IT'S HOW WE CONNECT

18 February 2016

Office of the Company Secretary

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AUSTRALIA

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The Manager

Market 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 2015

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

1. Appendix 4D – Half-Year Report;

2. Directors' Report;

3. Half-Year Results and Operations Review; and

4. Half-Year Financial Report,

for the half-year ended 31 December 2015.

The enclosed documents comprise the information required by Listing Rule 4.2A and should be read in conjunction with Telstra's Annual Financial Report for the financial year ended 30 June 2015 and any public disclosures made by Telstra in accordance with the continuous disclosure requirements of the Listing Rules and the Corporations Act 2001.

Telstra will conduct an analyst briefing on the half-year results from 9.15am AEDT and a media briefing from 11.00am AEDT. 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 (ASX LISTING RULE 4.2A.3)
HALF-YEAR REPORT
31 December 2015
Telstra Corporation Limited ABN 33 051 775 556

1. Results for announcement to the market

	Telstra Group			
	Half-year ended 31 December			
	2015	2014	Movement	
	$m	$m	$m	%
Revenue (excluding finance income) from continuing operations	**13,681**	12,720	961	7.6%
Revenue (excluding finance income) from discontinued operation	**-**	-	-	-
Revenue (excluding finance income) from ordinary activities	**13,681**	12,720	961	7.6%
Other income	**513**	294	219	74.5%
Total income from continuing and discontinued operations	**14,194**	13,014	1,180	9.1%
Finance income	**70**	89	(19)	(21.3%)
Profit for the period attributable to equity holders of Telstra Entity	**2,093**	2,085	8	0.4%
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	**2,093**	2,085	8	0.4%

2. Dividend information

	Telstra Entity	
	Amount per share	Franked amount per share
	cents	cents
Interim dividend per share	**15.5**	**15.5**
Interim dividend dates		
Record date		**3 March 2016**
Payment date		**1 April 2016**

3. Net Tangible Assets per security information

	Telstra Group	
	As at 31 December	
	2015	2014
	cents	cents
Net tangible assets per security	**39.6**	41.1

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 2015 was 12,226 million (December 2014: 12,226 million).

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

Telstra Group

Name of entity	Country of incorporation	Date control obtained or lost	% of equity held by immediate parent As at 31 Dec 2015 %	% of equity held by immediate parent As at 30 Jun 2015 %
Control obtained				
Pacnet Services (USA) Inc	United States	**2 Jul 2015**	**100.0**	-
Health IQ Pty Ltd	Australia	**31 Jul 2015**	**100.0**	-
Beijing Autohome E-commerce Technologies Co. Ltd (1)	China	**11 Sep 2015**	**100.0**	-
Beijing Chezhiying Software Co. Ltd (1)	China	**9 Dec 2015**	**100.0**	-
Control lost				
Pacnet Internet (Thailand) Ltd	Thailand	**13 Nov 2015**	-	100.0
World Net & Services Co. Ltd	Thailand	**13 Nov 2015**	-	99.5
Pacnet Internet (Malaysia) Sdn. Bhd. (2)	Malaysia	**21 Dec 2015**	-	61.0

(1) During the period, these entities were incorporated.
(2) During the period, this entity was liquidated.

Refer to note 6 in our half-year financial report for further details.

5. Details of investments in joint ventures

Name of entity	Principal activities	% of equity held by immediate parent As at 31 Dec 2015 %	% of equity held by immediate parent As at 30 Jun 2015 %
Joint ventures			
FOXTEL Partnership	Pay television	**50.0**	50.0
FOXTEL Television Partnership	Pay television	**50.0**	50.0
Customer Services Pty Ltd	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (1)	International connectivity services	**50.0**	50.0
3GIS Pty Ltd (1)	Management of former 3GIS Partnership (non-operating)	**50.0**	50.0
HealthEngine Pty Ltd	Online healthcare booking	**31.9**	34.8

(1) Balance date is 31 December.

6. Details of investments in associated entities

		% of equity held by immediate parent	
		As at	
		31 Dec 2015	30 Jun 2015
Name of entity	Principal activities	%	%
Associated entities			
Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (1)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd	Superannuation trustee	**100.0**	100.0
Mandoe Pty Ltd	Signage software provider	**28.4**	28.4
IPscape Pty Ltd	Cloud based call centre solution	**27.3**	27.3
Whispir Limited	Software as a solution provider	**23.7**	23.7
IP Health Pty Ltd	Software development	**32.9**	32.1
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	**30.0**	30.0
Adnear Pte Ltd (incorporated in Singapore) (1)	Advertiser focused demand side platform provider	**12.3**	12.3
Panviva Pty Ltd	Cloud based business process guidance software	**22.4**	22.4
Gorilla Technology Group Inc (incorporated in Cayman Islands) (1)	Video analytics software provider	**8.9**	9.3
Zimperium Inc (incorporated in United States of America) (1) (3)	Mobile security system provider	**-**	19.8
enepath Group Holdings Pte Ltd (incorporated in Singapore) (2)	Voice software provider	**17.7**	13.4
PharmX Pty Ltd	Internet based ordering gateway	**30.0**	30.0
Asia Netcom Philippines Corporation (incorporated in Philippines) (1)	Data communication service provider	**40.0**	40.0
Dacom Crossing Corporation (incorporated in Korea) (1)	Network cable provider	**49.0**	49.0
Digitel Crossing Inc (incorporated in Philippines) (1)	Telecommunication services	**40.0**	40.0
Hunan Mango Autohome Automobile Sales Co. Ltd (incorporated in China) (1)	Automobile sales platform	**49.0**	49.0
Pivotal Labs Sydney Pty Ltd	Data and analytics software provider	**20.0**	-
Shanghai You Che You Jia Financial Leasing Co. Ltd (incorporated in China) (1)	Automobile financial leasing	**25.0**	-

(1) Balance date is 31 December.

(2) Balance date is 31 March.

(3) In December 2015, our representation on the board of Zimperium Inc (incorporated in the United States of America) was diluted, and we no longer hold this investment as an associate but instead classify as an other investment. We continue to hold an ownership interest in Zimperium Inc of 19.7%.

7. Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) continues to operate for the interim dividend for financial year 2016. The election date for participation in the DRP is 4 March 2016.

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.

DIRECTORS' REPORT

In accordance with a resolution of the Telstra 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 2015. Financial comparisons used in this report are of results for the half-year ended 31 December 2015 compared with the half-year ended 31 December 2014 for income statement analysis, and 31 December 2015 compared with 30 June 2015 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 8 of the Half-Year Results and Operations Review accompanying this Directors' Report.

Dividends

Since the end of the half-year, the Directors have resolved to pay an interim dividend of 15.5 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 3 March 2016, with payment to be made on 1 April 2016.

Our final dividend for the financial year ended 30 June 2015 of 15.5 cents per ordinary share ($1,893 million) was paid during the half-year ended 31 December 2015. This dividend was fully franked at a tax rate of 30 per cent. The final dividend had a record date of 27 August 2015 and payment was made on 25 September 2015.

The Dividend Reinvestment Plan (DRP) continues to operate for the interim dividend for the financial year 2016. The election date for participation in the DRP is 4 March 2016.

Directors

Directors who held office during the half-year ended 31 December 2015 and until the date of this report were:

Director	Period of directorship
Catherine B Livingstone AO	Chairman since 2009, Director since 2000
Andrew R Penn	Chief Executive Officer and Managing Director since 2015
Geoffrey A Cousins	Director from 2006 until 13 October 2015
Peter R Hearl	Director since 2014
Russell A Higgins AO	Director since 2009
Chin Hu Lim	Director since 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
Trae A Vassallo	Director since 13 October 2015
John D Zeglis	Director from 2006 until 13 October 2015

Auditor

On 11 February 2015, the Board granted approval under section 324DAA of the Corporations Act 2001 for Mr Stephen John Ferguson to continue, as lead auditor, to play a significant role in the audit of the Company for one additional successive financial year, being the financial year ending 30 June 2016. For detailed disclosure, please refer to Directors' Report in 2015 Annual Report.

Auditor's Independence Declaration

A copy of the Auditor's 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.

C B Livingstone

Catherine B Livingstone AO
Chairman
18 February 2016

Andrew Penn

Andrew R Penn
Chief Executive Officer and Managing Director
18 February 2016

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

As lead auditor for the review of Telstra Corporation Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Telstra Corporation Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

SJ Ferguson
Partner
Melbourne, Australia
18 February 2016

HALF-YEAR RESULTS AND OPERATIONS REVIEW

Reported results

Our half-year results confirm that we are on track to meet our guidance for the full year. We have grown fixed bundle and mobile customer numbers, achieved income growth across all segments as well as higher net profit after tax.

