27 February 2009

Office of the Company Secretary

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ELECTRONIC LODGEMENT

Dear Sir or Madam

CEO Letter to Shareholders and Half Year Shareholder Update

In accordance with Listing Rules, I enclose the following CEO letter to Shareholders and Half Year Shareholder update, for immediate release.

Yours sincerely

Carmel Mulhern
Company Secretary

Office of the CEO
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Telstra Corporation Limited
ABN 33 051 775 556

26 February 2009

Dear Shareholder

I am writing to share with you our strong results for the half-year ended 31 December 2008. Our free cash flow grew 44% to $1,911 million, while we continued to outperform domestic and global peers in key products and segments. Importantly, **our strong balance sheet and cash flow has allowed your Board to maintain a fully franked interim dividend of 14 cents per share.**

In addition, profit after tax was ahead of market expectations at $1,916 million. We are on an upward glide path to achieve our key targets for the 2010 financial year and beyond including revenue growth, margins, returns and our $6 to $7 billion free cash flow. **We reiterate our all-important cash flow and margin guidance for the 2010 financial year.**

Our results have been achieved despite some of the toughest economic conditions in Australia's history, while we continue to see world class growth in our core businesses such as mobile services, broadband, internet protocol (IP) business services, advertising and media services. The results enable Telstra to continue to invest in the future, including taking us up to 80 T[life]™ stores and 18 dedicated business centres open later this year.

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

While we continue to expect revenue growth in the range of 3% to 4% this year, we now expect EBITDA growth in the range of 5% to 6% (previously 6% to 7%) and EBIT growth in the range of 3% to 5% (previously 6% to 8%). **All other guidance measures remain unchanged. As we have made clear in recent months, guidance is unaffected by the National Broadband Network (NBN) process.**

We have completed the migration of seven million consumer customers onto the new billing and Customer Relationship Management (CRM) systems as part of our **IT transformation.**

Our innovation and technology leadership continued last week when we launched a 21 megabits per second (Mbps) rated mobile broadband device, with average user speeds ranging up to 8Mbps. Once again, I am proud that Telstra has achieved another world first for our customers on the Next G ™ network.

Our customer-centric approach is bringing benefits not just to customers, but to our shareholders. Telstra's share price has outperformed the market by 19% over the last 12 months, while many other companies have reported falling earnings, margins, cash flows and even dividends. I have attached charts to this letter that show how Telstra has outperformed the market and global peers.

The highlights across our business include:

- **Mobiles services revenue** continued to grow at double digit rates, growing 12.4% in the first half-year. The breadth and depth of our Next G™ mobile broadband network is helping our customers increase their mobile phone usage. In the half-year, our average revenue per user (ARPU) increased 10% driven by an increase in the number voice calls along with SMS (or text messages), wireless broadband access and content browsing.
- **Wireless broadband** continued to grow strongly with 828,000 customers enjoying the superior speed and coverage offered by Telstra's world-leading Next G™ network at the end of December.
- **Retail broadband** (BigPond) grew revenue by almost one-third in a maturing and very competitive market. The number of customers on high-speed broadband plans (20Mbps or more) more than doubled to 200,000 helping ARPU increase 6.1%.

- **PSTN (fixed-line)** ARPU remaining relatively stable, declining only 1% as we continue to manage the shift from PSTN to mobile usage.
- **Directories, advertising and transaction business**, Sensis, grew sales revenue by 8.4% with resilience in our traditional print books complemented by strong growth in on-line and China on-line businesses.
- **Foxtel**, our Pay TV business, grew revenue 13% and earnings before interest, tax, depreciation and amortisation (EBITDA) by 19%.

Our Australian retail business units continued their strong revenue growth momentum with retail revenue up 4.1%. Our customer segmentation strategy is translating into our financial performance. Our Enterprise and Government and our small and medium enterprise (SME) business unit, Telstra Business grew sales revenue by 3.9% and 7.2% respectively. They both grew or maintained market share despite the economic conditions. Our integrated networks, products, solutions and innovation are helping our business customers improve their productivity and cut costs.

Earlier this month we **expanded our presence in China** by acquiring controlling interests in China M and Sharp Point, two of China's leading mobile content and online music businesses. The acquisition compliments our existing on-line business in China and accelerates our plans to achieve $1 billion in revenue from our Chinese media assets by 2013 financial year.

