IT'S HOW WE CONNECT

13 February 2014

Office of the Company Secretary

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MELBOURNE VIC 3000
AUSTRALIA

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The Manager

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

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited Financial Results for the Half-Year ended 31 December 2013

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

1. Appendix 4D – Half-Yearly Report;
2. Media Release;
3. Directors' Report;
4. Half-Year Results and Operations Review; and
5. Half-Year Financial Report for the half year ended 31 December 2013.

An amended Financial Calendar for 2014, reflecting the revised proposed Ex-Date in relation to the FY14 full year dividend calculated in accordance with changes to relevant ASX timetables, which are to apply from 14 April 2014, is also enclosed.

Telstra will conduct an analyst briefing from 9.15am AEDT and a media briefing from 11.00am AEDT on the half year results. The briefings will be broadcast live by webcast at
http://www.telstra.com.au/aboutus/investors/latest-results/

A transcript of the analyst briefing will be lodged with the ASX when available.

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

Yours faithfully

Damien Coleman
Company Secretary

APPENDIX 4D (RULE 4.2A.3)
HALF-YEAR REPORT
31 DECEMBER 2013
TELSTRA CORPORATION LIMITED ABN 33 051 775 556

Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2013 $m	2012 $m	Movement $m	Movement %
Revenue (excluding finance income) from continuing operations	12,626	12,191	435	3.6%
Revenue (excluding finance income) from discontinued operation (a)	358	410	(52)	(12.7%)
Revenue (excluding finance income) from ordinary activities	12,984	12,601	383	3.0%
Other income	177	110	67	60.9%
Total income from continuing and discontinued operations	13,161	12,711	450	3.5%
Finance income	68	145	(77)	(53.1%)
Profit for the period attributable to equity holders of Telstra Entity	1,704	1,560	144	9.2%
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	1,704	1,560	144	9.2%

(a) Discontinued operation relates to the Sensis disposal group. Refer to note 9 in our half-year financial report for further details.

Dividend information

	Amount per share (cents)	Franked amount per share (cents)
Fiscal 2014 interim dividend per share (a)	14.5	14.5

Fiscal 2014 interim dividend dates

Record date	28 February 2014
Payment date	28 March 2014

(a) Fractional entitlements on the total amount payable per shareholder to be rounded down to the nearest whole cent.

Net Tangible Assets per security information

	Telstra Group	
	as at 31 December	
	2013 cents	2012 cents
Net tangible assets per security	37.4	33.7

Net tangible assets are defined as the net assets of the Telstra Group less intangible assets and non-controlling interests. The number of Telstra shares on issue as at 31 December 2013 and 2012 was 12,443 million.

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

On 22 August 2013, we acquired 100 per cent of the issued share capital of NSC Group Pty Ltd and its controlled entities.

On 2 September 2013, we acquired 100 per cent interest in DCA eHealth Solutions Pty Ltd and its controlled entities.

On 30 September 2013, we acquired 50 per cent interest in FRED IT Group Pty Ltd and its controlled entities. We consolidate the results of FRED IT as we have control through our decision making ability on the board.

On 9 October 2013, we incorporated Muru-D Pty Ltd.

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31 DECEMBER 2013
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Details of entities where control has been gained or lost during the period (continued)

On 31 December 2013, we acquired 100 per cent interest in O2 Networks Pty Ltd via an acquisition of the following three entities, Prentice Management Consulting Pty Ltd, Kelzone Pty Ltd and Goodwin Enterprises (Vic) Pty Ltd.

Details of investments in joint ventures and associated entities

		Telstra Group	
		Ownership interest as at	
Name of entity	Principal activities	31 Dec 2013 %	30 June 2013 %
Jointly controlled entities			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Limited	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (a)	International connectivity services	**50.0**	50.0
3GIS Pty Ltd	Management of former 3GIS Partnership	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (b)	Regional roaming provider	**10.0**	10.0
HealthEngine Pty Ltd	Online healthcare booking	**25.0**	25.0
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
Telstra Foundation Ltd	Charitable trustee organisation	**100.0**	100.0
Mandoe Pty Ltd (c)	Signage software provider	**26.7**	25.0
IPscape Pty Ltd (d)	Cloud based call centre solution	**24.9**	31.3
Dimmi Pty Ltd	Online restaurant reservation	**23.4**	23.4
Whispir Limited	Software as a solution provider	**18.0**	18.0
IP Health Pty Ltd (e)	Software development	**32.1**	32.9

(a) Balance date is 31 December.

(b) Balance date is 31 March. This entity is classified as held for sale and will be disposed as part of the CSL Group disposal.

(c) On 12 November 2013, we acquired additional interest of 1.7 per cent in Mandoe Pty Ltd.

(d) On 27 November 2013, our interest in IPscape Pty Ltd reduced by 6.4 per cent due to non participation in an additional funding round.

(e) On 7 August 2013, a share buyback increased our interest in IP Health Pty Ltd by 0.3 per cent. Our interest in the associate was then diluted by 1.2 per cent through a share issue on 16 October 2013 before a second share buyback increased our ownership from 32.0 to 32.1 per cent.

The Dividend Reinvestment Plan continues to be suspended.

Additional Appendix 4D disclosure requirements can be found in the notes to our half-year financial report, the half-year Directors' Report and the Half Year Results and Operations Review lodged with this document.

MEDIA RELEASE

IT'S HOW WE CONNECT

Increased interim dividend and continued growth for Telstra

- Interim dividend increased 3.6 per cent to 14.5 cents per share
- Total income increased 4.1 per cent to $12.8 billion[i]
- Net profit after tax increased 9.7 per cent to $1.7 billion
- 739,000 domestic retail mobile customer services added during 1H14, bringing total domestic retail mobile customer services to 15.8 million

Thursday 13 February 2014 – Telstra today confirmed it was on track to meet its full year guidance and announced an increased interim dividend of 14.5 cents, distributing $1.8 billion to shareholders.

Chief Executive Officer David Thodey said Telstra had continued to deliver revenue, profit and customer growth in the first half of financial year 2014, demonstrating that Telstra's ongoing investment in core and growth businesses was creating value for shareholders.

"Our customers remain our highest priority and our focus during the past six months has been to continue to improve the way we interact with them every day as well as provide them with access to the best networks in Australia to help them connect no matter where they work and live. More Australians are choosing to connect and stay with Telstra every day," said Mr Thodey.

"Our customer focus has led to continued mobile growth with the addition of 739,000 new retail mobile customer services and an increase in mobile services revenue of 7.3 per cent. We continued to invest in maintaining our network leadership, highlighted by our $650 million capital investment in mobiles infrastructure in the half.

"Telstra has one of the fastest take-ups of the 4G network anywhere in the world. We now have 15.8 million domestic mobile customer services, including 4.1 million 4G mobile devices on our network, and we expect to see continued growth in this area."

Mr Thodey said Telstra was continuing to build on the company's solid foundations, including rebalancing the portfolio to reflect the changing nature of the business as well as driving innovation through investments in emerging businesses.

"We announced a refreshed strategy in the half and realigned our structure to provide increased focus and resources to growth areas such as Asia and Network Application and Services (NAS)," said Mr Thodey.

"Our NAS business recorded revenue growth of 29 per cent to $821 million. We continued to invest in NAS by building our capabilities and acquiring companies such as North Shore Communications (NSC) and O2 Networks.

"Group operating expenses increased by 2.1 per cent in the first half, largely driven by costs supporting revenue growth. For example, we have incurred upfront costs to support the implementation of our largest contract, Department of Defence, as well as expenditure on programs to improve customer service. More broadly we are working to improve the efficiency of our NAS business."

Mr Thodey said Telstra continued to be active and disciplined in its approach to portfolio management with the announcements this year of the sale of the Hong Kong mobile business CSL New World Mobility Limited and a 70 per cent interest in Sensis. He said the anticipated proceeds from the sales were incremental to Telstra's guidance for free cash flow of $4.6 to $5.1 billion for fiscal year 2014.

"We expect these transactions to complete in the second half of the fiscal year, subject to approvals, and we will deal with these proceeds in accordance with the principles outlined in our capital management framework.

"Our portfolio management also included selecting the right capital structure for parts of the business, with the NYSE listing of Autohome, in which we hold a 65 per cent stake. While being disciplined in our approach to portfolio management, we also need to be innovative in our investments for the future and explore new opportunities. This is reflected in some of the investments we have made in new growth areas of the business as well as our recently announced joint venture with Telkom Indonesia," Mr. Thodey said.

Telstra's new Health division acquired DCA Health and a 50 per cent stake in FRED IT.

In Global Applications and Platforms Telstra launched muru-D, an initiative to help Australia retain its unique entrepreneurial talent and help drive technology based economic development, and we increased our stake in Ooyala through our Ventures Group.

Key Financial Results

The reported results for the six months ending December 2013 are:

- Total income increased 4.1 per cent or $502 million to $12.8 billion
- EBITDA increased 7.0 per cent or $347 million to $5.3 billion
- Net profit after tax increased 9.7 per cent or $154 million to $1.7 billion
- Earnings per share increased 8.7 per cent to 13.7 cents
- Accrued capital expenditure decreased 2.1 per cent to $1.8 billion, in line with a 15 per cent capex to sales ratio
- Free cashflow decreased 23.4 per cent or $505 million to $1.65 billion. Excluding $671 million of proceeds from the sale of TelstraClear in 2012, free cashflow increased by 11.2 per cent

Key outcomes against strategic priorities

Improving Customer Advocacy
Mr Thodey said Telstra was committed to improving the service and experience provided to customers.

"Offering Australia's largest and most reliable mobile network is central to helping our customers stay connected in more locations across Australia. We have also introduced a range of other initiatives to help make their lives easier, including the launch of a product called StayConnected, which gives customers who lose or break their phone, a new handset the next day to ensure continued access to their data.

"We have introduced initiatives to improve cost certainty and control for customers using their mobiles overseas; and we continue to reward our customers for their loyalty with one million of our movie, sports and music offers taken up as part of our Thanks program.

"These are just a few examples of the changes we are making to improve our service for customers. We will be introducing further initiatives in the coming months to ensure our customers benefit from an experience supported by some of the most innovative tools, smart systems and advanced applications available." he said.

Driving value from the core
Mr Thodey said Telstra was committed to maintaining its network leadership and would continue to invest to deliver value from its core businesses.

"At Christmas we achieved a significant milestone, with our 4G network reaching 85 per cent coverage of the Australian population, including the upgrade of 1,500 mobile base stations to 4G in the past six months. We now have 3,500 4G mobile base stations across the country, giving us four times the 4G coverage area of any other company," he said.

"There has been continued growth in fixed bundled plans, such as our popular Entertainer bundles, with the addition of 117,000 customers bringing the total number of customers on a bundle to 1.7 million," he said.

On productivity, Telstra reported benefits of $225 million in the half, to help offset expense growth.

Building new growth businesses
Network Applications and Services (NAS) recorded double digit revenue growth across most categories including Cloud, up 29 per cent, Unified Communications, up 28 per cent and Managed Network Services, up 65 per cent.

International businesses grew revenue by 28 per cent to $1.08 billion, driven by growth in CSL which recorded a 28 per cent increase in revenue, to $630 million and a 78 per cent increase in revenue from China digital media due to Autohome. Excluding foreign exchange impacts, international businesses grew revenue by 15.5 per cent.

NBN

Mr Thodey said Telstra had commenced negotiations with the NBN Co and Government on potential changes to the current agreements that may result from the Government's intent to move to a multi-technology NBN rollout.

"We are committed to acting in the best interests of our shareholders, and are focused on maintaining the value of the current agreements, achieving certainty of outcome as soon as reasonably possible and minimising any additional regulatory risk," he said.

During the period Telstra recommenced pit remediation works following the implementation of additional safeguards in relation to asbestos handling, including training and supervision of employees and contractors. Consistent with previous advice, there has not been a material financial impact on our operating results.

Outlook

Telstra confirmed fiscal 2014 guidance of low single digit total income and EBITDA growth, with free cashflow between $4.6 billion and $5.1 billion. Telstra expects accrued capital expenditure to be around 15 per cent of sales.

This guidance assumes wholesale product price stability, no impairments to investments, and excludes any proceeds on the sale of businesses (including proceeds and adjustments in relation to Sensis and CSL), the cost of acquisitions and spectrum purchases.

Telstra has confirmed a fully franked interim dividend of 14.5 cents per share. Shares will trade excluding entitlement to the dividend on 24 February 2014 with payment on 28 March 2014.

ENDS

Media contact Telstra: Nicole McKechnie, +61 (0) 429 004617

Email: media@team.telstra.com

Ref number: 26/2014

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i. Total income excludes discontinued operations. The Sensis Group was disclosed as a discontinued operation. The carrying value of assets and liabilities of the Sensis Group, with the exception of the cash balances which were excluded from the sale agreement, were classified as held for sale as at 31 December 2013, and measured at the lower of carrying amount and fair value less costs to sell.

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 2013. Financial comparisons used in this report are of results for the half-year ended 31 December 2013 compared with the half-year ended 31 December 2012 for income statement analysis, and 31 December 2013 compared with 30 June 2013 for statement of financial position analysis.

Review and results of operations

Information on the operations and the results of those operations for the Telstra Group during the half-year is set out on pages 1 to 10 of the Half Year Results and Operations Review accompanying this Directors' Report.

Dividends

The Directors have resolved to pay an interim dividend of 14.5 cents per ordinary share. The dividend will be fully franked at a tax rate of 30 per cent. The record date for the interim dividend will be 28 February 2014, with payment to be made on 28 March 2014.

Our final dividend for the financial year ended 30 June 2013 of 14.0 cents per ordinary share ($1,743 million) was paid during the half-year ended 31 December 2013. This dividend was fully franked at a tax rate of 30 per cent. The final dividend paid had a record date of 23 August 2013 and payment was made on 20 September 2013.

The Dividend Reinvestment Plan continues to be suspended.

Directors

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

Catherine B Livingstone AO	-	Chairman since 2009, Director since 2000
David I Thodey	-	Chief Executive Officer and Managing Director since 2009
Geoffrey A Cousins	-	Director since 2006
Russell A Higgins AO	-	Director since 2009
Chin Hu Lim	-	Director since 9 August 2013
John P Mullen	-	Director since 2008
Nora L Scheinkestel	-	Director since 2010
Margaret L Seale	-	Director since 2012
Steven M Vamos	-	Director since 2009
John D Zeglis	-	Director since 2006

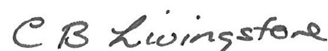
Auditors' independence declaration

A copy of the auditors' independence declaration is on page 2 and forms part of this report.

Rounding of amounts

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

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



Catherine B Livingstone AO
Chairman
13 February 2014

David I Thodey
Chief Executive Officer and Managing Director
13 February 2014

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

In relation to our review of the financial report of Telstra Corporation Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

SJ Ferguson
Partner
Melbourne, Australia
13 February 2014

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

HALF-YEAR RESULTS
AND OPERATIONS REVIEW

31 DECEMBER 2013

SUMMARY FINANCIAL RESULTS

	H1 2014 $m	Restated[(i)] H1 2013 $m	Change %
Sales revenue	**12,564**	12,124	**3.6**
Total income	**12,803**	12,301	**4.1**
Operating expenses	**7,514**	7,359	**2.1**
EBITDA	**5,289**	4,942	**7.0**
Depreciation and amortisation	**2,013**	2,068	**(2.7)**
EBIT	**3,276**	2,874	**14.0**
Net finance costs	**490**	477	**2.7**
Tax	**825**	758	**8.8**
Profit for the period	**1,961**	1,639	**19.6**
Loss for the period from discontinued operations	**(221)**	(53)	**317.0**
Profit for the period from continuing and discontinued operations	**1,740**	1,586	**9.7**
Profit attributable to equity holders of Telstra	**1,704**	1,560	**9.2**

	H1 2014 $m	H1 2013 $m	Change %
Accrued capex[(ii)]	**1,814**	1,852	**(2.1)**
Free cashflow[(iii)]	**1,650**	2,155	**(23.4)**
Earnings per share (cents)[(i)]	**15.5**	13.0	**19.2**
Earnings per share from continuing and discontinued operations (cents)[(i)]	**13.7**	12.6	**8.7**

(i) Comparatives have been restated due to the retrospective adoption of AASB 119: Employee Entitlements. For further information refer to Note 2.1(e) of the half-year financial report. Restatements have also been made in relation to the Sensis Group being classified as a discontinued operation.