Total income (excluding finance income) increased 9.1 per cent to $14,194 million. Telstra Directors confirmed a fully franked interim dividend of 15.5 cents, up 3.3 per cent, returning $1.9 billion to shareholders.

These results include the first full six months operating with Pacnet Limited, acquired in April 2015. On a guidance basis and excluding Pacnet operating results, total income (excluding finance income) increased by 7.3 per cent and EBITDA increased by 1.4 per cent.

This financial performance reflects the changing composition of Telstra's earnings mix which is influenced by a number of factors. These factors include the accelerating rollout of the National Broadband Network (NBN), increasing competition in the mobile market, in particular increased data allowances which has a flow on effect on average revenue per user (ARPU) and the EBITDA contribution of our new growth businesses which will take time before they make a more significant contribution.

We are continuing to invest in our core and new businesses that will underpin our future. We will also continue to invest to meet the needs of our customers to bring them world class technology and the best telecommunications networks — our customers are at the heart of everything we do.

The numbers and commentary in the product, expense and operating segment performance sections have been prepared on a continuing operations basis and align with the statutory financial statements.

Summary financial results

	1H16	1H15	Change
	$m	$m	%
Total revenue	13,681	12,720	7.6
Total income (excluding finance income)	14,194	13,014	9.1
Operating expenses	8,779	7,687	14.2
Share of net (loss) from joint ventures and associated entities	(5)	(10)	50.0
EBITDA	5,410	5,317	1.7
Depreciation and amortisation	2,038	1,989	2.5
EBIT	3,372	3,328	1.3
Net finance costs	340	353	(3.7)
Income tax expense	905	876	3.3
Profit for the period from continuing operations	2,127	2,099	1.3
Profit for the period from discontinued operation	8	19	(57.9)
Profit for the period from continuing and discontinued operations	2,135	2,118	0.8
Profit attributable to equity holders of Telstra	2,093	2,085	0.4
Capex[i]	2,073	1,728	20.0
Free cashflow from continuing and discontinued operations	1,918	262	n/m
Earnings per share (cents)	17.2	16.9	1.8

(i) Capex is defined as additions to property, equipment and intangible assets including capital lease additions, excluding expenditure on spectrum, measured on an accrued basis. Excludes externally funded capex.

n/m = not meaningful.

Results on a guidance basis[i]

	1H16	FY16 guidance
Total income growth[ii]	9.2%	Mid-single digit
EBITDA growth	2.1%	Low-single digit
Capex/sales ratio	15.2%	~ 15% of sales
Free cashflow	$1.9 billion	$4.6 - $5.1 billion

(i) This guidance assumes wholesale product price stability from the beginning of the financial year and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excludes externally funded capex. Please refer to the guidance versus reported results reconciliation on page 8. This reconciliation has been reviewed by our auditors.

(ii) Excludes finance income.

Guidance versus reported results[i]

	1H16 Reported results $m	1H16 Adjustments $m	1H16 Guidance basis $m
Total income[ii]	**14,194**	**15**	14,209
EBITDA	**5,410**	**16**	5,426
Free cashflow	**1,918**	**9**	1,927

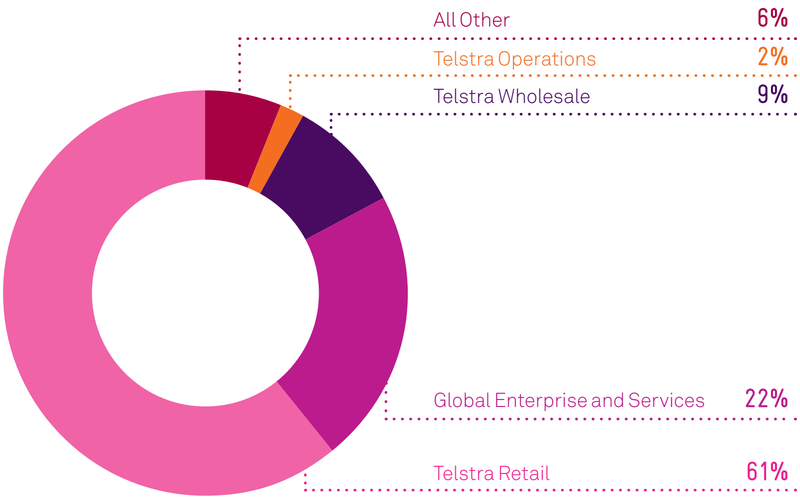
(i) This guidance assumes wholesale product price stability from the beginning of the financial year and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excludes externally funded capex. Please refer to the guidance versus reported results reconciliation on page 8. This reconciliation has been reviewed by our auditors.

(ii) Excludes finance income.

Operating segment performance

We report segment information on the same basis as our 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.

Segment total income



	1H16 $m	1H15 $m	Change %
Telstra Retail	**8,657**	8,476	2.1
Global Enterprise and Services	**3,180**	2,623	21.2
Telstra Wholesale	**1,310**	1,244	5.3
Telstra Operations	**250**	182	37.4
All Other	**797**	489	63.0
Total Telstra segments	**14,194**	13,014	9.1

Telstra Retail
Telstra Retail provides a full range of telecommunications products, services and solutions to consumer customers and to Australia's small to medium sized enterprises. Income in this segment grew by 2.1 per cent to $8,657 million while EBITDA declined by 2.6 per cent to $4,665 million. The decline in EBITDA is largely a result of declines in fixed voice margins and lower mobile services revenue growth.

We continue to progress on our advocacy journey, improving our operational performance and reducing complaints. In our Consumer business unit, income grew by 2.8 per cent with growth in fixed data subscribers as a result of the continued success of our bundled offerings. In Telstra Business, income grew by 0.5 per cent. At a product level, revenue growth was strong in NAS, growing by 24.8 per cent as a result of a strong underlying performance across all product offerings. This revenue increase was offset by declines in fixed voice, which reduced by 9.0 per cent, and mobile services, declining by 1.3 per cent.

Global Enterprise and Services
Global Enterprise and Services (GES) is responsible for sales and contract management support for business and government customers in Australia and globally. It provides product management for advanced technology solutions including data and IP networks, and NAS products such as managed networks, unified communications, cloud, industry solutions and integrated services. GES provides technical delivery support for all NAS customers globally. The Telstra Software Group forms part of GES.

Income for GES increased by 21.2 per cent to $3,180 million due to strong growth in NAS, our international GES customers which includes Pacnet, and the Telstra Software Group. While Pacnet made a positive contribution to EBITDA during the half-year, the overall EBITDA decline for GES was 1.7 per cent. This EBITDA decline was largely due to the inclusion of a full six months of costs associated with the Telstra Software Group, comprising Ooyala, Videoplaza and Nativ. An increase in lower margin customer premises equipment sales to some of our large customers also had an impact on the EBITDA decline.

Telstra Wholesale
Telstra Wholesale is responsible for the provision of a wide range of domestic telecommunications products and services delivered over Telstra networks and associated support systems to other carriers, non-Telstra branded carriage service providers and internet service providers. Telstra Wholesale is also the provider of certain network assets and services to NBN Co under the NBN Definitive Agreements. Wholesale income grew by 5.3 per cent to $1,310 million. This was largely a result of an increase in revenue related to NBN access to our infrastructure, and infrastructure ownership receipts. These have increased in line with the NBN rollout. EBITDA contribution increased by 5.2 per cent to $1,210 million.

Telstra Operations
Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of other segments. It is also a provider of certain network services to NBN Co under the NBN Definitive Agreements or commercial contracts. The EBITDA contribution improved by 0.6 per cent with increases in NBN commercial works and property revenue, partially offset by higher service contracts to support a wide range of activities across Telstra Operations including NBN and field work force related works.

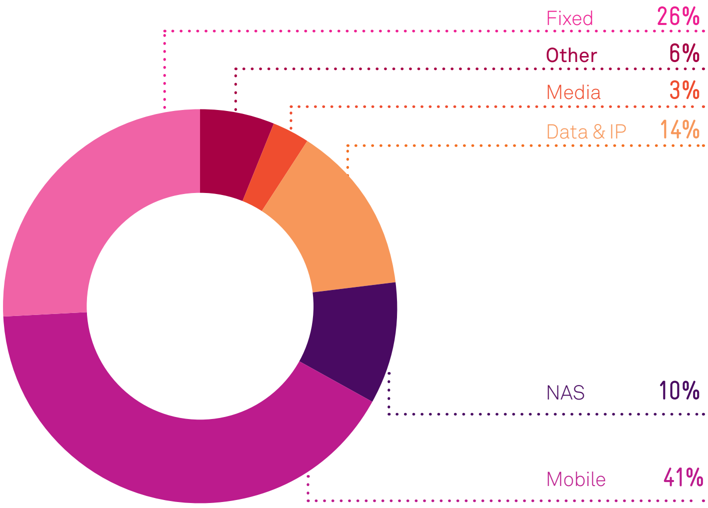
All Other
Certain items of income and expense relating to multiple reportable segments are recorded by our corporate areas and included in the All Other category. This category also includes the Telstra Ventures Group, International and New Business, Telstra Health and Media & Marketing. Telstra Health and Media & Marketing were previously part of the Telstra Retail operating segment.

