 6.6% of our residential subscriber base. These plans have contributed to higher rental yield given the higher "subscription" component.

Local call revenue decreased by 10.2% to $388 million, with revenues being negatively impacted by ongoing product substitution from fixed calling to mobile voice calls, SMS and broadband internet, which is accelerated by the take up of capped mobile plans. Substitution of data local calls also continues to occur due to the migration of narrowband internet customers to broadband.

Call volumes have continued to fall with a reduction in calls made by 11.8%, reflecting a reduction of average number of calls per customer and lower total access lines. Call volumes again declined at a faster rate than the decline in the number of lines in service. Call yields have also fallen due to the impact of some subscription based pricing plans which offer free local calls as part of the package, such as HomeLine® Ultimate and HomeLine® Together.

PSTN value added services revenue consists of a range of residential and business call completion and complex products such as MessageBank®, silent lines, calling number display and call return. Our revenue from PSTN value added services increased by 7.2% to $134 million during the fiscal half.

Messaging and call completion products were the main driver increasing by 11.9% to $97 million. Most of the growth is due to Easycall revenue as a result of the continued inclusion of Easycall features as a standard part of higher value subscription based plans such as HomeLine® Ultimate and Longreach. Similarly, call diversion revenue has increased by $3 million due to a price increase in feature rental and connection fees despite a 4.0% decline in SIOs.

Our revenue from *national long distance* calls declined by 5.6% to $385 million during the half-year ended December 2007. The major contribution to the reduction in revenues year on year is a decline in revenue per minute particularly in the Consumer and Business market. This has been impacted by the take up of subscription plans where high value and volume customers have moved to HomeLine® Ultimate or BusinessLine® select to take advantage of cheaper calls and billing certainty. We have also seen reductions in call volumes and call minutes which have contributed to the decline.

We continue to be competitive offering a range of packages assisted by our market based management approach. However, with the strong growth in mobile and internet services in the Australian market, we expect national long distance call revenue to continue to be negatively impacted by ongoing migration of customers to mobile and internet products. As mentioned, the continued growth of subscription pricing plans contributes to the decline in national long distance revenue per minute, but adds value through the positive impact in slowing the decline in the number of basic access services in operations.

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During the reporting period, *fixed-to-mobile* revenue grew marginally by 1.2% to $615 million. This growth is a significant change compared with a decline rate of 2.2% in the prior half-year ending December 2006. This is largely attributable to an increase in per minute yields associated with reward options and subscription plan offerings. We have also seen a continued expansion of mobile services in the Australian market as well as growth in subscription based plans which have helped stop the decline in the retail basic access lines. Average call duration has stimulated the revenue growth despite a slight decline in the minutes of use and volumes.

Our operating revenue from fixed interconnection decreased by 9.8% to $120 million driven mainly by a reduction in volumes whilst yields remained constant half on half. Volume declines are in line with cross company trends in PSTN traffic and have been particularly impacted by migration to mobiles.

ISDN products

ISDN products

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Access revenue	**210**	211	(1)	**(0.5%)**
Data calls	**40**	47	(7)	**(14.9%)**
Voice calls	**113**	124	(11)	**(8.9%)**
Fixed to mobile (i)	**132**	135	(3)	**(2.2%)**
Total calls revenue	**285**	306	(21)	**(6.9%)**
Total ISDN products revenue	**495**	517	(22)	**(4.3%)**
Average revenue per user per month $'s	**69.39**	70.67	(1.28)	**(1.8%)**
ISDN access lines (basic access line equivalents) (in thousands) (ii)	**1,204**	1,226	(22)	**(1.8%)**

Note: statistical data represents management's best estimates.

(i) Fixed to mobile call revenue from ISDN was previously categorised within the PSTN fixed to mobile category.
(ii) Calculated on basic access line equivalents.

ISDN products revenue decreased by 4.3% or $22 million to $495 million for the half-year ended 31 December 2007. ISDN data calls revenue declined by 14.9% or $7 million as customers migrate to alternative products such as ADSL and BDSL. This was partially offset by an improvement in yield due to the retention of higher yielding Xpress pricing plans. Revenue from ISDN voice calls also decreased by 8.9% or $11 million, mainly in local and national calls which decreased due to lower yields as a result of competitive price pressures, as well as product substitution arising from higher mobile and SMS usage.

Half-year results and operations review - December 2007

Other fixed telephony

Other fixed telephony

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	**(% change)**
Premium calling products revenue	**220**	220	-	**0.0%**
Payphone revenue	**36**	44	(8)	**(18.2%)**
Customer premises equipment	**180**	154	26	**16.9%**
Intercarrier access services	**114**	91	23	**25.3%**
Other fixed telephony	**100**	110	(10)	**(9.1%)**
Total other fixed telephony revenue	**650**	619	31	**5.0%**
Unbundled Local Loop SIOs (in thousands)	**391**	**163**	228	**139.9%**

Payphone revenue declined by 18.2% to $36 million in the half-year ended 31 December 2007. This is a result of substitution to other products, particularly prepaid mobile phones and competitors' prepaid calling cards. We also removed a number of low usage phones resulting in a reduction in the number of Telstra owned and operated payphones due to this migration.

Customer premises equipment (CPE) revenue increased by 16.9% or $26 million, mainly driven by growth in enhanced data CPE and fee for services which increased by $13 million and $9 million respectively, offset by a decline in first and extension phones due to ongoing substitution to owned CPE and mobiles. Enhanced CPE products grew in the Business and Enterprise segments with stronger physical sales of PABX phone systems and APRU performance as a result of successful marketing activity and expansion of dealer channels. IP Telephony also contributed to the increased revenue with a once off $5 million equipment sale.

Intercarrier access revenues increased by 25.3% or $23 million, mainly generated by unconditional local loop (ULL) and facility access revenue. ULL revenue increased by $11 million as competitors move to this option. This is reflected by strong SIO growth, increasing by 139.9% from 163k to 391k. This has been offset by regulatory decisions to retrospectively reduce the prices charged for both connection fees and monthly rental. The Australian Competition and Consumer Commission (ACCC) issued a draft final determination to several customers in late June 2007 and a subsequent final determination for one customer in December 2007 backdating pricing. Final determinations for all other customers are pending. Refer to note 6 of the Half-year financial report for details of litigation on these determinations. Provisions relating to backdated connection and access prices have partly offset the revenue impacts of the volume growth experienced. Facilities access revenue grew by $11 million due to other carrier/service providers expanding their infrastructure by using TEBA (Telstra Equipment and Building Access). TEBA sites have increased 38.5% to 3,245 half on half as service providers seek to extend DSL capability and to build their own infrastructure.

Operating revenue from other fixed telephony decreased by 9.1% or $10 million mainly due to a decline in card services, Customnet and spectrum, and Telstra information and connection services. Decreased revenue in these services reflects the substitution to cheaper and more convenient calling products such as mobiles and IP telephony, as well as lower prices offered to customers. As a result of this migration, we have withdrawn the Homelink® 1800 card from the market and sold the related card service.

Half-year results and operations review - December 2007

Mobiles

Since the launch of our Next G™ network in October 2006, Telstra has placed Australia as one of the pioneers of the mobile world - boasting speeds unsurpassed in the world, 98.9% population coverage and superior in-building coverage through the use of 850MHz spectrum. In a short period of time, we have acquired nearly 3.3 million 3GSM customers and continue to see strong double-digit revenue growth in mobile services, driven by postpaid SIO growth, wireless broadband and a sustained like-for-like increase in ARPU when a 2GSM customer migrates to 3GSM.

Our operating revenue from mobiles consists of revenue from access fees and call charges, as well as other services comprising international roaming, mobile MessageBank®, Short message service (SMS) and other mobile data. Mobile data includes mobile wireless broadband products from our HSDPA platforms and the soon to be phased out EVDO platforms, which work off our 3GSM 850 and CDMA networks respectively. Mobiles revenue also includes revenue from the sale of mobile handsets and interconnection charges where calls from other carriers' customers terminate on our network.

Our mobile call charges include all calls made from mobiles including long distance and international calls, but exclude calls made from our fixed network which are classified as fixed to mobile within PSTN, and mobile revenues from CSL NewWorld which are classified separately as controlled entity revenue.

Mobiles

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Access fees and call charges	**1,364**	1,346	18	**1.3%**
International roaming	**197**	157	40	**25.5%**
Mobile messagebank	**132**	110	22	**20.0%**
Mobile data				
- Messaging	**356**	294	62	**21.1%**
- Non messaging (i)	**360**	196	164	**83.7%**
Total mobile data (i)	**716**	490	226	**46.1%**
Total mobile services revenue - retail	**2,409**	2,103	306	**14.6%**
Mobiles interconnection	**292**	296	(4)	**(1.4%)**
	2,701	2,399	302	**12.6%**
Mobile services revenue - wholesale	**26**	26	-	**0.0%**
Total mobile services revenue	**2,727**	2,425	302	**12.5%**
Mobile handset sales	**459**	357	102	**28.6%**
Total mobile revenue	**3,186**	2,782	404	**14.5%**
Mobiles retail versus wholesale revenue				
Retail	3,130	2,733	397	**14.5%**
Wholesale	56	49	7	**14.3%**
Prepaid mobile SIOs (thousands)	**3,489**	3,626	(137)	**(3.8%)**
Postpaid mobile SIOs (thousands)	**5,830**	5,266	564	**10.7%**
Total mobile SIOs (thousands)	**9,319**	8,892	427	**4.8%**
3GSM Postpaid mobile SIOs (thousands)	**3,075**	1,025	2,050	**200.0%**
3GSM Prepaid mobile SIOs (thousands)	**220**	-	220	**n/m**
3GSM Total mobile SIOs (thousands)	**3,295**	1,025	2,271	**221.5%**
Wholesale SIOs (thousands) (included in total SIOs above)	**71**	129	(58)	**(45.0%)**

Half-year results and operations review - December 2007

Mobiles

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Blended average revenue per user (including interconnection)	**48.59**	45.91	2.68	**5.8%**
Prepaid average revenue per user	**12.46**	11.94	0.52	**4.4%**
Postpaid average revenue per user	**62.88**	60.29	2.59	**4.3%**
Data average revenue per user	**12.88**	9.37	3.51	**37.5%**
Number of SMS sent (in millions)	**3,224**	2,227	997	**44.8%**
Mobile voice telephone minutes (in millions)	**4,919**	4,147	772	**18.6%**
Deactivation rate	**13.9%**	10.4%		**3.5**
Note: statistical data represents management's best estimates.				

(i) Includes $249 million of revenue (December 2006: $75 million) relating to wireless broadband services (HSDPA & EVDO) and data packs ($5 to $179).

During the half-year ended 31 December 2007, our reported mobile services in operation growth was 107k. This net position comprised strong postpaid net additions of 315k in the half, whilst our reported prepaid base declined 208k in the period. After adjusting for the 252k prepaid disconnection of inactive customers in July that were flagged at the full year, prepaid services in operation would have reported positive growth in the half. It is important to note that while prepaid deactivations are normal course of business for any mobile operator, we are experiencing unusually high levels at present as we proactively manage down our CDMA subscriber base.

During the half-year ended 31 December 2007, mobiles revenue increased by 14.5% to $3,186 million with services revenue increasing by 12.5% whilst increasing our share of market revenues. This is a significant improvement on recent growth rates which saw services revenue for the prior corresponding period growing at only 6.5%. This growth has been driven by the take up of our Next G™, 3GSM offering and the increasing popularity of data services which saw a 46.1% increase in this revenue stream half on half. Of particular note, non-messaging data revenue exceeded messaging revenue for the period.

Our Next G™ network provides customers with faster speeds, better coverage and access to a greater range of services and content than our older networks. This value-add that Next G™ offers is reflected in a higher total revenue per user of $48.59, representing a growth of 5.8% from the prior corresponding half. Our postpaid average revenue per user has grown by $2.59 driven by $76.34 per month for a 3GSM postpaid service in operation compared with 2GSM postpaid services which is $52.51 per month.

Our mobile business has seen success in all segments of the market in the first half. Our Consumer mobile services revenue has grown by 9.0% year on year. Corresponding growth at Telstra Enterprise & Government and Telstra Business was 19.3% and 21.7% respectively. This growth has been stimulated by the additional revenue received from the new Next G™ network which is a result of both new connections and the migration of customers from our other networks. In addition, there has also been an increase in the volumes of other data devices such as Blackberry[1]'s and PDA's.

1. *Trade mark of Research in Motion Limited*

Half-year results and operations review - December 2007

In November 2005, we announced our intention to close our CDMA network and customers have been progressively migrating to our other networks since this time. The vast majority of CDMA customers have migrated to our Next G™ service. 3GSM customers now amount to 3,295k representing 35.4% of the total customer base and an increase in the proportion by 13.6% since June 2007. Whilst around 60.0% of the customer growth in the current half related to migration from our 2GSM and CDMA customer base, the remaining 40.0% are new connections. Post balance date, the Minister for Broadband Communications and the Digital Economy announced the postponement of closure of the CDMA network. The revised targeted closure date is 28 April 2008 and we will continue to assist customers to make the transition to our Next G™ offering during this time.

For the whole of our mobile business, our access fees and call charges have grown by 1.3% to $1,364 million. Overall, minutes of use have grown by 18.6%, mainly driven by an increase in 3GSM minutes of use of 264.4% offset by a reduction in the 2GSM and CDMA minutes of use of 22.3% and 61.9% respectively as customers move to our Next G™ offering. We have managed to grow this revenue category despite a decline in yield relating to overall access fees and call charges by 17.3% mainly driven by the impact of capped plan offerings.

Total mobile data revenue has grown by 46.1% to $716 million. The non-messaging data revenue growth was 83.7% for the half which remains well in excess of our peer group. Wireless broadband and data pack revenue grew by 232.0% to $249 million mainly driven by strong customer growth where we have seen customers for wireless broadband services (HSDPA & EVDO) and data packs ($5 to $179) increase by 251k since June. Whilst we have seen continued take up of lower value browser packs, we have also seen growth from June of 136k services in operations to 464k for wireless broadband data users on plans $29 and above. In September 2007 we also announced significantly increased speeds available through new wireless broadband turbo cards which are 7.2 Mbps download speed rated and 1.9 Mbps download peak speed capable.

Data-messaging revenue has also grown by 21.1% to $356 million as activity levels for SMS continue to increase. The number of SMS' sent during the half increased by 44.8% compared with the equivalent period in the prior year.

Also contributing to the mobiles services revenue results is international roaming which has grown by 25.5% to $197 million. The revenue growth is mainly driven by outbound services as a result of an increase in the minutes of use from 54 million as of December 2006 to 62 million as of December 2007.

Both the CDMA migration and the success of our Next G™ network have also impacted our handset revenue which has grown by 28.6% to $459 million. Half on half growth is predominantly in the Consumer Business unit ($76 million) with Telstra Enterprise and Government ($16 million) and Telstra Business ($10 million) also contributing. Overall handset volumes sold have increased by 21.0%.

The CDMA migration process has also impacted the number of deactivations, especially in the prepaid space. This has resulted in an increase of the deactivation rate of 3.5% on the prior corresponding period.

Half-year results and operations review - December 2007

Internet

Internet

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Narrowband	**52**	79	(27)	**(34.2%)**
Retail broadband (i)	**844**	511	333	**65.2%**
Wholesale broadband	**278**	278	-	**0.0%**
VAS & content	**16**	10	6	**60.0%**
Total internet revenue	**1,190**	878	312	**35.5%**
Internet retail versus wholesale revenue				
Retail	**912**	600	312	**52.0%**
Wholesale	**278**	278	-	**0.0%**
Broadband subscribers - retail (in thousands) (i)(ii)	**2,845**	1,890	955	**50.5%**
Average broadband retail revenue per subscriber per month $'s (i)	**53.57**	50.14	3.43	**6.8%**
Spectrum Sharing Services (in thousands)	**377**	230	147	**63.9%**
Broadband subscribers - wholesale (in thousands)	**1,753**	1,622	131	**8.1%**
Average broadband wholesale revenue per subscriber per month $'s	**26.33**	30.42	(4.09)	**(13.4%)**
Narrowband subscribers - retail (in thousands)	**595**	819	(224)	**(27.4%)**
Average revenue per narrowband subscriber per month $'s	**14.01**	14.18	(0.17)	**(1.2%)**

Note: statistical data represents management's best estimates.

(i) Prior year figures have been restated to include mobile broadband revenues relating to HSDPA browse packs and telemetry.
(ii) Telstra internet direct (Retail ADSL), Hyperconnect and Symmetrical HDSL are not included in retail broadband revenue and subscriber numbers.

Internet had another very strong half with total revenue up 35.5% to $1,190 million. This was driven primarily by the growth in retail broadband where revenue grew 65.2% to $844 million as a result of strong SIO growth and solid performance in ARPU. As at 31 December 2007, we had approximately 4.6 million broadband customers with over 2.8 million of these being retail customers, representing an increase of 50.5% in retail customers. Whilst the broadband market has grown we have also grown our share with an increase of approximately 1% to 48% from June 2007.