(ii) Accrued capital expenditure is defined as additions to property, equipment and intangible assets, including capital lease additions, measured on an accrued basis.

(iii) Cash flows from continuing and discontinued operations

CEO MESSAGE

Telstra today confirmed it was on track to meet its full year guidance and announced an increased interim dividend of 14.5 cents, distributing $1.8 billion to shareholders.

Chief Executive Officer David Thodey said Telstra had continued to deliver revenue, profit and customer growth in the first half of financial year 2014, demonstrating that Telstra's ongoing investment in core and growth businesses was creating value for shareholders.

"Our customers remain our highest priority and our focus during the past six months has been to continue to improve the way we interact with them every day as well as provide them with access to the best networks in Australia to help them connect no matter where they work and live. More Australians are choosing to connect and stay with Telstra every day," said Mr Thodey.

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"We expect these transactions to complete in the second half of the fiscal year, subject to approvals, and we will deal with these proceeds in accordance with the principles outlined in our capital management framework.

"Our portfolio management also included selecting the right capital structure for parts of the business, with the NYSE listing of Autohome, in which we hold a 65 per cent stake. While being disciplined in our approach to portfolio management, we also need to be innovative in our

investments for the future and explore new opportunities. This is reflected in some of the investments we have made in new growth areas of the business as well as our recently announced joint venture with Telkom Indonesia," Mr. Thodey said.

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- Net profit after tax increased 9.7 per cent or $154 million to $1.7 billion
- Earnings per share increased 8.7 per cent to 13.7 cents
- Accrued capital expenditure decreased by 2.1 per cent to $1,814 million, in line with a 15 per cent capex to sales ratio
- Free cashflow decreased by 23.4 per cent or $505 million to $1.65 billion. Excluding $671 million of proceeds from the sale of TelstraClear in 2012, free cashflow increased by 11.2 per cent

KEY OUTCOMES AGAINST STRATEGIC PRIORITIES

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NBN

Mr Thodey said Telstra had commenced negotiations with the NBN Co and Government on potential changes to the current agreements that may result from the Government's intent to move to a multi-technology NBN rollout.

"We are committed to acting in the best interests of our shareholders, and are focused on maintaining the value of the current agreements, achieving certainty of outcome as soon as reasonably possible and minimising any additional regulatory risk," he said.

During the period Telstra recommenced pit remediation works following the implementation of additional safeguards in relation to asbestos handling, including training and supervision of employees and contractors. Consistent with previous advice, there has not been a material financial impact on our operating results.

OUTLOOK

Telstra confirmed fiscal 2014 guidance of low single digit total income and EBITDA growth, with free cashflow between $4.6 billion and $5.1 billion. Telstra expects accrued capital expenditure to be around 15 per cent of sales.

This guidance assumes wholesale product price stability, no impairments to investments, and excludes any proceeds on the sale of businesses (including proceeds and adjustments in relation to Sensis and CSL), the cost of acquisitions and spectrum purchases.

Telstra has confirmed a fully franked interim dividend of 14.5 cents per share. Shares will trade excluding entitlement to the dividend on 24 February 2014 with payment on 28 March 2014.

HALF-YEAR RESULTS AND OPERATIONS REVIEW

31 DECEMBER 2013

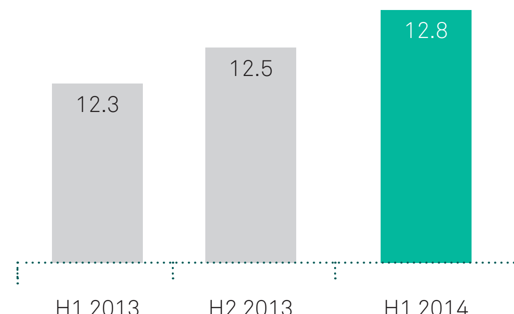
RESULTS ON A GUIDANCE BASIS*

	H1 2014	FY14 guidance
Total income	3.3%	Low single digit growth
EBITDA	6.6%	Low single digit growth

* Income and EBITDA growth rates on a guidance basis have been adjusted for FY14 M&A impacts.

Please refer to the guidance versus reported results reconciliation on page 10. This reconciliation forms part of the Half-Year Results and Operations Review, and has been reviewed by our auditors.

TOTAL INCOME ($M)



REPORTED RESULTS

The numbers and commentary in the results and operations review have been prepared on a continuing operations basis unless otherwise noted.

In the first half of financial year 2014 sales revenue increased by 3.6 per cent or $440 million to $12,564 million and total income increased by 4.1 per cent or $502 million to $12,803 million.

Operating expenses (before depreciation and amortisation) increased by 2.1 per cent or $155 million to $7,514 million.

Labour expenses increased by 5.4 per cent to $2,367 million driven by the combination of increased staff numbers to support strategic growth and customer service initiatives, timing of redundancy activity, and salary and wage increases. Redundancy expenses were higher due to our continued restructuring and rationalisation activities.

Our directly variable costs (DVCs) or goods and services purchased increased by 5.1 per cent to $3,295 million due to costs associated with the commencement of large NAS contracts.

Other expenses decreased by 6.4 per cent to $1,852 million driven by the loss recognised on the sale of TelstraClear in the prior corresponding period combined with an overall decrease in impairment expenses. This was offset by a slight increase in service contract expense.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 7.0 per cent to $5,289 million. Earnings before interest and tax (EBIT) increased by 14.0 per cent to $3,276 million.

Net finance costs increased by 2.7 per cent to $490 million predominantly due to the prior corresponding period including interest income of $61 million on a tax refund. This was partly offset by a reduction in our net average interest cost which reduced to 6.1 per cent in the current half-year from 6.4 per cent in the prior corresponding period.

Profit for the period increased by 19.6 per cent to $1,961 million and basic earnings per share (EPS) increased 19.2 per cent from 13.0 cents to 15.5 cents.

Net profit after tax from continuing and discontinued operations increased by 9.7 per cent to $1,740 million. Basic EPS from continuing and discontinued operations increased by 8.7 per cent from 12.6 cents to 13.7 cents.

Accrued capital expenditure was $1,814 million or 14.4 per cent of sales. Free cashflow of $1,650 million was generated in the current period from continuing and discontinued operations.

On 13 January 2014, we entered into an agreement to sell a 70 per cent stake in Sensis. The sale terms exclude the voice services business and include economic benefits to Telstra from services it will continue to provide to Sensis Group. In accordance with accounting standards, the Sensis Group is disclosed as a discontinued operation and the carrying value of assets and liabilities of the Sensis Group, with the exception of the cash balances which were excluded from the sale agreement, were classified as Held for Sale as at 31 December 2013.

On 20 December 2013, we entered into an agreement to sell our 76.4 per cent shareholding in the Hong Kong based mobiles business, CSL New World Mobility Limited (CSL). In accordance with accounting standards, the carrying value of the assets and liabilities of CSL, with the exception of cash balances which will be recovered via the completion adjustments, were classified as Held for Sale as at 31 December 2013. Unlike the Sensis Group, CSL does not meet the criteria to be classified as a discontinued operation.

On 13 February 2014, the Directors of Telstra resolved to pay a fully franked final dividend of 14.5 cents per share, an increase of 3.6 per cent. Shares will trade excluding entitlement to the dividend on 24 February 2014 with payment on 28 March 2014.

PRODUCT PERFORMANCE

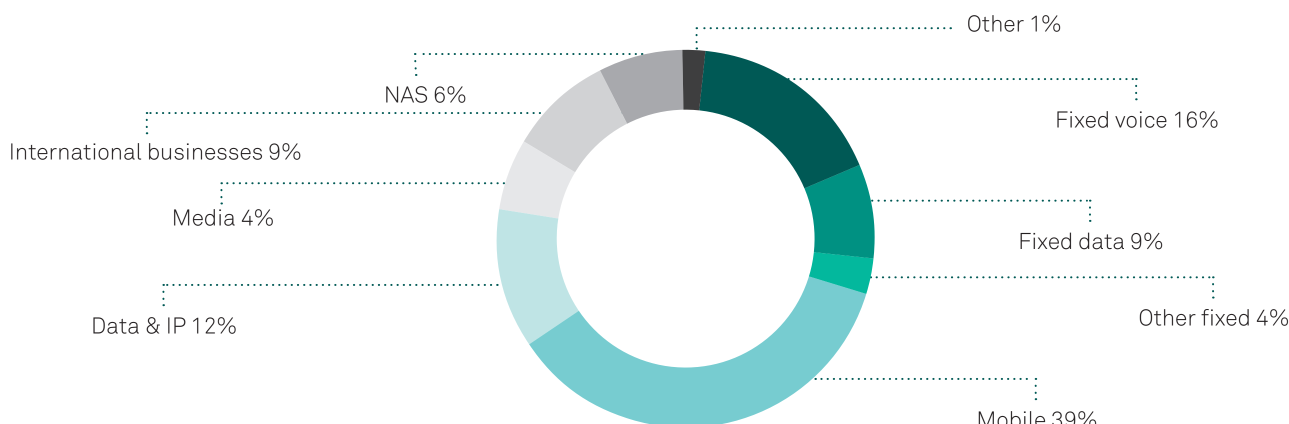
Fixed

Telstra's fixed portfolio comprises fixed voice, fixed data and other fixed revenue which primarily includes intercarrier services, payphones, customer premises equipment and infrastructure access revenue from the NBN agreements. Our key priorities in the fixed portfolio are to grow our fixed data business, manage the decline in our voice business and successfully transition customers to the NBN.

HALF-YEAR RESULTS AND OPERATIONS REVIEW

31 DECEMBER 2013

PRODUCT SALES REVENUE BREAKDOWN



KEY PRODUCT REVENUE

	H1 2014 $m	H1 2013 $m	Change %
Fixed	**3,626**	3,681	(1.5)
Mobile	**4,861**	4,567	6.4
Data & IP	**1,498**	1.543	(2.9)
NAS	**821**	635	29.3
International businesses	**1,083**	844	28.3
Media	**492**	500	(1.6)

PRODUCT PROFITABILITY EBITDA MARGINS*

	H1 2014	FY 2013	H2 2013	H1 2013
Fixed voice**	**61%**	62%	63%	62%
Fixed data**	**42%**	41%	43%	41%
Mobile	**39%**	38%	39%	37%
Data & IP	**65%**	65%	65%	65%

* The data in this table includes minor adjustments to historic numbers to reflect changes in product hierarchy
** Margins exclude NBN voice/data products

Trends in our fixed business have continued although there was a lower rate of decline in voice revenue when compared to prior periods, falling by 7.3 per cent to $2,059 million. This has been driven by the introduction of new plans and bundles. We again saw strong growth in retail fixed data with revenue increasing by 7.8 per cent to $928 million. Total fixed data revenue increased by 6.0 per cent to $1,090 million. The growth in fixed data and increased infrastructure access revenue from the NBN agreements slowed the rate of decline in the fixed revenue portfolio, which declined by 1.5 per cent to $3,626 million.

Our fixed voice business continued to decline with the loss of 117,000 customers in the half. Retail customer numbers declined by 155,000 and wholesale customers increased by 38,000. There are now 7.7 million fixed voice services.

There has been continued growth in bundled plans, such as our popular Entertainer bundles, which include Foxtel through T-Box®, with the addition of 117,000 customers in the half bringing the total number of customers on a bundle to 1.7 million. Retail fixed data services growth remained strong with the addition of 75,000 customers. In addition to this growth, retail fixed data average revenue per user (ARPU) increased by 1.0 per cent to $55.04.

Fixed voice EBITDA margins decreased to 61 per cent driven by revenue decline, while fixed data increased to 42 per cent due to revenue growth.

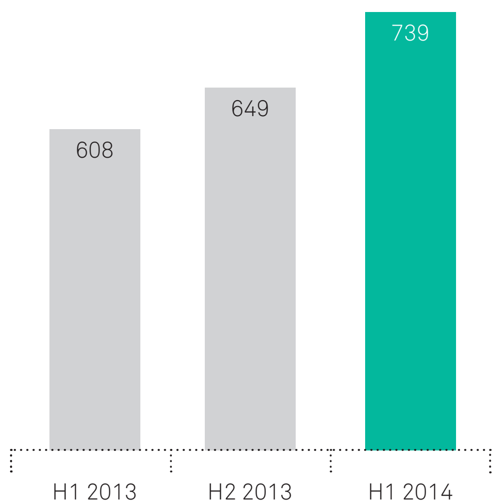
Mobile

Our strong performance in mobiles continued with the addition of 739,000 domestic retail customer services in the half, taking our domestic retail mobile customer base to 15.8 million. Growth was strong across all mobile categories with total mobile revenue growing by 6.4 per cent or $294 million to $4,861 million.

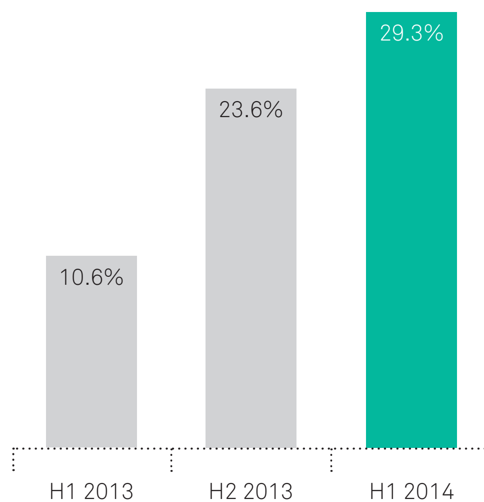
We continue to invest in our 4G network which now covers 85 per cent of the population. Extended 4G coverage has helped us grow penetration of 4G devices and we have now sold over 4.1 million 4G devices, comprising 2.9 million handsets, and over 400,000 each of dongles, wi-fi hotspots and tablets. 26 per cent of our handheld customers are now on 4G.

Postpaid handheld revenue grew 5.0 per cent to $2,495 million. ARPU, excluding the impact of mobile repayment options (MRO), increased 2.1 per cent due to increased data usage. Including the impact of MRO, ARPU was down 0.1 per cent at $58.81. There was strong growth in prepaid handheld revenue, increasing

DOMESTIC RETAIL MOBILE CUSTOMER ADDS ('000s)



NAS REVENUE GROWTH



19.4 per cent to $419 million with an increase of 150,000 unique prepaid handheld users in the half. This was driven by the continuing popularity of our Cap Encore plans, accounting for approximately 69 per cent of prepaid activations during the year, as well as increased data usage by prepaid customers.

Growth was also strong in the mobile broadband category with the addition of 102,000 customers in the half. Revenue grew by 11.6 per cent to $643 million as our customers continue to experience the benefits of wireless internet access. ARPU declined by 0.5 per cent to $29.60.

Machine to machine (M2M) services surpassed the one million mark during the half. M2M is a technology that enables the transmission of data from one machine to another machine. Revenue in this product category grew by 6.8 per cent to $47 million.

Churn continues to be well managed at 10.6 per cent.

EBITDA margins remained steady at 39 per cent.

Data and IP

Data and IP revenue declined by 2.9 per cent or $45 million to $1,498 million. IP Access revenue grew by 3.9 per cent to $581 million, however this was not enough to offset the decline in ISDN and other legacy data products. IP MAN services growth continued with a 3.2 per cent increase in the half bringing the total number of services to 32,000. Data and IP EBITDA margins remained steady at 65 per cent.

Network Applications and Services (NAS)

We continue to build momentum in the NAS portfolio. NAS provides enterprise and business customers with managed network services including cloud, security and communications services. We have made some acquisitions to enhance our capability in this area. For example, our acquisition of the NSC Group has made us a leading provider of unified communications solutions in Australia and has strengthened our contact centre technology services.