Product performance

Fixed
Our fixed portfolio offers fast and reliable broadband, clear and reliable calling and premium entertainment. Fixed also includes expert technology advice through our Telstra Platinum service. We continue to build Australia's largest Wi-Fi network, Telstra Air. Telstra Air is an integrated Wi-Fi service which allows customers to use their home broadband allowance over Telstra's network of Wi-Fi hotspots across Australia as well as overseas (via our partnership with Fon). Membership has grown to over 320,000 since it was launched on 30 June 2015, reflecting our customers' increasing appetite for data and a desire to access this data worry-free.

Total fixed revenue declined by 1.5 per cent to $3,564 million. Fixed voice revenue decreased by 7.6 per cent to $1,772 million.

Product sales revenue breakdown



Key product revenue

	1H16 $m	1H15 $m	Change %
Fixed	**3,564**	3,620	(1.5)
Mobile	**5,526**	5,328	3.7
Data and IP	**1,914**	1,664	15.0
NAS	**1,336**	1,007	32.7

Product profitability EBITDA margins

	1H16 %	1H15 %	FY15 %	2H15 %
Mobile	**39**	40	**40**	40
Fixed voice(i)	**54**	56	**55**	54
Fixed data(i)	**41**	42	**41**	39
Data and IP	**62**	64	**64**	65

(i) Margins include NBN voice and data.

This was partially offset by an increase in fixed data revenue of 6.7 per cent to $1,254 million.

In fixed voice, retail fixed voice line loss was 129,000 in the half, taking total retail fixed voice customers to 5.9 million. Retention activity has steadied the rate of disconnections, which was comparable to the prior period. Fixed voice ARPU decline was broadly consistent with the prior period, decreasing by 4.8 per cent to $40.66.

The increase in fixed data revenue was a result of subscriber growth. ARPU remained flat, a strong result in a competitive environment. We now have 3.3 million retail fixed data subscribers, an increase of 121,000 during the half.

This is the strongest subscriber growth in over three years on the back of strong marketing initiatives, the continued success of our bundled offerings, which also include premium content and entertainment, and our Free Wi-Fi campaign which offers fixed data customers unmetered access to Telstra Air. Our challenger brand Belong, which provides consumers with a flexible, no contract broadband offer, also contributed to the growth in subscribers.

The total number of customers taking up a bundle has increased in the six months to 31 December 2015 by 163,000 and there are now 2.4 million customers, or 73 per cent of the retail fixed data customer base, on a bundled plan.

We are determined to become Australia's leading provider of consumer and business services on the NBN. We have a clear strategy to differentiate our services based on network quality and unique products and content experiences that are better with Telstra, such as Telstra Air and Telstra TV. As at 31 December 2015, we have a total of 329,000 NBN connections, made up of 259,000 voice and data bundles, 18,000 data only and 52,000 voice only services. This is an increase of 118,000 over the last six months.

Other fixed revenue, which includes inter-carrier services, payphones and customer premises equipment increased by 1.9 percent to $538 million. Inter-carrier services revenue declined by 5.2 per cent which includes the impact of the ACCC Final Access Determination for Fixed Line Services which took effect from 1 November 2015. This was offset by an increase in other fixed revenue of 11.9 per cent. Other fixed revenue includes revenue from our Telstra Platinum customers. Platinum customer numbers have grown since the service was launched in November 2013 to over 140,000 on our monthly tech help plans. Telstra Platinum has also provided one-off services such as setting up new devices, connecting and optimising Wi-Fi performance within the home and helping to resolve technical issues for over 350,000 customers.

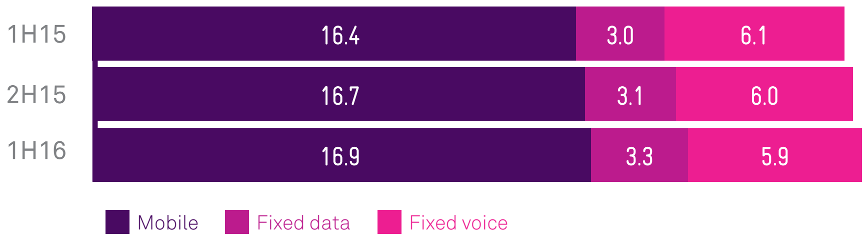
Fixed voice and data EBITDA margins declined as a result of the upfront costs of connecting our NBN customers, and increasing network payments to NBN Co. Compared to the second half of fiscal 2015, fixed data EBITDA margins improved. We continue to focus on reducing costs in our fixed product portfolio by progressively building out our digital sales and self-service functionality to establish online as the preferred point of contact for customers, and further automating and digitising the customer connection experience. We are already making progress with 63 per cent of our NBN customers choosing self-installation.

Mobile

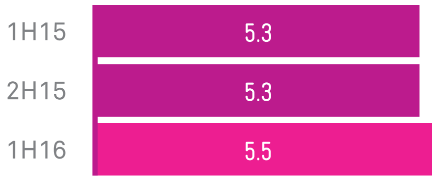
For the half-year ended 31 December 2015, mobile revenue increased by 3.7 per cent to $5,526 million. We are responding to our customers' needs by offering more data and exclusive content in our mobile plans. Mobile service revenue grew by 0.5 per cent and mobile hardware revenue grew by 18.5 per cent. Retail customer services increased by 235,000 in the six months to 31 December 2015, bringing the total to 16.9 million.

We are committed to maintaining our network leadership and the quality of services across our network, on which our customers rely. We want to offer superior experiences for what matters most to customers –coverage, call and speed reliability, fewer drop outs and the reliable delivery of video.

Domestic retail customer services (millions)



Mobile revenue ($b)



Our 4G network now covers 96 per cent of the Australian population and we are working towards 99 per cent coverage by June 2017. We now have 8.9 million 4G devices on our network.

Post-paid handheld revenue grew marginally to $2,706 million. Subscriber growth of 80,000 was solid on the back of a good Christmas trading period and in line with the prior period. We were pleased with our post-paid handheld churn which was relatively steady at 10.7 per cent. For the half, ARPU decreased by 1.4 per cent from $62.22 to $61.38 (including the impact of mobile repayment options). This was as a result of lower excess data rates and customer migration to new plans with improved data allowances. Compared to the second half of fiscal 2015, ARPU reduced only marginally.

Pre-paid handheld revenue declined by 0.6 per cent to $495 million. Unique user growth was strong with 72,000 unique users added during the half. Our offers such as Telstra Prepaid Freedom Plus, and an increased focus on retention contributed to this result. With higher data inclusions, pre-paid handheld ARPU declined by 1.4 per cent to $21.20, however was broadly flat compared to the second half of fiscal 2015.

Mobile broadband revenue declined by 1.5 per cent to $639 million with customer growth offset by a reduction in ARPU. In total, 48,000 customer services were added during the half.

Machine to machine revenue grew by 9.1 per cent to $60 million with strong subscriber growth, particularly in the utilities sector where we have implemented multiple solutions. These solutions have addressed productivity, driver safety, asset utilisation, long-haul vehicle tracking and fleet management for our customers.

Mobile hardware revenue grew by 18.5 per cent to $1,121 million largely a result of higher average recommended retail prices on high end smartphones.

EBITDA margins reduced to 39 per cent due to lower service revenue growth and increased hardware sales and commissions. Mobile hardware sales are margin dilutive to overall mobile performance.

Data and IP

Our data and IP product and service offerings enable Telstra to deliver world-class technology solutions for our customers.

Data and IP revenue increased by 15.0 per cent to $1,914 million largely as a result of revenue received from our GES international customers. Within data and IP, other data and calling products, which include wholesale internet and data, inbound calling products and other global products and solutions, increased by 39.0 per cent to $1,005 million. IP access and ISDN revenue declined by 0.7 and 8.2 per cent respectively, due to pricing pressures and as customers continue to migrate to next generation products, including unified communications within our NAS portfolio. Pacnet contributed $209 million to data and IP revenue.

EBITDA margins were impacted by yield trends in the IP market and domestic revenue decline, decreasing to 62 per cent.

Network Applications and Services (NAS)
NAS revenue grew by 32.7 per cent to $1,336 million with strong growth across all NAS products. During the half-year we achieved a number of milestones on existing contracts which had a positive impact on revenue. Pacnet also contributed $35 million to NAS revenue. Industry solutions revenue growth of 44.2 per cent was led by NBN commercial works. Managed network services revenue growth of 28.9 per cent was driven by increased professional service and security activity. Revenue growth of 15.5 per cent in unified communications was a result of increased IP telephony customer connections.