Total internet revenue increased by 45.6% in Consumer, 46.0% in Business and 73.7% in Enterprise.

Retail broadband growth was due to BigPond®'s double success of again growing SIOs and ARPU during the half-year. Retail Broadband SIOs grew by 955k to 2,845k as BigPond® continued to increase its market share of the fast growing retail broadband market. ARPUs also increased as customers migrated to higher value plans which offer higher speeds and more capacity. ADSL, cable and wireless have been the key drivers of the SIO growth, with ADSL increasing by 29.2% to 1,683k subscribers and cable increasing by 15.9% to 357k subscribers. ADSL and cable ARPUs have also increased with increased take-up of premium high speed plans (ADSL2+ plans with speed up to 20Mbps launched in selected areas in November 2006 and Cable Extreme with speed up to 30Mbps launched in September 2007). Cable Extreme plans now account for 15.2% of total cable SIOs and high value ADSL plans have grown to 5.2% of total ADSL SIOs.

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Wireless broadband has been a major contributor to broadband revenue growth with an increase of 232.0% in revenue to $249 million whilst wireless broadband (data users on plans $29 and above) customers increased to 464k (30 June 2007: 328k; 31 December 2006: 195k). Total wireless broadband and data users (including data packs $5 to $179) increased by 208.3% to 785k. Wireless broadband and data continued strong growth driven by the Next G™ network's competitive advantage as customers increased by 530k over the last 12 months. As with ADSL and cable, wireless ARPU has increased as well by 86.3% due to higher usage and more customers moving on to premium high speed plans on the Next G™ network, including our newly introduced turbo cards which are download speed rated to 7.2 Mbps launched in September 2007.

A number of successful promotional campaigns have also stimulated the broadband take up including price/value offers with a combination of free installation costs and initially discounted access fees. Other various sales channel and marketing initiatives have focused on migrating customers towards higher value added plans.

Narrowband revenue for the half-year decreased by 34.2% to $52 million. Home narrowband customers have declined by 25.0% to approximately 513k and business narrowband customers by 39.0% to approximately 82k, with the average monthly ARPU also decreasing by 1.2%. The decline in narrowband revenue highlights the growing impact of dial-up to broadband migration. We expect this trend to continue as demand for higher speed services increase.

Wholesale broadband revenue was stable at $278 million as our competitors moved customers to ULL and LSS. Wholesale DSL internet grade revenue increased by 1.9% to $269 million driven by SIO growth as demand for broadband by wholesale customers continued to grow. However, DSL revenue growth slowed dramatically compared with fiscal 2006 and 2007 as our competitors move to ULL build activity and LSS. Wholesale SIOs, which stood at 1.753 million at 31 December 2007 are up 131k or 8.1% compared with 31 December 2006 but down by 10k since 30 June 2007. We expect this trend to continue with associated revenue declines. Spectrum sharing service SIOs increased by 63.7% to 377k but revenue was lower by 45.4% to $6 million as the impact of reduced LSS prices associated with ACCC determinations took effect.

Value added services (VAS) and content revenue, which is made up of media content, BigPond® webhosting and other services including email spam/virus protection and security increased by 60.0% or $6 million over the half-year. Most of this increase has been generated from webhosting and other services, which is in line with the general increased take up of broadband. Media content includes revenue from movies, games, music and online advertising. We see continued growth across these categories as the customer base and volumes continue to increase.

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IP & data access

IP & data access

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Internet direct	**73**	62	11	**17.7%**
Specialised data:				
- Frame relay	**110**	125	(15)	**(12.0%)**
- ATM	**35**	37	(2)	**(5.4%)**
- Digital data services	**74**	82	(8)	**(9.8%)**
- Leased lines	**108**	114	(6)	**(5.3%)**
- Other specialised data	**23**	19	4	**21.1%**
Total specialised data	**350**	377	(27)	**(7.2%)**
Global products	**45**	45	-	**0.0%**
IP access	**252**	180	72	**40.0%**
Wholesale internet & data	**137**	127	10	**7.9%**
Total IP & data access revenue (i)	**857**	791	66	**8.3%**
Domestic frame access ports (in thousands)	**27**	29	(2)	**(6.9%)**
Internet direct services in operation (in thousands)	**43**	33	10	**30.3%**
Hyperconnect retail services in operation (in thousands)	**21**	17	4	**23.5%**
Symmetrical HDSL services in operation (in thousands)	**19**	14	5	**35.7%**

Note: statistical data represents management's best estimates.

(i) During the half-year ended 31 December 2007, we created a new product revenue category called 'global products'. As a result of this, we have reclassified the entire international portfolio to this revenue category. The balances as of 31 December 2006 have been restated in order to maintain the comparability of half-year data.

IP and data access revenue increased by 8.3% to $857 million. The main driver for revenue growth was the strong performance of our IP access portfolio, especially IP WAN and IP MAN which both increased revenue by 41.5% and 42.8% to $86 million and $106 million respectively. Also contributing to the revenue growth were internet direct and wholesale internet and data. The movement and uplift in this revenue base from more traditional products within specialised data to our next generation IP products is expected to continue as customers take advantage of the improved offering in terms of bandwith, data speeds, scalability and security. The IP and data access revenue growth was offset by specialised data, mainly driven by frame relay which is a product that is at a late stage of its lifecycle reflecting a decrease in the access ports of 6.9% year on year.

IP WAN growth was driven by a 22.8% increase in the number of services in operation. Furthermore, Telstra Business has been able to increase its customer portfolio by 36.0% and Telstra Enterprise and Government by 15.0% indicating increased market share and product penetration. New network capabilities are enticing our customers to the benefits of IP networking and the security and versatility of our Next IP™ offering, as customers make the transition from more traditional access services. Bundled services including access and managed routers are growing strongly, particularly in the small to medium enterprise market using ADSL and BDSL accesses.

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IP MAN services revenue was driven by an increase in services in operation by 36.5% to 12k. These products are next generation data access services providing high-speed IP and ethernet access solution for large to medium corporate enterprises. IP MAN is in the growth phase of its lifecycle and is being particularly driven by our government customer base. Growth in Telstra Business customers has also contributed.

Internet direct revenues were also driven by higher services in operation increasing by 30.3% to 43k. This increase is as result of a bundled business broadband offering launched in November 2006 and a new starter pack introduced in July 2007.

Wholesale internet and data growth was mainly driven by our leased transmissions products which showed a $17 million revenue increase as result of a number of factors including; an increase in end user bandwidth driven by corporate networks and internet usage, internet service provider's growing DSL network coverage, mobile providers requiring additional backhaul to support bandwidth requirements for their 3GSM networks and growth in discount incentives to our customers. This revenue growth was offset by a decline of $10 million in Telstra virtual ISP revenue.

Frame relay is a mature data access product in the decline phase of its lifecycle. Frame access ports have declined by 6.9% and we are also seeing a reduction in yield. The decline is due to the migration of our customers to newer DSL offerings.

Business services and applications

Business services and applications (i)

	Half-year ended 31 December			
	2007 $m	2006 $m	Change $m	**2007/2006 (% change)**
Managed network services	**185**	176	9	**5.1%**
IT services	**213**	242	(29)	**(12.0%)**
Business applications	**61**	57	4	**7.0%**
Managed industrial network services	**42**	24	18	**75.0%**
Total business services and applications revenue	**501**	499	2	**0.4%**

(i) Prior year comparatives have been updated to align with current year product categorisation.

Business services and applications revenue grew by 0.4% to $501 million driven mainly by higher revenue in managed network services, business applications and managed industrial network services, offset by a decline in IT services revenue.

The most significant revenue growth was seen in managed industrial network services which increased by 75.0% to $42 million. The positive result was driven by a successful increased sales effort resulting in additional customer contracts at improved margins.

Managed network services revenue grew by 5.1% to $185 million. This was driven by a 33.7% increase to $23 million in SME and corporate hosting generating higher revenue per customer from a revision of applied pricing models. Managed data revenue grew by 29.4% to $24 million mainly due to higher managed data and network maintenance revenues. Partially offsetting this revenue growth was a decline of 8.6% to $59 million in managed voice revenue mainly caused by the loss of a major contract and higher prior year PBX equipment sales for two government agencies.

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IT services revenue declined by 12.0% to $213 million mainly due to lower business process services and outsourcing revenues after the Australian Administration Services (AAS) business was sold mid way through the prior fiscal half. The impact of this sale was lower revenues in the current half of $19 million. Additionally, KAZ revenue declined due to delays in product sales until the second half, offset by additional revenue earned in consulting services and project management from a one off equipment sale in the current half.

Business applications revenue has grown by 7.0% to $61 million due to increases in contact solutions and payment solutions revenues. Contact solutions grew by 15.1% to $9 million driven by Network CTI and enterprise speech. Payment solutions revenue grew by 6.1% to $17 million due to argent which is used to support the transfer of financial transactions between merchants and financial institutions.

Advertising and directories

Our advertising and directories revenue is predominantly derived from our wholly owned company, Sensis, and its controlled entities. The Sensis group provides innovative advertising and search solutions through print, online, voice, wireless and satellite navigation networks.

The majority of advertising and directories revenue is derived from our print and online directories - Yellow™ and White Pages® - which have grown steadily due to the introduction of new print and directory advertising initiatives.

Advertising and directories

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Advertising and directories revenue	**948**	879	69	**7.8%**

Our advertising and directories revenue has increased by 7.8% to $948 million partially due to the acquisition of SouFun. In August 2006, we acquired 55% (on an undiluted basis) of the issued capital of SouFun Holdings Limited, a leading real estate and home furnishing and home improvement website in China. SouFun contributed unaudited revenue of $24 million for the portion of the 2006 fiscal half after acquisition and $43m in the current half-year.

We have also continued to experience growth in our directories business due to the introduction of new initiatives and investment in the salesforce. We continue to see solid growth within our online directories due to increased customer numbers and new initiatives. Emerging business revenues continue to grow, and we have seen portable navigation unit sales grow by 145%. The voice portfolio has also shown great success with call volumes increasing 48.5% for 1234 calls and 34.4% to the 12456 number.

For a detailed description of the performance in this area, please refer to the Sensis financial summary on page 44.

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Offshore controlled entities

Offshore controlled entities - revenue

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
CSL New World	**485**	519	(34)	**(6.6%)**
TelstraClear	**287**	286	1	**0.3%**
Other offshore controlled entities	**174**	173	1	**0.6%**
Total offshore controlled entities revenue	**946**	978	(32)	**(3.3%)**

Consolidated revenue from offshore controlled entities decreased in the half-year ending 31 December 2007 by 3.3% to $946 million. This decrease was primarily due to the following factors:

- CSLNW revenue experienced a decline of 6.6% to $485 million impacted largely by a $67 million unfavourable foreign exchange rate impact. Excluding this foreign exchange impact, increased activity and an increased customer base contributed to revenue growth of 6.4%, with higher mobile handset revenue driven by bulk and standalone handset sales and mobile services revenue. Mobile services revenue was driven by rising data, international voice and prepaid revenue. This was however offset by declining local voice revenue due to the impact of sustained pricing pressure.

- TelstraClear revenue marginally increased to $287 million. During the half-year, revenue was lower due to the termination of a mobile agency agreement where the revenue stream ended part way through the current fiscal half, however this was offset by the ongoing business which had positive growth during the half-year. Revenue was also impacted by the NZ$ exchange rate with a positive $4 million foreign exchange impact.

- Revenue increased by 0.6% to $174 million in other offshore controlled entities mainly due to growth in Asia and the US which was partially offset by a decline in Europe. The Asian business grew by $7 million mainly due to continued strong sales growth in the established Telstra Singapore and Telstra Hong Kong businesses. The KAZ business in this region is also progressing well. The US business grew by $1 million mainly as a result of growth in the Service Provider Channel in the USA, particularly Global Crossing, Broadwing, Qwest, MCI and growth in Nokia revenues. The revenue decline in Europe of $6 million was mainly due to a decline in voice revenues due to the loss of the Powergen customer base, with Telstra ceasing to carry Powergen traffic after they exited the Telecom business at the end of March 2007.

For further detail regarding the performance of our major offshore subsidiaries CSLNW and TelstraClear, refer to the business summaries on pages 46 and 47.

Half-year results and operations review - December 2007

Pay TV bundling

Pay TV bundling

	Half-year ended 31 December			
	2007 $m	2006 $m	Change $m	**2007/2006 (% change)**
Pay TV bundling revenue	**204**	164	40	**24.4%**
FOXTEL Pay TV bundling subscribers (thousands)	**394**	309	85	**27.5%**
Austar Pay TV bundling subscribers (thousands)	**32**	38	(6)	**(15.8%)**
Total Pay TV bundling subscribers (thousands)	**426**	347	79	**22.8%**

Note: statistical data represents management's best estimates.

Pay TV bundling revenue is generated through reselling FOXTEL and AUSTAR[1] services to consumers with an eligible fixed line service with us. Total pay TV bundling revenue grew by 24.4% to $204 million for the half-year ended 31 December 2007, with FOXTEL revenue growing $45 million, offset by a decline in AUSTAR revenue of $5 million.

FOXTEL bundled services revenue grew by 30.3% to $189 million as a result of subscribers increasing by 27.5% following successful marketing activity with the emphasis on acquiring 'new to Pay TV' customers. The increased revenue is also due to substantial increases in customers of the interactive digital feature, FOXTEL IQ, and the completed migration of analogue customers to digital. On our bundled customer base, FOXTEL IQ now represents 21.6% of the total customers while platinum plans account for 38.4% of total customers. This is reflected by ARPU increasing by 5.2% over the period.

The AUSTAR bundled services revenue decline for the half-year of 26.3% to $14 million was mainly due to customers declining by 15.8%, as a result of limited marketing activity undertaken throughout the period and a higher churn of customers to AUSTAR, offset by higher generated ARPU.

1. *Trade mark of Austar Entertainment Pty Ltd*

Half-year results and operations review - December 2007

Other minor items

Other minor items

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
HFC cable usage	**34**	40	(6)	**(15.0%)**
Commercial and recoverable works	**25**	14	11	**78.6%**
External construction	**15**	18	(3)	**(16.7%)**
Other	**59**	63	(4)	**(6.3%)**
Total other minor items revenue	**133**	135	(2)	**(1.5%)**

Revenue from other minor items decreased by 1.5% to $133 million for the half-year ended 31 December 2007. The revenue decrease was mainly due to lower HFC cable works, external construction and other revenue, offset by higher commercial and recoverable works.

HFC cable usage is made up of revenue received from FOXTEL for use of our cable, cable installations and service calls. Revenue decreased by 15.0% to $34 million as we ceased cable installation work given that FOXTEL now undertake their own installation activity together with the completed migration of analogue customers to digital. This decrease was partially offset by an increase in revenue share received from FOXTEL due to higher customer numbers using our HFC cable.

Commercial and recoverable works revenue increased by 78.6% to $25 million mostly due to enterprise projects mainly for Ngaanyatjarra Lands Telecommunications Projects and Broadband Service for the Thamarrur Region, and increased revenue recoverable from the higher level of damages caused to Telstra plant/cable.

External construction revenue decreased by 16.7% to $15 million mainly due to fewer network sites acquired in the half-year and as design and construction activities for others decreased.

Other revenue decreased 6.3% to $59 million mainly due to higher levels of 'welcome back' credits, offset by higher account related charges. The welcome back credit offers a $70 credit to residential customers transferring a full fixed service to us and connecting to an eligible home plan. These customers receive an additional $110 credit for connecting to a new eligible FOXTEL/AUSTAR plan from us and/or BigPond® broadband services for 24 months as part of the same transaction.

Half-year results and operations review - December 2007

Other revenue

Other revenue

	Half-year ended 31 December			
	2007 $m	2006 $m	Change $m	**2007/2006 (% change)**
Distribution received	**100**	**-**	100	100.0%
Rental Income	**20**	**15**	5	33.3%
Total other revenue	**120**	**15**	105	**700.0%**

The $100 million distribution received during the half relates to a capital distribution from our FOXTEL partnership after the FOXTEL Board refinanced to maintain a constant debt to EBITDA ratio.

Rental income growth was mainly due to changes to some of our data centre leases, along with a sublease agreement relating to the office space occupied by our formally controlled entity Australian Administration Services (AAS).

Other income

Other income

	Half-year ended 31 December			
	2007 $m	2006 $m	Change $m	**2007/2006 (% change)**
Proceeds from sale of property, plant and equipment	**5**	15	(10)	**(66.7%)**
Proceeds from sale of business	**1**	-	1	**100.0%**
Proceeds from sale of investments	**55**	242	(187)	**(77.3%)**
Asset and investment sales	**61**	257	(196)	**(76.3%)**
Cost of property, plant & equipment	**7**	11	(4)	**(36.4%)**
Cost of investments	**18**	194	(176)	**(90.7%)**
Cost of asset and investment sales	**25**	205	(180)	**(87.8%)**
Net gain on assets/investment sales	**36**	52	(16)	**(30.8%)**
USO levy receipts	**24**	25	(1)	**(4.0%)**
Government subsidies	**9**	51	(42)	**(82.4%)**
Miscellaneous income	**38**	24	14	**58.3%**
Other income	**71**	100	(29)	**(29.0%)**
Total other income	**107**	152	(45)	**(29.6%)**

Total other income decreased by 29.6% to $107 million for the half-year ended 31 December 2007.

