Directors' report

The directors present their report on the consolidated entity (Telstra or Telstra Group) consisting of Telstra Corporation Limited (Telstra Entity) and the entities it controlled at the end of or during the half-year ended 31 December 2000.

Results of operations

Telstra's net profit for the half-year was $2,623 million (1999: $2,093million). This was after:

- deducting income tax expense of $1,420 million (1999: $988 million); and
- allowing for after tax losses attributable to outside equity interests in controlled entities of $1 million (1999: $5 million).

Income tax expense is $13 million (1999:$98 million) less than would otherwise have been the case as a result of the lowering of company tax rates from 36% in the fiscal 2000, to 34% in fiscal 2001 and 30% in future years.

Review of operations

The strong operating growth of 25.3% in net profit reflects the benefit of some once-off items while still providing a sound underlying operating performance.

Sales revenue grew by 5.0% to $9,746 million with data and internet services, intercarrier and mobile services being the main areas of growth. The increase in other revenue to $1,578 million (1999: $383 million) was attributable to the following:

- the once off benefit of $725 million arising from the release from our obligations under the Telstra Additional Contributions (TAC) agreement to the superannuation fund; and
- the higher proceeds of sale from investments and asset sales which rose by $464 million over the prior corresponding period to $652 million. The main item was proceeds from sale of part of our interest in Computershare Limited of $386 million.

Operating expenses (excluding borrowing costs and share of net losses from associates) grew by 7.3% or $461 million to $6,767 million with the following major influences:

- continued focus on costs as well as lower full time staff assisted in reducing expenses;
- higher cost of asset sales of $337 million to $425 million reflected the greater level of activity in this area in the current period. The book value of our Computershare Limited shares sold was $199 million; and
- higher cost of sales due to higher network charges as a result of higher terminating traffic volumes.

We also reviewed the carrying value of our investments with resulting write -downs of $140 million. While $41 million of this is included in other expenses, the balance forms part of the share of net losses from associates and joint venture entities which totalled $164 million (1999: $21 million). The write-downs were principally for the listed investments of Solution 6, Sausage and Commander Communications as well as a partial write down of our 35% interest in the Station 12 BV joint venture.

Borrowing costs increased by 35.5% to $313 million due to higher level of net debt and an increase in average interest rates during the period.

Capital expenditure during the period was $2,039 million for operational capital (1999: $2,197 million or a decrease of 7.2%) and another $100 million for investments (1999: $438 million).

Dividends

In accordance with our previous advice, dividends declared from fiscal 2001 earnings will exclude once off book profits relating to our release from our obligations under the TAC agreement and the sale of our global wholesale assets to Reach Limited, the joint venture company established with Pacific Century CyberWorks Limited (PCCW). The book profit arising from the release from our obligations was $478 million after tax in the current period and the profit on sale to Reach will be brought to account in the second half of the fiscal year. At the time of this report, we are not in a position to quantify this amount as all transactions relating to the agreements with PCCW are subject to detailed accounting completion procedures.

Directors have declared an interim dividend of 8 cents per share that is fully franked. The dividend will have a record date of 23 March 2001 with payment being made on 27 April 2001. The tax rate at which the dividend is franked is 34%.

At present, it is expected that Telstra will be able to fully frank declared ordinary dividends out of fiscal 2001 earnings. However, the directors can give no assurance as to the future level of dividends, if any, or of franking of dividends. This is because it depends upon, among other factors, our earnings, Government legislation and our tax position.

Directors

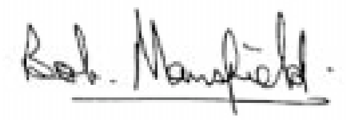
Retirement of directors

Cecilia A Moar, Christopher I Roberts and Stephen W Vizard did not seek re-election and retired from office at the annual general meeting on 17 November 2000. The board thanks the directors for their valued contribution during their terms of office.

Directors who held office during, and since, the half-year

Robert C Mansfield	- chairman and director
John T Ralph	- deputy chairman and director
Zygmunt E Switkowski	– chief executive officer and managing director
N Ross Adler	
Anthony J Clark	
Samuel H Chisholm	- director since 17 November 2000
John E Fletcher	- director since 17 November 2000
Malcolm G Irving	
Catherine B Livingstone	- director since 17 November 2000
Donald G McGauchie	
Cecilia A Moar	- director until 17 November 2000
Elizabeth A Nosworthy	
Christopher I Roberts	- director until 17 November 2000
John W Stocker	
Stephen W Vizard	- director until 17 November 2000

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



Robert C Mansfield

Chairman and director

7 March 2001