There was strong revenue growth of 29.3 per cent to $821 million. This growth was driven by revenue from contracts signed in previous years such as the six year Department of Defence contract signed in financial year 2013.

Major NAS categories had strong revenue growth with unified communications increasing by 27.6 per cent and cloud services increasing by 28.6 per cent.

International Businesses

Our International businesses grew revenue by 28.3 per cent or $239 million to $1,083 million. This portfolio comprises the Hong Kong mobile services business (CSL), the Telstra Global business and our China digital media businesses including Autohome.

CSL revenue grew by 27.5 per cent to $630 million driven by strong customer growth as well as foreign exchange impacts. In HK$ terms CSL revenue grew by 13.3 per cent to HK$4,506 million. On 20 December 2013 we announced that we had entered into an agreement to sell our 76.4 per cent stake in CSL to HKT Limited. The sale, which is subject to regulatory approval in Hong Kong and HKT and PCCW Limited security holder approval, would equate to proceeds of approximately $2 billion, subject to impacts of foreign currency and completion adjustments, for our 76.4 per cent interest.

Global Connectivity and NAS revenue grew by 16.6 per cent to $323 million, and in our China digital media portfolio, revenue increased by 78.1 per cent. This includes Autohome which has established a strong position in digital marketing in the rapidly growing Chinese auto market. On 11 December 2013, Autohome was listed on the New York Stock Exchange. Our ownership interest in Autohome is 65.4 per cent.

Media

Media product portfolio revenue declined by 1.6 per cent or $8 million to $492 million. This portfolio includes our domestic media services and Sensis voice services. On 13 January 2014, we entered into an agreement to sell a 70 per cent stake in Sensis. Voice services including

SEGMENT INCOME

FROM CONTINUING AND DISCONTINUED OPERATIONS

	Total income		
	H1 2014 $m	H1 2013 $m	**Change %**
Telstra Retail	**7,975**	7,675	**3.9**
Global Enterprise and Services	**2,541**	2,463	**3.2**
Telstra Wholesale	**1,155**	1,052	**9.8**
Telstra Operations	**69**	56	**23.2**
Telstra Media Group (i)	**522**	597	**(12.6)**
Telstra International Group (i)	**762**	562	**35.6**
Other	**137**	306	**(55.2)**
Total Telstra segments	**13,161**	12,711	**3.5**

(i) Telstra International Group and Telstra Media Group do not align to the revenue statement for International businesses and Media due to differences in our internal management reporting.

SEGMENT EBITDA CONTRIBUTION

FROM CONTINUING AND DISCONTINUED OPERATIONS

	H1 2014 $m	Restated(iii) H1 2013 $m	**Change %**
Telstra Retail	**4,551**	4,320	**5.3**
Global Enterprise and Services	**1,286**	1,460	**(11.9)**
Telstra Wholesale	**1,043**	967	**7.9**
Telstra Operations	**(1,576)**	(1,644)	**4.1**
Telstra Media Group(ii)	**2**	133	**(98.5)**
Telstra International Group	**208**	143	**45.5**
Other	**(340)**	(434)	**21.7**
Total Telstra segments	**5,174**	4,945	**4.6**

(ii) Includes the results of the Sensis disposal group classified as held for sale, including a $100 million impairment on the remeasurement of the assets of the group.

(iii) Restated figures also reflect organisational changes that have occurred during the period

the 1234 and 12456 services are part of Telstra's core telecom offering and will continue to be operated by Telstra. There was a decline of 17.3 per cent or $9 million in the Sensis voice business compared to the prior corresponding period.

TV revenue, which includes Premium Pay TV and IPTV, increased by 4.5 per cent to $348 million. The growth in IPTV, namely T-Box sales and Foxtel on T-Box offerings, was partially offset by a slight decline in the number of customers on the premium service. Content services declined by 13.9 per cent to $31 million due to the decline of traditional content products such as ringtones.

SEGMENT PERFORMANCE

We report our segment information on the same basis as our internal management reporting structure as at reporting date. Segment comparatives reflect organisational changes that have occurred since the prior reporting period to present a like-for-like view. Commentary on the performance of our business segments follows. Commentary is provided based on continuing and discontinued operations.

Telstra Retail

Telstra Retail brings together our key retail-facing businesses including Telstra Consumer, Telstra Business and Telstra Health, and is responsible for providing the full range of telecommunications products, services and solutions to consumer customers and to Australia's small to medium enterprises. Telstra Retail income grew by 3.9 per cent to $7,975 million and EBITDA increased by 5.3 per cent to $4,551 million. Income in our Consumer business unit grew by 5.0 per cent with strong performances in both the mobile postpaid and prepaid categories, driven particularly by increased data usage, as well as a 7.8 per cent increase in fixed data revenue. Telstra Business income grew by 0.9 per cent, with continued strong growth in the NAS portfolio which grew by 40.2 per cent, and 6.9 per cent growth in fixed data. Telstra Health contributed income of $13 million in its first half year.

Global Enterprise and Services

Global Enterprise and Services (GES) supports business and government customers in Australia and globally. It also provides industry, product, technical support and contract management for the advanced technology solutions sold to these customers. It brings together Telstra Enterprise and Government (TEG), Network Application Services (including costs associated with the Telstra Retail business), and Telstra Global. GES income growth of 3.2 per cent was underpinned by NAS revenue growth of 26.9 per cent within TEG which was partially offset by weaker mobile and IP& Data TEG revenues. EBITDA decreased by 11.9 per cent to $1,286 million due to the decline in mobile and IP & data revenues as well as investment in NAS on the skills, processes and tools to support the NAS base business growth, the on-boarding and management of major new clients, as well as acquisition integration costs.

Telstra Wholesale

Our Wholesale income grew by 9.8 per cent to $1,155 million. This was largely driven by NBN Infrastructure and intercarrier services revenue which was offset in part by the impact of lower fixed usage and mobile roaming. We saw continued carrier migration from Line Spectrum Sharing (LSS) to Unconditioned Local Loop (ULL) services (LSS services declined by 17,000 while ULL services grew by 78,000 for the half). External expenses increased by 33.3 per cent largely due to an increase in our doubtful debt provision and increased network outpayments to Telstra International. EBITDA contribution increased by 7.9 per cent to $1,043 million.

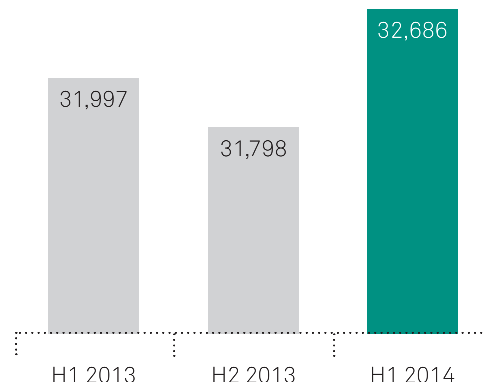
Telstra Media Group

The Telstra Media Group (TMG) includes the Sensis domestic directories business of Yellow Pages® and White Pages® print and digital, Whereis®, location and navigation services, TrueLocal, the Foxtel

OPERATING EXPENSES

	H1 2014 $m	Restated H1 2013 $m	Change %
Labour	**2,367**	2,246	**5.4**
Goods and services purchased	**3,295**	3,135	**5.1**
Other expenses	**1,852**	1,978	**(6.4)**
Total operating expenses	**7,514**	7,359	**2.1**

FTE* NUMBERS



(*) FTE - full time staff and equivalents

reseller products including premium Pay TV, Foxtel on T-Box® and Foxtel on Mobile, the supply of HFC cable services to Foxtel, and Digital Content Services including AFL, NRL, and the MOG music service. EBITDA declined 98.5 per cent compared to the prior period. Excluding a $100 million impairment expense related to the sale of a 70 per cent stake in Sensis, the decline in EBITDA of 23.3 per cent was largely due to the decline in Sensis EBITDA as traditional print customers continue to migrate to digital offerings.

Telstra International Group
The Telstra International Group (TIG) segment experienced income growth of 35.6 per cent to $762 million while EBITDA contribution grew by 45.5 per cent to $208 million. This segment comprises CSL and our China digital media portfolio. As previously noted we have entered into an agreement to sell CSL. Further commentary on the performance of these businesses is provided within the International product performance section on page 4.

Other
Our Other category includes the costs of our corporate centre functions as well as payments received under certain NBN agreements, impairments, adjustments to our employee provisions for bond rate movements and short term incentives, and redundancy expenses for the parent entity. The results of our New Zealand subsidiary TelstraClear, which was sold in October 2012, are also included in the Other category comparatives. The loss resulting from the sale of TelstraClear represents the major movement in the Other segment compared with the prior period.

EXPENSE PERFORMANCE

Labour
Total labour expenses increased by 5.4 per cent or $121 million to $2,367 million.

Our total full time staff and equivalents increased from the prior period by 689 to 32,686. This increase was mainly to support growth in our NAS portfolio and NBN related activity. Offsetting this was an acceleration of our restructuring programs across Telstra Operations.

Our salary and associated costs increased by 3.8 per cent or $62 million to $1,706 million. This includes the impact of an increased headcount, and salary and wage increases which also incorporated the change in the statutory superannuation contribution. This was partially offset by favourable bond rate movements impacting our long service leave and worker's compensation provisions.

Redundancy expenses increased by 65.8 per cent or $50 million to $126 million as a result of continued restructuring to support a changing product and service mix, and simplification of our business.

Goods and services purchased
Goods and services purchased increased by 5.1 per cent or $160 million to $3,295 million. An increase in cost of goods sold and other goods and services purchased was offset by a small decrease in network payments.

Cost of goods sold (COGS) (which includes mobile handsets, tablets, dongles, fixed and digital products) increased by 5.7 per cent or $81 million to $1,500 million. The main driver of this increase was hardware purchased to support NAS business growth. Domestic postpaid mobile COGS were lower, offset by Hong Kong mobile COGS which were impacted by higher smartphone unit rates. Prepaid COGS were higher, driven by handset and tablet volumes.

Other goods and services purchased increased by 10.4 per cent or $86 million to $913 million to support growth in some of our large NAS contracts.

Network payments decreased slightly by 0.8 percent or $7 million to $882 million. The reduction was mainly attributable to our exit of the 3GIS Joint Venture in fiscal 2013 and continued lower payments to overseas carriers. A reduction in the mobile terminating access (MTA) rate (from 6.0 cents to 4.8 cents per minute in January 2013) resulted in continued savings, however this was offset by an increase in the volume of SMS/MMS traffic.

SUMMARY STATEMENT OF CASH FLOWS *

	H1 2014 $m	H1 2013 $m	Change %
Net cash provided by operating activities	**3,754**	3,281	**14.4**
Net cash used in investing activities	**(2,104)**	(1,126)	**86.9**
Free cashflow	**1,650**	2,155	**(23.4)**
Net cash used in financing activities	**(1,695)**	(3,511)	**(51.7)**
Net increase in cash and cash equivalents	**(45)**	(1,356)	**(96.7)**

* Relates to cash flows for continuing and discontinued operations. Refer to Statement of Cash Flows for cash flows in relation to our discontinued operation.

Other expenses

Total other expenses decreased by 6.4 per cent or $126 million to $1,852 million. This decrease was driven by lower other operating expenses and impairment but offset slightly by service contracts and agreements.

Other operating expenses decreased by 9.1 per cent or $104 million to $1,044 million, mainly due to the completion of our sale of TelstraClear on 31 October 2012 which resulted in a loss on sale of $127 million. This was offset by an increase in our light and power costs driven by our 4G roll out and higher property rental costs due to additional CSL sites in Hong Kong.

Impairment and diminution expenses decreased by 14.5 per cent or $25 million to $148 million.

Service contracts and agreements increased slightly by 0.5 per cent or $3 million to $660 million, as we continue to grow our cloud services capability to accommodate our dedicated hosting services and utilise additional external expertise to support our contract with the Department of Defence.

Finance costs

Net finance costs increased by 2.7 per cent or $13 million due to a $61 million decrease in finance income (the prior period included $61 million interest on tax refunds) and a $26 million reduction in capitalised interest; offset by a $44 million decrease in hedging finance costs and a $24 million reduction in net borrowing costs.

The reduction in net borrowing costs is predominantly due to a reduction in the net average interest rate. The average net interest rate during the six months to 31 December 2013 was 6.1 per cent compared to 6.4 per cent in the prior half year period. This reduction arose through a combination of a reduction in market base rates, resulting in lower costs on the floating rate debt component of our debt portfolio, and from re-financing at lower rates.

FINANCIAL POSITION

Capital expenditure and cash flow

Our accrued capital expenditure decreased by 2.1 per cent to $1,814 million. This continues to be in line with our capex to sales guidance of around 15 per cent for the full year. This investment has enabled us to meet ongoing customer demand from the growth in our customer base, continuing investment in growth areas such as Network Access Services and cloud services, support the accelerated rollout of mobile 4G, as well as internet and content delivery infrastructure platforms and meet ongoing delivery of NBN commitments. We continued to invest in expanding our 4G coverage footprint to cover 85 per cent of the Australian population. We added 1,500 sites to our 4G footprint, bringing the cumulative total to 3,500 4G sites.

We expect to invest approximately $1.2 billion in mobiles capital expenditure this financial year which is consistent with investment in the prior year.

In addition to the $1,814 million of accrued capital expenditure, we invested $226 million acquiring capability to support strategic growth businesses. These acquisitions were made across the NAS, Telstra Health and Global Applications and Platforms (GAP) portfolios.

Payment for acquisition of mobile spectrum licences in the 700MHz and 2.5GHz bands is to be made in September 2014.

Free cashflow generated from operating and investing activities was $1,650 million representing a decline of 23.4 per cent. The prior period included cash proceeds from the sale of Telstra Clear of $671 million while acquisitions this year have resulted in cash outflows of $170 million. Excluding TelstraClear sale proceeds, free cashflow has increased by 11.2 per cent. Cash from operating activities has increased predominantly due to higher mobility receipts and lower tax payments, partly offset by higher cash capital expenditure and lower interest received included within cash from investing activities.

Debt position

Our gross debt position at 31 December 2013 was $16,328 million, an increase of $700 million from 30 June 2013. The increase reflects net borrowings of $494

FINANCIAL SETTINGS

	H1 2014 Actual	FY14 Target Zone
Debt servicing(i)	1.3x	1.5 – 1.9x
Gearing(ii)	51.4%	50% to 70%
Interest cover(iii)	12.7x	>7x

(i) Debt servicing ratio equals net debt to EBITDA
(ii) Gearing ratio equals net debt to net debt plus total equity
(iii) Interest cover equals EBITDA to net interest

SUMMARY STATEMENT OF FINANCIAL POSITION

	31 Dec 13 $m	30 Jun 13 $m	Change %
Current assets	10,580	7,903	33.9
Non current assets	29,181	30,624	(4.7)
Total assets	39,761	38,527	3.2
Current liabilities	9,294	7,522	23.6
Non current liabilities	17,350	18,130	(4.3)
Total liabilities	26,644	25,652	3.9
Net assets	13,117	12,875	1.9
Total equity	13,117	12,875	1.9

million, non-cash revaluation impacts of $136 million and finance lease additions of $70 million.

During the half year we made repayments of $606 million comprising long term debt maturities of $564 million and finance lease repayments of $42 million. Debt issuances included a domestic bond issue with net proceeds of $498 million and net issuance of short term debt of $602 million. The domestic bond issue was used to re-finance maturing domestic debt.

Net debt at the end of the half was $13,873 million, an increase of $724 million from the prior year. This movement reflects the increase in gross debt of $700 million and a reduction in cash and cash equivalents of $24 million. Our net debt gearing ratio (net debt to capitalisation) at 31 December 2013 of 51.4 per cent was comparable to the gearing ratio at 30 June 2013 of 50.5 per cent and is within our target range for net debt gearing.

Statement of Financial Position
Our balance sheet remains in a strong position with net assets of $13,117 million.

Current assets increased by 33.9 per cent to $10,580 million predominantly due to the reclassification of Sensis and CSL accounts to Held for Sale. The decline in trade and other receivables can also largely be attributed to this reclassification. Tax receivables decreased due to the receipt of tax amendment refunds. Prepayments increased due to payments to major IT vendors for software support and maintenance.