Income in the area of asset and investment sales was driven by:

- proceeds from sale of investments of $55 million which mainly related to the sale of Telstra eBusiness in December 2007, recognising a net gain on sale of $37 million; and
- minor sales proceeds were derived from the sale of Invizage Pty Ltd in August 2007.

Half-year results and operations review - December 2007

The decline half on half is due to the absence of large proceeds from sales in investments which occurred in the corresponding half-year ending 31 December 2006 including:

- the sale of our superannuation administration business of the KAZ Group for $231 million, recognising a net gain on sale of approximately $43 million;
- the sale of Platefood Limited, which provided search marketing software and search results to directories and media companies in November 2006 recognising proceeds of $10 million, with a net gain on sale of $4 million; and
- the final instalment of $9 million from the sale of our interest in Xantic which occurred in February 2006.

The decline in other income for the half-year ending 31 December 2007 was mainly due to the decline in the Broadband Connect subsidy of $45 million. The old Broadband Connect agreement ended in June 2007. As a result, a new initiative (Australian Broadband Guarantee Scheme) has been negotiated and recently agreed.

Half-year results and operations review - December 2007

Expenses

Expenses

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Labour	**2,092**	1,996	96	**4.8%**
Goods and services purchased	**2,676**	2,566	110	**4.3%**
Other expenses	**2,539**	2,318	221	**9.5%**
	7,307	6,880	427	**6.2%**
Share of net losses from jointly controlled and associated entities	**-**	1	(1)	**(100.0%)**
	7,307	6,881	426	**6.2%**
Depreciation and amortisation	**2,052**	1,978	74	**3.7%**
Total expenses	**9,359**	8,859	500	**5.6%**

During the half-year ending 31 December 2007, our total expenses (including share of net loss from jointly controlled and associated entities) increased by 5.6% to $9,359 million. Our expenses have been impacted by the following factors:

- higher goods and services purchased mainly relating to the cost of mobile sales as a result of Next G™ network sales, CDMA migration and the associated marketing campaigns;
- costs associated with IT transformation including IT professional services, data centres and software licenses;
- higher impairment charges relating to bad debts/doubtful debts and inventory write downs associated with CDMA migration; and
- higher labour expenses driven by redundancy costs as a result of the transformation activities and productivity improvements currently taking place.

Half-year results and operations review - December 2007

Labour

Labour expense includes:

- salary, wages and related on-costs, including superannuation costs, share based payments, workers' compensation, leave entitlements and payroll tax;
- costs of engaging contractor labour and agency costs; and
- redundancy expenses.

Labour

	Half-year ended 31 December			
	2007 **$m**	2006 $m	Change $m	**2007/2006** (% change)
Labour	**2,092**	1,996	96	**4.8%**
Domestic full time employees (whole numbers) (i)	**34,236**	36,184	(1,948)	**(5.4%)**
Full time employees and employed equivalents (whole numbers) (ii)	**42,308**	43,989	(1,681)	**(3.8%)**
Total workforce, including contractors and agency staff (whole numbers) (iii)	**46,561**	48,991	(2,430)	**(5.0%)**
Current year reduction in total workforce excluding acquisition/divestment activity (iv)	**(1,768)**			
Reduction in total workforce to June 2007 excluding acquisition/divestment activity against November 2005 announcement (iv) (v)	**(6,107)**			
Total reduction in workforce	**(7,875)**			

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 12,000 FTE (full time equivalent) 5 year reduction target announced in November 2005 excludes the impact of our divestment in Australian Administration Services Pty Ltd and the ongoing impact of our acquisition of SouFun Holdings Ltd, both of which occurred in August 2006. Fiscal 2006 excluded the impact of CSL's merger with NewWorld PCS Mobility.

(v) The total workforce FTE reduction through to June 2007 has been restated to include the ongoing impact of our acquisition in SouFun Holdings Ltd (1,555 at June 2007) as opposed to the workforce FTE taken as at the date of acquisition (1,194).

Our labour expense increased by 4.8% to $2,092 million mainly due to increased redundancy costs as a result of transformation activities and productivity improvements currently being undertaken. We incurred redundancy expenses of $166 million for the half-year ended 31 December 2007 compared with $51 million for the comparable period last year. Additionally, the redundancy activities planned for fiscal 2008 have largely taken place in the current half-year. Further recruitment is however expected to occur throughout the second half in certain parts of the business as we progress through our transformation initiatives which require new skilled resources particularly to support our new IP network.

As part of the transformation, we raised a provision for restructuring and redundancy at the end of fiscal 2006 which included a redundancy component amounting to $186 million of which a total of $165 million has been utilised in line with the level of transformational redundancy activity that has taken place (half-year fiscal 08: $17 million; fiscal 07: $148 million). Additional redundancy expense has been incurred over and above the provision previously highlighted as necessary to achieve the staff level guidance, but this expense is within the overall financial guidance given to the market.

Half-year results and operations review - December 2007

Excluding the impact of redundancy costs, labour expenses decreased by 1.0% year on year to $1,926 million due to lower salary and associated costs, pension and recruitment costs, offset by higher contract and agency payments. Contributing to the overall decrease in our labour expenses were our retail segments, led by the Enterprise and Government segment.

The above increases in our labour costs have been offset by pension costs which have reduced year on year. In the current half-year, we recognised $102 million of pension costs in our labour expenses compared with $133 million for the comparable period last year. This expense reduction is due to lower curtailment costs in the superannuation fund expense.

From 30 June 2007, our total workforce decreased by 2.7% or 1,279 full time equivalent staff, contractors and agency staff. This decrease is predominantly due to the ongoing specific efforts across the business to rationalise the number of people working for the company as transformation initiatives and productivity improvements continue to take place, primarily in the Telstra Operations and Enterprise and Government segments, reducing by 1,145 and 657 full time equivalent staff, contractors and agency staff respectively. Meanwhile, SouFun Holdings Ltd has increased staff numbers by 489 to 2,044 to support further expansion to more Chinese cities. As highlighted in the above table, excluding the impact of this investment change, total workforce numbers have declined by 1,768 from 30 June 2007. In addition, we have achieved an overall decline of 7,875 against our '12,000 full time equivalent 5 year reduction target' announced in November 2005 measured on a like for like basis.

Half-year results and operations review - December 2007

Goods and services purchased

Goods and services purchased

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Cost of goods sold - handset subsidies	**334**	417	(83)	**(19.9%)**
Cost of goods sold - other	**745**	610	135	**22.1%**
Usage commissions	**140**	159	(19)	**(11.9%)**
Network payments	**937**	887	50	**5.6%**
Service fees	**209**	171	38	**22.2%**
Managed services	**95**	106	(11)	**(10.4%)**
Dealer performance commissions	**65**	59	6	**10.2%**
Paper purchases and printing	**63**	64	(1)	**(1.6%)**
Other	**88**	93	(5)	**(5.4%)**
Total goods and services purchased	**2,676**	2,566	110	**4.3%**

Our goods and services purchased increased in the half-year ending 31 December 2007 mainly due to higher cost of goods sold other and higher network payments, offset by lower handset subsidies. This expense category increased by 4.3% to $2,676 million due to the following factors:

The increase of $135 million in other cost of goods sold to $745 million was due to higher volumes of handsets sold which increased by $78m mainly as a result of Next G™ sales, CDMA migration and the associated marketing campaigns. Growth in BigPond® related costs such as internet modems, HSDPA cards and Digital and IT accessories due to the increasing broadband demand and sales growth contributed $40 million. In the Business segment the organic growth of Enhanced CPE revenue also contributed to a rise in associated costs and in the Enterprise segment there was a once off pass through of costs related to sale of lease assets.

Our network payments increased by 5.6% to $937 million largely due to:

- Terminal outpayments to REACH[1] for international capacity and termination costs increased by $35 million to $93 million following credits received in the prior corresponding fiscal half-year;
- Our offshore outpayments have grown by $45 million in the half-year ending 31 December 2007 mainly due to higher outbound roaming revenue; and
- Offsetting this is a reduction in carrier network payments of $33 million with mobiles declining half on half by 6 cents per minute with the average mobile terminating rate down from an average of 15 cents per minute in the half-year ending December 2006. This was partially offset by a 12% increase in mobile voice terminating minutes and 89% increase in SMS calls terminating on other carrier's networks. The main driver for the reduction in the mobile terminating access rate was due to an ACCC final determination which reduced the billed rate of around 12 cents per minute to 9 cents per minute in this fiscal half and down from 15 cents from the half-year ending December 2006. The impact of the lower rates year on year amounted to $108 million decline in terminating costs offset by an increase in volumes. The prior year figure was also abnormally low due to a $61m backdated adjustment for mobile terminating rates as determined by the ACCC.

1. *Trade mark of Reach Brands Limited*

Half-year results and operations review - December 2007

- Service fees increased by 22.2% to $209 million led by a $38 million rise in bundling of pay television services due to growth in bundled FOXTEL subscribers;

- Dealer performance commissions grew 10.2% to $65 million mainly due to a higher number of new mobile activations and re-contracts through external dealer channels as a result of continued market campaign activity of the Next G™ network and proactive sales. These commission payments are contract payments based on specific performance targets. This was partially offset by an external dealer who discontinued their alignment to our dealer performance commission base.

The increases were partially offset by a decrease in cost of goods sold - handset subsidies, usage commissions, managed service costs and other goods and services purchased expenses.

- A decline in cost of goods sold - handset subsidies of $83 million, was attributable to lower than average subsidies offered. Our average blended subscriber acquisition and re-contracting cost is $150 for the half-year ending December 2007, down from $175 for the half-year ending December 2006, driven mainly by significant subsidy rate decreases relating to a lower average rate per handset due to lower cost Next G™ 850 handsets compared to higher cost 3GSM 2100 handsets which were sold in the previous corresponding half-year. In addition, there is a change in the mix of handsets sold with a higher number of customers opting for the Mobile Repayment Option (MRO) rather than a subsidised handset which is reflected in a 9.9% decline in subsidy volumes and 24.3% increase in MRO volumes. This is due to more attractive contracts offered to customers under the MRO contract offerings;

- usage commissions decreased by 11.9% to $140 million, largely driven by customers belonging to an external agent that is no longer part of our commissionable mobile base. This is partially offset by the continued uptake of non-mobile related products such as BigPond® products; and

- our managed services costs declined by 10.4% to $95 million in the half-year ending 31 December 2007, mainly attributed to a decrease in project management professional service costs for equipment. Certain services are no longer provided after such equipment is sold to customers.

Half-year results and operations review - December 2007

Other expenses

Other expenses

	Half-year ended 31 December			
	2007 **$m**	2006 $m	Change $m	**2007/2006** (% change)
Property, motor vehicle and IT rental expense	**309**	307	2	**0.7%**
Net foreign currency conversion gains	**(8)**	(3)	(5)	**166.7%**
Audit fees	**4**	4	-	**0.0%**
Service contracts and other agreements	**1,095**	1,047	48	**4.6%**
Promotion and advertising	**224**	212	12	**5.7%**
General and administration	**506**	452	54	**11.9%**
Other operating expenses	**241**	197	44	**22.3%**
Impairment and diminution expenses	**168**	102	66	**64.7%**
Total other expenses	**2,539**	2,318	221	**9.5%**

Our other expenses increased by 9.5% to $2,539 million in the half-year ended 31 December 2007. The increase in other expenses in the current half-year includes an additional $14 million relating to a full six months of expenses from SouFun Holdings Ltd which was acquired in August 2006. (see Sensis financial summary on p44 for further detail.)

The largest component within this expense category is service contracts and other agreements which increased by 4.6% to $1,095 million in the current half-year, largely driven by the following factors:

- IT - professional services costs have increased by 31.6% to $254 million. Approximately $40 million of the increase is driven by transformation activities associated with the first and second release of our new IT architecture such as implementation and configuration activities, business readiness along with various migration programs, product support, maintenance and data costs for the newly released applications. Updates and improvements made to our BigPond® websites, particularly for Sports and BigPond® movies, have also contributed to the increase in our IT costs; and

- Lower costs in other service contracts which have reduced by 1.8% to $772 million. This is largely due to lower outsourcing activities relating to installation work as a result of the improved productivity of our field staff, as well as lower build activity seen in our 3GIS partnership. The reduction has however, been offset by higher payments made to our external vendors, of $29 million, driven by service providers relating to Telstra shops' security, revenue collection and call centres. The higher costs have resulted from volume based increases associated with activations, recontracts, billing and general enquiries on our Next G™ service and the pending closure of the CDMA network including our customer migration options.

General and administration expenses increased by 11.9% to $506 million in the current half-year primarily driven by higher IT - hardware/software costs. These costs have increased by 32.3% to $127 million largely driven by the IT transformation requiring more database and infrastructure hardware, leading to additional purchases of software licences. The growth in our IT hardware has led to increased spending in repairs and maintenance relating to maintenance contracts for our servers which are volume driven whilst the increased software licences have resulted in higher software support and maintenance costs.

Property, motor vehicle and IT rental expenses have slightly increased by 0.7% to $309 million mainly as a result of higher rental charges on our properties, as well as having additional IT and mobile sites with higher rent rates imposed. This is offset by lower IT rental expense as a result of the purchase, instead of the lease, of a number of new servers.

Half-year results and operations review - December 2007

Other operating expenses have increased by 22.3% to $241 million as a result of the impact of a review of the capitalisation rate for the indirect cost pool totalling $28 million. Also contributing to the increase are the ongoing business expenses relating to our offshore entity, SouFun Holdings Ltd, as it continues to expand in the China market.

Our promotion and advertising costs increased by 5.7% to $224 million during the half-year ended 31 December 2007 mainly as a result of more marketing activity as part of a FOXTEL promotion for various mobile TV product offerings. Also contributing to the increase is additional spending within our print and online White Pages® and Yellow™ directories core products to drive higher revenue and increase user awareness. This is partly offset by lower events and exhibitions costs associated with roadshows mainly as a result of our Next G™ campaign launch in October 2006.

Our impairment and diminution expenses including bad debts/doubtful debts and inventory write downs, have increased by 64.7% to $168 million in the half-year ended 31 December 2007 due to:

- bad and doubtful debts have increased by 48.0% to $118 million largely driven by an increase in our mobiles portfolio write offs as well as our aged broadband debts. A review of credit terms for our Sensis business also contributed to the overall increase of our bad debts; and

- inventory write down expenses have increased by 135.3% to $41 million largely from stock write offs in addition to providing for slower moving stock. Higher provisions were raised during the current half-year to minimise the net losses on sales returns. In addition, a further provision has been raised for slow moving handsets held to replace CDMA handsets, which was not incurred in the half-year ended 31 December 2006.

The above increases have been offset by higher foreign currency gains as a result of favourable exchange rate movements.

Half-year results and operations review - December 2007

Share of net losses from jointly controlled and associated entities

Share of net losses from jointly controlled and associated entities

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Share of net losses 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.

In respect to FOXTEL and REACH, as the carrying value of our investment in both has been written down to nil, any share of losses/(gains) from these entities will not be 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 2007, the carried forward losses for FOXTEL after the $100 million distribution received amount to $144 million.

Depreciation and amortisation

Depreciation and amortisation

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Depreciation	**1,698**	1,592	106	**6.7%**
Amortisation	**354**	386	(32)	**(8.3%)**
Total depreciation and amortisation	**2,052**	1,978	74	**3.7%**

Our depreciation and amortisation expense has risen by 3.7% to $2,052 million for the half-year ended 31 December 2007.

Depreciation increased by 6.7% to $1,698 million driven by further growth in our communications plant mainly due to recent transformation spend on the Next G™ and Next IP™ roll outs together with additional depreciation on information technology equipment and projects as part of the IT transformation. This was partially offset by asset retirements and service life reviews of our asset base driven by extended service life changes in our customer access network and switching assets. Of note was that the prior year result also included $148 million relating to accelerated depreciation associated with service life reviews of assets as part of our transformation activities.

Amortisation decreased by 8.3% to $354 million mainly due to the customer bases in the CSL New World Mobility Group of $28 million now being fully amortised following the merger of New World PCS with Hong Kong CSL. The previous half-year includes a full half of amortisation as the Hong Kong CSL customer bases were fully amortised at 31 January 2007.

Half-year results and operations review - December 2007

Net finance costs

Net finance costs

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Borrowing costs	**601**	511	90	**17.6%**
Finance leases	**6**	6	-	**0.0%**
(Gain)/loss in fair value hedge instruments	**(80)**	4	(84)	**n/m**
Unwinding of discount on liabilities recognised at present value	**12**	20	(8)	**(40.0%)**
(Gain)/loss on cash flow hedges	**(5)**	-	(5)	**(100.0%)**
Other	**(4)**	8	(12)	**(150.0%)**
Finance costs	**530**	549	(19)	**(3.5%)**
Finance income	**(30)**	(29)	(1)	**3.4%**
Net finance costs	**500**	520	(20)	**(3.8%)**

The three main factors influencing our finance costs are:

- our net debt level;
- interest rates; and
- movements in our borrowing cost margins.