A couple of weeks ago I visited our front-line employees working on restoring vital communication services to those communities affected by the terrible bushfires in Victoria. Telstra and its employees donated almost $1.5 million to the Victorian bushfire appeal. We also offered affected customers in both the Victoria bushfires and those in North Queensland ravaged by storms and flooding our disaster relief package. I am proud of our people who have worked around the clock to restore services to keep people communicating in difficult conditions.

Financial Results Summary

Our **sales revenue grew 3.2%** to $12.6 billion. This is an improvement from the 3% sales revenue growth reported in the second half of the 2008 financial year. For the fourth consecutive half-year, mobile services revenue grew at double digit rates.

Our **total expenses** (excluding depreciation and amortisation) grew 1.7% to $7.4 billion, the second consecutive half-year where operating expense growth is less than sales revenue growth. The expense growth was driven by a combination of factors including higher redundancy costs, IT transformation related costs and bad debts as a result of the worsening economic conditions.

Reported earnings before interest and tax (EBIT) fell 1.3% to $3,079 million in the first half, in line with expectations. **On an underlying basis, EBIT grew 5.2%.**

Our transformation is wide-ranging, covering networks, IT, products, channels, stores and our people. We have built world-leading networks. We have the strategy and the customer understanding to differentiate ourselves from our competitors. We are leaders in innovation and offer our customers' products and services that meet their needs and provide real value for money.

Today, the Chairman announced my decision to leave Telstra on 30 June, 2009, and return to my home in the United States. After discussion with the Board, I've chosen to leave at this time because we are at a point in our transformation journey where I feel confident that we are on track for success. The results we announced today demonstrate this.

I still have work to do over the next four months and I am sure I will leave the company with a strong and talented management team who will continue to deliver results. We remain focused on delivering for you our shareholders and our customers.

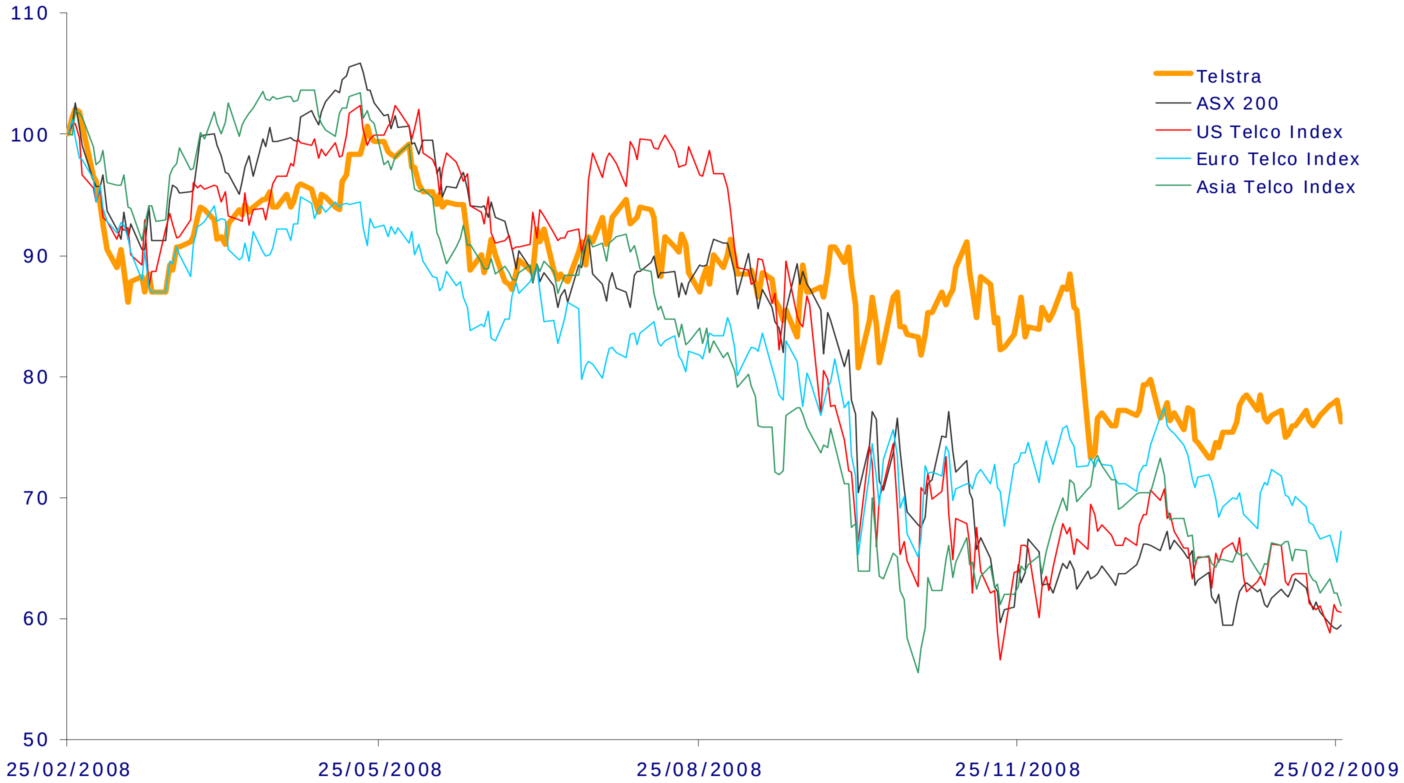
Please contact us at ***investor.relations@team.telstra.com*** if you wish to seek further information.