Non current assets decreased by 4.7 per cent to $29,181 million. Property, plant and equipment declined as ongoing depreciation and retirements exceeded the level of additions. Intangible assets decreased largely due to the transfer of goodwill balances in Sensis and CSL to Assets Held for Sale account and a portion of Sensis goodwill now recognised as an impairment loss. Derivative assets increased mainly due to net foreign currency and other valuation impacts arising from measuring to fair value. Our defined benefit assets increase was driven by actuarial gains in Telstra Super and employer contributions paid.

Current liabilities increased by 23.6 per cent to $9,294 million. Trade and other payables decreased primarily as a result of lower capital and labour accruals, and decline in trade creditors driven by a lower value of invoices awaiting payment. The increase in current borrowings and derivative liabilities reflects borrowings that will mature within the next 12 months, net foreign currency movements and other valuation impacts arising from measuring to fair value. Liabilities classified as held for sale increased due to the reclassification of Sensis and CSL.

Non current liabilities decreased by 4.3 per cent to $17,350 million. Non current borrowings increased due to a domestic bond issue during the period, foreign currency movements and valuation impacts partly offset by reclassification to current borrowings. The decrease in derivative liabilities was due to reclassification to current for maturities within the next 12 months, and also includes foreign currency and other valuation impacts arising from measuring to fair value. Deferred tax liability increased due to recognition of the Telstra Super defined benefit surplus asset offset by the reclassification of deferred tax liabilities relating to CSL and Sensis as Held for Sale liabilities.

Telstra Corporation Limited

Half Year ended 31 December 2013

This schedule details the adjustments made to the reported results for the current year to reflect the performance of the business on the basis which we provided guidance to the market.
This guidance assumes wholesale product price stability, no impairments to investments, and excludes any proceeds on the sale of businesses
(including proceeds and adjustments in relation to Sensis and CSL), the cost of acquisitions and spectrum purchases.

	REPORTED			ADJUSTMENTS				GUIDANCE BASIS		
				FY14			FY13			
	H1 FY14 $m	H1 restated FY13 $m	H1 Growth %	M&A (i) $m	Spectrum (ii) $m	Sensis (iii) $m	Sensis (iii) $m	H1 FY14 $m	H1 FY13 $m	H1 Growth %
Sales revenue	**12,564**	12,124	**3.6%**	(33)		358	410	**12,889**	12,534	**2.8%**
Total revenue	**12,626**	12,191	**3.6%**	(33)		358	410	**12,951**	12,601	**2.8%**
Total income (excl. finance income)	**12,803**	12,301	**4.1%**	(33)		358	410	**13,128**	12,711	**3.3%**
Labour	**2,367**	2,246	**5.4%**	(22)		168	189	**2,513**	2,435	**3.2%**
Goods and services purchased	**3,295**	3,135	**5.1%**	(4)		48	47	**3,339**	3,182	**4.9%**
Other expenses	**1,852**	1,978	**(6.4%)**	(7)		157	171	**2,002**	2,149	**(6.8%)**
Operating expenses	**7,514**	7,359	**2.1%**	(33)	0	373	407	**7,854**	7,766	**1.1%**
EBITDA	**5,289**	4,942	**7.0%**	0	0	(15)	3	**5,274**	4,945	**6.6%**
Depreciation and amortisation	**2,013**	2,068	**(2.7%)**	(2)		92	78	**2,103**	2,146	**(2.0%)**
EBIT	**3,276**	2,874	**14.0%**	2	0	(107)	(75)	**3,171**	2,799	**13.3%**
Net finance costs	**490**	477	**2.7%**			0	0	**490**	477	**2.7%**
Profit before income tax expense	**2,786**	2,397	**16.2%**	2	0	(107)	(75)	**2,681**	2,322	**15.5%**
Income tax expense	**825**	758	**8.8%**	1	0	14	(22)	**840**	736	**14.1%**
(Loss) for the period from discontinued operation	**(221)**	(53)	**317.0%**			221	53	**0**	0	
Profit for the period	**1,740**	1,586	**9.7%**	1	0	100	0	**1,841**	1,586	**16.1%**
Attributable to:										
Equity holders of the Telstra Entity	**1,704**	1,560	**9.2%**	1	0	100	0	**1,805**	1,560	**15.7%**
Non controlling interests	**36**	26	**38.5%**			0	0	**36**	26	**38.5%**
Free cashflow	**1,650**	2,155	**(23.4%)**	170	32			**1,852**	2,155	**(14.1%)**

This table has been subject to review by our auditors.

Note:
There are a number of factors that have impacted our results this year. In the table above, we have adjusted the results for:
(i) Mergers & Acquisitions:
Adjustments relating to mergers and acquisition activities. This includes DCA eHealth Solutions Pty Ltd, Fred IT Group Pty Ltd, NSC Group Pty Ltd, Box Inc and Ooyala Inc.

(ii) Spectrum purchases:
Adjustments relating to the impact of Free Cashflow associated with our Spectrum renewals for the half year.

(iii) Sensis adjustments for Sensis disposal group. Sensis is classified as held for sale and discontinued operation:
Adjustments for Sensis disposal group results excluded from Telstra Group Income Statement. The carrying value of Sensis Group goodwill was impaired by $100m which was recognised in the loss for the period from discontinued operations for the half year ended 31 December 2013. This has been excluded from the adjusted results.

(iv) AASB119
We adopted AASB 119: "Employee Entitlements" retrospectively from 1 July 2013 in accordance with the transitional provisions set out in this revised standard. Comparatives have been restated accordingly.
Some of the key changes that impact Telstra include the following:
(i) Defined Benefit
- the interest cost and expected return on plan assets used under the previous version of AASB 119 have been replaced with a net interest amount, which is calculated by applying the blended Commonwealth and State discount rate to the net defined benefit liability or asset at the start of each annual reporting period, and
- the defined benefit expense has been disaggregated into two components: service costs which will be presented as part of labour expenses and net interest amount which will be presented as part of finance costs.

This change in accounting policy has increased the defined benefit expense recognised in income statement and correspondingly increased the actuarial gain recognised in other comprehensive income by $53 million (before tax) respectively, for the reporting period ending 31 December 2012.

TELSTRA INDICATIVE FINANCIAL CALENDAR 2014*

In line with the proposed changes to the ASX Timetables, which are due to apply from 14 April 2014, the Ex-Date for the final dividend has been revised down from five business days to three business days.

EVENT	Indicative ASX dates
Half-year results announcement	Thursday 13 February 2014
Ex-dividend share trading commences	Monday 24 February 2014
Record date for interim dividend	Friday 28 February 2014
Interim dividend paid	Friday 28 March 2014
Annual Results announcement	Thursday 14 August 2014
Ex-dividend share trading commences	Wednesday 27 August 2014**
Record date for final dividend	Friday 29 August 2014
Final dividend paid	Friday 26 September 2014
Annual General Meeting	Tuesday 14 October 2014

* Time of events may be subject to change. Any change will be notified to the Australian Securities Commission

** Revised to reflect proposed changes to the ASX timetables, due to apply from 14 April 2014.

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 2013

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INCOME STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Note	Telstra Group Half-year ended 31 December 2013 $m	Restated 2012 $m
Continuing operations			
Income			
Revenue (excluding finance income)		**12,626**	12,191
Other income		**177**	110
		12,803	12,301
Expenses			
Labour		**2,367**	2,246
Goods and services purchased		**3,295**	3,135
Other expenses		**1,852**	1,978
		7,514	7,359
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**5,289**	4,942
Depreciation and amortisation		**2,013**	2,068
Earnings before interest and income tax expense (EBIT)		**3,276**	2,874
Finance income		**68**	145
Finance costs	6	**558**	622
Net finance costs		**490**	477
Profit before income tax expense		**2,786**	2,397
Income tax expense		**825**	758
Profit for the period from continuing operations		**1,961**	1,639
Discontinued operation			
(Loss) for the period from discontinued operation	9	**(221)**	(53)
Profit for the period from continuing and discontinued operations		**1,740**	1,586
Attributable to			
Equity holders of Telstra Entity		**1,704**	1,560
Non-controlling interests		**36**	26
		1,740	1,586
Earnings per share from continuing operations (cents per share)		**cents**	**cents**
Basic		**15.5**	13.0
Diluted		**15.5**	13.0
Earnings per share (cents per share)			
Basic		**13.7**	12.6
Diluted		**13.7**	12.5

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Note	Telstra Group Half-year ended 31 December 2013 $m	Restated 2012 $m
Profit for the period from continuing and discontinued operations			
Attributable to equity holders of Telstra Entity		**1,704**	1,560
Attributable to non-controlling interests		**36**	26
		1,740	1,586
Items that will not be reclassified subsequently to the income statement			
Retained profits:			
- actuarial gain on defined benefit plans attributable to equity holders of Telstra Entity		**286**	280
- income tax on actuarial gain on defined benefit plans		**(85)**	(82)
- actuarial gain on defined benefit plans attributable to non-controlling interests		**1**	1
		202	199
Items that may be reclassified subsequently to the income statement			
Foreign currency translation reserve:			
- translation differences of foreign operations attributable to equity holders of Telstra Entity		**61**	(17)
- income tax on movements in the foreign currency translation reserve		**6**	2
- translation differences transferred to the income statement on disposal of controlled entities		**-**	112
- income tax on translation differences transferred to the income statement on disposal of controlled entities		**-**	18
- translation differences of foreign operations attributable to non-controlling interests		**10**	(3)
Cash flow hedging reserve:			
- changes in fair value of cash flow hedges	6	**411**	(76)
- changes in fair value transferred to other expenses		**(541)**	(26)
- changes in fair value transferred to goods and services purchased		**(11)**	9
- changes in fair value transferred to finance costs		**105**	114
- income tax on movements in the cash flow hedging reserve		**11**	(8)
		52	125
Total other comprehensive income		**254**	324
Total comprehensive income for the period		**1,994**	1,910
Total comprehensive income attributable to equity holders of Telstra Entity		**1,947**	1,886
Total comprehensive income attributable to non-controlling interests		**47**	24

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Note	Telstra Group As at 31 Dec 2013 $m	30 June 2013 $m
Current assets			
Cash and cash equivalents	5	**2,455**	2,479
Trade and other receivables		**4,263**	4,557
Inventories		**434**	431
Derivative financial assets		**92**	43
Current tax receivables		**2**	79
Prepayments		**427**	314
Assets classified as held for sale	9	**2,907**	-
Total current assets		**10,580**	7,903
Non current assets			
Trade and other receivables		**945**	943
Inventories		**30**	27
Investments - accounted for using the equity method		**16**	18
Investments - other		**93**	38
Property, plant and equipment		**19,963**	20,326
Intangible assets		**6,420**	8,202
Derivative financial assets		**1,478**	1,062
Deferred tax assets		**8**	5
Defined benefit assets	7	**228**	3
Total non current assets		**29,181**	30,624
Total assets		**39,761**	38,527
Current liabilities			
Trade and other payables		**3,442**	4,241
Provisions		**862**	918
Borrowings		**2,225**	751
Derivative financial liabilities		**403**	44
Current tax payables		**437**	444
Revenue received in advance		**934**	1,124
Liabilities classified as held for sale	9	**991**	-
Total current liabilities		**9,294**	7,522
Non current liabilities			
Other payables		**68**	163
Provisions		**256**	276
Borrowings		**14,470**	14,313
Derivative financial liabilities		**800**	1,625
Deferred tax liabilities		**1,365**	1,330
Defined benefit liability	7	**-**	42
Revenue received in advance		**391**	381
Total non current liabilities		**17,350**	18,130
Total liabilities		**26,644**	25,652
Net assets		**13,117**	12,875
Equity			
Share capital		**5,698**	5,711
Reserves		**(564)**	(619)
Retained profits		**7,682**	7,519
Equity available to Telstra Entity shareholders		**12,816**	12,611
Non-controlling interests		**301**	264
Total equity		**13,117**	12,875

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 2013

	Note	Telstra Group Half-year ended 31 December 2013 $m	2012 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**14,446**	14,088
Payments to suppliers and to employees (inclusive of GST)		**(10,099)**	(9,977)
Government grants received		**138**	65
Net cash generated by operations		**4,485**	4,176
Income taxes paid		**(731)**	(895)
Net cash provided by operating activities		**3,754**	3,281
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(1,613)**	(1,517)
- intangible assets		**(456)**	(483)
Capital expenditure (before investments)		**(2,069)**	(2,000)
- shares in controlled entities (net of cash acquired)	5	**(113)**	(5)
- payments for other investments		**(55)**	(4)
Total capital expenditure		**(2,237)**	(2,009)
Proceeds from:			
- sale of property, plant and equipment		**22**	30
- sale of shares in controlled entities (net of cash disposed)	5	**-**	671
Proceeds from finance lease principal amounts		**46**	31
Loans to jointly controlled and associated entities		**-**	(1)
Interest received		**42**	103
Settlement of hedges in net investments		**(24)**	(7)
Investments in financial instruments		**(4)**	-
Dividends received		**1**	1
Distributions received from Foxtel Partnership		**50**	55
Net cash used in investing activities		**(2,104)**	(1,126)
Operating cash flows less investing cash flows		**1,650**	2,155
Cash flows from financing activities			
Proceeds from borrowings		**1,100**	806
Repayment of borrowings		**(564)**	(2,004)
Repayment of finance lease principal amounts		**(42)**	(79)
Proceeds from sale and finance lease back transactions		**-**	52
Staff repayments of share loans		**1**	2
Purchase of shares for employee share plans		**(61)**	-
Proceeds received from exercise of equity instruments		**26**	-
Finance costs paid		**(479)**	(534)
Issue of equity by controlled entities	5	**160**	-
Payment for share buy-back of non-controlling interests		**(72)**	-
Dividends paid to equity holders of Telstra Entity	3	**(1,742)**	(1,739)
Dividends paid to non-controlling interests		**(22)**	(15)
Net cash used in financing activities		**(1,695)**	(3,511)
Net (decrease) in cash and cash equivalents		**(45)**	(1,356)
Cash and cash equivalents at the beginning of the period		**2,479**	3,945
Effects of exchange rate changes on cash and cash equivalents		**21**	(4)
Cash and cash equivalents at the end of the period	5	**2,455**	2,585

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 2013

Telstra Group

		Reserves						
	Share capital $m	Foreign currency transla-tion (a) $m	Cash flow hedging (b) $m	General reserve (c) $m	Retained profits $m	Total $m	Non-controll-ing interests $m	Total equity $m
Balance at 1 July 2013	**5,711**	**(499)**	**(92)**	**(28)**	**7,519**	**12,611**	**264**	**12,875**
Profit for the period	**-**	**-**	**-**	**-**	**1,704**	**1,704**	**36**	**1,740**
Other comprehensive income	**-**	**67**	**(25)**	**-**	**201**	**243**	**11**	**254**
Total comprehensive income for the period	**-**	**67**	**(25)**	**-**	**1,905**	**1,947**	**47**	**1,994**
Dividends	**-**	**-**	**-**	**-**	**(1,742)**	**(1,742)**	**(22)**	**(1,764)**
Changes in non-controlling interests (d)	**-**	**-**	**-**	**13**	**-**	**13**	**9**	**22**
Amounts repaid on share loans provided to employees	**1**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Additional shares purchased	**(61)**	**-**	**-**	**-**	**-**	**(61)**	**-**	**(61)**
Exercise of employee share options	**25**	**-**	**-**	**-**	**-**	**25**	**-**	**25**
Share based payments	**22**	**-**	**-**	**-**	**-**	**22**	**3**	**25**
Balance at 31 December 2013	**5,698**	**(432)**	**(117)**	**(15)**	**7,682**	**12,816**	**301**	**13,117**
Balance at 1 July 2012	5,635	(751)	(87)	(29)	6,712	11,480	209	11,689
Profit for the period (restated)	-	-	-	-	1,560	1,560	26	1,586
Other comprehensive income (restated)	-	115	13	-	198	326	(2)	324
Total comprehensive income for the period	-	115	13	-	1,758	1,886	24	1,910
Dividends	-	-	-	-	(1,739)	(1,739)	(15)	(1,754)
Amounts repaid on share loans provided to employees	2	-	-	-	-	2	-	2
Share based payments	21	-	-	-	-	21	3	24
Balance at 31 December 2012	5,658	(636)	(74)	(29)	6,731	11,650	221	11,871

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

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

(b) The cash flow hedging reserve represents the effective portion of gains or losses on remeasuring the fair value of hedge instruments, where a hedge qualifies for hedge accounting. 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. Refer to note 6 for further details.