Borrowing costs have increased by $90 million or 17.6% to $601 million for the half-year ended 31 December 2007. This increase was principally due to:

- higher average net debt over the period (increased from $14,333 million at 31 December 2006 to $15,464 million at 31 December 2007); and
- higher yields driven by a combination of interest rate rises and increased credit margins which have impacted our refinancing yields and the floating rate component of our debt portfolio.

The unrealised gain of $85 million relating to our fair value and cash flow hedges predominantly relates to the impact of our increased borrowing margins over the period which have flowed from a tighter credit market. As our borrowing margins increase, there is a net unrealised revaluation gain reflecting the opportunity benefit from existing borrowings when revalued (marked to market) against the current higher margins. However these positions will progressively wind out to nil at maturity of the relevant borrowings which is our general practice.

Income tax expense and franking account

Income tax expense

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Income tax expense	**678**	706	(28)	**(4.0%)**
Effective tax rate	**25.9%**	**29.2%**		**(3.3)**

Income tax expense decreased by 4.0% or $28 million to $678 million in the current half-year despite a higher profit before income tax expense of $202 million in comparison to the prior half-year.

The effective tax rate in the current half-year has also reduced by 3.3 per cent to 25.9% which is a lower rate when compared with the Commonwealth statutory income tax rate of 30.0%. This is largely as a result of several tax effect adjustments amounting to $108 million with the main items as follows:

- an amendment of prior period income tax returns previously lodged to the Australian Taxation Office (ATO) resulted in a tax refund position, with a benefit to tax expense of $40 million;
- a non assessable capital distribution from our FOXTEL partnership, reducing tax expense by $30 million;
- exempt dividend income received from our offshore entity, CSL New World, resulting in a tax reduction of $17 million;
- a capital gain on the sale of our Telstra eBusiness Group offset by carried forward capital gains tax losses, amounting to $11 million; and
- a research and development deduction, amounting to $8 million.

During the current half-year, we have paid a total of $875 million of tax instalments relating to the last quarter of fiscal 2007 and the first quarter of fiscal 2008. Franking credits of $747 million were used when we paid our final 2007 ordinary dividend during the current half-year. In addition, an amendment of a prior period income tax return has resulted in a further reduction in our franking credits of $6 million. With the overall movements in our franking account during the current half-year and combined with the credits that we may be restricted from distributing, our franking account balance is $220 million.

Half-year results and operations review - December 2007

Major subsidiaries - financial summaries

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

Sensis financial summary

We are a leading provider of advertising and search services through our advertising, directories and local search business Sensis. Sensis provides innovative advertising and search solutions through print, online, voice, wireless and satellite navigation networks.

Sensis financial summary (i)

	Half-year ended 31 December			
	2007	2006	Change	Change
	$m	$m	$m	%
Total income	**953**	889	64	**7.2%**
Total expenses (including depreciation and amortisation)	**563**	496	67	**13.5%**
EBITDA	**461**	448	13	**2.9%**
EBIT	**390**	393	(3)	**(0.8%)**
CAPEX	**97**	68	29	**42.6%**
EBITDA margin	**48.4%**	**50.4%**		**(2.0)**

Amounts included for Sensis represent the contribution included in Telstra's consolidated result.
(i) The above results differ from those segment results reported on page 10 as for segment reporting purposes we monitor our results excluding the impact of investment sales. In the prior year, Sensis divested its investment in Platefood Limited.

Sensis total income is split into the following categories:

Sensis total income

	Half-year ended 31 December			
	2007	2006	Change	Change
	$m	$m	$m	%
- YellowTM revenue	**543**	526	17	**3.2%**
- WhitePages revenue	**161**	146	15	**10.3%**
- Classified revenue	**56**	65	(9)	**(13.8%)**
- Emerging business	**80**	63	17	**27.0%**
- SouFun revenue (i)	**43**	24	19	**79.2%**
- Voice	**65**	55	10	**18.2%**
Total advertising and directories	**948**	**879**	**69**	**7.8%**
Other	**6**	6	-	**0.0%**
Total Sensis sales revenue	**954**	**885**	**69**	**7.8%**
Other income	**(1)**	4	(5)	**(125.0%)**
Total Sensis external income	**953**	**889**	**64**	**7.2%**

(i) SouFun revenues and expenses are unaudited management accounts converted from local currency to $US based on US GAAP and then translated to A-IFRS. Reported SouFun expenses include certain expenses incurred by Sensis to manage the investment in SouFun together with other expenses recognised on consolidation.

Half-year results and operations review - December 2007

In the half-year ending 31 December 2007, Yellow™ revenue grew by 3.2% to $543 million. The 2007 Metro Yellow™ Print canvass returned to growth. We are seeing strong results from all Yellow™ canvasses resulting from our dedicated focus on selling the value of print through both value demonstration and sales force commitment. Yellow™ Online also grew by 21.5% to $95 million.

White Pages® revenue grew by 10.3% to $161 million. White Pages® Metro revenue grew by 9.5% to $156 million due to sales force effectiveness, improved sales training on the value story and new product innovation such as Screen Highlights.

Classifieds revenue declined by 13.8% to $56 million, largely as a result of competitive factors in the print market, which are causing declines in both circulation and the number of advertisers. We continue to experience growth in our online classifieds products but this has not offset the decline in our print products.

Emerging businesses delivered a 27.0% growth to $80 million. This is as a result of the following factors:

- the location and navigation portfolio experienced strong double digit growth driven by accelerating demand for portable navigation units which grew 145% to 566k units from the prior half-year; and
- demand for our online display advertising solutions grew strongly delivering over 52.3% growth.

In August 2006, we acquired 55% (on an undiluted basis) of the issued capital of SouFun, a leading real estate and home furnishing and home improvement website in China. SouFun contributed $43 million in revenue for the half- year ending 31 December 2007 and $24 million for the previous corresponding period (see note (i) on page 44)

In December 2006, the Voice portfolio launched an initiative with the intention of consolidation and clearer positioning of services in the market. This has been successful with voice revenue increasing by 18.2% to $65 million primarily due to increased call volumes within 1234 of 48.5% to 9.8 million calls and 12456 call connect of 34.4% to 26.0 million calls.

Total expenses increased by 13.5% to $563 million. The increase in total expenses was mainly due to the following:

- the acquisitions of SouFun in August 2006 contributing costs of $15 million in the 2006 half-year and $28 million (unaudited) in the 2007 half-year;
- growth in labour expenses of 9.1% to $210 million mainly attributable to the growth in staff numbers, primarily due to an increase in wages and salaries as part of the core business investment strategy and additional contractors in line with increased volumes in voice products; and
- other expenses increased by 21.2% to $196 million due to the following:
    - an increase in information technology costs due to investment in IT projects this half fiscal year;
    - an increase in bad and doubtful debts following a review of credit terms; and
    - an increase in promotion and advertising spend by $7 million primarily in the print directories. Partially offset by a reduction in classifieds and Soufun. The additional spend was required to drive print usage, revenue growth and combat the competitive environment in classifieds.

In the half-year ending 31 December 2007, depreciation and amortisation also grew by 28.7% to $71 million due to the acceleration of depreciation and amortisation of business project assets.

Half-year results and operations review - December 2007

The increase in capex is largely related to the rebuilding of IT systems as part of the transformation strategy and the development of a new online website.

CSL New World Mobility Group financial summary

CSL New World Mobility Group financial summary	Half-year ended 31 December			Half-year ended 31 December		
	2007	2006	Change	**2007**	2006	Change
	A$m	A$m	%	**HK$m**	HK$m	%
Total income	485	519	**(6.6%)**	3,280	3,085	**6.3%**
Total expense (including depreciation & amortisation)	441	484	**(8.9%)**	2,882	2,752	**4.7%**
EBITDA	131	140	**(6.4%)**	884	835	**5.9%**
EBIT	44	35	**25.7%**	398	333	**19.5%**
CAPEX	23	35	**(34.3%)**	159	211	**(24.6%)**
EBITDA margin	**27.0%**	27.0%	**0.0**	**27.0%**	27.0%	**0.0**

Note: Amounts presented in HK$ have been prepared in accordance with A-IFRS.
Amounts presented in A$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from consolidation fair value adjustments.

Total income increased by 6.3% to HK$3,280 million for the half-year ending 31 December 2007, largely due to the additional revenue generated from increased business activity. The increased activity was driven by growth in bulk handset sales, rising data, international voice, and mobile virtual network operator (MVNO) revenues, offset by a decline in local voice revenues after sustained pressure on prices.

Total expenses increased by 4.7% to HK$2,882 million mainly due to the following:

- Cost of goods sold growing in line with the increased handset sales, higher data and international disbursements, as well as higher acquisition and retention costs; offset by:
- Other expenses decrease was mainly driven by lower network and related costs including cell site rentals.

EBITDA increased by 5.9% to HK$884 million whilst EBIT increased by 19.5% to HK$398 million.

The HK$ exchange rate had an unfavourable impact on revenue of A$67 million for the half-year ending 31 December 2007, which was offset by an impact on expenses of $60 million.

Capital expenditure decreased mainly due to lower spend in network integration projects.

Half-year results and operations review - December 2007

TelstraClear financial summary

TelstraClear financial summary

	Half-year ended 31 December			Half-year ended 31 December		
	2007	2006	Change	**2007**	2006	Change
	A$m	A$m	%	**NZ$m**	NZ$m	%
Total income	287	286	**0.3%**	331	335	**(1.2%)**
Total expense (including depreciation & amortisation)	299	306	**(2.3%)**	341	354	**(3.7%)**
EBITDA	54	43	**25.6%**	62	50	**24.0%**
EBIT	(12)	(20)	**40.0%**	(10)	(19)	**47.4%**
CAPEX	38	63	**(39.7%)**	44	74	**(40.5%)**
EBITDA margin	**18.8%**	15.0%	**3.8**	**18.7%**	14.9%	**3.8**

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

For the half-year ended 31 December 2007, revenue declined by 1.2% to NZ$331 million. The primary driver of this decline was a mobile agency agreement that was terminated at 30 June 2007 with residual revenue continuing only part way through the current fiscal half. This offering has now been replaced with a new TelstraClear branded mobile offering which will be launched in the second half of fiscal 2008. Excluding the impact of this, the rest of the business grew during the period due to:

- the Consumer Hybrid Fibre Coaxial (HFC) Cable network in Wellington and Christchurch, with half on half revenue growth of 24%. The customer base has world class levels of broadband penetration with over 56% of the base enabled; partially offset by:

- a decline in calling revenue due to lower usage and competitor-led price erosion.

Total expenses (including depreciation and amortisation) decreased by 3.7% to NZ$341 million as a result of:

- a reduction in labour and other operating costs of 10.0% half on half. This was delivered by operational efficiencies through projects such as platform retirements and the renegotiation of contracts. The utilisation of shared services within the wider Telstra group also reduced costs within New Zealand.

As a result EBITDA increased by 24.0% to NZ$62 million, with an increase in EBITDA margin to 18.7% from 14.9% in the prior corresponding half.

Of particular note was the improved company result including business with other Telstra Group companies (ie including intercompany impacts). On a NZ standalone basis, TelstraClear achieved its largest operational result (with an EBIT profit of NZ$1.1 million) in the history of the organisation.
The NZ$ exchange rate had a favourable impact on revenues by A$4 million half on half and an unfavourable impact on expenses by A$4 million to be EBIT neutral.

Capex has reduced by 40.5% to NZ$44 million due to the completion of major projects such as the Lower South Island network build and reduced investment due to ongoing uncertainty around regulatory outcomes.

Half-year results and operations review - December 2007

Statement of financial position

Statement of financial position

	As at 31 Dec 07 $m	30 Jun 07 $m	Change $m	2007/2006 (% change)
Current assets				
Cash and cash equivalents	**931**	823	108	**13.1%**
Other current assets	**4,764**	4,516	248	**5.5%**
Total current assets	**5,695**	5,339	356	**6.7%**
Non current assets				
Property, plant and equipment	**24,436**	24,607	(171)	**(0.7%)**
Intangibles - goodwill	**6,899**	6,639	260	**3.9%**
Other non current assets	**1,549**	1,290	259	**20.1%**
Total non current assets	**32,884**	32,536	348	**1.1%**
Total assets	**38,579**	37,875	704	**1.9%**
Current liabilities				
Borrowings	**3,652**	2,743	909	**33.1%**
Other current liabilities	**5,972**	6,691	(719)	**(10.7%)**
Total current liabilities	**9,624**	9,434	190	**2.0%**
Non current liabilities				
Borrowings	**12,363**	11,619	744	**6.4%**
Other non current liabilities	**3,831**	4,242	(411)	**(9.7%)**
Total non current liabilities	**16,194**	15,861	333	**2.1%**
Total liabilities	**25,818**	25,295	523	**2.1%**
Net assets	**12,761**	12,580	181	**1.4%**
Equity				
Equity available to Telstra entity shareholders	**12,544**	12,329	215	**1.7%**
Minority interests	**217**	251	(34)	**(13.5%)**
Total equity	**12,761**	12,580	181	**1.4%**

We continue to maintain a strong financial position with net assets of $12,761 million as at 31 December 2007, increasing from $12,580 million at 30 June 2007. The increase in net assets comprised an increase in total assets of $704 million offset by an increase in total liabilities of $523 million.

The movement in total assets of $704 million was primarily due to:

- Cash and cash equivalents increasing by $108 million to $931 million, mainly due to an increase in bank deposits and bills of exchange maturing in less than 90 days resulting from surplus funds as at 31 December 2007;
- Other current assets increased by $248 million to $4,764 million, driven by trade debtors increasing consistent with an increase in revenue activity, in addition to higher network inventory and inventory on hand primarily due to increased stock to support sales of Next G™ handsets and in support of CDMA migration;
- Property, plant and equipment decreased $171 million mainly due to depreciation of communication assets exceeding additions together with a number of asset retirements, despite the high capital expenditure associated with our transformation spend, particularly the Next G™ and Next IP™ networks;
- Goodwill decreased by $56 million due to foreign exchange movements relating to CSL New World Mobility Group goodwill and the sale of Telstra eBusiness in December 2007;

Half-year results and operations review - December 2007

- Other intangibles increased by $316 million mainly due to the development/acquisition of software assets as part of our IT Transformation, focusing on customer care and billing, inventory management and supply chain services; and
- Other non-current assets increased by $259 million due mainly to fair value revaluations of interest rate and cross currency swaps in receivable positions which are used for hedging our borrowings, as well as the higher actuarially determined value of our defined benefit pension asset.

The movement in total liabilities of $523 million was primarily due to:

- Total current and non-current borrowings, excluding derivatives, increasing by $1,653 million to $16,015 million. This movement is mainly due to the combination of new borrowings, principally a domestic $1 billion 5 year bank loan and higher short term borrowings of $594 million, mainly for increased expenditure relating to transformation activity. This is offset by long term borrowing maturities of $297 million. The remainder of the increased movement in borrowings is mainly due to fair value revaluations of our offshore debt;
- Other current liabilities decreased $719 million, mainly after lower accruals and payables due to higher capital activity undertaken at the end of the 2007 financial year. Also contributing to the decrease were lower current tax liabilities given the different assessment and payment profile between the two periods as the 30 June 2007 balance relates to the fiscal 2007 profit that is paid during the current half-year; and
- Other non-current liabilities decreased by $411 million mainly due to the revaluation of derivatives, particularly our cross currency and interest rate swaps, as well as lower provisions for restructuring costs and employee benefits. This was partially offset by decreased deferred tax liabilities.

Capital Expenditure

Operating Capex by Technology on an Accruals View

	Half-year ended 31 December			
	2007 $m	2006 $m	Change $m	**2007/2006** (% change)
Fixed Access	**459**	471	(12)	(2.5%)
IT	**634**	306	328	107.2%
Land & Buildings	**112**	88	24	27.3%
Network Core	**239**	275	(36)	(13.1%)
Products	**95**	114	(19)	(16.7%)
Sensis	**97**	71	26	36.6%
Transmission	**297**	189	108	57.1%
Wireless Access	**236**	275	(39)	(14.2%)
International	**72**	103	(31)	(30.1%)
Other	**79**	82	(3)	(3.7%)
Operating Capital Expenditure	**2,320**	**1,974**	**346**	**17.5%**

In the half-year ending 31 December 2007 our accrued operating capital expenditure increased by 17.5% to $2,320 million due to:

- IT expenditure increasing by $328 million or 107.2% with the major programs including the customer relationship management capability to consumer segments, customer care and billing transformation, Enterprise Data Warehouse for business critical management and IT transformation hardware. In the half-year ending 31 December 2006 capital spend was primarily focussed on feasibility and initial stages of delivery;

Half-year results and operations review - December 2007

- Transmission capacity expenditure increased by $108 million or 57.1% reflecting higher demand driven growth in the access network mainly under the International Transmission capacity program. The increase reflects the build of the Sydney to Hawaii cable initiative to provide extra capacity for broadband use. In addition, there has been contributions to the Australia America Gateway (AAG) Network as well as additional capacity purchased from Southern Cross;

- Sensis increased by $26 million or 36.6% due to a program to upgrade Sensis systems and improve business process across the Sensis core product chain; and

- various programs contribute to the $24 million or 27.3% increase in the land and buildings program and is attributable to the timing of the rollout of works compared with the prior half.