Yours sincerely

Solomon D. Trujillo
Chief Executive Officer

Telstra - Australia's leading media-comms company

Telstra Share Price Performance – 1 year (to 25 Feb 2009)



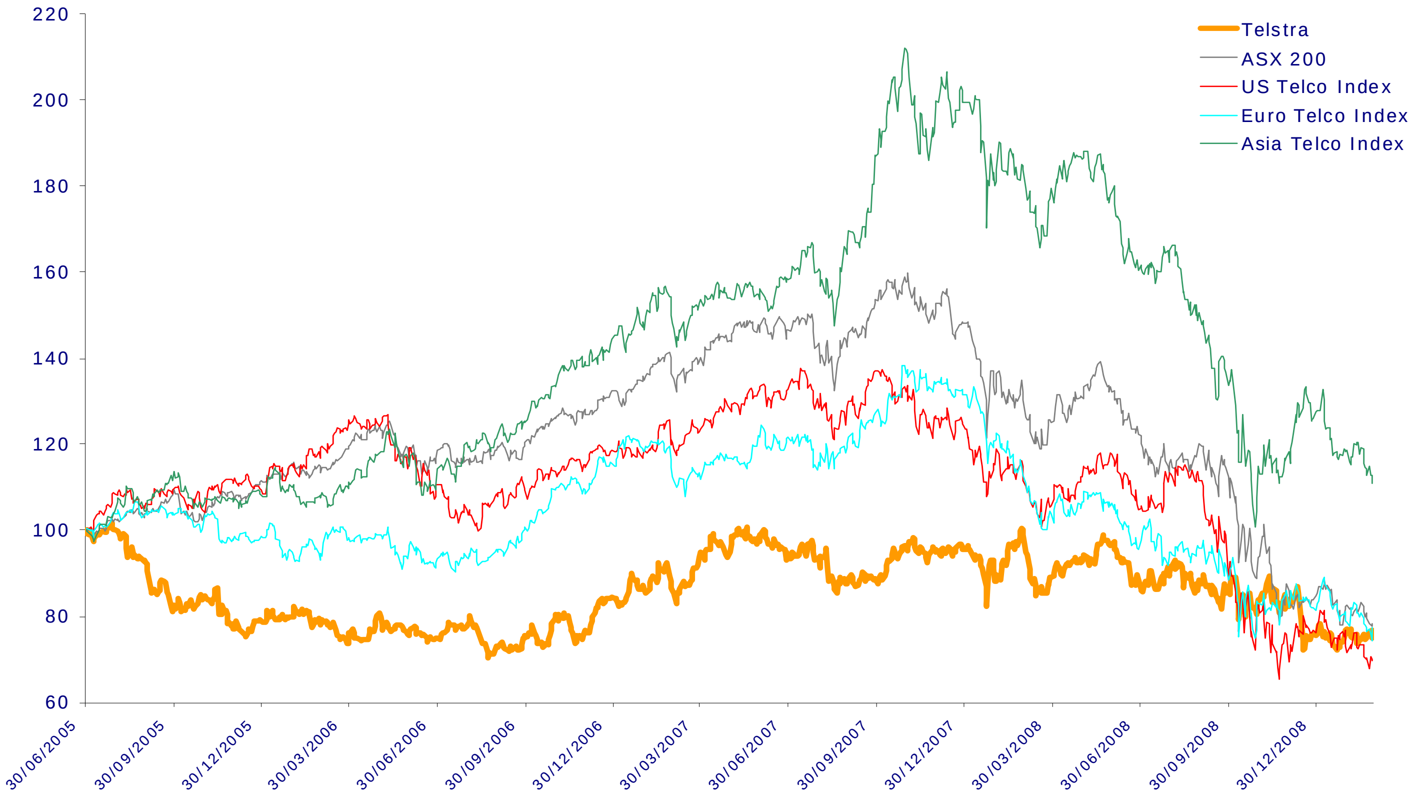
	1 yr Share Price Performance	Telstra Relative performance
Telstra	-21.9%	
ASX 200	-40.8%	18.9%
US Telco Index	-39.3%	17.4%
Europe Telco Index	-35.4%	13.4%
Asia Telco Index	-37.9%	15.9%