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

(d) During the period we acquired the minority interests of the Octave Group and we decreased our ownership of Autohome Inc. from 66.0 per cent at 30 June 2013 to 65.4 per cent at 31 December 2013, via share buy-back and subsequent initial public offering (IPO). Neither of these transactions resulted in a change of control. Changes in valuation of non-controlling interests resulting from these transactions are recorded in the general reserve. Refer to note 5 for further details.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

Our half-year financial report is a condensed general purpose financial report and is to be read in conjunction with our Annual Financial Report as at 30 June 2013. 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 half-year financial report

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

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

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

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

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

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

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

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

1.2 Clarification of terminology used in our income statement

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

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

Our management uses EBITDA and earnings before interest and income tax expense (EBIT), in combination with other financial measures, primarily to evaluate the Company's operating performance before financing, income tax and non-cash capital related expenses. In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

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

1.3 Rounding

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

2.1 Changes in accounting policies

Apart from the following changes in accounting policies that occurred during the period, our accounting policies are consistent with those disclosed in the Annual Financial Report as at 30 June 2013:

(a) Consolidated Financial Statements and Separate Financial Statements

AASB 10: "Consolidated Financial Statements" revises the definition of control and related application guidance so that a single control model can be applied to all entities. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

We have adopted AASB 10 from 1 July 2013 on a retrospective basis, along with the entire suite of consolidation and related standards.

We have reviewed our investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under the previous accounting standard AASB 127: "Consolidated and Separate Financial Statements". No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10. Investments accounted for as subsidiaries under AASB 127 continue to meet the revised definition of control under AASB 10 and therefore continue to be consolidated in the group's financial statements. Investments accounted for as associates under the previous accounting standard AASB 128: "Investments in Associates" have been assessed against the revised control definition and there are no changes in the accounting treatment for these investments. Hence, we have continued to equity account for them.

We have also adopted revised AASB 127: "Separate Financial Statements" from 1 July 2013, however there is no impact to the Group as we already comply with the requirements in this standard. AASB 127 only applies in the separate financial statements of Telstra Entity and some of the Group's subsidiaries.

(b) Joint Arrangements and Investments in Associates and Joint Ventures

AASB 11: "Joint Arrangements" has revised the definition types of joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form.

The definition types have been consolidated into two, joint ventures (previously referred to as jointly controlled entities) and joint operations (previously referred to as jointly controlled assets and jointly controlled operations). Furthermore, the accounting treatment options for joint venture arrangements have been removed to eliminate inconsistent treatments, where equity accounting is mandatory for joint ventures and proportionate consolidation can no longer be used.

We have adopted this standard from 1 July 2013 on a retrospective basis, along with the entire suite of consolidation and related standards.

We have reviewed our joint arrangements to assess whether the revised definition types under AASB 11 change the way we account for these compared to the previous standard AASB 131: "Interests in Joint Ventures". No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 11.

The assessment of our previously classified jointly controlled entities shows there are none that give us direct rights over assets or obligations to settle liabilities, such that they should be classified as joint operations. Therefore, all of these jointly controlled entities have been classified as joint ventures and given that our accounting policy under AASB 131 for jointly controlled entities was to use the equity accounting method, these joint ventures have remained equity accounted for under AASB 11.

On adoption, we did not have any jointly controlled assets or jointly controlled operations, now referred to as joint operations. Overall, there has been no impact on the measurement of any of our joint arrangements.

We have also adopted AASB 128: "Investments in Associates and Joint Ventures" from 1 July 2013. There has been no impact to our financial results as a result of this new standard.

(c) Disclosure of Interests in Other Entities

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

We have adopted AASB 12 on a retrospective basis from 1 July 2013, along with the entire suite of consolidation and related standards. Comparative information is not required to be presented for those disclosures relating to unconsolidated structured entities on adoption.

We have assessed the disclosure requirements under AASB 12 and found that additional disclosures will be required in our 2014 Annual Financial Report in the following areas:

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

There are no measurement impacts from the adoption of this standard.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.1 Changes in accounting policies (continued)

(d) Fair Value Measurement

We have adopted AASB 13: "Fair Value Measurement" from 1 July 2013 on a prospective basis. It is a new standard providing a single source of guidance for all fair value measurements and a precise definition of fair value. AASB 13 replaces all fair value measurement guidance in Australian Accounting Standards and Interpretations (with some exceptions, including share based payments and leases) but does not replace existing standard requirements on when fair values should be used.

We have assessed the new guidance and definition of fair value against our previous fair value measurements of assets and liabilities and there is no change to how we measure fair value. We use exit prices and where possible, observable market-based inputs, to determine fair value.

We are however required to make additional disclosures in our 2014 Annual Financial Report, specifically in the following areas:

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

Additional fair value disclosures relating to our financial instruments have also been provided in note 6.

(e) Employee Benefits

We adopted AASB 119: "Employee Entitlements" retrospectively from 1 July 2013 in accordance with the transitional provisions set out in this revised standard. Comparatives have been restated accordingly.

Some of the key changes that impact us include the following:

(i) Defined Benefit

- the interest cost and expected return on plan assets used under the previous version of AASB 119 have been replaced with a net interest amount, which is calculated by applying a blended Commonwealth and State discount rate to the net defined benefit liability or asset at the start of each annual reporting period; and
- the defined benefit expense has been disaggregated into two components: service costs which will be presented as part of labour expenses and net interest amount which will be presented as part of finance costs.

This change in accounting policy has increased the defined benefit expense recognised in the income statement and correspondingly increased the actuarial gain recognised in other comprehensive income by $37 million (after tax) respectively, for the reporting period ending 31 December 2012.

The following table summarises the financial effects on the continuing operations and discontinued operation in the income statement and other comprehensive income on implementation of the new policy.

	Telstra Group Half-year ended 31 December 2012		
	Reported	Adjustment	Restated
Income Statement: Continuing operations	**$m**	**$m**	**$m**
Labour expenses	2,205	41	2,246
Finance costs	610	12	622
Income tax expense	774	(16)	758
Discontinued operation			
Labour expenses	189	-	189
Income tax expense	(22)	-	(22)
Total			
Labour expenses	2,394	41	2,435
Finance costs	610	12	622
Income tax expense	752	(16)	736
	cents	**cents**	**cents**
Total			
Earnings per share - Basic	12.9	(0.3)	12.6
Earnings per share - Diluted	12.8	(0.3)	12.5
Other Comprehensive Income:	**$m**	**$m**	**$m**
Actuarial gain on defined benefit plans attributable to equity holders of Telstra Entity	227	53	280
Income tax on actuarial gain on defined benefit plans	(66)	(16)	(82)

This change in accounting policy has had no impact on net assets at 31 December 2012.

Refer to note 7 for further details on our defined benefit plans.

(ii) Annual Leave

The revised standard has also changed the accounting for the Group's annual leave obligations. As we do not expect all annual leave to be taken within 12 months of the respective service being provided, a portion of annual leave obligations are now classified as long-term employee benefits and need to be measured on a discounted basis. We have assessed the financial effect of discounting our long-term annual leave balances not to be material on our financial results.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.1 Changes in accounting policies (continued)

(f) Disclosures - Offsetting Financial Assets and Financial Liabilities

On 1 July 2013, we adopted AASB 2012-2: "Disclosures - Offsetting Financial Assets and Financial Liabilities" retrospectively. AASB 2012-2 amends the disclosure requirements in AASB 7: "Financial Instruments: Disclosures" so that more extensive disclosures are required. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

We have assessed the new disclosure requirements under AASB 2012-2 and found that additional disclosures will be required in our 2014 Annual Financial Report in a number of areas, including the following:

- for our Bilateral International Roaming agreements, that have unconditional rights of set off and are set off in the statement of financial position; and
- for our International Swaps and Derivative Association (ISDA) agreements and Wholesale Customer Relationship Agreements (CRAs) that have conditional rights of set off, however are not set off in the statement of financial position.

There are no measurement impacts from the adoption of this standard.

Refer to note 6 for further details on additional offsetting disclosures.

(g) Other

In addition to the above changes in accounting policy, we note the following new accounting standards that are applicable to us from 1 July 2013:

- AASB 2011-7: "Amendments to Australian Standards Arising from the Consolidation and Joint Arrangement Standards";
- AASB 2012-10: "Amendments to Australian Accounting Standards - Transition Guidance and other Amendments";
- AASB 2011-8: “Amendments to Australian Accounting Standards arising from AASB 13”;
- AASB 2011-10: "Amendments to Australian Accounting Standards Arising from AASB 119";
- AASB 2011-4: “Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements”;
- AASB CF 2013-1: “Amendments to the Australian Conceptual Framework”;
- AASB 1048: “Interpretation of Standards”;
- AASB 2012-5: “Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle”; and
- AASB 2012-9: “Amendments to AASB 1048 arising from the withdrawal of Australian Interpretation 1039”.

We do not expect these new accounting standards will have any material impact on our financial results.

2.2 Estimates, assumptions and judgements

(a) Property, plant and equipment

Depreciation

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

We have assessed that it will be necessary to extend the service lives of certain technologies in our fixed access asset classes that are expected to be impacted by the disconnection obligations under the National Broadband Network (NBN) Definitive Agreements (DAs). Based on the current service lives of these asset types, our assessment shows they will be completely written down before their required disconnections under the NBN DAs. The impact of this reassessment of service lives due to the NBN has decreased our depreciation expense for the half-year ended 31 December 2013 by $27 million (2012: nil). There are no further measurement implications on service lives resulting from the NBN transaction for the half-year ended 31 December 2013. Refer to note 8 for further discussion on the NBN.

The net effect of the reassessment of other service lives from our normal service life reassessment for the half-year ended 31 December 2013 was a decrease in our depreciation expense of $52 million (2012: $86 million).

The total impact on the Telstra Group from the reassessment of service lives for the half-year ended 31 December 2013 was a net decrease of $79 million in depreciation expense (2012: $86 million).

(b) Software assets

Amortisation

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

The impact on the Telstra Group from our normal service life reassessment for the half-year ended 31 December 2013 was a net decrease of $25 million in amortisation expense (2012: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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

Apart from those already disclosed in our Annual Financial Report as at 30 June 2013, the accounting standards that will be applicable to the us in future reporting periods, that have not been early adopted during the half-year ended 31 December 2013, are detailed below:

(a) Financial Instruments

In November 2013, the International Accounting Standards Board (IASB) reissued IFRS 9: "Financial Instruments" (IFRS 9) which introduces a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The AASB have revised AASB 9: "Financial Instruments" to reflect the IASB's reissued IFRS 9. As part of the revised AASB 9, the mandatory effective date is 1 January 2017. We are currently assessing the impact on our financial results.

(b) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards that are applicable in future years:

- AASB 2013-5: "Amendments to Australian Accounting Standards – Investment Entities";
- AASB 2013-9: "Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments";
- AASB 1031: "Materiality";
- IAS 19R: "Defined Benefit Plans: Employee Contributions";
- Annual Improvements to IFRSs 2010 - 2012 Cycle; and
- Annual Improvements to IFRSs 2011 - 2013 Cycle.

We do not expect these accounting standards will have any material impact on our financial results upon adoption.

NOTES TO THE 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	
	2013 $m	2012 $m
Dividends paid		
Previous year final dividend paid	**1,742**	1,739
Dividends paid per ordinary share	**cents**	**cents**
Previous year final dividend paid	**14.0**	14.0

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

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

	Telstra Entity	
	Half-year ended 31 December	
	2013 cents	2012 cents
Dividends per ordinary share to be paid		
Interim dividend fully franked	**14.5**	14.0

As the interim dividend for the half-year ended 31 December 2013 was not determined or publicly recommended by the Board as at 31 December 2013, no provision for dividend has been raised in the statement of financial position. The interim dividend has been reported as an event subsequent to reporting date. Refer to note 11 for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SEGMENT INFORMATION

Operating segments

We report our segment information on the same basis as our internal management reporting structure, which determines how our Company is organised and managed.

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparatives reflect the organisational changes that have occurred since the prior reporting period to present a like-for-like view.

During the half-year ended 31 December 2013, the following changes were made to our operating segments:

- a new business unit “Global Enterprise and Services” (GE&S) was created that operates as a global scale, industry-based services and solutions business. GE&S is a separate reportable segment which includes mainly Telstra Enterprise and Government (previously a separate reportable segment), Network Applications and Services (NAS) Group (previously in Telstra Operations reportable segment), Telstra Global (previously in Telstra International Group segment), and Telstra Ventures Group and Global Applications and Platforms (both previously in “All Other” category); and
- Telstra Customer Sales and Services business unit changed its name to Telstra Retail (TR) which is reported as a separate segment and, following the creation of GE&S it now only includes Telstra Consumer (TC), Telstra Business (TB), Telstra Health (TH) and TR head office function.

For the first half of the financial year 2014 the Telstra Group is organised into the following reportable segments for internal management reporting purposes:

Telstra Retail (TR) includes our domestic retail businesses of TC, TB and TH and it is responsible for providing the full range of telecommunication products, services and solutions (across Mobiles, Fixed and Mobile Broadband, Telephony and Pay TV) to consumer customers and to Australia's small to medium enterprises in metropolitan, regional, rural and remote areas of Australia. This is achieved through inbound and outbound call centres, Telstra shops (owned and licensed), Telstra dealers and Telstra Digital. Telstra Digital is responsible for delivering self service capabilities for all Telstra customers, across all phases of the customer experience from browsing to buying and bill and service requests.

Global Enterprise and Services (GE&S) supports business and government customers in Australia and globally. It also provides product life cycle management, technical support and contract management for the advanced technology solutions sold to these customers.

Telstra Operations (TOps) is responsible for:

- overall planning, design, engineering and architecture of Telstra networks, technology and information technology;
- construction of infrastructure for our Company's fixed, mobile, Internet protocol (IP) and data networks;
- delivery of customer services across these networks;
- operation, assurance and maintenance, including activation and restoration of these networks; and
- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs.

Telstra Wholesale (TW) is responsible for the provision of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers.

Telstra Media Group (TMG) is responsible for:

- sale of the Sensis domestic directories and advertising products, including print, voice and digital directories, digital mapping and satellite navigation, digital display advertising and business information services, including Yellow Pages®, White Pages®, Whereis®, TrueLocal, Citysearch®, 1234 and Quotify®. As at 31 December 2013, the carrying value of assets and liabilities of Sensis disposal group (as defined in note 9) were classified as assets held for sale. For further details refer to note 9; and
- the supply of Hybrid Fibre Coaxial (HFC) cable services to Foxtel.

TMG revenue also includes the distribution from Foxtel.

Telstra International Group (TIG) is responsible for managing the following assets outside Australia:

- Telstra China, our mainland China business providing digital media services in auto, IT and consumer electronics (this includes the Autohome and Sequel Media businesses); and
- CSL New World Mobility Limited, our 76.4 per cent owned subsidiary in Hong Kong, responsible for providing full mobile services including handset and device sales, mobile voice, and mobile data products to the Hong Kong market. As at 31 December 2013, the carrying value of assets and liabilities of CSL disposal group (as defined in note 9) were classified as assets held for sale. Refer to note 9 for further details.

In our segment results, the “All Other” category includes our Corporate areas which do not qualify as reportable segments in their own right.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SEGMENT INFORMATION (CONTINUED)

Segment results

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The result of each segment is measured based on its "earnings before interest, income tax expense, depreciation and amortisation (EBITDA) contribution". EBITDA contribution excludes the effects of all inter-segment balances and transactions (with the exception of transactions referred to in footnote (iii) below). As such, only transactions external to the Telstra Group are reported.