Offsetting this is a reduction in the following categories:

- A reduction in the wireless access program of $39 million or 14.2% due to completion of the wireless transformation program to deliver the Next G™ national wireless broadband network activity in fiscal 2007. This was offset by increases in post transformation coverage and capacity growth in the current half;

- The network core program declined by $36 million or 13.1% due largely to the completion of much of the Wireline Transformation program in fiscal 2007 which transformed our existing voice, data, IP and DSL networks into a single IP based network. Offsetting the reduction was increased expenditure in a new Softswitch solution program and growth and development works in our IP network;

- The overall reduction in products of $19 million or 16.7% is primarily due to the mobility products program undertaken in the prior fiscal year to deliver the wireless multimedia service delivery solution and infrastructure for real time pre and post paid mobile voice, data and messaging content; and

- Reduced expenditure of $12 million or 2.5% in the fixed access network is due to the completion of Next IP™ transformation network rollout along with the broadband infrastructure program including a large rollout of Internet Protocol (IP) Digital Subscriber Line Access Multiplexors (DSLAM), the Customer Access Network (CAN) upgrade program increasing ADSL capacity in the exchange network and the implementation of the HFC infrastructure to support the deployment of BigPond® Extreme services, which all occurred through the prior fiscal year. Offsetting this decrease were higher redevelopment programs in the current half-year due to higher than anticipated customer demand.

Half-year results and operations review - December 2007

Statement of Cash flows

Cash flow summary

	Half-year ended 31 December			
	2007	2006	Change	**2007/2006**
	$m	$m	$m	(% change)
Receipts from customers (inclusive of GST)	**13,522**	12,736	786	**6.2%**
Payments to suppliers and to employees (inclusive of GST)	**(8,474)**	(8,339)	(135)	**1.6%**
Net cash generated by operations	**5,048**	4,397	651	**14.8%**
Income taxes paid	**(891)**	(966)	75	**(7.8%)**
Net cash provided by operating activities	**4,157**	3,431	726	**21.2%**
Payments for property, plant and equipment	**(2,268)**	(2,132)	(136)	**6.4%**
Payments for intangible assets	**(742)**	(395)	(347)	**87.8%**
Capital expenditure (before investments)	**(3,010)**	(2,527)	(483)	**19.1%**
Investment expenditure	**(1)**	(337)	336	**(99.7%)**
Total capital expenditure	**(3,011)**	(2,864)	(147)	**5.1%**
Receipts from asset sales/proceeds from finance leases	**48**	265	(217)	**(81.9%)**
Distribution received	**100**	-	100	**n/m**
Interest received	**30**	30	-	**0.0%**
Net cash used in investing activities	**(2,833)**	(2,569)	(264)	**10.3%**
Operating cash flows less investing cash flows	**1,324**	862	462	**53.6%**
Movements in borrowings	**1,257**	1,196	61	**5.1%**
Repayment of finance lease principal amount	**(10)**	(17)	7	**(41.2%)**
Staff repayments of share loans	**8**	11	(3)	**(27.3%)**
Purchase of shares for employee share plans	**(129)**	-	(129)	**n/m**
Finance costs paid	**(583)**	(540)	(43)	**8.0%**
Dividends paid to equity holders of the Telstra Entity	**(1,740)**	(1,739)	(1)	**0.1%**
Dividends paid to minority interest	**(18)**	-	(18)	**n/m**
Net cash used in financing activities	**(1,215)**	(1,089)	(126)	**11.6%**
Net increase/(decrease) in cash and cash equivalents	**109**	(227)	336	**(148.0%)**

Net cash provided by operating activities

Our primary source of liquidity is cash generated from our operations. Net cash provided by operating activities includes receipts from trade and other receivables, payments to suppliers and employees, income tax paid, and GST received, paid and remitted to the Australian Taxation Office.

During the half-year ended 31 December 2007, net cash provided by operating activities increased by 21.2% to $4,157 million. The increase in receipts from customers is predominantly due to higher external revenue received during the current half-year along with a lower comparative increase in trade receivables. The increase in payments to suppliers and to employees has moved consistently with increases in expenditure together with higher other working capital balances.

The key drivers of our increased revenue were our mobiles and broadband products, whilst our higher expense payments were mainly as a result of increased cost of mobile sales associated with Next G™ sales and CDMA migration, higher redundancy and higher IT transformation activities.

Half-year results and operations review - December 2007

In addition, our cash paid to the Australian Taxation Office was $75 million lower in the current half-year than the prior corresponding period. The decrease in tax is primarily driven by lower instalment payments made during the current period as a reduced instalment rate was applied, together with lower tax paid by entities outside of the tax consolidated group.

Net cash used in investing activities

Net cash used in investing activities represents amounts paid for capital assets and investments. The increase in cash used for capital activities of $483 million is largely due to IT transformation, including major programs such as customer relationship management capability for consumer segments, customer care and billing transformation, corporate data warehouse management capability for business critical issues and associated hardware requirements. The increase in our IT capital expenditure is offset by reductions in other capital expenditure associated with wireless access and network core after the height of spend in the prior fiscal year.

The increases in our operating capital expenditure were across most capital expenditure categories and for further details on this, refer to page 49 on Capital Expenditure.

The reduction in payments for shares in controlled entities is largely due to our acquisition of the SouFun group in August 2006. No equivalent acquisition activity has taken place in the current half-year.

The distribution received during the current half-year amounting to $100 million relates to a capital distribution from our FOXTEL partnership after the FOXTEL Board refinanced to maintain a constant debt to EBITDA ratio.

The reduction in proceeds from the sale of shares in controlled entities of $221 million is largely attributable to a divestment of the Australian Administration Services group in the prior fiscal half.

Net cash used in financing activities

Our net cash used in financing activities increased by 11.6% to $1,215 million for the half-year ended 31 December 2007.

Net proceeds from borrowings relating to the current half-year were $1,257 million, an increase of 5.1% or $61 million from the prior half-year. The additional inflow was primarily driven by a new $1 billion 5 year AUD bank loan taken out in November 2007 facilitating higher cash outflow relating to our transformation initiatives. This activity is also reflected in our higher net debt which has increased by $878 million from 30 June 2007.

We have also recently purchased 27.5 million Telstra shares on market in order to support the long term incentive plan, amounting to $129 million.

Finance costs increased by $43 million mainly as a result of higher average debt levels, in conjunction with increased interest rates.

There was also an $18 million outflow of cash relating to a dividend paid by our offshore entity, CSL New World, to their minority shareholders.

Telstra Corporation Limited (ABN 033 051 775 556)

Product reconciliation to align comparative figures with the current year reported presentation

Half-year ended 31 December 2006

Product hierarchy as released Dec 06	Reported previously released Dec-06 $m	New product hierarchy based on Dec 07 structure	Reported new hierarchy Dec-06 $m	Movement since Dec 06 release $m	Description of Change from Old Product Hierarchy as Released in Dec-06
PSTN Products		Fixed Telephony			
Basic access	1,663	Basic access	1,663	(0)	
Local calls	432	Local calls	432	(0)	
PSTN value added services	125	PSTN value added services	125	(0)	
National long distance calls	408	National long distance calls	408	0	
Fixed to mobile	749	Fixed to mobile	608	(141)	**($7m) fixed to mobile customnet moved to other fixed telephony; ($130m) fixed to mobile ISDN products moved to ISDN products; ($4m) fixed to mobile Ebill moved to ISDN products.**
International direct	94	International direct	94	(0)	
Fixed interconnection	144	Fixed interconnection	133	(11)	**Global linx moved to Intercarrier services ($4m); ($7m) inbound interconnect group moved to premium calling products.**
Total PSTN products	3,615	Total PSTN products	3,463	(152)	
ISDN Products	383	ISDN Products	517	134	**$130m fixed to mobile ISDN products moved from fixed to mobile in PSTN; $4m fixed to mobile Ebill moved from fixed to mobile in PSTN.**
Inbound calling products	203	Premium calling products (now includes infocall)	220	17	**$10m is from infocall in mobile services, $7m inbound interconnect group moved from fixed interconnection.**
Payphones	48	Payphones	44	(4)	**($4m) customer operated payphones moved into CPE.**
Customer premises equipment	151	Customer premises equipment	154	3	**$4m customer operated payphones moved from payphones.**
Intercarrier access services	87	Intercarrier access services	91	4	**$4m global linx moved from fixed interconnection.**
Other fixed telephony	156	Other fixed telephony	110	(46)	**$7m fixed to mobile customnet moved from fixed to mobile; ($55m) moved to adv & directories; $1m Telstra IP telephony moved from business services & applications.**
Total Fixed Telephony	4,643	Total Fixed Telephony	4,599	(44)	
MOBILES					
Mobile services	2,441	Mobile services	2,425	(16)	**($10m) moved into premium calling products from mobile 2GSM. ($6m) to elimination wireless broadband**
Mobile handsets	357	Mobile handsets	357	0	
Total Mobiles	2,798	Total Mobiles	2,782	(16)	
Internet		Internet		-	
Narrowband	79	Narrowband	79	(0)	
Retail broadband	497	Retail broadband	511	14	**$14m to elimination for wireless broadband**
Wholesale broadband	279	Wholesale broadband	278	(1)	**($1m) moved to global products.**
VAS & Content	10	VAS & Content	10	0	
Total Internet	865	Total Internet	878	13	
IP & DATA ACCESS					
Internet direct	81	Internet direct	62	(19)	**($16m) Telstra Virtual ISP moved into wholesale internet and data; ($3m) global internet solutions moved to global products.**
Specialised Data	404	Specialised Data	377	(27)	**($11m) global frame relay & infonet indirect, ($2m) Global ATM and ($14m) international private lines all moved to global products.**
		Global products	45	45	**$11m global frame relay & infonet indirect, $14m international private lines and $2m global ATM moved from specialised data; $13m global IP enterprise voice & IP tel and Wan solutions moved from IP Access; $3m global internet solutions moved from internet direct; $1m from wholesale broadband.**
IP access	193	IP access	180	(13)	**($13m) global IP enterprise voice & IP Tel & WAN solutions moved to global products.**
Wholesale internet & data	111	Wholesale internet & data	127	16	**$16m Telstra Virtual ISP moved from internet direct.**
Total IP and data access	789	Total IP and data access	791	2	
Bus services & applications	501	Bus services & applications	499	(2)	**($1m) Telstra IP telephony moved to other fixed telephony.**
Advertising and directories	824	Advertising and directories	879	55	**$55m moved from other fixed telephony for voice directories assistant services.**
CSL New World	519	CSL New World	519	(0)	
TelstraClear	286	TelstraClear	286	(0)	
Offshore services revenue	173	Offshore services revenue	173	(0)	
Pay TV bundling	164	Pay TV bundling	164	(0)	
Other minor items	136	Other minor items	135	(1)	
Elimination for wireless broadband	(68)	Elimination for wireless broadband	(75)	(7)	**$6m from mobile services; ($14m) from retail broadband.**
Sales revenue	**11,630**	**Sales revenue**	**11,630**	**0**	