EBITDA margins improved through operational leverage, scalable standardised offerings, and a lower cost global delivery model.

NAS revenue ($b)

Media
Media product portfolio revenue increased by 2.4 per cent to $476 million. Telstra Media strategy is to drive profitable growth by aggregating differentiated content experiences across all Telstra platforms, channels and relevant products. We continued to deliver 'Better with Telstra' differentiated content experiences 'In the Home' and 'On the Go' driving value from our core products.

Media 'In the Home' includes Foxtel from Telstra, T-Box device sales, Foxtel on T-Box, BigPond Movies, Presto, and relationships with all free to air providers. In October 2014, Telstra TV was launched to drive further differentiation to the fixed products.

Foxtel from Telstra revenue increased by 8.7 per cent to $350 million and subscriber growth was 17.9 per cent due to the continued strategy of bundling Foxtel with our core Telstra products. Since launch, 43,000 customers have purchased a Telstra TV device. This is now the first streaming device to include access to all three Australian commercial streaming services – Stan, Presto and Netflix, plus catch-up applications for all the free to air channels and movie rentals through BigPond Movies.

Media 'On the Go' focuses on delivery of unique and exclusive content for our mobility customers. Media 'On the Go' renewed our partnerships with both the AFL and NRL for 2016 and beyond. In August 2015 we began offering Apple Music, driving further content usage across our core mobile products.

Cable revenue declined by 3.3 per cent to $58 million. This represents income from the supply of HFC cable services to Foxtel. While cable subscribers increased, this was offset by a decline in ARPU following price changes introduced last fiscal year.

Other
Other sales revenue includes revenue from our China digital media portfolio (Autohome), Telstra Health and Telstra Software. It also includes revenue related to NBN access to our infrastructure.

Other income includes gains and losses on asset and investment sales (including assets transferred under the NBN Definitive Agreements), income from government grants under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), income from NBN disconnection fees (Per Subscriber Address Amount (PSAA)), subsidies and other miscellaneous items. The increase in other income of 74.5 per cent during the period is largely a result of an increase in PSAA income and TUSOPA receipts.

Operating expenses

	1H16	1H15	Change
	$m	$m	%
Labour	**2,751**	2,432	13.1
Goods and services purchased	**3,920**	3,262	20.2
Other expenses	**2,108**	1,993	5.8
Total operating expenses	**8,779**	7,687	14.2

Expense performance

Labour
Total labour expenses increased by 13.1 per cent to $2,751 million. Our total full time staff and equivalents (FTE) increased by 3,413 to 36,991. The increase in FTE was mainly driven by continued growth in Autohome (1,546 FTE), FY15 acquisition activity across GES (in particular the acquisition of Pacnet) (912 FTE), Telstra Health (328 FTE), Telstra Business (149 FTE), Telstra Software Group (111 FTE) and increased NBN related activities (290 FTE). Offsetting these increases were reductions in FTE with restructuring activity conducted during the half across various parts of the core business.

Salary and associated costs increased by 12.1 per cent to $2,055 million as a result of the increase in FTE and salary and wage increases. Salary and wage expense also incorporated a 0.5 per cent increase in superannuation contributions for employees covered under Telstra's 2015-2018 Enterprise Agreement. This increase was offset by a favourable bond rate movement of $43 million on the calculation of employee long service leave and worker's compensation provisions during the period.

Labour substitution costs increased by 9.7 per cent to $442 million. This increase was largely a result of increased outsourcing of field volumes, the establishment of global operations to support the expansion of our NAS business and the impact of a weaker Australian dollar.

Redundancy costs increased by 102.3 per cent to $89 million, primarily as a result of an increased focus on accelerating restructuring activity in the first half.

Goods and services purchased
Goods and services purchased increased by 20.2 per cent to $3,920 million. Cost of goods sold (COGS) (which includes directly variable costs, including mobile handsets, tablets, dongles and broadband modems) increased by 17.1 per cent to $1,731 million impacted by increased mobile handset unit costs (largely a result of a weaker Australian dollar) and increased NAS COGS.

Network payments increased by 26.3 per cent to $1,028 million largely a result of the acquisition of Pacnet, increased NBN network access payments as we migrate customers to the NBN, and the impact of a weaker Australian dollar on offshore network payments within our GES business.

Managed services cost of sales increased by 71.1 per cent to $231 million. These are costs to connect, such as migration and activation, and maintenance services of Telstra supplied NAS equipment and increased during the period to support domestic NAS revenue growth within our GES and Telstra Business segments.

Other expenses
Total other expenses increased by 5.8 per cent to $2,108 million as a result of increased accommodation costs, promotion and advertising and service contract costs. These increases were partially offset by decreased consultancy and legal expenses.

Accommodation costs increased by 11.7 per cent to $546 million, driven by our acquisition of Pacnet, the impact of a weaker Australian dollar and higher power and facilities maintenance costs incurred as a result of the expansion of our 4G wireless network footprint.

Promotion and advertising costs increased by 21.2 per cent to $246 million, mainly in support of growth in our Autohome business and the impact of a weaker Australian dollar.

Service contract costs increased by 6.1 per cent to $519 million, impacted by increased NBN related activities, field activation and maintenance volumes in line with increased subscribers. The acquisitions of Ooyala, Nativ and Videoplaza last fiscal year also had an impact. Offsetting these increases were savings driven by the renegotiation of our network maintenance contracts.

Foreign Currency Impacts
For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to Australian dollars increased our expenses by 1.8 per cent or $139 million on the prior period, across labour, goods and services purchased, and other expenses. This foreign exchange impact has been offset by a benefit to sales revenue, resulting in a favourable EBITDA contribution of $14 million.

Net finance costs
Net finance costs decreased by 3.7 per cent or $13 million which reflects a net reduction in gross borrowing costs and other finance costs which were offset by lower finance income.

Gross borrowing costs (including finance leases) decreased by $2 million due to lower average interest yields. The average interest yield on gross debt for the period was 5.6 per cent compared to 5.9 per cent in the prior period. This reduction reflects debt refinancing at rates below our current average yield and the reduction in short term market base rates, which impacts our floating rate debt portfolio. This benefit was partially offset by higher interest expense from increased average debt levels.

Interest income on cash and cash equivalents decreased by $20 million predominantly due to a reduction in interest earned on cash and liquid investments from holding lower average cash balances period on period. Also contributing to the lower interest income was a fall in market interest rates.

Summary Statement of Cash Flows

	1H16	1H15	Change
	$m	$m	%
Net cash provided by operating activities	**3,677**	3,694	(0.5)
Total capital expenditure (inc investments)	**(2,244)**	(3,653)	(38.6)
Sale of shares in controlled entities (net of cash disposed)	**6**	(4)	n/m
Other investing cash flows	**479**	225	112.9
Net cash used in investing activities	**(1,759)**	(3,432)	(48.7)
Free cashflow	**1,918**	262	n/m
Net cash used in financing activities	**(1,160)**	(4,193)	(72.3)
Net increase/ (decrease) in cash and cash equivalents	**758**	(3,931)	119.3
Cash and cash equivalents at the beginning of the year	**1,396**	5,527	(74.7)
Effects of exchange rate changes on cash and cash equivalents	**11**	73	(84.9)
Cash and cash equivalents at the end of the period	**2,165**	1,669	29.7

Other finance costs decreased by $27 million, reflecting non-cash revaluation impacts of our offshore debt portfolio and associated hedges that result in a floating position (fair value hedges) and other accounting adjustments relating to the adoption of a new hedge accounting framework (under AASB 9 (2013)).

Financial position

Capital expenditure and cash flow
Our operating capital expenditure for the half was 15.2 percent of sales revenue or $2,073 million, in line with our fiscal year 2016 guidance of around 15 per cent of sales. We are spending much of the increased capital expenditure on mobile in particular to extend our 4G and 4GX networks to deliver more square kilometres of coverage, more reliable voice and data, fewer dropouts and faster download speeds.

Net cash provided by operating activities of $3,677 million was in line with the prior period. Reported free cashflow was $1,918 million, representing an increase of $1,656 million on the prior period. On a guidance basis, free cashflow was $1,927 million. Guidance adjustments in the prior period included spectrum payments of $1,302 million and payments for acquisitions of $508 million. This compares to acquisitions of $51 million in the current period.

Debt position
Gross debt as at 31 December 2015 was $16,246 million, comprising borrowings of $17,382 million (excluding bank overdrafts) and net derivative assets of $1,136 million.

Gross debt increased by $1,284 million from 30 June 2015, reflecting $1,074 million debt maturities offset by a $2,358 million increase in debt.