Source: Bloomberg

	Total Shareholder Return* since 30 June 2005	Telstra Relative performance
Telstra	8.4%	
ASX 200	-4.2%	12.5%
British Telecom	-50.7%	59.1%
Telecom New Zealand	-35.2%	43.6%
NAB	-27.0%	35.4%
Commonwealth Bank	5.9%	2.4%
Fairfax	-72.0%	80.4%
News Corp	-51.8%	60.2%
France Telecom	-13.1%	21.5%
Deutsche Telekom	-29.3%	37.7%
Telefonica	19.8%	-11.4%
Telecom Italia	-58.8%	67.1%
Vodafone	6.0%	2.4%
AT&T	19.0%	-10.6%
Verizon	2.9%	5.5%

* According to Bloomberg

Telstra Share Price Performance since 30 June 2005 (to 25 Feb 2009)



	Share Price Performance since 30 June 2005	Telstra Relative performance
Telstra	-23.3%	
ASX 200	-22.2%	-1.1%
US Telco Index	-30.0%	6.7%
Europe Telco Index	-25.6%	2.3%
Asia Telco Index	12.7%	-36.0%

Source: Bloomberg

Half-year **Shareholder Update 2009**

Strong results, dividend maintained

Message from the Chairman

I want to correct highly inaccurate statements in the media around the CEO's exit payment. Mr Trujillo is eligible for an exit payment of $3 million when he leaves the company on 30 June, 2009. According to Mr Trujillo's contract, the exit payment is equal to 12 months of his fixed remuneration (his fixed remuneration is $3 million and has not changed since his arrival in July 2005), as we disclosed to you at the time the contract was entered into.

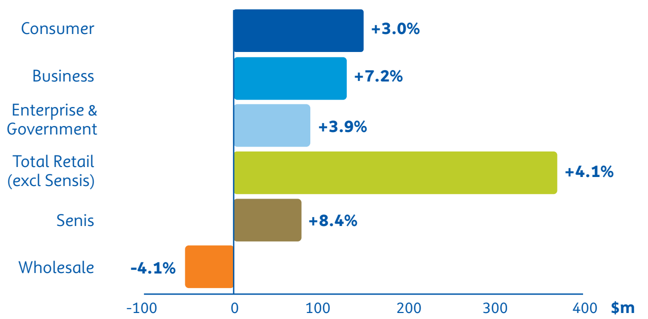
The results for the half-year ended 31 December 2008 were strong despite the worsening economic conditions.

- Sales revenue grew 3.2% to $12,644 million;
- Operating expenses (before depreciation and amortisation) grew 1.7% to $7,428 million;
- Earnings before interest, tax, depreciation and amortisation (EBITDA) grew 3.1% to $5,334 million;
- Profit after tax declined 0.5% to $1,916 million;
- Free cash flow increased 44% to $1,911 million;
- Maintained interim ordinary dividend at 14 cents per share, fully franked.

Revenue

Sales revenue grew 3.2% to $12,644 million. This represents an improvement on the 3% growth reported in the second half of the 2008 financial year. Strong retail sales were again the driver of growth, with the retail business units sales revenue growing 4.1%. We continued to gain or hold revenue market share across key products and segments as we used Market Based Management and differentiated ourselves with innovative content, products and services.