Summary Reported (i) Half Yearly Data ($ millions)	Half 1 Dec-04	Growth	Half 2 Jun-05	Growth	Full year Jun-05	Growth	Half 1 Dec-05	Growth	Half 2 Jun-06	Growth	Full year Jun-06	Growth	Half 1 Dec-06	Growth	Half 2 Jun-07	Growth	Full year Jun-07	Growth	Half 1 Dec-07	Growth
Revenue																				
Fixed telephony (incl ISDN products)																				
PSTN products																				
Basic access	1,700	5.6%	1,662	2.1%	3,362	3.9%	1,658	(2.5%)	1,659	(0.2%)	3,317	(1.4%)	1,663	0.4%	1,669	0.6%	3,333	0.5%	1,657	(0.4%)
Local calls	689	(11.5%)	594	(18.1%)	1,284	(14.7%)	553	(19.8%)	470	(20.9%)	1,023	(20.3%)	432	(21.9%)	414	(12.0%)	845	(17.4%)	388	(10.2%)
PSTN value added services	125	(6.1%)	124	(1.0%)	250	(3.6%)	123	(1.7%)	123	(1.2%)	246	(1.4%)	125	1.3%	132	7.6%	257	4.4%	134	7.2%
National long distance calls	527	(8.9%)	486	(10.5%)	1,013	(9.7%)	470	(10.7%)	442	(8.9%)	913	(9.9%)	408	(13.2%)	399	(9.7%)	808	(11.5%)	385	(5.6%)
Fixed to mobile calls	664	(1.9%)	624	(5.1%)	1,288	(3.5%)	621	(6.5%)	595	(4.7%)	1,215	(5.6%)	608	(2.2%)	600	1.0%	1,208	(0.6%)	615	1.2%
International direct	124	(10.7%)	110	(13.0%)	234	(11.8%)	106	(14.9%)	96	(13.4%)	201	(14.2%)	94	(11.0%)	90	(5.9%)	184	(8.5%)	92	(2.1%)
Fixed interconnection	159	(10.1%)	150	(5.8%)	309	(8.1%)	146	(8.1%)	140	(6.4%)	286	(7.3%)	133	(9.3%)	120	(14.7%)	252	(12.0%)	120	(9.8%)
Total PSTN products	**3,989**	**(2.6%)**	**3,751**	**(5.4%)**	**7,740**	**(3.9%)**	**3,677**	**(7.8%)**	**3,525**	**(6.0%)**	**7,201**	**(7.0%)**	**3,463**	**(5.8%)**	**3,424**	**(2.9%)**	**6,887**	**(4.4%)**	**3,391**	**(2.1%)**
ISDN products	586	(1.8%)	566	(2.0%)	1,152	(1.9%)	553	(5.7%)	513	(9.4%)	1,066	(7.5%)	517	(6.5%)	497	(3.1%)	1,014	(4.8%)	495	(4.3%)
Premium calling products	227	(2.3%)	213	(8.8%)	439	(5.6%)	220	(2.9%)	216	1.7%	436	(0.7%)	220	(0.3%)	225	3.9%	444	1.8%	220	0.0%
Payphones	58	(12.8%)	54	(15.9%)	112	(14.3%)	50	(13.9%)	46	(15.0%)	96	(14.4%)	44	(12.3%)	41	(10.0%)	85	(11.2%)	36	(18.2%)
Customer premises equipment (vi)	113	14.2%	127	29.4%	240	21.7%	139	23.1%	143	12.8%	282	17.7%	154	11.0%	171	19.2%	325	15.2%	180	16.9%
Intercarrier access services	64	11.5%	71	54.1%	134	30.5%	84	31.7%	90	27.5%	174	29.5%	91	8.4%	99	9.6%	190	9.0%	114	25.3%
Other fixed telephony	127	(6.7%)	119	(9.2%)	247	(7.9%)	119	(6.3%)	114	(4.8%)	233	(5.5%)	110	(7.5%)	107	(5.9%)	218	(6.7%)	101	(9.1%)
Total fixed telephony	**5,165**	**(2.2%)**	**4,900**	**(4.2%)**	**10,065**	**(3.2%)**	**4,842**	**(6.2%)**	**4,647**	**(5.2%)**	**9,489**	**(5.7%)**	**4,599**	**(5.0%)**	**4,564**	**(1.8%)**	**9,163**	**(3.4%)**	**4,536**	**(1.4%)**
Mobiles																				
Mobile services - retail and interconnection	2,168	8.9%	2,114	6.9%	4,282	7.9%	2,262	4.4%	2,219	4.9%	4,481	4.6%	2,399	6.1%	2,488	12.1%	4,887	9.1%	2,701	12.6%
Mobile services - wholesale	11	48.9%	13	65.7%	24	57.5%	16	45.5%	20	50.8%	36	48.3%	26	55.6%	25	28.9%	51	41.0%	26	0.0%
Mobile services	**2,179**	**9.0%**	**2,127**	**7.1%**	**4,307**	**8.1%**	**2,279**	**4.6%**	**2,238**	**5.2%**	**4,517**	**4.9%**	**2,425**	**6.4%**	**2,513**	**12.3%**	**4,938**	**9.3%**	**2,727**	**12.5%**
Mobile handsets	198	6.4%	184	10.5%	381	8.4%	211	6.7%	256	39.4%	467	22.4%	357	69.6%	361	40.8%	718	53.8%	459	28.6%
Total Mobiles	**2,377**	**8.8%**	**2,311**	**7.4%**	**4,688**	**8.1%**	**2,489**	**4.7%**	**2,494**	**7.9%**	**4,984**	**6.3%**	**2,782**	**11.8%**	**2,874**	**15.2%**	**5,656**	**13.5%**	**3,186**	**14.5%**
Internet																				
BigPond narrowband	142	(1.5%)	133	(12.3%)	275	(7.0%)	117	(17.2%)	102	(23.1%)	220	(20.0%)	79	(33.1%)	65	(36.2%)	144	(34.5%)	52	(34.2%)
Retail Broadband	197	63.4%	241	61.1%	438	62.2%	331	68.0%	399	65.1%	729	66.4%	511	54.4%	699	75.4%	1,210	65.9%	844	65.2%
Online broadband - wholesale	109	75.2%	158	82.6%	267	79.5%	208	91.4%	260	64.2%	468	75.3%	278	33.7%	287	10.5%	565	20.8%	278	0.0%
VAS & content	3	388.5%	8	483.2%	12	452.4%	9	159.5%	9	3.8%	18	48.5%	10	14.9%	10	13.6%	20	14.3%	16	60.0%
Total internet	**451**	**37.8%**	**541**	**38.9%**	**992**	**38.4%**	**665**	**47.6%**	**769**	**42.2%**	**1,434**	**44.7%**	**878**	**32.0%**	**1,061**	**37.9%**	**1,939**	**35.2%**	**1,190**	**35.5%**
IP & data access																				
Internet direct	58	(1.8%)	55	5.8%	113	1.8%	60	3.2%	57	3.8%	117	3.5%	62	3.9%	60	5.2%	122	4.5%	73	17.7%
Specialised data	467	(2.4%)	434	(10.2%)	901	(6.4%)	424	(9.1%)	397	(8.6%)	821	(8.9%)	377	(10.9%)	367	(7.5%)	745	(9.3%)	350	(7.2%)
Global products	42	2.4%	40	(6.5%)	81	(2.1%)	45	7.3%	47	18.5%	92	12.7%	45	(0.4%)	44	(5.7%)	89	(3.1%)	45	0.0%
IP access	94	34.0%	123	43.1%	217	39.0%	148	58.5%	172	39.3%	320	47.6%	180	21.1%	236	37.5%	416	29.9%	252	40.0%
Wholesale internet & data	86	11.6%	99	14.5%	184	13.2%	108	25.8%	126	28.1%	234	27.1%	127	18.1%	131	3.8%	258	10.4%	137	7.9%
Total IP & data access	**746**	**2.9%**	**751**	**0.0%**	**1,497**	**1.4%**	**785**	**5.2%**	**799**	**6.4%**	**1,584**	**5.8%**	**791**	**0.8%**	**839**	**4.9%**	**1,630**	**2.9%**	**857**	**8.3%**
Business services and applications																				
Managed network services	177	4.4%	187	3.1%	364	3.7%	175	(1.0%)	172	(8.1%)	347	(4.6%)	176	0.4%	182	5.5%	357	2.9%	185	5.1%
IT services	275	340.3%	272	267.9%	547	301.1%	282	2.4%	314	15.6%	597	9.0%	242	(14.2%)	259	(17.8%)	501	(16.1%)	213	(12.0%)
Business applications	60	4.9%	57	6.0%	118	5.4%	54	(10.4%)	57	(0.0%)	111	(5.3%)	57	6.4%	69	20.8%	127	13.8%	61	7.0%
Other	0	n/m	0	n/m	0	n/m	0	n/m	0	n/m	0	n/m	24	n/m	42	n/m	66	n/m	42	75.0%
Total business services and applications (iii)	**512**	**77.2%**	**517**	**66.8%**	**1,029**	**71.8%**	**511**	**(0.3%)**	**544**	**5.3%**	**1,055**	**2.5%**	**499**	**(2.3%)**	**551**	**1.4%**	**1,051**	**(0.4%)**	**501**	**0.4%**
Advertising and directories (ii)	945	17.0%	750	19.7%	1,696	18.2%	996	5.3%	818	9.0%	1,814	7.0%	879	(11.7%)	1,074	31.3%	1,952	7.6%	948	7.8%
CSL New World (iv)	380	0.9%	353	1.3%	734	1.1%	373	(1.9%)	457	29.3%	830	13.1%	519	39.1%	481	5.2%	1,000	20.4%	485	(6.6%)
Telstra Clear	304	8.0%	320	9.7%	625	8.8%	321	5.6%	298	(6.9%)	620	(0.8%)	286	(10.9%)	287	(3.9%)	573	(7.5%)	287	0.3%
Offshore revenue (v)	119	(83.4%)	133	(81.8%)	252	(82.6%)	139	16.6%	156	17.3%	295	17.0%	173	24.4%	176	12.6%	348	18.2%	174	0.6%
Pay TV bundling	121	86.1%	142	59.6%	263	70.7%	156	28.7%	164	15.6%	320	21.6%	164	5.3%	180	9.6%	344	7.5%	204	24.4%
Other minor items	155	165.4%	166	43.0%	321	84.0%	175	12.6%	187	12.8%	362	12.7%	135	(22.9%)	135	(27.7%)	271	(25.1%)	133	(1.5%)
Elimination for wireless broadband	-	n/m	-	n/m	-	n/m	-31	n/m	-43	n/m	-74	n/m	-75	141.9%	-179	315.8%	-255	244.7%	-249	232.0%
Total sales revenue	**11,275**	**7.8%**	**10,885**	**5.9%**	**22,161**	**6.9%**	**11,421**	**1.3%**	**11,291**	**3.7%**	**22,713**	**2.5%**	**11,630**	**1.8%**	**12,043**	**6.7%**	**23,672**	**4.2%**	**12,252**	**5.3%**
Other revenue	11	(17.6%)	9	(10.7%)	20	(14.5%)	10	(9.7%)	12	28.3%	22	7.9%	15	57.3%	21	73.4%	36	66.2%	120	700.0%
Total revenue	**11,286**	**7.8%**	**10,895**	**5.9%**	**22,181**	**6.8%**	**11,431**	**1.3%**	**11,303**	**3.8%**	**22,734**	**2.5%**	**11,645**	**1.9%**	**12,064**	**6.7%**	**23,709**	**4.3%**	**12,372**	**6.2%**
Other income	74	(72.3%)	187	36.3%	261	(35.6%)	128	72.1%	199	6.8%	328	25.4%	152	19.0%	99	(50.4%)	252	(23.2%)	107	(29.6%)
Total external income	**11,361**	**5.8%**	**11,081**	**6.3%**	**22,442**	**6.0%**	**11,559**	**1.7%**	**11,503**	**3.8%**	**23,062**	**2.8%**	**11,797**	**2.1%**	**12,163**	**5.7%**	**23,960**	**3.9%**	**12,479**	**5.8%**
Selected statistical data																				
Mobile voice telephone minutes (millions) (x)	3,404	13.0%	3,342	6.6%	6,745	9.8%	3,612	6.1%	3,700	10.7%	7,311	8.4%	4,147	14.8%	4,445	20.1%	8,591	17.5%	4,919	18.6%
Short Message Service (SMS) (number of messages) (millions)	1,142	23.0%	1,147	12.9%	2,289	17.8%	1,318	15.4%	1,700	48.2%	3,019	31.9%	2,227	68.9%	2,675	57.3%	4,902	62.4%	3,224	44.8%
Mobiles services in operation (thousands)	7,983	14.3%	8,227	8.2%	8,227	8.2%	8,582	7.5%	8,529	3.7%	8,529	3.7%	8,892	3.6%	9,212	8.0%	9,212	8.0%	9,319	4.8%
Broadband retail subscribers (thousands)	616	115.8%	842	99.1%	842	99.1%	1,177	91.1%	1,506	78.9%	1,506	78.9%	1,890	60.5%	2,406	59.7%	2,406	59.7%	2,845	50.6%
Broadband wholesale subscribers	612	177.6%	889	134.3%	889	134.34%	1,164	90.4%	1,427	60.6%	1,427	60.6%	1,622	39.3%	1,762	23.5%	1,762	23.5%	1,753	8.1%
Total broadband subscribers	**1,228**	**142.7%**	**1,731**	**115.8%**	**1,731**	**115.8%**	**2,341**	**90.7%**	**2,934**	**69.5%**	**2,934**	**69.5%**	**3,511**	**50.0%**	**4,168**	**42.1%**	**4,168**	**42.1%**	**4,598**	**31.0%**
Narrowband subscribers (thousands)	1,201	1.9%	1,205	1.0%	1,205	1.0%	1,143	(4.9%)	1,027	(14.8%)	1,027	(14.8%)	819	(28.3%)	654	(36.3%)	654	(36.3%)	595	(27.3%)
Retail basic access lines in service (millions)	8.21	(5.0%)	8.05	(4.6%)	8.05	(4.6%)	7.89	(4.0%)	7.78	(3.3%)	7.78	(3.3%)	7.74	(1.8%)	7.78	(0.0%)	7.78	(0.0%)	7.83	1.1%
Wholesale basic access lines in service (millions)	1.98	15.8%	2.07	12.5%	2.07	12.5%	2.14	8.2%	2.16	4.3%	2.16	4.3%	2.12	(1.2%)	1.98	(8.3%)	1.98	(8.3%)	1.73	(18.3%)
Total basic access lines in service (millions)	**10.19**	**(1.5%)**	**10.12**	**(1.6%)**	**10.12**	**(1.6%)**	**10.03**	**(1.6%)**	**9.94**	**(1.8%)**	**9.94**	**(1.8%)**	**9.86**	**(1.7%)**	**9.76**	**(1.8%)**	**9.76**	**(1.8%)**	**9.56**	**(3.1%)**
Local calls (number of calls) (millions)	4,412	(8.7%)	4,057	(11.1%)	8,469	(9.9%)	3,882	(12.0%)	3,550	(12.5%)	7,432	(12.2%)	3,390	(12.7%)	3,138	(11.6%)	6,528	(12.2%)	2,991	(11.8%)
National long distance minutes (millions)	3,977	(8.4%)	3,766	(9.8%)	7,743	(9.1%)	3,666	(7.8%)	3,549	(5.8%)	7,215	(6.8%)	3,594	(2.0%)	3,536	(0.4%)	7,130	(1.2%)	3,530	(1.8%)
Fixed to mobile minutes (millions) (ix)	1,710	TBA	1,641	TBA	3,351	TBA	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	1.0%
International direct minutes (millions)	304	(10.1%)	276	(11.8%)	580	(10.9%)	273	(10.2%)	261	(5.4%)	534	(7.9%)	264	(3.3%)	264	1.1%	528	(1.1%)	273	3.5%
ISDN access (basic access lines equivalents) (thousands) (vii)	1,200	8.3%	1,208	3.4%	1,208	3.4%	1,205	0.4%	1,214	0.5%	1,214	0.5%	1,226	1.8%	1,172	(3.5%)	1,172	(3.5%)	1,204	(1.8%)
Pay TV bundling (thousands)	308	48.0%	335	30.2%	335	30.2%	340	10.6%	344	2.6%	344	2.6%	347	1.9%	390	13.5%	390	13.5%	426	22.8%

(i) The revenue reported prior to December 2004 was prepared under the previous AGAAP and has not been restated under A-IFRS. However, A-IFRS changes have only impacted on the Other Income line and Sales Revenue has remained the same as it was under AGAAP.
(ii) The growth rates relating to advertising and directories have been impacted by the acquisition of the Trading Post group in March 2004.
(iii) The growth rates relating to business services and applications have been impacted by the acquisition of the KAZ group in July 2004
(iv) The growth rates in CSL New World revenue has been impacted by the merger of Hong Kong CSL Limited and New World PCS Limited in March 2006.
(v) The growth rates in offshore services have been impacted by the acquisition of Cable Telecom in February and the PSI Net group in August 2004.
(vi) The Growth rates relating to customer premises equipment have been impacted by the acquisition of Telstra Business Systems (Formerly known as Damovo) in September 2004.
(vii) ISDN access (basic lines equivalents) have been restated due to a revision of the channel allocation basis to SIO's.
(viii) UIG4 has only been adjusted for in 2006 and 2007 financial years
(ix) ISDN Fixed to mobile minutes of use have been removed from this category. This line has been restated to present only PSTN fixed to mobile minutes of use.
(x) Infocalls have been removed from this category. Therefore the information presented in previous reporting periods have been restated.

Media Release

21 February 2008 056/2008

Telstra delivers strong earnings growth, exceeds analyst consensus, raises guidance

- **Sales revenue up 5.3%**
- **EBIT up 6.2%**
- **Profit up 13%**
- **Dividend 14 cents per share**
- **IT transformation on track**
- **Revenue and earnings guidance raised**

Telstra today announced that **earnings before interest and tax** (EBIT) for the half-year ended 31 December 2007 rose 6.2% to $3.1 billion (including a $100 million distribution from FOXTEL and $37 million from the sale of eBusiness). Excluding these items, EBIT grew by 1.5% to $3 billion. **Profit after tax** rose 13% to $1.9 billion.

The result was underpinned by strong sales across all retail business units and key product segments, including broadband, mobiles, PSTN and Sensis. **Sales revenue** was significantly ahead of market expectations, growing 5.3% to $12.3 billion. **Total income** grew 5.8% to $12.5 billion.

Telstra Chief Executive Officer, Mr Sol Trujillo, said: "We have again **exceeded analyst consensus**, delivering not only strong top-line revenue growth but also accelerating earnings at the bottom-line. Our transformation is revitalising every aspect of the business and we now rank at or near the **top of our global peer group** on many key financial performance measures.

"We are growing in the key markets of the future while securing our traditional core business. Despite fierce price competition, we have again **won broadband and post-paid mobile market share** from competitors and **grown average revenue per user** (ARPU) by offering customers better products and services and a compelling value proposition. We have again defied global trends by **growing our retail PSTN business**. And given this strong overall performance, we have **raised guidance."**

For fiscal 2008, the company now expects reported outcomes of:
- Total revenue growth of 3% to 4% (up from guidance of 2% to 3% growth);
- EBITDA growth of 4% to 5% (up from guidance of 3% to 4% growth);
- EBIT growth of 6% to 8% (up from guidance of 5% to 7% growth).

Mr Trujillo said he was encouraged by the performance of all of Telstra's **retail business units,** which generated strong revenue growth and gained market share. Retail sales revenue grew 7.6% for the half, with sales revenue growing 8.5% in Telstra Consumer and Channels, 9.3% in Telstra Business and 4.5% in Telstra Enterprise and Government.

"Despite competitive price pressures and adverse regulatory pricing outcomes, revenue growth across our business units and key product segments is world-leading. More importantly, ARPUs are up, something few if any of our global peers have been able to achieve. This reflects the benefits of our **market-based management** and **value-based pricing** strategies**,** which allow us to know our customers and meet their needs better than ever before," he said.

Total expenses increased by 5.6% to $9.4 billion, linked to transformation related activity, including higher redundancy costs, with CDMA migration and strong mobile and broadband volumes leading to increased cost of goods sold.

Mr Trujillo said: "As we foreshadowed at our Investor Day, operating expenses are expected to increase this year as the costs of the IT component of our transformation peak, before starting to decline as we turn off our legacy systems and network platforms. Earnings and free cash flow will continue to improve."

Total **workforce** decreased 1,768 for the half and has reduced by 7,875 since 1 July 2005 (excluding acquisition and divestment activity). Telstra is well placed to meet the top end of its previously announced headcount reduction targets of 6,000-8,000 by the end of fiscal 2008 and 12,000 by the end of fiscal 2010.

Total **mobile revenue** grew 14.5% to $3.2 billion driven by growth in customers and usage. Mobile services revenue grew by 12.5% and Telstra continues to gain revenue market share. Total mobile SIOs stood at 9.3 million at the end of December and Telstra had more than 3.5 million 3G subscribers at the end of January. Telstra added post-paid mobile customers at almost three times the rate of its nearest competitor. Mobile data revenue increased 46.1% to $716 million with non-SMS data (including datacards, streaming TV, music downloads, video calls and other data-intensive services) now generating more than half of mobile data revenue. **Wireless broadband** revenue grew 205%, fuelled by the addition of 136,000 subscribers for a total of 464,000.

"We are winning the 3G value game and have clear market share leadership, particularly among the all-important high value customers. With faster speeds, better coverage, and more compelling services and content, the Next G™ network is a huge competitive advantage that has driven Telstra's 3G mobile penetration from a few per cent to 38% of our customer base in only 16 months. We expect this to reach 60 to 70% by 2010," Mr Trujillo said.

"Our 3G customers are embracing the opportunity to move data in real time at speeds unsurpassed by any other commercially available mobile network in the world and this is showing in our world-leading mobile data revenue growth. While mobile ARPUs are declining for most of our international peers, ours are strengthening. The **ARPU premium** of post-paid 3G customers over their 2G counterparts has been sustained above $20. With our enlarged 3G customer base, 3G revenues overtook 2G revenues for the first time in the December quarter."