The reconciliation of segment results to the Telstra Group's reported EBIT and profit before income tax expense from continuing and discontinued operations in the financial statements includes only depreciation and amortisation expenses and net finance costs.

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 adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- rental costs associated with printers and other related equipment for the Telstra Entity.

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

- revenue associated with mobile handsets sold via dealers for the GE&S segment is allocated to the TR segment along with the associated costs of goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in the TR and GE&S segments depending on the type of customer segment serviced;
- NAS costs associated with the TR segment are included in the GE&S segment;
- TOps recognise certain expenses in relation to the installation and running of the HFC cable network;
- domestic promotion and advertising expenses for the Telstra Entity are recorded centrally in the TR head office function; and
- call centre costs associated with the GE&S segment are included in the TR segment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

The following tables detail our segment results, based on the reporting structure as at 31 December 2013:

Telstra Group

Half-year ended 31 December 2013	TR $m	GE&S $m	TOps $m	TW $m	TMG (i) $m	TIG $m	All Other (ii) $m	Total $m
Revenue from external customers (iii)	7,943	2,537	47	1,123	522	760	52	12,984
Other income	32	4	22	32	-	2	85	177
Total income (iv)	7,975	2,541	69	1,155	522	762	137	13,161
Labour expenses	556	422	827	37	197	107	389	2,535
Goods and services purchased (iii)	2,345	671	5	39	74	304	(95)	3,343
Other expenses	523	162	813	36	249	143	183	2,109
EBITDA contribution	4,551	1,286	(1,576)	1,043	2	208	(340)	5,174

Telstra Group

Half-year ended 31 December 2012	TR $m Restated	GE&S $m Restated	TOps $m Restated	TW $m Restated	TMG $m Restated	TIG $m Restated	All Other (ii) $m Restated	Total $m Restated
Revenue from external customers (iii)	7,636	2,454	40	1,049	597	562	263	12,601
Other income	39	9	16	3	-	-	43	110
Total income (iv)	7,675	2,463	56	1,052	597	562	306	12,711
Labour expenses (v)	540	361	841	37	230	86	340	2,435
Goods and services purchased (iii)	2,326	540	17	36	68	235	(40)	3,182
Other expenses	489	102	842	12	166	98	440	2,149
EBITDA contribution	4,320	1,460	(1,644)	967	133	143	(434)	4,945

(i) TMG includes the results of the Sensis disposal group (as defined in note 9) classified as held for sale, including a $100 million impairment on the re-measurement of the assets of the disposal group. Refer to note 9 for further details.

(ii) Following the sale of TelstraClear on 31 October 2012, the comparative period includes four months of TelstraClear results. The comparative period segment results also include a $127 million loss on sale of TelstraClear, which is recorded in Other expenses. Refer to note 5 for further details.

(iii) Revenue from external customers in GE&S includes $83 million (2012: $64 million) of inter-segment revenue treated as external expenses in TR and TW, which is eliminated in the "All Other" category.

External expenses in GE&S also include $12 million (2012: $15 million) of inter-segment expenses treated as external revenue in TW and eliminated in the "All Other" category.

(iv) Total Income includes $358 million (2012: $410 million) of income from discontinued operation of the Sensis disposal group. Refer to note 9 for further details.

(v) Labour expenses have been restated as a result of a retrospective application of AASB 119: "Employee Entitlements". Refer to note 2.1(e) for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

A reconciliation of EBITDA contribution for reportable segments to Telstra Group's reported EBITDA, EBIT and profit before income tax expense from continuing and discontinued operations is provided below:

	Telstra Group	
	Half-year ended 31 December	
	2013 **$m**	Restated 2012 $m
EBITDA Contribution	**5,514**	5,379
All other	**(340)**	(434)
Telstra Group EBITDA	**5,174**	4,945
Depreciation and amortisation	**(2,105)**	(2,146)
Telstra Group EBIT	**3,069**	2,799
Net finance costs	**(490)**	(477)
Telstra Group profit before income tax expense	**2,579**	2,322
Telstra Group profit before income tax expense, includes:		
Profit before income tax expense from continuing operations	**2,786**	2,397
(Loss) before income tax expense from discontinued operation	**(207)**	(75)
Telstra Group profit before income tax expense	**2,579**	2,322

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of cash and cash equivalents

	Telstra Group	
	As at 31 December	
	2013 $m	2012 $m
Cash at bank and on hand	340	232
Bank deposits, negotiable certificates of deposit and bills of exchange	2,115	2,353
Cash and cash equivalents in the statement of cash flows	2,455	2,585

Acquisitions

Current period

A 100 per cent shareholding in NSC Group Pty Ltd (NSC) and its controlled entities was acquired on 22 August 2013 for total consideration of $45 million.

A 100 per cent shareholding in DCA eHealth Solutions Pty Limited (DCA Health) and its controlled entities was acquired on 2 September 2013 for total consideration of $44 million.

A 50 per cent shareholding in FRED IT Group Pty Ltd (FRED IT) was acquired on 30 September 2013 for total consideration of $27 million, with $3 million of this contingent upon the entity achieving pre-determined targets by the earn out period of financial year ended 30 June 2014. At 31 December 2013 earn out targets were reassessed resulting in $3m additional contingent consideration being recognised in the income statement. We consolidate the results of FRED IT as we have control through our decision making ability on the board.

A 100 per cent shareholding in O2 Networks Pty Ltd was acquired on 31 December 2013, via an acquisition of three holding entities: Prentice Management Consulting Pty Ltd, Kelzone Pty Ltd and Goodwin Enterprises (Vic) Pty Ltd, for total consideration of $55 million, with $4 million of this contingent upon the entity achieving pre-determined targets by 30 June 2014.

The effect of these acquisition on payments for shares in controlled entities are detailed below:

	Total acquisitions	
	Half-year ended 31 December	
	2013 $m	2013 $m
Consideration for acquisition		
Cash consideration for acquisition	113	
Contingent consideration for acquisition	7	
Deferred consideration	51	
Total purchase consideration	171	
Cash balances acquired	(4)	
Contingent consideration	(7)	
Deferred consideration	(51)	
Loan	4	
Outflow of cash on acquisition	113	
	Fair Value	**Carrying Value**
Assets/(liabilities) at acquisition date		
Cash and cash equivalents	4	4
Trade and other receivables	31	31
Property, plant and equipment	7	7
Intangible assets (including goodwill)	87	54
Other assets	11	11
Trade and other payables	(31)	(29)
Unearned revenue	(16)	(16)
Other liabilities	(9)	(9)
Deferred tax liabilities	(22)	(2)
Net assets	62	51
Adjustment to reflect non-controlling interests	(6)	
Goodwill on acquisition	115	
Total purchase consideration	171	

The following transactions impacted cash flows from financing activities:

On 4 November 2013 Telstra Holdings Pty Ltd acquired an additional 2.8 per cent interest in Autohome Inc. from minority shareholders for total consideration of $60 million, with $31 million deferred until 4 February 2014. At the same time Autohome Inc. completed a share buy-back from minority shareholders for total consideration of $83 million, with $42 million deferred until 4 February 2014. The combined effect of the two transactions increases Telstra Holdings Pty Ltd ownership in Autohome Inc. from 66.0 per cent at 30 June 2013 to 71.5 per cent immediately prior to the initial public offering (IPO).

Following this, on 11 December 2013 Autohome Inc. was listed on the New York Stock Exchange with gross proceeds to Autohome Inc. of $160 million (US$142 million). Immediately following the IPO, our ownership interest decreased from 71.5 per cent to 65.4 per cent at 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

Acquisitions (continued)

Prior period

iVision

A 100 per cent shareholding in iVision Pty Ltd (iVision) was acquired on 31 March 2011 for total consideration of $41 million, with $5 million of this contingent upon the entity achieving pre-determined integration targets by 31 December 2012.

On 7 September 2012,Telstra Corporation Ltd paid the $5 million contingent consideration for the successful integration of iVision.

There were no material acquisitions made during the half-year ended 31 December 2012.

Disposals

Current period

There were no material disposals made during the half-year ended 31 December 2013.

Prior period

TelstraClear

On 31 October 2012 our controlled entity Telstra New Zealand Holdings Limited sold its 100 per cent shareholding in TelstraClear Limited and its controlled entity (TelstraClear). The effect of the disposal is detailed below:

	TelstraClear
	Half-year ended 31 December 2012 $m
Consideration on disposal - net of cash disposed	
Cash consideration on disposal	682
Cash and cash equivalents disposed	(11)
Inflow of cash on disposal	671
Non-cash consideration adjustments	(2)
Total proceeds on disposal	669
Total consideration on disposal	680
Assets/(liabilities) at disposal date	
Assets classified as held for sale	772
Liabilities classified as held for sale	(98)
Net assets classified as held for sale	674
Foreign currency translation reserve disposed (net of income tax)	130
Other adjustments	3
Loss on disposal	(127)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

Our activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance and support the delivery of our financial targets. Financial risk management is carried out centrally by our Treasury department, which is part of our corporate areas, under policies approved by the Board of Directors (the Board).

We enter into derivative transactions in accordance with the Board approved policies to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. Derivative financial instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps; and
- forward exchange contracts.

We do not speculatively trade in derivative financial instruments. Our derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from our business activities.

We measure and recognise the following financial instruments at fair value on a recurring basis:

- derivative financial instruments; and
- available-for-sale financial assets.

For borrowings in fair value hedges, the carrying amount is adjusted for fair value movements attributable to the hedged risk.

For financial assets and financial liabilities with a short-term to maturity, the carrying amount is considered to approximate fair value.

We do not have any financial instruments measured at fair value on a non-recurring basis.

The carrying amounts and fair values of each category of our financial instruments are shown in Tables D and E. Fair values are provided for each category of financial instruments including those not recognised at fair value for accounting purposes.

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements are shown in Tables H and I.

(a) Finance costs

Our finance costs for the half-year ended 31 December 2013 are detailed below:

Table A	Telstra Group	
	Half-year ended 31 December	
	2013 $m	Restated 2012 $m
Interest on borrowings (i)	**475**	520
Interest on finance leases	**10**	5
Unwinding of discount on liabilities recognised at present value	**9**	9
Loss on fair value hedges - effective (ii)	**69**	92
(Gain)/loss on cash flow hedges - ineffective	**(16)**	5
Loss on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (iii)	**31**	31
Net interest on net defined benefit plans	**5**	12
Other	**3**	2
	586	676
Less: interest on borrowings capitalised (iv)	**(28)**	(54)
	558	622

(i) The period-on-period decrease in interest on borrowings is predominately due to a reduction in our average interest cost on gross debt. Also, contributing to the decrease was a reduction in the average volume of debt.

The average interest yield on average net interest bearing financial liabilities during the six months to 31 December 2013 was 6.1 per cent (2012: 6.4 per cent). The reduction in yield arose through a combination of a reduction in short-term market base rates period on period, resulting in lower costs on the floating rate debt component of our debt portfolio, and from re-financing at lower rates.

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

The $69 million unrealised loss for the current period (2012: loss of $92 million) reflects the following valuation impacts:

- movement in base market rates and our borrowing margins between valuation dates;
- reduction in the number of future interest flows as we approach maturity of the financial instruments; and
- discount factor unwinding as borrowings move closer to maturity.

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(a) Finance costs (continued)

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

(iii) A combination of the following factors has resulted in a net unrealised loss of $31 million (2012: loss of $31 million) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described at (ii) for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of $11 million (2012: loss of $10 million) for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

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

(iv) Interest on borrowings has been capitalised using a capitalisation rate of 6.4 per cent (2012: 6.7 per cent).

(b) Gearing ratio

A parameter used to monitor capital management is the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial liabilities and derivative financial instruments, less cash and cash equivalents. Total capital is calculated as total equity, as shown in the statement of financial position, plus net debt.

Our target range for the net debt gearing ratio is currently 50 per cent to 70 per cent (2012: 50 per cent to 70 per cent). The gearing ratio and carrying value of our net debt are shown in Table B below:

Table B	Telstra Group	
	As at	
	31 Dec 2013 $m	30 June 2013 $m
Total debt	16,695	15,064
Net derivative financial (asset)/liability	(367)	564
Gross debt	**16,328**	15,628
Cash and cash equivalents	(2,455)	(2,479)
Net debt	**13,873**	13,149
Total equity	**13,117**	12,875
Total capital	**26,990**	26,024
Gearing ratio	**51.4%**	50.5%

(c) Net debt

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

Our borrowings are unsecured, except for finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us. We have no assets pledged as security for our borrowings. All our borrowing are interest bearing, except for some loans from wholly owned controlled entities. We are not subject to any externally imposed capital requirements.

The increase in the carrying amount of our net debt during the six months to 31 December 2013 of $724 million (2012: increase of $337 million) is represented by the movements shown in Table C below:

Table C	Telstra Group	
	Half-year ended 31 December	
	2013 $m	2012 $m
Debt issuance - offshore and domestic loans	498	806
Net short term borrowings (unsecured promissory notes)	602	(221)
Repayment of offshore loans, Telstra bonds and domestic loans	(564)	(1,783)
Finance lease repayments	(42)	(79)
Net cash inflow/(outflow)	**494**	(1,277)
Non-cash movements in gross debt before tax		
Revaluation loss/(gain) affecting cash flow hedging reserve	36	(21)
Revaluation (gain) affecting foreign currency translation reserve	(3)	(1)
Revaluation loss affecting other expenses in the income statement	9	8
Revaluation loss affecting finance costs in the income statement (i)	94	137
Finance lease additions	70	131
	206	254
Total increase/(decrease) in gross debt	**700**	(1,023)
Net decrease in cash, cash equivalents and overdraft (including foreign exchange differences)	24	1,360
Total increase in net debt	**724**	337

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(c) Net debt (continued)

(i) The net revaluation loss of $94 million (2012: loss of $137 million) includes:

- loss of $85 million (2012: loss of $128 million) affecting other finance costs, comprising a loss of $69 million (2012: loss of $92 million) from fair value hedges; a loss of $31 million (2012: loss of $31 million) from transactions either not designated or de-designated from hedge relationships; and a gain of $15 million (2012: loss of $5 million) relating to other hedge accounting adjustments; and
- loss of $9 million (2012: loss of $9 million) affecting interest on borrowings, comprising the amortisation of discounts.

During the period we issued a domestic public bond with proceeds of $498 million (face value $500 million), maturing on 13 November 2018.

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

- $5 million Telstra bonds relating to wholesale investors, matured 15 July 2013;
- $59 million offshore Japanese yen private placement, matured 30 September 2013; and
- $500 million domestic public bond, matured 15 November 2013.

Our unsecured promissory notes are used principally to support working capital and short term liquidity. These unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

Long term debt that will mature during the next 12 months totals $1,692 million. This represents the contractual face value amount after hedging. Included in this amount are offshore borrowings which were swapped into Australian dollars at inception of the borrowing through to maturity through the use of cross currency and interest rate swaps, creating synthetic Australian dollar obligations.

This amount of $1,692 million is different to the carrying amount of $1,392 million which is included in current borrowings (along with promissory notes of $746 million and finance lease liability of $87 million) in the statement of financial position. The carrying amount reflects the amount of our borrowings due to mature within 12 months prior to netting offsetting risk positions of associated derivative financial instruments hedging these borrowings. The carrying amount reflects a mixed measurement basis with part of the borrowing portfolio recorded at fair value and the remaining part at amortised cost which is compliant with the requirements under Accounting Standards.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(d) Financial instruments

The carrying amounts and fair values of each category of our financial instruments is shown in Tables D and E. The amounts disclosed are prior to netting offsetting risk positions of financial instruments in a hedge relationship.