1H09 Sales Revenue Growth



Broadband

+31.3% Retail broadband revenue grew by 31.3% to $1,204 million. Fixed broadband ARPU grew a further 6% as more customers upgrade to the higher speed broadband plans.

Despite intense competition our broadband business, BigPond®, continues to be Australia's leading internet service provider. Retail broadband revenue grew by 31.3% with fixed broadband customers increasing by 9.3% to 2.3 million.

Fixed broadband revenue grew by 20.4% to $783 million driven by a 195,000 increase in subscribers from the prior corresponding period and a 43,000 increase this half. The number of fixed high-speed subscribers (20Mbps or greater) more than doubled to over 200,000 helping ARPU increase 6.1%.

Mobiles

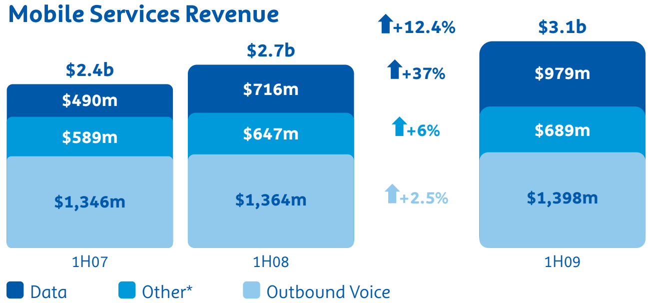
+12.4% Mobile services revenue grew 12.4% to $3,066 million in the half driven by increased mobile phone usage and continued growth in mobile data revenue. Mobile data revenue grew 37% to almost $1 billion. Mobile ARPU increased by almost 10%.

Our Next G™ mobile broadband network continues to set the global benchmark for both speed and coverage and drive revenue and earnings growth. We added 371,000 new subscribers in the half to take our total mobile subscribers to 9.7 million, of which 54% are 3G.

We continue to expand our range of innovative content, products and services. Our wireless broadband revenues continued to grow strongly as our wireless broadband customers increased to 828,000. In mid February, we increased the speed of our Next G™ network and became the first telecommunications operator in the world to deliver 21 megabits per second (Mbps) peak network download speeds* with compatible 3G devices.

*average user network speeds are lower.

Mobile Services Revenue



*Other includes mobile messagebank, international roaming, interconnection & wholesale

FINANCIAL HIGHLIGHTS

Half-year ended 31 December	2008 ($m)	2007 ($m)	Change ($m)	Change %
Sales revenue	**12,644**	12,252	392	3.2%
EBITDA	**5,334**	5,172	162	3.1%
EBIT	**3,079**	3,120	(41)	(1.3%)
Free cash flow	**1,911**	1,324	587	44.3%
Ordinary dividends (cents per share)	**14**	14	–	–

Telstra

PSTN (fixed-line)

-5.1%

PSTN revenue declined 5.1% to $3,219 million driven by the continued decline in the calling volumes and substitution to other products and services. Retail revenue declined 1.8%.

PSTN subscribers were down 4% against the prior corresponding period or 2.1% since 30 June 2008 to 9.2 million lines. We are continuing to see more and more customers substitute fixed-line calling for email, instant messaging, VoIP and mobile phone use leading to lower calling volumes.

During this period, wholesale lines declined by 10.7% while retail lines fell by only 0.5%. The decline continues to be driven by a reduction in wholesale lines. Of the 200,000 access lines lost in the first half of the 2009 financial year, 160,000 lines were from the wholesale segment. The decline in Wholesale subscribers was driven by wholesale customers continuing to migrate their customer bases to their own infrastructure.

Sensis

+8.4%

Sensis sales revenue grew 8.4% to $1,034 million as Yellow™ continues to grow with double digit online revenue growth and positive print revenue growth. Digital media businesses revenues increased 37% to $288 million or 28% of Sensis revenues.

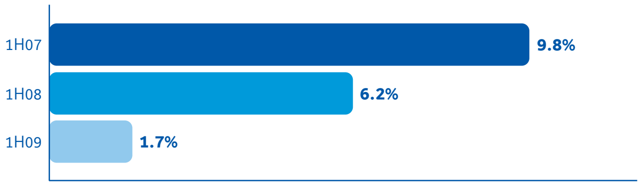
Revenue in our directories, information and transaction business, Sensis, grew strongly with directories revenue growing 5.9%. White Pages® print directories revenue grew 11.6% and Yellow™ print directories revenue grew 0.4%. Classifieds revenue declined 16.1% in the half-year largely as a result of tough economic conditions particularly impacting auto classifieds, together with continuing competitive factors in the market.