Retail broadband revenue grew a market-leading 65.2% to $844 million. Retail **broadband customer numbers** grew strongly to 2.6 million, with 439,000 added in the half. Telstra's retail broadband market share increased by 1 percentage point in the half to 48%, the fifth consecutive half Telstra has gained market share, with Telstra adding customers at three times the rate of its nearest competitor. ARPU increased 6.8%, driven by the growing proportion of customers on high value "Liberty" plans.

"We've again achieved the rare double of broadband market share gains and ARPU growth when many incumbents around the globe are facing declines one or both of these measures. We have also passed an important inflection point, with the additional revenue generated from retail broadband now exceeding the revenue decline in the PSTN business," Mr Trujillo said.

PSTN revenue declined to $3.4 billion, a 2.1% slowdown compared with 5.8% and 7.8% declines in the first halves of fiscal 2007 and 2006 respectively. Retail PSTN revenue increased 0.3% and retail lines grew by 48,000 in the half. However wholesale line losses to ULL services led to a total SIO decline of 203,000 in the half to 9.55 million.

"Our market-based management initiatives have helped us defy the trends of our global peers and slowed the overall PSTN decline for the fourth consecutive half. PSTN ARPU has also increased," Mr Trujillo said.

Sensis grew its **sales revenue** by 7.8% to $954 million with the Yellow™ and White directories and emerging businesses delivering strong results. Yellow™ revenue increased 3.2% to $543 million with print revenues growing 0.2% and online revenue up 21.5%, while White Pages revenue grew 10.3% to $161 million. Emerging businesses, such as Whereis and MediaSmart, grew 27%. SouFun posted unaudited revenue growth of 68% and EBITDA growth of 97% in the half (proforma in US$).

Mr Trujillo said Sensis had been strengthened through diversification and that its investment in updated processes and systems was already delivering benefits through the performance of Yellow™.

"Sensis has again delivered world-leading revenue growth and margins. In the face of challenging industry conditions, returning Yellow™ print to positive growth is an outstanding achievement," Mr Trujillo said.

In subscription TV**, FOXTEL** delivered another strong half. Revenue increased 17% to $805 million while EBITDA grew 62% to $165 million. Total subscribers (including wholesale customers) grew 12.7% to 1.5 million.

"FOXTEL ARPU is increasing through growing takeup of services such as FOXTEL iQ. Demonstrating the promise of our integration strategy, Telstra Mobile FOXTEL continues to be an attractive content proposition for our Next G™ customers," Mr Trujillo said.

Total **offshore controlled entities revenue** decreased by 3.3% to $946 million. In local currency terms, CSL New World revenue grew 6.3%, driven by increased customers, usage and handset sales, while in New Zealand, TelstraClear revenue declined 1.2%, an improvement on recent trends. Revenue from other offshore controlled entities grew by 0.6% to $174 million.

Other **key financial outcomes** included:

- The reported **EBITDA margin** was steady at 42.2%, but this was impacted by redundancies being brought forward. Underlying margins continued to increase.
- **Accrued capital expenditure** was $2.3 billion, consistent with our full year guidance of $4.6 to $4.9 billion.
- **Free cash flow** increased 53.6% to $1.3 billion, as the company starts to realise transformation benefits.

Mr Trujillo said Telstra's **transformation** remained **on track**:

- The migration of customers to Telstra's new customer care and billing system (TR1) is on track for completion by the end of June 2008 and will improve the service we can offer our customers.
- The second stage of the IT transformation –TR2 – is on schedule to be in production by the end of this calendar year.
- Telstra expanded the Next G™ national wireless broadband network by a further 300 base stations, for a total of 6,400 compared with 3,480 for CDMA. Covering more than two million km^2, it is the world's largest, most advanced national 3GSM wireless broadband network.
- Telstra's field workforce achieved a 20% productivity improvement in the half.

Telstra remains committed to participating in the Government's process to establish a **fibre-to-the-node** network, consistent with the shareholder-focused principles the company has previously articulated, and looks forward to further constructive engagement with Minister Conroy.

Mr Trujillo said that there was no change to fiscal 2008 CAPEX guidance or the **long-term management objectives** for fiscal 2010.

Telstra's directors resolved to pay a fully franked **interim ordinary dividend** of 14 cents per share, representing a total payment of $1.74 billion. Shares will start trading excluding entitlement to the dividend on 3 March 2008. The record date will be 7 March 2008. Payment will be made on 4 April 2008.

Telstra Media Contact: Andrew Maiden - 0428 310 700

Telstra's national media inquiry line is 1300 769 780 and the Telstra Media Centre is located at:
www.telstra.com.au/abouttelstra/media

For news, views and discussion on telecommunications in Australia see:
www.nowwearetalking.com.au

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 2007

Page number

Half-Year Financial Statements

Notes to the Half-Year Financial Statements

Income Statement

for the half-year ended 31 December 2007

	Telstra Group	
	Half-year ended 31 December	
	2007	2006
	$m	$m
Income		
Revenue (excluding finance income)	**12,372**	11,645
Other income	**107**	152
	12,479	11,797
Expenses		
Labour	**2,092**	1,996
Goods and services purchased	**2,676**	2,566
Other expenses	**2,539**	2,318
	7,307	6,880
Share of net losses from jointly controlled and associated entities	**-**	1
	7,307	6,881
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**5,172**	4,916
Depreciation and amortisation	**2,052**	1,978
Earnings before interest and income tax expense (EBIT)	**3,120**	2,938
Finance income	**30**	29
Finance costs	**530**	549
Net finance costs	**500**	520
Profit before income tax expense	**2,620**	2,418
Income tax expense	**678**	706
Profit for the period	**1,942**	1,712
Attributable to:		
Equity holders of Telstra Entity	**1,926**	1,704
Minority interest	**16**	8
	1,942	1,712
Earnings per share (cents per share)	**cents**	cents
Basic	**15.6**	13.8
Diluted	**15.5**	13.7

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 2007

	Telstra Group Half-year ended 31 December 2007 $m	2006 $m
Profit for the period	**1,942**	1,712
Foreign currency translation reserve		
Translation of financial statements of non-Australian controlled entities	**(73)**	(12)
Transfer to profit for the period on sale of jointly controlled and associated entities	**-**	(1)
	(73)	(13)
Cash flow hedging reserve		
Changes in fair value of cash flow hedges	**332**	(60)
Changes in fair value transferred to profit for the period	**(164)**	107
Changes in fair value transferred to property, plant and equipment	**1**	-
Income tax on movements in the cash flow hedging reserve	**(51)**	(14)
	118	33
Retained profits		
Actuarial gain on defined benefit plans	**120**	399
Income tax on actuarial gain on defined benefit plans	**(36)**	(119)
	84	280
Minority interests		
Translation of financial statements of non-Australian controlled entities	**(8)**	-
Total comprehensive income for the period	**2,063**	2,012
Attributable to:		
Equity holders of Telstra Entity	**2,055**	2,004
Minority interest	**8**	8
	2,063	2,012

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

Statement of Financial Position

as at 31 December 2007

	Telstra Group as at 31 Dec 2007 $m	Telstra Group as at 30 June 2007 $m
Current assets		
Cash and cash equivalents	**931**	823
Trade and other receivables	**4,077**	3,891
Inventories	**391**	318
Derivative financial assets	**59**	41
Prepayments	**237**	266
Total current assets	**5,695**	5,339
Non current assets		
Trade and other receivables	**197**	190
Inventories	**17**	17
Investments - accounted for using the equity method	**17**	16
Investments - other	**1**	3
Property, plant and equipment	**24,436**	24,607
Intangible assets	**6,899**	6,639
Deferred tax assets	**-**	1
Derivative financial assets	**485**	249
Defined benefit assets	**832**	814
Total non current assets	**32,884**	32,536
Total assets	**38,579**	37,875
Current liabilities		
Trade and other payables	**3,593**	4,221
Borrowings	**3,652**	2,743
Current tax liabilities	**297**	449
Provisions	**642**	614
Derivative financial liabilities	**156**	177
Revenue received in advance	**1,284**	1,230
Total current liabilities	**9,624**	9,434
Non current liabilities		
Trade and other payables	**187**	195
Borrowings	**12,363**	11,619
Deferred tax liabilities	**1,539**	1,513
Provisions	**783**	834
Derivative financial liabilities	**932**	1,328
Revenue received in advance	**390**	372
Total non current liabilities	**16,194**	15,861
Total liabilities	**25,818**	25,295
Net assets	**12,761**	12,580
Equity		
Share capital	**5,511**	5,611
Reserves	**(216)**	(258)
Retained profits	**7,249**	6,976
Equity available to Telstra Entity shareholders	**12,544**	12,329
Minority interests	**217**	251
Total equity	**12,761**	12,580

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 2007

		Telstra Group	
		Half-year ended 31 December	
		2007	2006
	Note	**$m**	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**13,522**	12,736
Payments to suppliers and to employees (inclusive of GST)		**(8,474)**	(8,339)
Net cash generated by operations		**5,048**	4,397
Income taxes paid		**(891)**	(966)
Net cash provided by operating activities		**4,157**	3,431
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(2,268)**	(2,132)
- intangible assets		**(742)**	(395)
Capital expenditure (before investments)		**(3,010)**	(2,527)
- shares in controlled entities (net of cash acquired)		**-**	(314)
- adjustment to net proceeds from CSL New World Mobility Group merger		**-**	(21)
- payments for other investments		**(1)**	(2)
Total capital expenditure		**(3,011)**	(2,864)
Proceeds from:			
- sale of property, plant and equipment		**19**	25
- sale of shares in controlled entities (net of cash disposed)	5	**1**	222
Proceeds from finance lease principal amounts		**28**	18
Distribution received		**100**	-
Interest received		**30**	30
Net cash used in investing activities		**(2,833)**	(2,569)
Operating cash flows less investing cash flows		**1,324**	862
Cash flows from financing activities			
Proceeds from borrowings		**3,746**	2,810
Proceeds from Telstra bonds		**-**	373
Repayment of borrowings		**(2,489)**	(1,987)
Repayment of finance lease principal amounts		**(10)**	(17)
Staff repayments of share loans		**8**	11
Purchase of shares for employee share plans		**(129)**	-
Finance costs paid		**(583)**	(540)
Dividends paid to equity holders of Telstra Entity	3	**(1,740)**	(1,739)
Dividends paid to minority interest		**(18)**	-
Net cash used in financing activities		**(1,215)**	(1,089)
Net increase/(decrease) in cash and cash equivalents		**109**	(227)
Cash and cash equivalents at the beginning of the period		**823**	689
Effects of exchange rate changes on cash and cash equivalents		**(1)**	(5)
Cash and cash equivalents at the end of the period	5	**931**	457

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 2007

Telstra Group

	Share capital $m	Reserves: Foreign currency translation (i) $m	Reserves: Cash flow hedging (ii) $m	Reserves: Consolidation fair value (iii) $m	Reserves: General reserve (iv) $m	Retained profits $m	Minority interests $m	Total $m
Balance at 1 July 2006	5,569	(210)	14	32	4	7,179	246	12,834
- total comprehensive income for the period	-	(13)	33	-	-	1,984	8	2,012
- dividends paid	-	-	-	-	-	(1,739)	-	(1,739)
- transfers to retained profits	-	-	-	(2)	-	2	-	-
- amounts repaid on share loans provided to employees	10	-	-	-	-	-	-	10
- share-based payments	11	-	-	-	-	-	-	11
Balance at 31 December 2006	5,590	(223)	47	30	4	7,426	254	13,128
Balance at 1 July 2007	5,611	(325)	37	26	4	6,976	251	12,580
- total comprehensive income for the period	**-**	**(73)**	**118**	**-**	**-**	**2,010**	**8**	**2,063**
- dividends paid	**-**	**-**	**-**	**-**	**-**	**(1,740)**	**(42)**	**(1,782)**
- transfers to retained profits	**-**	**-**	**-**	**(3)**	**-**	**3**	**-**	**-**
- amounts repaid on share loans provided to employees	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**8**
- additional shares purchased	**(129)**	**-**	**-**	**-**	**-**	**-**	**-**	**(129)**
- share-based payments	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**21**
Balance at 31 December 2007	**5,511**	**(398)**	**155**	**23**	**4**	**7,249**	**217**	**12,761**

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

(i) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the conversion of the 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) Cash flow hedging reserve

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

(iii) Consolidation fair value reserve

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) General reserve

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 general purpose financial report and is to be read in conjunction with our Annual Financial Report as at 30 June 2007. 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 Accounting Standards applicable in Australia, including 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 judgments 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 profit.

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

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

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

1.3 Rounding

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

Notes to the Half-Year Financial Statements (continued)

2. Summary of accounting policies

2.1 Accounting policies

Our accounting policies are consistent with those disclosed in the Annual Financial Report as at 30 June 2007, with the exception of those detailed below.

2.2 Changes in accounting policies

The following accounting policy changes occurred during the half-year ended 31 December 2007.

(i) Reinstatement of options in Australian Accounting Standards

AASB 2007-4: "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments" became applicable to annual reporting periods beginning on or after 1 July 2007. We have applied this accounting standard in our financial report for the half-year ended 31 December 2007.

This standard amends a number of existing Australian Accounting Standards by re-introducing optional accounting treatments contained in International Financial Reporting Standards (IFRSs) that were previously deleted by the Australian Accounting Standards Board (AASB). These options have not resulted in any changes to our accounting policies, as our existing policies are considered to provide the most relevant and reliable information to users.

(ii) Segment reporting

AASB 8: "Operating Segments" was approved by the AASB in February 2007 and replaces AASB 114: "Segment Reporting". We have elected to early adopt and apply this standard in our financial report for the half-year ended 31 December 2007.

AASB 8 requires entities to measure and report operating segments based on their internal management reporting structure. This has resulted in some changes to our identification of reportable segments, the measurement of segment results, and the level of information disclosed regarding our segments.

Comparative segment information has been restated to comply with AASB 8. Refer to note 4 for further details.

(iii) Presentation of financial statements

AASB 101: "Presentation of Financial Statements" was revised by the AASB in September 2007. We have elected to early adopt and apply this standard in our financial report for the half-year ended 31 December 2007.

The revision of the standard affects the presentation of the financial statements. There is no impact on our financial results, financial position or cash flows as a result of this standard. The purpose of the changes is to aggregate information in the financial statements on the basis of shared characteristics. All non owner changes in equity are now aggregated and presented in a Statement of Comprehensive Income and all owner changes in equity are now presented in a Statement of Changes in Equity.

The revision also changes the title of other financial statements; the Balance Sheet is now known as the Statement of Financial Position and the Cash Flow Statement is now known as the Statement of Cash Flows.

(iv) Customer loyalty programmes

AASB Interpretation 13: "Customer Loyalty Programmes" is effective from 1 July 2008, however we have elected to early adopt and apply this interpretation in our financial report for the half-year ended 31 December 2007.

The interpretation covers situations in which an entity, as part of a sales transaction, awards credits to customers that can be redeemed for products and services in the future. It requires entities to recognise these credits as a separately identifiable component of revenue, which is deferred at the date of the initial sale and recognised as revenue when the credits are redeemed.

Telstra's current accounting policy for revenue arrangements with multiple deliverables, as detailed in note 2.17 of our 30 June 2007 Annual Financial Report, complies with the requirements of this interpretation. As such there is no impact on our financial results, financial position or cash flows as a result of this interpretation.

Notes to the Half-Year Financial Statements (continued)

3. Dividends

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

	Telstra Entity Half-year ended 31 December	
	2007	2006
	$m	$m
Dividends paid		
Previous year final dividend paid	**1,740**	1,739
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	
	2007	2006
	¢	¢
Dividends per ordinary share		
Interim dividend (a)	**14.0**	14.0

(a) As the interim dividend for the half-year ended 31 December 2007 was not determined or publicly recommended by the Board as at 31 December 2007, no provision for dividend was raised prior to, or as at, that date in the statement of financial position. The decision to pay an interim dividend is reported as an event after balance date (refer to note 7 for further information).

Notes to the Half-Year Financial Statements (continued)

4. Segment information

As discussed in note 2.2, we have elected to early adopt AASB 8: "Operating Segments" for the half-year ended 31 December 2007. Comparative segment information has been restated in accordance with AASB 8.

Business segments

Under AASB 8 we report our segment information on the same basis as our internal management reporting structure, which drives how our company is organised and managed. This is different to prior reporting periods where certain adjustments and reallocations were made to our internal structure for segment reporting purposes, pursuant to the definitions of segment revenues and segment expenses contained in the previous accounting standard.

As a result of the adoption of AASB 8, the following changes have been made to the identification of our reportable segments for the half-year ended 31 December 2007:

- CSL New World Mobility group (CSL New World) and TelstraClear group (TelstraClear), previously aggregated under "Telstra International", are now reported separately; and
- The International Head Office previously included in "Telstra International" now forms part of Strategic Marketing to reflect internal accountability. As such there is no longer a separate "Telstra International" segment.

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 BigPond;
- Telstra Media;
- Strategic Marketing; and
- our Corporate areas.