Increase in Debt

	$m
Drawn bank facilities(i)	800
Domestic bond debt issuance(ii)	498
Net short term commercial paper issuances	957
Other loans(iii)	39
Finance lease additions	38
Other revaluation impacts	26
Total	**2,358**

(i) Includes two new facilities implemented during the period.
(ii) Face value $500 million.
(iii) Includes loans from associated entities of $34 million.

Net debt as at 31 December 2015 was $14,081 million, an increase of $515 million from 30 June 2015. This movement comprises the increase in gross debt of $1,284 million offset by an increase in cash and cash equivalents of $769 million (net of bank overdrafts).

Debt related capital management parameters remain at the strong end of our target zones. The gearing ratio of 48.7 per cent at 31 December 2015 increased marginally from 48.3 per cent at 30 June 2015 and remains just below our target range. Debt servicing remains comfortable at around 1.3x. The average debt maturity profile decreased from 5.0 years at 30 June 2015 to 4.6 years at 31 December 2015, reflecting an increase in short term commercial paper issuance at the end of period.

Financial settings

	1H16	FY16
	Actual	Target zone
Debt servicing(i)	**1.3x**	1.3 – 1.8x
Gearing(ii)	**48.7%**	50% to 70%
Interest cover(iii)	**14.4x**	>7x

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

Statement of Financial Position
Our balance sheet remains in a strong position with net assets of $14,820 million.

Current assets increased by 20.1 per cent to $8,374 million largely a result of an increase in cash and cash equivalents of $775 million. This increase reflects the build up of additional liquidity from short-term financing to provide prudent coverage for dividend and working capital requirements. Trade and other receivables increased by $323 million due to higher customer deferred debt as a result of an increase in the take up of mobile repayment option plans with higher average handset prices. Debtors also increased resulting from an increase in sales over the Christmas trading period.

Inventories increased by $218 million as a result of equipment purchased in advance to support our GES customers, and handset inventories purchased to meet anticipated demand over the Christmas trading period.

Non current assets increased by 1.9 per cent to $34,097 million. An increase of $287 million in derivative financial assets was driven by foreign currency movements, primarily the United States dollar and the Euro, and other valuation impacts arising from measuring to fair value.

Summary Statement of Financial Position

	1H16	FY15	Change
	$m	$m	%
Current assets	**8,374**	6,970	20.1
Non current assets	**34,097**	33,475	1.9
Total assets	**42,471**	40,445	5.0
Current liabilities	**8,470**	8,129	4.2
Non current liabilities	**19,181**	17,806	7.7
Total liabilities	**27,651**	25,935	6.6
Net assets	**14,820**	14,510	2.1
Total equity	**14,820**	14,510	2.1
Return on average assets (%)	**17.3**	18.9	(1.6)pp
Return on average equity (%)	**29.4**	30.3	(0.9)pp

As our derivatives are used to hedge foreign currency and interest rate exposures, the movement in derivative position is largely offset by corresponding movements in borrowings and equity.

Intangible assets increased by $179 million due to foreign currency exchange impacts on goodwill and higher deferred expenditure. The net book value of property, plant and equipment increased by $191 million with growth in communications assets to support the expansion of our 4G network and Business and Broadband products.

Current liabilities increased by 4.2 per cent to $8,470 million. Borrowings increased by $392 million primarily due to an increase in short term commercial paper, which is held principally to support working capital and liquidity requirements.

Revenue received in advance increased by $146 million mainly due to NBN related projects. These increases were partially offset by a reduction in current tax payable of $117 million, mainly due to an increase in PAYG tax instalments resulting from an increase in the PAYG instalment rate and PAYG instalment income.

Non current liabilities increased by 7.7 per cent to $19,181 million. Borrowings increased by $1,362 million primarily as a result of long term debt issuance, offset by the reclassification of debt due to mature within 12 months to current borrowings. Also driving the increase were unfavourable exchange rate movements impacting our offshore (non AUD denominated) borrowings.

As we hedge all foreign currency risk arising from offshore borrowings, this movement is fully offset by the increase in our net derivative asset position.

Derivative financial liabilities decreased by $120 million, driven by foreign currency movements and other valuation impacts arising from measuring to fair value.

Guidance versus reported results

This schedule details the adjustments made to the reported results for the current period to reflect the performance of the business on the basis which we provided guidance to the market. Our guidance assumes wholesale product price stability from the beginning of the financial year and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excludes externally funded capex.

	Reported continuing operations Half-year ended 31 December			Adjustments Dec-15					Guidance Basis Half-year ended 31 December	
	2015	2014	Growth	M&A (i) Controlled Entities	M&A (i) JVs / Associates	M&A (i) Other Investments	M&A (i) Disposals	ACCC FAD (ii)	2015	Growth
	$m	$m		$m	$m	$m	$m	$m	$m	
Sales revenue	13,627	12,642	7.8%	(1)	0	0	0	16	13,642	7.9%
Total revenue	13,681	12,720	7.6%	(1)	0	0	0	16	13,696	7.7%
Total income (excl. finance income)	14,194	13,014	9.1%	(1)	0	0	0	16	14,209	9.2%
Labour	2,751	2,432	13.1%	(1)	0	0	0	0	2,750	13.1%
Goods and services purchased	3,920	3,262	20.2%	0	0	0	0	0	3,920	20.2%
Other expenses	2,108	1,993	5.8%	0	0	0	0	0	2,108	5.8%
Operating expenses	8,779	7,687	14.2%	(1)	0	0	0	0	8,778	14.2%
Share of net profit/(loss) from joint ventures and associated entities	(5)	(10)	50.0%	0	0	0	0	0	(5)	50.0%
EBITDA	5,410	5,317	1.7%	0	0	0	0	16	5,426	2.1%
Depreciation and amortisation	2,038	1,989	2.5%	0	0	0	0	0	2,038	2.5%
EBIT	3,372	3,328	1.3%	0	0	0	0	16	3,388	1.8%
Net finance costs	340	353	(3.7%)	0	0	0	0	0	340	(3.7%)
Profit before income tax expense	3,032	2,975	1.9%	0	0	0	0	16	3,048	2.5%
Income tax expense	905	876	3.3%	0	0	0	0	5	910	3.9%
Profit for the year from continuing operations	2,127	2,099	1.3%	0	0	0	0	11	2,138	1.9%
Profit/(loss) for the period from discontinued operation	8	19	(57.9%)	0	0	0	0	0	8	(57.9%)
Profit for the period from continuing and discontinued operations	2,135	2,118	0.8%	0	0	0	0	11	2,146	1.3%
Attributable to:										
Equity holders of Telstra Entity	2,093	2,085	0.4%	0	0	0	0	11	2,104	0.9%
Non controlling interests	42	33	27.3%	0	0	0	0	0	42	27.3%
Free cashflow	1,918	262		12	27	12	(58)	16	1,927	

This table has been subject to review by our auditors.

Note:

There are a number of factors that have impacted our results this period. In the table above, we have adjusted the results for:

(i) **Mergers & Acquisitions:**
Adjustments relating to mergers and acquisition activities. This includes controlled entities Health IQ Pty Ltd , Joint Ventures/Associates including Shanghai You Che You Jia Financial Leasing Co Ltd and other Investments including Instart Logic Inc to 31 December 2015.
During this period we have disposed of several entities, including Box Inc, Elemental Technologies Inc, Pacnet Internet (Thailand) Limited and Elastica Inc.

(ii) **ACCC Final Access Determination adjustments:**
Adjustments for ACCC Final Access Determination (FAD) pricing for fixed services which became effective on 1 November 2015.