Our Chinese online businesses are maximising China's strong economic performance leveraging an online audience of more than 60 million unique visitors undertaking an average of 1.4 billion page views each month. SouFun has expanded its operations to 100 cities in China, cementing its leading market position.

Expenses

Operating expenses (before depreciation and amortisation) increased 1.7% to $7,428 million in the first half. We maintained our cost discipline and for the second consecutive half, operating expense growth was less than sales revenue growth. As we near the end of our transformation, we remain focussed on reducing the operating expenses in the business.

Operating Expenses Growth



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

Goods and services purchased fell by 1.6% to $2,632 million in the half-year. This was largely driven by cost of goods sold, which fell by 14.9% to $918 million as both subscriber acquisition and recontracting costs (SARCs) and handset volumes fell. Network payments increased by 4.2% to $976 million driven by domestic network payments, largely owing to the 13.2% increase in mobile minutes in the half with no commensurate reduction in mobile termination rates.

Other expenses increased mainly due to service contracts and other agreements, net foreign currency conversion losses and general and administration costs. Service contracts and other agreements rose by 6.8% to $1,170 million in the half. This increase was expected as we completed the complex task of migrating consumer customers onto the new billing systems. Sequentially this cost category has actually reduced, and we expect that trend to continue.

Cash Flow

Free cash flow increased $587 million to $1,911 million mainly due to:

- a 17.5% decrease in capital expenditure with the capital investment falling as we enter the final stages of our 5-year end-to-end business transformation;
- increase in customer receipts driven by our strong sales performance in the half-year across mobiles and broadband.

We used our free cash flow to:

- Pay dividends to our shareholders totalling $1,737 million;
- Pay finance costs of $673 million.

Balance Sheet

Selected items from the
BALANCE SHEET

As at 31 December	**2008 ($m)**	2007 ($m)	Change ($m)
Current assets	**5,939**	5,513	426
Property, plant & equipment	**23,961**	24,311	(350)
Total non-current assets	**34,926**	32,408	2,518
Total assets	**40,865**	37,921	2,944
Total liabilities	**29,120**	25,676	3,444
Net assets/equity	**11,745**	12,245	(500)

Our balance sheet remains strong as we sit comfortably against our financial parameters and there is no long-term debt refinancing needed until the 2010 financial year.

Total assets increased by $2,944 million due to the net impact of:

- other non-current assets saw a significant increase primarily due to the $1,947 million rise in the value of our non-current cross currency swap hedge receivables. These are used to hedge our foreign currency borrowings and were significantly impacted by the fall in the Australian Dollar exchange rate and interest rate movements this half;
- intangible assets increased by 13.9% this period due to two key factors: (1) goodwill rose $597 million, of which $559 million was foreign exchange related; (2) software intangibles rose $372 million via our investments in IT transformation billing related systems.

Total liabilities increased by $3,444 million due to the net impact of:

- Borrowings increased by $3,331 million. Net debt at 31 December 2008 was $16,388 million, an increase of $1,146 million. The increase was made up by $475 million of new borrowings to help fund our operations and $681 million of revaluations to our borrowings and hedging transactions converting offshore borrowings to Australian Dollars;
- Other non-current liabilities were impacted by the turnaround of our defined benefit pension asset at 30 June 2008 of $182 million to a defined benefit liability of $1,169 million at 31 December. Our deferred tax liability reduced by $720 million due to the movement in the defined benefit fund and the revaluation of our cash flow hedges.

Indicative Financial Calendar

Ex-dividend share trading commences	**6 Mar 2009**
Record date for interim dividend	**13 Mar 2009**
Interim dividend paid	**9 Apr 2009**
Annual Results announcement	**13 Aug 2009**
Ex-dividend share trading commences	**24 Aug 2009**
Record date for final dividend	**28 Aug 2009**
Final dividend paid	**25 Sep 2009**
Annual General Meeting	**4 Nov 2009**

Note – Timing of events may be subject to change. Any changes will be notified to the Australian Securities Exchange (ASX).