For a description of our reportable segments and other business units, refer to note 5 of the 30 June 2007 Annual Financial Report.

Segment financial results

The measurement of segment result has also changed with the adoption of AASB 8 to be 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 depreciation and amortisation of the Telstra Entity fixed assets (including network assets) which are managed centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Instead our reportable segments record these amounts upfront; and
- redundancy expenses for the Telstra Entity.

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

- sales revenue associated with mobile handsets for Telstra Consumer Marketing & Channels (TC&C), Telstra Business (TB) and Telstra Enterprise & Government (TE&G) are mainly allocated to the TC&C segment. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&C, TB and TE&G depending on the type of customer serviced;
- revenue derived from our BigPond Internet products and its related segment assets are recorded in the customer facing business segments of TC&C, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations recognise certain expenses in relation to the installation and running of the broadband cable network; and
- revenue derived from our Telstra Country Wide customers is recorded in our TC&C, TB and TE&G segments. Direct costs associated with this revenue is also recorded in TC&C, 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 2007:

Telstra Group

	Telstra Consumer Marketing & Channels	Telstra Business	Telstra Enterprise & Govern-ment	Telstra Opera-tions	Telstra Wholesale	Sensis	CSL New World	Telstra Clear	All other	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Half-year ended 31 December 2007										
Revenue from external customers	5,025	1,808	2,291	128	1,263	953	485	287	32	12,272
Other income	29	7	-	7	-	-	-	-	26	69
Total income	5,054	1,815	2,291	135	1,263	953	485	287	58	12,341
Labour expenses	191	100	334	732	37	210	37	49	402	2,092
Goods and services purchased	1,324	351	498	37	(23)	85	231	141	32	2,676
Other expenses	345	67	85	1,334	14	197	86	43	365	2,536
Depreciation and amortisation	-	-	21	33	-	71	87	66	1,774	2,052
EBIT contribution	3,194	1,297	1,353	(2,001)	1,235	390	44	(12)	(2,515)	2,985
Total assets	1,669	453	1,709	3,804	399	2,197	2,022	1,250	25,076	38,579

Telstra Group

	Telstra Consumer Marketing & Channels	Telstra Business	Telstra Enterprise & Govern-ment	Telstra Opera-tions	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 2006										
Revenue from external customers	4,632	1,655	2,193	120	1,324	886	519	287	29	11,645
Other income	75	3	1	10	6	-	-	-	5	100
Total income	4,707	1,658	2,194	130	1,330	886	519	287	34	11,745
Labour expenses	193	77	379	757	36	192	41	49	272	1,996
Goods and services purchased	1,302	317	454	33	(19)	86	241	143	3	2,560
Other expenses	279	55	90	1,278	15	162	97	52	292	2,320
Share of equity accounted losses	-	-	-	-	-	1	-	-	-	1
Depreciation and amortisation	-	-	24	30	-	55	105	63	1,701	1,978
EBIT contribution	2,933	1,209	1,247	(1,968)	1,298	390	35	(20)	(2,234)	2,890
Total assets	1,692	415	1,601	2,928	475	2,174	2,303	1,337	23,655	36,580

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	
	2007	2006
	$m	$m
EBIT contribution for reportable segments	**5,500**	5,124
All other	**(2,515)**	(2,234)
Amounts excluded from underlying results:		
- distribution from FOXTEL (a)	**100**	-
- net gain on disposal of non current assets	**38**	52
- impairment losses	**(3)**	-
- reversal of impairment losses	**-**	2
- other	**-**	(6)
Telstra Group EBIT (reported)	**3,120**	2,938

(a) The $100 million distribution received from FOXTEL during the period has been recorded in revenue in the income statement. Our unrecognised share of losses from FOXTEL as at 31 December 2007, after taking into account this distribution and FOXTEL's results for the period, is $144 million (30 June 2007: $83 million).

Notes to the Half-Year Financial Statements (continued)

5. Notes to the statement of cash flows

Reconciliation of cash balances

	Telstra Group Half-year ended 31 December	
	2007	2006
	$m	$m
Cash and cash equivalents	**931**	457

Acquisitions and disposals

During the half-year ended 31 December 2007 there were no acquisitions made. The following are disposals of investments made during the period:

KAZ Group Pty Limited

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

Invizage Pty Ltd

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

Telstra eBusiness Services Pty Limited

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

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

Notes to the Half-Year Financial Statements (continued)

6. Contingent liabilities, contingent assets and expenditure commitments

There have been no significant changes from 30 June 2007 to our contingent assets.

Contingent liabilities

There have been no significant changes from 30 June 2007 to guarantees, indemnities and support provided by us, or to legal actions we are involved in, apart from:

Seven Network Limited and C7 Pty Limited

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

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

On 27 July 2007 the Federal Court dismissed Seven's case on all grounds. Final orders have been made and in December 2007 Seven paid Telstra $13 million for costs. Seven has appealed some aspects of the decision, and the appeal hearing is anticipated to be in mid to late 2008.

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

A number of Telstra's competitors have notified access disputes in relation to ULLS. In June 2007, the ACCC issued a number of draft final decisions that set out the monthly access charges for fiscal 2008 to be $6.00 for band 1, $14.40 for band 2 and $30.30 for band 3. In January 2008, the ACCC made binding final decisions in two of these access disputes. The final decisions set out the monthly charges for fiscal 2008 to be $6.20 for band 1, $14.30 for band 2 and $28.50 for band 3. The ACCC also decided that Telstra had to reimburse the access seekers for the difference in the monthly access charges from the date when negotiations between Telstra and the access seekers commenced. In January 2008, Telstra filed in the Federal Court of Australia judicial review applications challenging these final decisions.

A number of Telstra competitors have notified access disputes in relation to LSS. In July, August and December 2007, the ACCC issued a number of final decisions that the monthly charge for LSS be set at $2.50 per month. The ACCC also decided that Telstra had to reimburse the access seekers for the difference in the monthly access charge from the date when negotiations between Telstra and the various access seekers commenced. In August 2007, Telstra filed in the Federal Court of Australia judicial review applications challenging these final decisions. The Federal Court heard some of these applications in December 2007 and reserved judgement.

The ACCC is yet to make final decisions in a number of remaining ULLS and LSS access disputes. When the ACCC makes its final decisions, it may find that Telstra has to reimburse the access seekers for the difference in the monthly access charge from the date on which the various access seekers lodged their access dispute or from a point prior to that time when negotiations between Telstra and the access seekers commenced.

On 24 January 2007, Telstra commenced proceedings in the High Court against the Commonwealth, the ACCC and eleven access seekers who had, prior to 24 January 2007, notified access disputes in respect of ULLS and/or LSS. Telstra is seeking declarations from the High Court that Part XIC of the Trade Practices Act is invalid as it applies to ULLS and LSS, together with administrative relief directed at each of the specific access disputes. The proceedings were heard by the Full Court of the High Court on 13 and 14 November 2007 and judgement has been reserved.

Class action

The Federal Court dismissed a shareholder class action commenced in January 2006, awarding judgement for Telstra. Telstra, in January 2008, paid a sum of $5 million under the terms of the Deed of Settlement approved by the Federal Court on 13 December 2007.

Expenditure commitments

There have been no significant changes from 30 June 2007 to our expenditure commitments, apart from the following contracts we have entered into:

- Contract for the provision of operational support services until 2014 for $754 million;
- Contract for the construction of network assets for $147 million; and
- Contract for the delivery of next generation network equipment for $253 million.

Notes to the Half-Year Financial Statements (continued)

7. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 31 December 2007 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 21 February 2008, the directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 14 cents per ordinary share, amounting to $1,740 million. The record date for the interim dividend is 7 March 2008 with payment to be made on 4 April 2008. Shares will trade excluding entitlement to the dividends on 3 March 2008.

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 2007.

In accordance with the Dividend Reinvestment Plan (DRP) rules, the Company has also determined, as a result of the reduced number of Trading Days which fall after the Record Date, to change the calculation of the allocation price for the DRP for this interim dividend only, being a reduction in the pricing period from 12 days to 11 days. The change is required to allow for sufficient processing time to cater for public holidays.

Directors' Declaration

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

(a) the financial statements and notes, set out on pages 2 to 15, of the Telstra Group:

(i) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001;

(ii) give a true and fair view of the financial position as at 31 December 2007 and performance, as represented by the results of the operations and cash flows, for the half-year ended 31 December 2007; and

(iii) in the directors' opinion, have been made out in accordance with the Corporations Act 2001.

(b) at the date of this declaration, 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.

The directors have elected to early adopt AASB 8 "Operating Segments", AASB 101 "Presentation of Financial Statements" and AASB Interpretation 13 "Customer Loyalty Programmes", for the half-year ended 31 December 2007 in accordance with subsection 334(5) of the Corporations Act 2001.

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

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

21 February 2008
Melbourne, Australia

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 the Telstra Group (Telstra Corporation Limited and the entities it controlled at the period end or from time to time during the period), which comprises the statement of financial position as at 31 December 2007, 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, a summary of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Telstra Group 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 an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Telstra Group's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of the Telstra Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(i) giving a true and fair view of the Telstra Group's financial position as at 31 December 2007 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 Van Gorp
Partner

21 February 2008
Melbourne, Australia

Telstra Corporation Limited and controlled entities

Directors' Report

For the half-year ended 31 December 2007

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 2007. Financial comparisons used in this report are of results for the half-year ended 31 December 2007 compared with the half-year ended 31 December 2006.

Transformation Highlights

Our transformation continues to exceed operational and financial objectives as we deliver on our strategy and continue to move forward as a market leader in the communications industry. Positive earnings growth has been recorded for the first half of fiscal 2008, with our peak capital spending year now behind us. We will continue to streamline our processes with a view to creating long term value for our shareholders and we expect both our earnings and margins to steadily improve in the coming years as the benefits from our transformation continue to flow across all areas of the business.

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

- we launched the first phase of our IT transformation, with Release 1.0 going into production in October 2007 - an important milestone which when completed, will provide new IT capabilities that will reduce complexity for our people and customers and lead to further improvements in customer service and employee productivity;
- we extended our Next G™ network coverage to 25% more territory than the published coverage of the CDMA network, offering commercially available speeds that are unsurpassed anywhere in the world to 99% of Australia's population;
- since its launch, our Next IP™ network is changing the paradigm in driving strong customer take up of IP and data access services in our Enterprise business, growing over 28% versus the first half of fiscal 2007;
- we upgraded our hybrid fibre-coaxial (HFC) broadband network to 30Mbps in Melbourne and Sydney - we now have the fastest fixed and mobile broadband networks in Australia; and
- we unveiled our new retail strategy with our interactive T[life]™ retail store in Sydney as well as the state-of-the-art Telstra Experience Centre where business and government customers can get hands-on experience using Telstra's world-class products and technologies.

Other highlights over the last six months include the following:

- recording positive retail churn in fixed telephony, leading to world-class trends in retail PSTN revenues;
- outperformed our nearest competitor 3:1 on incremental broadband services and 2.5:1 on postpaid mobile, critical variables for growth of our business;
- improvement in field workforce productivity by 20% (compared with January 2006);
- achievement of 99.999% reliability on the Next IP™ network for business; and
- continuing evolution as a media comms company ie. Mobile Foxtel, BigPond TV.

Furthermore, we have recently committed to activating high-speed ADSL2+ broadband in over 900 telephone exchanges, which will service homes and businesses across all states and territories when complete. This upgrade has become possible through the removal of regulatory roadblocks by the Federal Government and is set to improve broadband service delivery to all of Australia.

We remain committed to constructively participating in the Government's process to invest in a Fibre-To-The-Node network in accordance with our shareholder based principles previously stated.

Directors' Report

CDMA network

The Minister for Broadband, Communications and the Digital Economy has announced that the closure date of our CDMA network has been set at 28 April 2008. We are now planning to close the network on that date and are continuing to migrate the last of our CDMA customers.

Results of operations

Telstra's net profit for the half-year was $1,942 million (2006: $1,712 million). This result was after deducting:

- net finance costs of $500 million (2006: $520 million); and
- income tax expense of $678 million (2006: $706 million).

Earnings before interest and income tax expense was $3,120 million, representing a 6.2% or $182 million increase on the prior corresponding period result of $2,938 million.

Our basic earnings per share increased by 13.0% to 15.6 cents.

Review of operations

Financial performance

Our total income for the half-year (excluding finance income) increased by 5.8% or $682 million to $12,479 million (2006: $11,797 million).

The growth in total income was mainly attributable to:

- mobiles revenue - increased by $404 million, up 14.5%; and
- internet revenue - increased by $312 million, up 35.5%.

Mobile goods and services revenue growth was driven by an increase in the number of mobile telephone subscribers, particularly for 3GSM services and wireless data services on the Next G™ network. We also experienced growth in mobile voice telephone minutes of use.

Internet revenue recorded strong growth during the period as we continued to increase our market share in the rapidly expanding retail and wireless broadband markets. Growth in our subscriber base has also been due to the continuing migration from narrowband products and an increased demand for applications and content.

Offsetting the sales growth was a decline in PSTN products revenue of $72 million or 2.1% as the market continues to move towards mobile and broadband products. However, our market based management initiatives, such as the introduction of subscription pricing plans, have helped us to improve this decline year on year. In particular, retail basic access lines revenue recorded positive growth during the period.

Total operating expenses (before depreciation and amortisation, finance costs and income tax expense) increased by 6.2% or $427 million to $7,307 million for the half-year (2006: $6,880 million). This growth was mainly attributable to:

- labour expenses - increased by $96 million, up 4.8%;
- goods and services purchased - increased by $110 million, up 4.3%; and
- other expenses - increased by $221 million, up 9.5%.

Labour expenses increased largely due to higher redundancy costs, with a significant number of redundancies planned for fiscal 2008 taking place in the current half-year.

Goods and services purchased increased due to higher sales volumes for Next G™ mobile handsets, internet modems and wireless broadband cards, as well as higher network payments made by Reach Ltd to other

Directors' Report

carriers to terminate international and domestic outgoing calls. These increases were partially offset by lower handset subsidies and a reduction in carrier network payments due to lower mobile terminating rates.

Other expenses increased largely due to higher service contracts and other agreements as a result of costs associated with transformational initiatives, primarily the large IT development program.

Depreciation and amortisation costs increased by 3.7% to $2,052 million, due to additional depreciation and amortisation on information technology equipment and projects associated with the IT transformation and further growth in our communications plant due to recent spend on the Next G™ and Next IP™ roll outs.

Net finance costs decreased by 3.8% to $500 million, primarily due to a favourable movement in the valuation of our hedging instruments. This has been partially offset by increased borrowing costs associated with higher net debt to meet capital cash demands for our transformation investment and the impact of recent interest rate rises.

Income tax expense decreased by $28 million to $678 million despite the increase in earnings. The effective tax rate of 25.9% is lower than that in the prior corresponding period of 29.2% largely due to tax refunds resulting from amendments to prior period income tax returns and receipt of a non-assessable capital distribution from the FOXTEL partnership during the period.

Cash flow

Our cash flow before financing activities (free cash flow) has increased by $462 million to $1,324 million in the current half-year as our peak capital spending year is now behind us and we start to realise our transformation benefits. This position combined with our borrowing program will continue to support our ongoing operating and investing activities within our target financial parameters.

Cash used in financing activities was $1,215 million for the half-year, which represents an increase of $126 million over the prior corresponding period. The increase is due to payments made for the purchase of shares related to our employee share plans.

Dividends

The directors have resolved to pay an interim ordinary dividend of 14 cents per share ($1,740 million). The dividend will be fully franked at a tax rate of 30%. The record date for the interim dividend will be 7 March 2008, with payment to be made on 4 April 2008. In accordance with the Dividend Reinvestment Plan ("DRP") rules, the Company has also determined, as a result of the reduced number of Trading Days which fall after the Record Date, to change the calculation of the allocation price for the DRP for this interim dividend only, being a reduction in the pricing period from 12 days to 11 days. The change is required to allow sufficient processing time to cater for public holidays.

Our final ordinary dividend for the financial year ended 30 June 2007 of 14 cents per share ($1,740 million) was provided for and paid during the half-year ending 31 December 2007. These dividends were fully franked at a tax rate of 30%. The final dividend paid had a record date of 24 August 2007 and payment was made on 21 September 2007.

Directors' Report

Directors

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

Donald G McGauchie	- chairman, non-executive director
Solomon D Trujillo	- chief executive officer
Geoffrey Cousins	- non-executive director
Belinda J Hutchinson	- non-executive director (retired 7 November 2007)
Catherine B Livingstone	- non-executive director
Charles Macek	- non-executive director
John W Stocker	- non-executive director
Peter Willcox	- non-executive director
John Zeglis	- non-executive director

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.

Donald G McGauchie AO

Chairman

21 February 2008

Solomon D Trujillo

Chief Executive Officer

21 February 2008

Directors' Report

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

In relation to our review of the financial report of the Telstra Corporation Limited for the half-year ended 31 December 2007, 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 Van Gorp

Partner

21 February 2008

Melbourne, Australia