TELSTRA CORPORATION LIMITED AND CONTROLLED ENTITIES

Australian Business Number (ABN): 33 051 775 556

FINANCIAL REPORT

for the half-year ended 31 December 2015

Contents

INCOME STATEMENT

For the half-year ended 31 December 2015

		Telstra Group	
		Half-year ended 31 December	
		2015	2014
	Note	$m	$m
Continuing operations			
Income			
Revenue (excluding finance income)		**13,681**	12,720
Other income		**513**	294
		14,194	13,014
Expenses			
Labour		**2,751**	2,432
Goods and services purchased		**3,920**	3,262
Other expenses		**2,108**	1,993
		8,779	7,687
Share of net (loss) from joint ventures and associated entities		**(5)**	(10)
		8,784	7,697
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**5,410**	5,317
Depreciation and amortisation		**2,038**	1,989
Earnings before interest and income tax expense (EBIT)		**3,372**	3,328
Finance income		**70**	89
Finance costs		**410**	442
Net finance costs	5	**340**	353
Profit before income tax expense		**3,032**	2,975
Income tax expense		**905**	876
Profit for the period from continuing operations		**2,127**	2,099
Discontinued operation			
Profit for the period from discontinued operations		**8**	19
Profit for the period from continuing and discontinued operations		**2,135**	2,118
Attributable to			
Equity holders of Telstra Entity		**2,093**	2,085
Non-controlling interests		**42**	33
		2,135	2,118
Earnings per share from continuing operations (cents per share)		**cents**	cents
Basic		**17.1**	16.8
Diluted		**17.1**	16.7
Earnings per share (cents per share)			
Basic		**17.2**	16.9
Diluted		**17.1**	16.9

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 2015

	Telstra Group	
	Half-year ended 31 December	
	2015	2014
	$m	$m
Profit for the period from continuing and discontinued operations		
Attributable to equity holders of Telstra Entity	**2,093**	2,085
Attributable to non-controlling interests	**42**	33
	2,135	2,118
Items that will not be reclassified to the income statement		
Retained profits:		
- actuarial (loss) on defined benefit plans attributable to equity holders of Telstra Entity	**(94)**	(209)
- income tax on actuarial (loss) on defined benefit plans	**28**	63
Fair value of equity instruments reserve:		
- gains from investments in equity instruments designated at fair value through other comprehensive income	**45**	1
- income tax on gains from investments in equity instruments	**(5)**	-
Foreign currency translation reserve:		
- translation differences of foreign operations attributable to non-controlling interests	**7**	24
	(19)	(121)
Items that may be subsequently reclassified to the income statement		
Foreign currency translation reserve:		
- translation differences of foreign operations attributable to equity holders of Telstra Entity	**101**	98
- income tax on movements in the foreign currency translation reserve	**-**	5
- translation differences transferred to the income statement on disposal of controlled entities	**-**	2
Cash flow hedging reserve:		
- changes in fair value of cash flow hedges	**246**	403
- changes in fair value transferred to other expenses	**(292)**	(481)
- changes in fair value transferred to goods and services purchased	**(8)**	-
- changes in fair value transferred to finance costs	**95**	103
- changes in fair value transferred to property, plant and equipment	**(2)**	(1)
- income tax on movements in the cash flow hedging reserve	**(12)**	(7)
Foreign currency basis spread reserve:		
- changes in the value of the foreign currency basis spread	**(40)**	53
- income tax on movements in the foreign currency basis spread reserve	**12**	(16)
	100	159
Total other comprehensive income	**81**	38
Total comprehensive income for the period	**2,216**	2,156
Total comprehensive income attributable to equity holders of Telstra Entity	**2,167**	2,099
Total comprehensive income attributable to non-controlling interests	**49**	57

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

		Telstra Group	
		As at	
		31 Dec 2015	30 Jun 2015
	Note	$m	$m
Current assets			
Cash and cash equivalents	4	**2,171**	1,396
Trade and other receivables		**5,044**	4,721
Inventories		**709**	491
Derivative financial assets		**8**	7
Current tax receivables		**5**	9
Prepayments		**437**	346
Total current assets		**8,374**	6,970
Non-current assets			
Trade and other receivables		**1,234**	1,171
Inventories		**34**	32
Investments – accounted for using the equity method		**172**	201
Investments – other		**146**	137
Property, plant and equipment		**20,641**	20,450
Intangible assets		**9,511**	9,332
Derivative financial assets		**2,077**	1,790
Deferred tax assets		**72**	66
Defined benefit assets		**210**	296
Total non-current assets		**34,097**	33,475
Total assets		**42,471**	40,445
Current liabilities			
Trade and other payables		**4,052**	4,045
Provisions		**939**	970
Borrowings		**1,888**	1,496
Derivative financial liabilities		**158**	214
Current tax payables		**174**	291
Revenue received in advance		**1,259**	1,113
Total current liabilities		**8,470**	8,129
Non-current liabilities			
Other payables		**71**	74
Provisions		**285**	284
Borrowings		**15,500**	14,138
Derivative financial liabilities		**791**	911
Deferred tax liabilities		**1,576**	1,558
Defined benefit liability		**4**	4
Revenue received in advance		**954**	837
Total non-current liabilities		**19,181**	17,806
Total liabilities		**27,651**	25,935
Net assets		**14,820**	14,510
Equity			
Share capital		**5,159**	5,198
Reserves		**529**	372
Retained profits		**8,667**	8,533
Equity available to Telstra Entity shareholders		**14,355**	14,103
Non-controlling interests		**465**	407
Total equity		**14,820**	14,510

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 2015

		Telstra Group	
		Half-year ended 31 December	
		2015	2014
	Note	$m	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**15,642**	14,243
Payments to suppliers and to employees (inclusive of GST)		**(11,128)**	(9,780)
Government grants received		**152**	158
Net cash generated by operations		**4,666**	4,621
Income taxes paid		**(989)**	(927)
Net cash provided by operating activities		**3,677**	3,694
Cash flows from investing activities			
Payments for property, plant and equipment		**(1,606)**	(1,398)
Payments for intangible assets		**(589)**	(1,766)
Capital expenditure (before investments)		**(2,195)**	(3,164)
- payments for businesses and shares in controlled entities (net of cash acquired)		**(10)**	(430)
- payments for joint ventures and associated entities		**(27)**	(15)
- payments for other investments		**(12)**	(44)
Total capital expenditure (including investments)		**(2,244)**	(3,653)
Proceeds from sale of property, plant and equipment		**257**	43
Proceeds from sale of shares in controlled entities (net of cash disposed)		**6**	(4)
Proceeds from sale of other investments		**52**	-
Proceeds from finance lease principal amounts		**51**	48
Distributions received from joint ventures and associated entities		**81**	63
Interest received		**38**	70
Other		**-**	1
Net cash used in investing activities		**(1,759)**	(3,432)
Operating cash flows less investing cash flows		**1,918**	262
Cash flows from financing activities			
Proceeds from borrowings		**3,009**	594
Repayment of borrowings		**(1,782)**	(1,805)
Repayment of finance lease principal amounts		**(7)**	(40)
Share buy-back		**-**	(1,004)
Staff repayments of share loans		**1**	2
Purchase of shares for employee share plans		**(68)**	(54)
Proceeds from sale of controlled entity shares		**-**	333
Finance costs paid		**(420)**	(471)
Issue of equity by controlled entities		**-**	121
Proceeds from sale of controlled entity shares on behalf of non-controlling interests		**10**	33
Payments to non-controlling interests for sale of their shares in controlled entity (including tax paid on their behalf)		**(9)**	(36)
Dividends paid to equity holders of Telstra Entity		**(1,893)**	(1,866)
Dividends paid to non-controlling interests		**(1)**	-
Net cash used in financing activities		**(1,160)**	(4,193)
Net increase/(decrease) in cash and cash equivalents		**758**	(3,931)
Cash and cash equivalents at the beginning of the period		**1,396**	5,527
Effects of exchange rate changes on cash and cash equivalents		**11**	73
Cash and cash equivalents at the end of the period	4	**2,165**	1,669

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 2015

Telstra Group

		Reserves								
	Share capital	Foreign currency trans-lation	Cash flow hedging	Foreign currency basis spread	Fair value of equity instru-ments	General reserve	Retained profits	Total	Non-control-ling interests	Total equity
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 July 2015	**5,198**	**121**	**(114)**	**50**	**6**	**309**	**8,533**	**14,103**	**407**	**14,510**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**2,093**	**2,093**	**42**	**2,135**
Other comprehensive income	**-**	**101**	**27**	**(28)**	**40**	**-**	**(66)**	**74**	**7**	**81**
Total comprehensive income for the period	**-**	**101**	**27**	**(28)**	**40**	**-**	**2,027**	**2,167**	**49**	**2,216**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(1,893)**	**(1,893)**	**(1)**	**(1,894)**
Transactions with non-controlling interests	**-**	**-**	**-**	**-**	**-**	**17**	**-**	**17**	**(13)**	**4**
Amounts repaid on share loans provided to employees	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Additional shares purchased	**(68)**	**-**	**-**	**-**	**-**	**-**	**-**	**(68)**	**-**	**(68)**
Share-based payments	**28**	**-**	**-**	**-**	**-**	**-**	**-**	**28**	**23**	**51**
Balance at 31 December 2015	**5,159**	**222**	**(87)**	**22**	**46**	**326**	**8,667**	**14,355**	**465**	**14,820**
Balance at 1 July 2014	5,719	(86)	(122)	-	-	(20)	8,331	13,822	138	13,960
Profit for the period	-	-	-	-	-	-	2,085	2,085	33	2,118
Other comprehensive income	-	105	17	37	1	-	(146)	14	24	38
Total comprehensive income for the period	-	105	17	37	1	-	1,939	2,099	57	2,156
Dividends	-	-	-	-	-	-	(1,866)	(1,866)	-	(1,866)
Share buy-back	(510)	-	-	-	-	-	(494)	(1,004)	-	(1,004)
Non-controlling interests on acquisitions	-	-	-	-	-	-	-	-	15	15
Non-controlling interests on disposals	-	-	-	-	-	-	-	-	(13)	(13)
Transfers to income statement	-	-	-	-	-	(27)	-	(27)	-	(27)
Transactions with non-controlling interests	-	-	-	-	-	362	-	362	90	452
Amounts repaid on share loans provided to employees	2	-	-	-	-	-	-	2	-	2
Additional shares purchased	(54)	-	-	-	-	-	-	(54)	-	(54)
Share-based payments	21	-	-	-	-	-	-	21	11	32
Balance at 31 December 2014	5,178	19	(105)	37	1	315	7,910	13,355	298	13,653

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. BASIS OF PREPARATION

This is the half-year financial report for Telstra Corporation Limited and its controlled entities (together referred to as we, us, Telstra, the Telstra Group and the Group).