Table D

Financial Instruments	Telstra Group As at 31 December 2013					
	Current		Non-current		Total	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Derivatives financial assets						
In designated hedge relationships	67	67	1,443	1,443	1,510	1,510
Not in designated hedge relationships	25	25	35	35	60	60
	92	92	1,478	1,478	1,570	1,570
Derivatives financial liabilities						
In designated hedge relationships	(282)	(282)	(772)	(772)	(1,054)	(1,054)
Not in designated hedge relationships	(121)	(121)	(28)	(28)	(149)	(149)
	(403)	(403)	(800)	(800)	(1,203)	(1,203)
Net derivative asset	(311)	(311)	678	678	367	367
Borrowings						
In designated hedge relationships - fair value hedges	(429)	(429)	(5,194)	(5,194)	(5,623)	(5,623)
In designated hedge relationships - cash flow hedges	(929)	(953)	(6,395)	(6,787)	(7,324)	(7,740)
De-designated from fair value hedge relationships or not in a hedge relationship	(867)	(883)	(2,881)	(3,107)	(3,748)	(3,990)
	(2,225)	(2,265)	(14,470)	(15,088)	(16,695)	(17,353)
Cash and cash equivalents (i)	2,455	2,459	-	-	2,455	2,459
Telstra Group Net Debt	(81)	(117)	(13,792)	(14,410)	(13,873)	(14,527)
Other Financial Instruments						
Finance lease receivable	92	92	163	163	255	255
Amounts owed by jointly controlled and associated entities	-	-	451	451	451	451
Other receivables	11	11	-	-	11	11
Net interest bearing financial liabilities	22	(14)	(13,178)	(13,796)	(13,156)	(13,810)
Equity investments classified as available-for-sale						
Listed and unlisted securities (ii)	-	-	93	93	93	93
Loans and receivables at amortised cost						
Trade/other receivables and accrued revenue (i)	4,160	4,160	331	331	4,491	4,491
Financial liabilities at amortised cost						
Trade/other creditors and accrued expenses (i)	(3,308)	(3,308)	(68)	(68)	(3,376)	(3,376)
Deferred consideration for capital expenditure	(134)	(134)	-	-	(134)	(134)
Net financial liabilities	740	704	(12,822)	(13,440)	(12,082)	(12,736)

(i) For financial assets and financial liabilities with a short-term to maturity, the carrying amount is considered to approximate fair value.

(ii) Our available-for-sale investments are measured at historical cost. Refer Section (e) for further details.

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(d) Financial instruments (continued)

Table E	Telstra Group					
Financial Instruments	As at 30 June 2013					
	Current		Non-current		Total	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Derivatives financial assets						
In designated hedge relationships	21	21	1,003	1,003	1,024	1,024
Not in designated hedge relationships	22	22	59	59	81	81
	43	43	1,062	1,062	1,105	1,105
Derivatives financial liabilities						
In designated hedge relationships	(41)	(41)	(1,364)	(1,364)	(1,405)	(1,405)
Not in designated hedge relationships	(3)	(3)	(261)	(261)	(264)	(264)
	(44)	(44)	(1,625)	(1,625)	(1,669)	(1,669)
Net derivative liability	(1)	(1)	(563)	(563)	(564)	(564)
Borrowings						
In designated hedge relationships - fair value hedges	(180)	(180)	(4,630)	(4,630)	(4,810)	(4,810)
In designated hedge relationships - cash flow hedges	-	-	(6,779)	(7,220)	(6,779)	(7,220)
De-designated from fair value hedge relationships or not in a hedge relationship	(571)	(577)	(2,904)	(3,176)	(3,475)	(3,753)
	(751)	(757)	(14,313)	(15,026)	(15,064)	(15,783)
Cash and cash equivalents (i)	2,479	2,479	-	-	2,479	2,479
Telstra Group Net Debt	1,727	1,721	(14,876)	(15,589)	(13,149)	(13,868)
Other Financial Instruments						
Finance lease receivable	66	66	148	148	214	214
Amounts owed by jointly controlled and associated entities	-	-	451	451	451	451
Other receivables	7	7	-	-	7	7
Net interest bearing financial liabilities	1,800	1,794	(14,277)	(14,990)	(12,477)	(13,196)
Equity investments classified as available-for-sale						
Listed and unlisted securities (ii)	-	-	38	38	38	38
Loans and receivables at amortised cost						
Trade/other receivables and accrued revenue (i)	4,484	4,484	344	344	4,828	4,828
Financial liabilities at amortised cost						
Trade/other creditors and accrued expenses (i)	(4,211)	(4,211)	(59)	(59)	(4,270)	(4,270)
Deferred consideration for capital expenditure	(30)	(30)	(104)	(104)	(134)	(134)
Net financial liabilities	2,043	2,037	(14,058)	(14,771)	(12,015)	(12,734)

(i) For financial assets and financial liabilities with a short-term to maturity, the carrying amount is considered to approximate fair value.

(ii) Our available-for-sale investments are measured at historical cost. Refer Section (e) for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value hierarchy

We use various methods in estimating the fair value of our financial instruments. The methods comprise:

- Level 1: the fair value is calculated using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety has been determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10 per cent change in the overall fair value of the instruments.

The fair value of the financial instruments and the classification within the fair value hierarchy are summarised in Tables F and G below, followed by a description of the methods used to estimate the fair value.

Table F	**Telstra Group**			
	As at 31 December 2013			
	Level 1 $m	**Level 2 $m**	**Level 3 $m**	**Total $m**
Available for sale investments - other				
Unlisted securities. . . .	**-**	**-**	**-**	**-**
Derivative assets				
Cross currency swaps. .	**-**	**919**	**-**	**919**
Interest rate swaps . . .	**-**	**603**	**-**	**603**
Forward contracts	**-**	**48**	**-**	**48**
	-	**1,570**	**-**	**1,570**
Derivative liabilities				
Cross currency swaps. .	**-**	**(692)**	**-**	**(692)**
Interest rate swaps . . .	**-**	**(508)**	**-**	**(508)**
Forward contracts	**-**	**(3)**	**-**	**(3)**
	-	**(1,203)**	**-**	**(1,203)**
	-	**367**	**-**	**367**

Table G	Telstra Group			
	As at 30 June 2013			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Available for sale investments - other				
Unlisted securities. . . .	-	-	19	19
Derivative assets				
Cross currency swaps. .	-	420	-	420
Interest rate swaps . . .	-	642	-	642
Forward contracts	-	43	-	43
	-	1,105	19	1,124
Derivative liabilities				
Cross currency swaps. .	-	(1,079)	-	(1,079)
Interest rate swaps . . .	-	(587)	-	(587)
Forward contracts	-	(3)	-	(3)
	-	(1,669)	-	(1,669)
	-	(564)	19	(545)

There were no transfers between Levels 1 and 2 for recurring fair value measurements for our financial instruments during the period.

All balances were transferred out of the Level 3 fair value hierarchy and measured at historical cost as their fair value cannot be reliably measured. Refer Available for sale investments - other- unlisted securities for further details.

Our policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(i) Fair value measurements

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data.There were no changes in valuation techniques during the year.

Specific valuation techniques used to value our financial instruments are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value hierarchy (continued)

(i) Fair value measurements (continued)

Cross currency and interest rate swaps

The net fair values of our cross currency and interest rate swaps are determined using valuation techniques that utilise data from observable and unobservable market data. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of our cost of borrowing. In particular, the following inputs are used to derive yield curves used in the calculation of fair value of our derivatives:

- base curves which are readily available market data and quoted for all major currencies; and
- pricing data reflecting our borrowing margins obtained from selected market participants with whom we have transacted or would transact in capital markets. We generally use the mid point of the pricing data range in calculating the yield curve. This pricing data used to estimate our borrowing margins is not observable. However, sensitivity analysis on changes to this input, by using the maximum point in the pricing range, does not result in a significant change to the fair value of our cross currency and interest rate swaps. We have therefore classified these derivatives based on the observable market inputs as Level 2.

Forward contracts

The fair value of our forward exchange contracts is calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. These market rates are observable and therefore these derivatives have been classified as Level 2.

Available for sale investments - other - unlisted securities

Securities not listed on any stock exchange and where a quoted market price is not available are classified within Level 3 of the fair value hierarchy.

Fair value of unlisted securities represents the price that would be received to sell the financial asset in an orderly transaction between market participants at balance date.

Our available for sale investments comprise a number of investments in entities with no quoted market price in an active market and for which fair value cannot be reliably measured. These investments have been measured at historical cost as the range of reasonable fair value estimates was significant and the probabilities of the various estimates could not be reasonably assessed. We do not intend to dispose of these investments in the near future.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(f) Offsetting and netting arrangements

The following tables present our financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements:

Table H — **Telstra Group**

Financial Instruments	**As at 31 December 2013**					
				Gross amounts not offset in the statement of financial position (i)		
	Gross amounts of recognised financial instruments $m (a)	**Amounts that are offset in the statement of financial position $m (b)**	**Net amounts of financial instruments presented in the statement of financial position $m (c) = (a) - (b)**	**Financial instruments (ii) $m (d)**	**Collateral received or pledged $m (d)**	**Net amounts that are not subject to offsetting arrangements $m (e) = (c) - (d)**
Trade and other receivables	**629**	**19**	**610**	**517**	**-**	**93**
Trade and other payables	**(447)**	**(19)**	**(428)**	**(173)**	**-**	**(255)**
Derivative financial assets	**1,570**	**-**	**1,570**	**1,570**	**-**	**-**
Derivative financial liabilities	**(1,203)**	**-**	**(1,203)**	**(1,203)**	**-**	**-**
Assets classified as held for sale - Trade and other receivables	**152**	**13**	**139**	**126**	**-**	**13**
Liabilities classified as held for sale - Trade and other payables	**(93)**	**(13)**	**(80)**	**(71)**	**-**	**(9)**
Total	**608**	**-**	**608**	**766**	**-**	**(158)**

Table I — Telstra Group

Financial Instruments	As at 30 June 2013					
				Gross amounts not offset in the statement of financial position (i)		
	Gross amounts of recognised financial instruments $m (a)	Amounts that are offset in the statement of financial position $m (b)	Net amounts of financial instruments presented in the statement of financial position $m (c) = (a) - (b)	Financial instruments (ii) $m (d)	Collateral received or pledged $m (d)	Net amounts that are not subject to offsetting arrangements $m (e) = (c) - (d)
Trade and other receivables	637	65	572	516	-	56
Trade and other payables	(439)	(65)	(374)	(214)	-	(160)
Derivative financial assets	1,105	-	1,105	1,105	-	-
Derivative financial liabilities	(1,669)	-	(1,669)	(1,669)	-	-
Total	(366)	-	(366)	(262)	-	(104)

(i) Reflects amounts subject to conditional offsetting arrangements.

(ii) Below is a description of our material rights of set off that are not otherwise included in column (b) in Tables H and I above:

For our Inter Operative Tariff arrangements with some of our international roaming partners, we have executed agreements that allow the netting of amounts payable and receivable by us on cessation of the contract.

For our wholesale customers we have executed Customer Relationship Agreements which allow for the netting of amounts payable and receivable by us in certain circumstances where there is a right to suspend the supply of services or on the expiration or termination of the agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(f) Offsetting and netting arrangements (continued)

For all our derivative financial instruments, we have executed master netting arrangements under our ISDA (International Swaps and Derivatives Association) agreements. These arrangements allow for the netting of amounts payable and receivable by us or the counterparty in the event of default or a credit event. In line with contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability.

(g) Cash flow hedging reserve

Table J	Telstra Group	
	Half-year ended 31 December	
	2013 $m	2012 $m
Opening balance 1 July	**(92)**	(87)
Changes in fair value of cash flow hedges	**411**	(76)
Changes in fair value transferred to the income statement for the period	**(447)**	97
	(36)	21
Income tax on movements in the cash flow hedging reserve	**11**	(8)
Closing balance 31 December	**(117)**	(74)

The net reduction in our cash flow hedge reserve (before tax) of $36 million (2012: increase of $21 million) comprises:

- net revaluation gains of $411 million before tax (2012: loss of $76 million) on our cross currency and interest rate swaps hedging future payments on our offshore borrowings in cash flow hedges and our forward foreign currency contracts hedging forecast purchases denominated in foreign currency. Net revaluation gains and losses represents the effective portion on remeasuring the fair value of these hedging instruments; and
- transfer to the income statement of a net gain of $447 million before tax (2012: net loss of $97 million), representing interest incurred on our derivatives and hedging gains previously recognised in the cash flow hedge reserve which offset losses on translation of the hedged borrowings and purchases at the applicable spot exchange rate.

The before tax net movement in the cash flow hedge reserve of $36 million is included as a net increase in gross debt (2012: net reduction in gross debt of $21 million). Refer to Table C for further information.

The net revaluation gain (before tax) of $411 million reflects valuation impacts from:

- movement in base market rates and our borrowing margins between valuation dates;
- discount factor unwinding as borrowings move closer to maturity;
- reduction in the number of future interest flows as we approach maturity of the financial instruments; and
- movements in the Australian dollar against various currencies, predominantly Euro, British pounds sterling and the United States dollar.

7. POST EMPLOYMENT BENEFITS

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

Details of the defined benefit plans that we participate in are set out below:

Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff transferred into Telstra Super. The Telstra Entity and some of our Australian controlled entities participate in Telstra Super.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions of Telstra Super are closed to new members.

The defined benefit divisions provide benefits based on years of service and final average salary. Post employment benefits do not include payments for medical costs.

Contribution levels made to the defined benefit divisions are designed to ensure that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. The benefits received by members of each defined benefit division take into account factors such as the employees' length of service, final average salary and employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

CSL Limited (CSL) Retirement Scheme

Our controlled entity, CSL Retirement Scheme, participates in a superannuation scheme known as the CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section. Actuarial assessments are undertaken annually for this scheme.

The benefits received by members of the defined benefit schemes are based on the employees' remuneration and length of service.

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

Our net defined benefit plan asset recognised in the statement of financial position for the current period is determined as follows:

		Telstra Group		
		As at		
	Note	**31 Dec 2013 $m**	30 June 2013 $m	31 Dec 2012 $m
Fair value of defined benefit plan assets		**3,080**	2,944	2,734
Present value of the defined benefit obligation		**2,844**	2,983	3,269
Net defined benefit asset/(liability)		**236**	(39)	(535)
Comprised of				
Net defined benefit asset/(liability) attributable to Telstra Super Scheme		**228**	(42)	(532)
Net defined benefit asset/(liability) attributable to CSL Limited Retirement Scheme	9	**8**	3	(3)
		236	(39)	(535)

(b) Principal actuarial assumptions

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

	Telstra Super		CSL Retirement Scheme	
	Half-year ended 31 December		Half-year ended 31 December	
	2013 %	2012 %	**2013 %**	2012 %
Discount rate	**4.0**	4.0	**2.1**	1.0
Expected rate of increase in future salaries	**3.5**	4.0	**4.0 - 6.0**	4.0 - 5.0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. POST EMPLOYMENT BENEFITS (CONTINUED)

(b) Principal Actuarial Assumptions (continued)

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

	Telstra Super		**CSL Retirement Scheme**	
	As at 31 December		**As at 31 December**	
	2013 %	2012 %	**2013 %**	2012 %
Discount rate (i)	**4.5**	3.7	**2.4**	1.0
Expected rate of increase in future salaries (ii)	**3.5**	4.0	**4.0 - 6.0**	4.0 - 5.0

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

For Telstra Super we have used a blended 10 year Australian government bond rate as it has the closest term from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat, implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years.

For the CSL Retirement Scheme we have extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange fund notes to 11 years to match the term of the defined benefit obligations.

(ii) Our assumption for the salary inflation rate for Telstra Super is 3.5 per cent, which is reflective of our long term expectation for salary increases. The salary inflation rate for CSL Retirement Scheme is 6.0 per cent in financial years 2014 to 2015 and 4.0 per cent thereafter which reflects the long term expectations for salary increases.

(c) Employer contributions

For the six months to 31 December 2013, the total cash payments made by us in relation to contributions to Telstra Super was $201 million (2012: $233 million). This consists of the following:

- employer cash contributions of $150 million (2012: $178 million);
- employees pre and post-tax salary sacrifice contributions of $41 million (2012: $43 million); and
- payroll tax of $10 million (2012: $12 million).

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

The average VBI for the quarter ended 31 December 2013 was 109 per cent (2012: 96 per cent). We expect to make total cash payments for the year ending 30 June 2014 of $391 million. This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions. This also assumes contributions to the defined benefit divisions at a rate of 15 per cent for financial year 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. IMPAIRMENT

Cash generating units

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

The carrying amount of our goodwill is detailed below:

	Goodwill	
	As at	
	31 Dec 2013 $m	30 June 2013 $m
CGUs		
CSL New World Group* (a)	**-**	860
Telstra UK Group*	**67**	60
Sensis Group (b)	**-**	216
Location Navigation (b)	**-**	14
1300 Australia Group	**16**	16
Autohome*	**114**	108
Sequel Media*	**14**	13
O2 Networks Group (c)	**44**	-
NSC Group (d)	**31**	-
DCA Health Group (e)	**23**	-
FRED IT (f)	**21**	-
Other	**92**	95
	422	1,382

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

(a) Goodwill allocated to the CSL New World Group CGU (included in the Telstra International Group (TIG) reportable segment) arises on consolidation of CSL New World Mobility Limited and its controlled entities (CSL Group). As at 31 December 2013 assets and liabilities of the CSL Group have been classified as assets and liabilities held for sale and measured at their carrying amounts which were lower than the fair value less costs to sell. This excluded cash balances which will be recovered via completion adjustments. Refer to note 9 for further details.

(b) Goodwill allocated to the Sensis Group CGU and Location Navigation CGU (included in Telstra Media Group (TMG) reportable segment) relates to the Sensis advertising and directories business. On 17 December 2013 the Directors approved the disposal of 70 per cent of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities and authorised management to finalise the transaction. The results of Sensis disposal group for the half-year ended 31 December 2013 have been reported as a discontinued operation. As at 31 December 2013 assets and liabilities of the Sensis disposal group have been classified as assets and liabilities held for sale, with the exception of the cash balances which were excluded from the sale agreement, and measured at the lower of carrying amount and fair value less costs to sell. This resulted in an impairment charge of $100 million against goodwill being recognised in the loss for the period from discontinued operation in the Telstra Group half-year financial statements. Refer to note 9 for further details.

(c) On 31 December 2013, 100 per cent of O2 Networks Group was acquired. Given the acquisition date was 31 December 2013 and goodwill was recognised at fair value on that date, no value in use calculation has been performed. This CGU is not considered to be impaired. Refer to note 5 for further details.

(d) On 22 August 2013, 100 per cent of NSC Group was acquired. Refer to note 5 for further details.

(e) On 2 September 2013, 100 per cent of DCA Health Group was acquired. Refer to note 5 for further details.

(f) On 30 September 2013, 50 per cent of FRED IT was acquired. Refer to note 5 for further details.

Ubiquitous telecommunications network and Hybrid Fibre Coaxial (HFC) cable network

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

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

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

Impairment testing

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

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

8. IMPAIRMENT (CONTINUED)

Impairment testing (continued)

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

	Discount rate (g)		Terminal value growth rate (h)	
	As at		As at	
	31 Dec 2013 %	30 June 2013 %	**31 Dec 2013 %**	30 June 2013 %
CSL New World Group (a)	**-**	11.6	**-**	2.0
Telstra UK Group	**8.7**	8.0	**3.0**	3.0
Sensis Group (b)	**-**	15.9	**-**	3.0
Location Navigation (b)	**-**	12.3	**-**	3.0
1300 Australia Group	**13.0**	12.6	**3.0**	3.0
Autohome	**21.1**	19.8	**5.0**	5.0
Sequel Media	**21.0**	20.0	**5.0**	5.0
NSC Group	**11.6**	n/a	**3.0**	n/a
DCA Health	**12.9**	n/a	**3.0**	n/a
FRED IT	**13.3**	n/a	**3.0**	n/a

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

(h) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGU's long term performance in its respective markets. The terminal growth rates for the Australian CGUs are aligned at 3.0 per cent.

Management have determined there are no reasonably possible changes that could occur in these two key assumptions that would cause the carrying amount of these CGUs to exceed their recoverable amount. The discount rate would need to increase by 320 basis points (30 June 2013: 480 basis points) or the terminal value growth rate would need to be a negative growth of 1.3 per cent (30 June 2013: negative 3.5 per cent) before the recoverable amount of any of the CGUs would be equal to the carrying value.

Ubiquitous telecommunications network and HFC cable network

Based on the existing National Broadband Network (NBN) Definitive Agreements (DAs), we expect our discounted future cash flows to support the carrying amount of both networks. This is based on:

- the consideration we expect to receive under the NBN DAs for:
  - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (excluding Pay TV services on the HFC cable network) provided to premises in the NBN fibre footprint;
  - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts; and
  - the sale of lead-in-conduits; and
- forecast cash flows from continuing to:
  - provide Pay TV services via the HFC cable network into the future; and
  - use the core network.

Given this, the results of our impairment testing for both networks based on the NBN DAs show that the carrying amounts are recoverable for the half-year ended 31 December 2013.

There have been preliminary discussions between us and the Commonwealth Government but the outcome of any re-negotiation is uncertain. Therefore, we have not factored in any potential changes to the NBN DAs into our half-year impairment assessment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

Sensis disposal group and discontinued operation

On 17 December 2013, the Directors approved the disposal of 70 per cent of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) and authorised management to finalise the transaction. On 13 January 2014 a sale agreement for total consideration of $454 million was signed. The sale is subject to completion adjustments and a number of conditions, including approval from the Foreign Investment Review Board.

The sale excludes the voice services business and includes economic benefits to us from services we will continue to provide to the Sensis Group. We will retain a 30 per cent shareholding in the Sensis Group. The value of our retained shareholding incorporates the impact of debt financing for the acquisition and certain preferential rights for the subordination of distributions to equity holders in favour of the purchaser.

Voice services, including the 1234 and 12456 services, are a part of our core telecom offering and will continue to be operated by us.

In accordance with AASB 5: "Non current Assets Held for Sale and Discontinued Operations" the Sensis Group represents a separate major line of business and is responsible for management of the domestic directories and advertising business, including print and digital directories, digital mapping and satellite navigation, digital display and business information services. This includes management of leading information brands, including Yellow Pages®, White Pages®, Whereis®, Citysearch®, Mediasmart® and Quotify®.

In accordance with AASB 5 the Sensis Group was disclosed as a discontinued operation and the carrying value of assets and liabilities of the Sensis Group, with the exception of the cash balances which were excluded from the sale agreement, were classified as held for sale as at 31 December 2013, and measured at the lower of carrying amount and fair value less costs to sell.

The Sensis Group is included in the Telstra Media Group (TMG) reportable segment in our segment disclosures in note 4.

Financial information related to the discontinued operation and non-current assets classified as held for sale is set out below.

	Sensis Group Half-year ended 31 December	
	2013 $m	2012 $m
Revenue	**358**	410
Expenses	**465**	485
(Loss) before income tax expense	**(107)**	(75)
Income tax expense/(benefit)	**14**	(22)
(Loss) after income tax expense from discontinued operation	**(121)**	(53)
After-tax (loss) recognised on the re-measurement of assets of disposal group (a)	**(100)**	-
(Loss) for the period from discontinued operation	**(221)**	(53)
Net cash provided by operating activities	**272**	337
Net cash (used in) investing activities	**(37)**	(37)
Net cash provided by/(used in) financing activities	**-**	-
Net increase in cash and cash equivalents	**235**	300
Earnings per share for (loss) from discontinued operation (cents per share)	**cents**	**cents**
Basic	**(1.8)**	(0.4)
Diluted	**(1.8)**	(0.4)

(a) There was no income tax expense/benefit on the re-measurement of assets of disposal group.

Based on the sale price of $454 million, our estimate of the fair value of the 30 per cent retained shareholding in the Sensis Group, estimated completion adjustments and subject to final completion adjustments, the carrying value of Sensis Group goodwill was impaired by $100 million which was recognised in the loss for the period from discontinued operation for the half-year ended 31 December 2013. Refer to note 8 for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)

Sensis disposal group and discontinued operation (continued)

	Sensis Group	
	As at	
	31 Dec 2013 $m	30 June 2013 $m
Current assets		
Trade and other receivables	**383**	-
Inventories	**2**	-
Prepayments	**2**	-
Total current assets	**387**	-
Non current assets		
Property, plant and equipment	**33**	-
Intangible assets	**592**	-
Total non current assets	**625**	-
Total assets	**1,012**	-
Current liabilities		
Trade and other payables	**131**	-
Provisions	**35**	-
Revenue received in advance	**259**	-
Total current liabilities	**425**	-
Non current liabilities		
Provisions	**16**	-
Deferred tax liabilities	**23**	-
Total non current liabilities	**39**	-
Total liabilities	**464**	-
Net assets	**548**	-

There was nil cumulative income or expense recognised in other comprehensive income related to the Sensis Group classified as held for sale.

We have used the fair value less costs to sell valuation process in deriving the impairment of the held for sale assets. In accordance with AASB 5, the assets and liabilities held for sale were written down to their fair value of $548 million. The Sensis Group assets and liabilities were compared against the sale proceeds of $454 million for 70 per cent of the Sensis Group and the valuation of the retained 30 per cent of our shareholding in the Sensis Group. This resulted in the impairment of $100 million as at 31 December 2013. This transaction is subject to regulatory approval and the final outcome will be impacted by the timing of completion and adjustments.

	Telstra Entity	
	Half-year ended 31 December	
	2013 $m	2012 $m
Profit/(loss) attributable to equity holders of Telstra Entity		
Profit from continuing operations	**1,925**	1,613
(Loss) from discontinued operation	**(221)**	(53)
	1,704	1,560

9. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)

CSL Hong Kong disposal group

On 20 December 2013 we signed an agreement with HKT Limited to dispose of our entire 76.4 per cent shareholding in CSL New World Mobility Limited and its controlled entities (CSL Group) for total consideration of $2,079 million (US$1,853 million), subject to completion adjustments and foreign exchange movements. The conditions precedent to the completion of the disposal include regulatory approval in Hong Kong as well as HKT Limited and PCCW Limited security holders approval.

In accordance with AASB 5, the carrying value of assets and liabilities of the CSL Group, with the exception of the cash balances which will be recovered via the completion adjustments, were classified as held for sale as at 31 December 2013, and measured at the lower of carrying amount and fair value less costs to sell.

Unlike the Sensis Group, the CSL Group does not meet the criteria of discontinued operation under AASB 5.

	CSL Group	
	As at	
	31 Dec 2013 $m	30 June 2013 $m
Current assets		
Trade and other receivables	**302**	-
Inventories	**45**	-
Prepayments	**30**	-
Total current assets	**377**	-
Non current assets		
Trade and other receivables	**10**	-
Investments - accounted for using the equity method	**2**	-
Property, plant and equipment	**350**	-
Intangible assets	**1,148**	-
Defined benefit assets	**8**	-
Total non current assets	**1,518**	-
Total assets	**1,895**	-
Current liabilities		
Trade and other payables	**318**	-
Provisions	**1**	-
Current tax payable	**34**	-
Revenue received in advance	**49**	-
Total current liabilities	**402**	-
Non current liabilities		
Trade and other payables	**81**	-
Provisions	**6**	-
Deferred tax liabilities	**38**	-
Total non current liabilities	**125**	-
Total liabilities	**527**	-
Net assets	**1,368**	-

	CSL Group	
	As at	
	31 Dec 2013 $m	30 June 2013 $m
Cumulative income or expense recognised in other comprehensive income related to disposal group classified as held for sale		
Actuarial (loss) on defined benefit plans attributable to equity holders of Telstra Entity	**(1)**	-
Foreign currency translation reserve attributable to equity holders of Telstra Entity (b)	**(280)**	-
Income tax on movements in foreign currency translation reserve	**(87)**	-
Foreign currency translations reserve attributable to non-controlling interests	**(87)**	-
Total	**(455)**	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)

CSL Hong Kong disposal group (continued)

(b) Foreign currency translation reserve includes net loss before tax of $345 million and gains after tax of $65 million on our hedging instruments used to hedge a portion of our investment in the CSL Group.

If the conditions precedent are satisfied and the disposal of the CSL Group occurs the foreign currency translation reserve calculated at the completion date will be reclassified to the Telstra Group income statement reducing our gain on disposal. The foreign currency translation reserve balance at 31 December 2013 was $280 million.

The CSL Group is included in the Telstra International Group (TIG) reportable segment in our segment disclosures in note 4.

TelstraClear disposal group

On 12 July 2012, we signed an agreement to dispose of our 100 per cent shareholding in TelstraClear Limited and its controlled entity (TelstraClear). The disposal was subsequently completed on 31 October 2012 following regulatory approval. Refer to note 5 for further details.

In accordance with AASB 5, the carrying value of assets and liabilities of TelstraClear, with the exception of cash balances which were excluded from the sale agreement, were classified as held for sale up to the date of sale. On completion of the sale, included in our disposal values was $11 million of cash, which was recovered through additional proceeds on sale.

During the first half of financial year 2013, we impaired $28 million of our TelstraClear net assets. This was due to the operating results of TelstraClear increasing the net assets, which were not recoverable through the disposal of TelstraClear.

TelstraClear is included in the “All Other” category in our segment information disclosures in note 4.

10. CONTINGENT LIABILITIES, CONTINGENT ASSETS AND EXPENDITURE COMMITMENTS

Contingent liabilities and contingent assets

We have no significant contingent assets as at 31 December 2013.

Common law claims

There have been no significant changes from 30 June 2013 to our contingent liabilities arising from our common law claims.

Indemnities, performance guarantees and financial support

There have been no significant changes from 30 June 2013 to our indemnities, performance guarantees and financial support.

Expenditure commitments

There have been no significant changes to our expenditure commitments from 30 June 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. EVENTS AFTER REPORTING DATE

We are not aware of any matter or circumstance that has occurred since 31 December 2013 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than:

Interim dividend

On 13 February 2014, the Directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 14.5 cents per ordinary share, amounting to $1,803 million. The record date for the interim dividend is 28 February 2014 with payment to be made on 28 March 2014. Shares will trade excluding entitlement to the dividend on 24 February 2014.

A provision for dividend payable has been raised as at the date of resolution, amounting to $1,803 million.

The interim dividend will be fully franked at a tax rate of 30 per cent. The financial effect of the interim dividend resolution was not brought to account as at 31 December 2013.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the interim dividend, except for $773 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Dividend Reinvestment Plan continues to be suspended.

Disposal of Sensis Group

On 13 January 2014 we signed an agreement to dispose of 70 per cent of our 100 per cent shareholding in Sensis Pty Ltd and all its controlled entities (Sensis Group) for a total consideration of $454 million. The sale excludes the voice services business, including the 1234 and 12456 services, and includes economic benefits from our core telecom services which we will continue to provide to the Sensis Group.

The resulting shareholder agreement includes certain preferential rights for the subordination of distributions to equity holders in favour of the purchaser.

The sale is subject to a number of conditions including approval from the Foreign Investment Review Board.

In accordance with AASB 5:"Non-current Assets Held for Sale and Discontinued Operations" the Sensis Group results have been disclosed as a discontinued operation and the carrying value of assets and liabilities, with the exception of cash balances which are excluded from the sale agreement, have been classified as held for sale as at 31 December 2013. Refer to note 9 for further details.

DIRECTORS' DECLARATION

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

For and on behalf of the board:

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

(b) in the Directors' opinion, the financial statements and notes of the Telstra Group for the half-year ended 31 December 2013, as set out on pages 2 to 36, are in accordance with the Corporations Act 2001, including that:

(i) the financial report complies with Accounting Standard AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001; and

(ii) the financial statements and notes give a true and fair view of the Telstra Group's financial position and performance for the half-year ended 31 December 2013.

C B Livingstone David Thodey

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

13 February 2014
Melbourne, Australia

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Building a better working world

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited, which comprises the statement of financial position as at 31 December 2013, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Telstra Corporation Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

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

Ernst & Young

SJ Ferguson

Partner

13 February 2014

Melbourne, Australia

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