Telstra Corporation Limited (referred to as the company and Telstra Entity) is a 'for profit' company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

1.1 Basis of preparation

Our half-year financial report (the Report) is a condensed general purpose financial report, which has been prepared by a 'for profit' entity in accordance with the Corporations Act 2001 and AASB 134: 'Interim Financial Reporting' issued by the Australian Accounting Standards Board (AASB).

The Report does not include all of the information required for the full financial report. It should be read in conjunction with our 2015 Annual Report and together with any public announcements made by us in accordance with the continuous disclosure obligations arising under the ASX listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

The Report is presented in Australian dollars and, unless otherwise stated, all values have been rounded to the nearest million dollars ($m) under the option available to us under the Australian Securities and Investments Commission (ASIC) Class Order 98/100. Telstra is an entity to which this class order applies.

The Report has been prepared on a historical cost basis, except for some categories of investments and some financial instruments that have been measured at fair value.

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

We have reviewed our half-year financial report to present it in a way that is more understandable and better explains the performance and financial position of the group. This resulted in certain immaterial disclosures being removed and reorganising disclosures to enhance the usefulness of the financial report.

1.2 Key accounting estimates, assumptions and judgements

Preparing our half-year financial report requires management to make estimates and judgements. In preparing this half-year report, the key sources of estimation uncertainty were those applied in the 2015 Annual Report and the additional judgements disclosed below under the 'Revised NBN Definitive Agreements (NBN DAs)'. Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ended 31 December 2015 have been updated to reflect the latest information available as follows:

Revised NBN Definitive Agreements (NBN DAs)

Impact on our fixed asset base

NBN Co makes decisions about the access technologies (i.e. fibre to the premises 'FTTP', fibre to the basement 'FTTB', fibre to the node 'FTTN' or HFC) which it intends to use to serve premises in each of its rollout regions. In any given rollout region these decisions trigger its election to acquire the relevant Telstra assets, the ownership of which we are progressively transferring to NBN Co under the revised NBN DAs. These assets include lead-in conduits (LICs), certain copper and Hybrid Fibre Coaxial (HFC) assets and associated passive infrastructure (being infrastructure that supports the relevant copper and HFC assets).

As at 31 December 2015, the written down value of assets that are in scope to be potentially transferred to NBN Co under the revised NBN DAs amounted to $1,026 million. This represented 5 per cent of the written down value of our total property, plant and equipment. We have applied management judgement in assessing the service lives of the in-scope assets based on the anticipated NBN rollout period.

The NBN rollout will also to a lesser extent impact service lives of other assets, e.g. transmission and switching technologies that will not be transferred to NBN Co. The full impact on our service lives is not yet known and will depend on NBN Co's selection of access technologies in each rollout region and the sequence in which the NBN rollout progresses. For the half-year ended 31 December 2015, we have applied management judgement in assessing the service lives of these assets based on our best estimate of the expected consequential impacts of the NBN rollout. Should evidence exist in future reporting periods that changes these best estimates, depreciation expense will be adjusted as a change in estimate in future reporting periods.

Impact on sales revenue and other income

Under the revised NBN DAs, we receive Infrastructure Ownership Payments (IOPs) for the transfer of LICs, certain copper and HFC assets and associated passive infrastructure over the duration of the NBN rollout. IOPs are CPI adjusted and linked to the level of NBN rollout progress.

We also provide to NBN Co long term access to certain infrastructure, including dark fibre, exchange rack space, ducts and pits. Payments for access to ducts and pits, i.e. Infrastructure Access Payments (IAPs), are also indexed to CPI, will grow in line with the NBN rollout and will continue for an average contracted period of 30 years.

IOPs and IAPs are classified in the income statement as other income and sales revenue respectively and are recognised on a percentage rollout basis of the NBN footprint (addressable market).

For any given period, the IOP and IAP amounts ultimately received from NBN Co may vary from the amounts recognised in the income statement depending on how quickly the NBN rollout progresses and the final size of the NBN footprint. A change in the NBN rollout progress and/or the final size of the NBN footprint could result in a material change to the IOP and IAP estimates recognised in the income statement. We have applied management judgement to determine our best estimate of the amounts of IOP and IAP recognised for the half-year ended 31 December 2015. Should evidence exist in future reporting periods that changes these best estimates, other income and sales revenue will be adjusted as a change in estimate in future reporting periods.

NOTE 1. BASIS OF PREPARATION (CONTINUED)

1.2 Key accounting estimates, assumptions and judgements (continued)

Service lives and residual values

The estimations of service lives and residual values of our property, plant and equipment and identifiable intangible assets require management judgement and are reviewed annually. If they need to be modified, the depreciation and amortisation expense changes from the date of reassessment until the end of the revised useful life (for both the current and future years).

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.

For the half-year ended 31 December 2015 the net effect of the assessment of service lives was a $46 million decrease (2014: $7 million increase) in depreciation expense and a $20 million decrease (2014: nil) in amortisation expense.

1.3 Terminology used in our income statement

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflect our profit for the period, prior to including the effect of net finance costs, income taxes, depreciation and amortisation. 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. In addition, we believe EBITDA is useful to our shareholders, analysts and other members of the investment community who also 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.

1.4 Changes in accounting policies

The accounting polices applied in this half-year financial report are consistent with those disclosed in our 2015 Annual Report.

There have been no new or revised accounting standards or interpretations which are effective from the periods beginning on or after 1 July 2015 and impact the half-year financial results.

1.5 New and amended accounting standards

Apart from the early adopted new accounting financial instrument standard disclosed in our 2015 Annual Report, no other new accounting standards have been early adopted for the half-year ended 31 December 2015. These standards will be applicable to the Telstra Group in future reporting periods and are detailed below.

(a) Financial instruments

In December 2014, AASB issued the final version of AASB 9: 'Financial Instruments' (AASB 9 (2014)), AASB 2014-7: 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)' and AASB 2014-8: 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) - Application of AASB 9 (December 2009) and AASB 9 (December 2010)'.

AASB 9 (2014) is the final version of a new principal standard that consolidates requirements on the classification and measurement of financial assets and liabilities, hedge accounting and impairment of financial assets. AASB 9 (2014) supersedes all previously issued and amended versions of AASB 9 and applies to Telstra from 1 July 2018, with early adoption permitted.

We have early adopted the previous version of the standard, AASB 9 (2013), from 1 July 2014. This version excluded the impairment section, which replaces the incurred loss impairment model used today with an expected credit losses model for impairment of financial assets.

We are currently assessing the impact of the new impairment model on our financial results.

(b) Revenue from contracts with customers

In December 2014, the AASB issued AASB 15: 'Revenue from Contracts with Customers' and AASB 2014-5: 'Amendments to Australian Accounting Standards arising from AASB 15'. In October 2015 the AASB issued AASB 2015-8: 'Amendments to Australian Accounting Standards – Effective Date of AASB 15' which deferred the effective date of the new revenue standard (AASB 15) from 1 January 2017 to 1 January 2018.

AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. AASB 15, AASB 2014-5 and AASB 2015-8 apply to Telstra from 1 July 2018, with early application permitted.

We are currently assessing the impact of AASB 15 on our financial results.

(c) New leasing standard

In January 2016 the International Accounting Standards Board (IASB) issued IFRS 16 'Leases', which replaces the current guidance in IAS 17 'Leases'. AASB will consider the new standard for adoption in Australia in February 2016.

The new standard significantly changes accounting for lessees requiring recognition of all leases on the balance sheet, including those currently accounted for as operating leases. A lessee will recognise liabilities reflecting future lease payments and 'right-of-use assets', initially measured at a present value of unavoidable lease payments. Depreciation of leased assets and interest on lease liabilities will be recognised over the lease term.

For lessors the accounting stays almost the same.

The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The new standard will apply to Telstra from 1 July 2019. Earlier application is permitted, but only in conjunction with IFRS 15: 'Revenue from Contracts with Customers'.

We are currently assessing the impact of IFRS 16 on our financial results.

(d) Other

We do not expect any other recently issued accounting standards to have a material impact on our financial results upon adoption.

NOTE 2. SEGMENT INFORMATION

2.1 Operating segments

We report segment information on the same basis as our 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 period the following operating segments were created:
- International & New Business, which includes Telstra International Group (operating segment previously reported in 'All Other' category), Telstra Health (previously part of Telstra Retail operating segment) and Telstra Ventures Group (previously included in 'All Other' category)
- Media & Marketing (previously part of Telstra Retail operating segment), which includes cash distributions from our joint venture Foxtel and advertising revenue. Pay TV/IPTV and digital content revenues and associated costs continue to be reported in Telstra Retail segment.

The new operating segments do not meet disclosure requirements for a reportable segment. We have four reportable segments:

Segment	Operation
Telstra Retail (TR)	• provider of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small to medium businesses customers in Australia • the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network • online self-service capabilities for customers, from browsing to buying, billing and service requests.
Global Enterprise and Services (GES)	• sales and contract management support for business and government customers in Australia and globally • management of Telstra's networks outside Australia • product management for advanced technology solutions, including data and Internet Protocol (IP) networks and Network Applications and Services (NAS) services such as managed network, unified communications, cloud, industry solutions and integrated services in Australia and globally • development of industry vertical solutions based on Telstra's networks and technology • development and management of Telstra's software assets.
Telstra Operations (TOps)	• overall planning, design, engineering and architecture and construction of Telstra networks, technology and information technology solution • service delivery centre supporting the revenue-generating activities of TR, GES and TW segments, including operational and risk management services • provider of certain network services to NBN Co under the NBN Definitive Agreements or commercial contracts • provider of various telecommunication services to meet Telstra Universal Service Obligation Performance Agreement (TUSOPA).
Telstra Wholesale (TW)	• provider 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 • provider of certain network assets and services to NBN Co under the NBN Definitive Agreements.

Business units that do not qualify as reportable segments in their own right and the results of the International & New Business and Media & Marketing operating segments are included in the 'All Other' category.

2.2 Segment results

Segment results are measured based on EBITDA contribution and exclude the effects of all inter-segment balances and transactions (with the exception of transactions described below the segment table). As such, only transactions external to the Telstra Group are reported.

Furthermore, certain items of income and expense related to multiple reportable segments are recorded by our corporate areas (included in the 'All Other' category) or fully allocated to one of our segments. A detailed description of those items is included in note 5 in the 2015 Annual Report.

NOTE 2. SEGMENT INFORMATION (CONTINUED)

2.2 Segment results (continued)

The following table details our segment results and a reconciliation of EBITDA contribution to the Telstra Group's reported EBIT and profit before income tax expense, based on the reporting structure as at 31 December 2015.

	Telstra Group					
	TR	GES	TOps	TW	All Other	Total
	$m	$m	$m	$m	$m	$m
	Half-year ended 31 December 2015					
Revenue from external customers	**8,622**	**3,173**	**149**	**1,218**	**519**	**13,681**
Other income	**35**	**7**	**101**	**92**	**278**	**513**
Total income	**8,657**	**3,180**	**250**	**1,310**	**797**	**14,194**
Share of equity accounted (losses)	**-**	**-**	**-**	**-**	**(5)**	**(5)**
EBITDA contribution	**4,665**	**1,163**	**(1,399)**	**1,210**	**(221)**	**5,418**
Depreciation and amortisation						**(2,038)**
Telstra Group EBIT from continuing and discontinued operations						**3,380**
Net finance costs						**(340)**
Telstra Group profit before income tax expense						**3,040**
Telstra Group profit before income tax expense, including:						
- continuing operations						**3,032**
- discontinued operation						**8**
Telstra Group profit before income tax expense						**3,040**
	Half-year ended 31 December 2014					
Revenue from external customers	8,447	2,612	90	1,198	373	12,720
Other income	29	11	92	46	116	294
Total income	8,476	2,623	182	1,244	489	13,014
Share of equity accounted (losses)	-	-	-	-	(10)	(10)
EBITDA contribution	4,789	1,183	(1,408)	1,150	(378)	5,336
Depreciation and amortisation						(1,989)
Telstra Group EBIT from continuing and discontinued operations						3,347
Net finance costs						(353)
Telstra Group profit before income tax expense						2,994
Telstra Group profit before income tax expense, including:						
- continuing operations						2,975
- discontinued operation						19
Telstra Group profit before income tax expense						2,994

Revenue from external customers in the GES segment includes $105 million (2014: $86 million) of inter-segment revenue treated as external expenses in the TR and TW segments, which is eliminated in the 'All Other' category.

External expenses in the GES segment also include $11 million (2014: $12 million) of inter-segment expenses treated as external revenue in TW and eliminated in the 'All Other' category.

NOTE 3. DIVIDENDS

We currently pay dividends twice a year, an interim and a final dividend. A shareholder can elect to receive the dividend in cash or to reinvest all or part of it under our Dividend Reinvestment Plan (DRP).

	Telstra Entity			
	Dividend		Dividend per ordinary share	
	Half-year ended 31 December			
	2015	2014	2015	2014
	$m	$m	cents	cents
Dividends paid				
Previous year final dividend paid (fully franked at a tax rate of 30%)	**1,893**	1,866	**15.5**	15.0
Dividend to be paid				
Interim dividend (fully franked at a tax rate of 30%)	**1,893**	1,833	**15.5**	15.0

On 18 February 2016 the Board resolved to pay a fully franked dividend of 15.5 cents per ordinary share. The record date for the interim dividend is 3 March 2016 with payment to be made on 1 April 2016.

As the interim dividend for the half-year ended 31 December 2015 was not determined or publicly recommended by the Board as at 31 December 2015, no provision for dividend has been raised in the statement of financial position.

The DRP continues to operate for the interim dividend for the financial year 2016. The election date for participation in the DRP is 4 March 2016.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the interim dividend, except for $812 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

Our franking account balance as at 31 December 2015 was a $197 million credit. We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our 2016 interim dividend.

NOTE 4. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of cash and cash equivalents is included in the table below.

	Telstra Group	
	As at 31 December	
	2015	2014
	$m	$m
Cash at bank and on hand	**637**	335
Bank deposits and negotiable certificates of deposit	**1,534**	1,334
	2,171	1,669
Bank overdraft	**(6)**	-
Cash and cash equivalents in the statement of cash flows	**2,165**	1,669

For disclosures related to business combinations refer to note 6.

NOTE 5. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

This note outlines how we manage our capital structure and related finance costs, including access to capital markets and management of balance sheet liquidity.

We aim to provide returns for shareholders and benefits for other stakeholders, while:
- safeguarding our ability to continue as a going concern
- maintaining an optimal capital structure and cost of capital that provides flexibility for strategic investments.

In order to maintain or adjust the capital structure, we may issue or repay debt, adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

5.1 Net debt

A parameter used to monitor capital management is the gearing ratio. Our target is currently 50 to 70 per cent (2014: 50 to 70 per cent). The gearing ratio is calculated as:

$$\text{Gearing ratio} = \frac{\textit{net debt}}{\textit{total capital}}$$

Where:
- **net debt** is calculated as total interest bearing financial liabilities and derivative financial instruments, less cash and cash equivalents
- **total capital** equals equity, as shown in the statement of financial position, plus net debt.

We undertake the following transactions in relation to managing our net debt portfolio and associated financial risks:
- invest surplus cash in bank deposits and negotiable certificates of deposit
- issue commercial paper and have committed bank facilities in place to support working capital and short term liquidity requirements
- issue long term debt including bank loans, private placements and public bonds both in the domestic and offshore markets
- use derivative financial instruments including cross currency swaps, interest rate swaps and forward foreign currency contracts to hedge foreign currency and interest rate risk.

Table A shows the carrying values of the components of our net debt at balance dates.

Table A	Telstra Group	
	As at	
	31 Dec 2015	30 Jun 2015
	$m	$m
Borrowings (including bank overdraft)	**(17,388)**	(15,634)
Derivative financial instruments	**1,136**	672
Cash and cash equivalents	**2,171**	1,396
Net debt	**(14,081)**	(13,566)

No components of net debt are subject to any externally imposed capital requirements and we did not have any defaults or breaches under any of our agreements with our lenders during the half-year ended 31 December 2015.

Table B summarises the key movements in net debt during the period and shows our gearing ratio.

Table B	Telstra Group	
	Half-year ended 31 December	
	2015	2014
	$m	$m
Net debt at 1 July	**(13,566)**	(10,521)
Debt issuance	**(1,337)**	(85)
Net commercial paper	**(957)**	(395)
Debt repayments	**1,067**	1,691
Finance lease repayments	**7**	40
Net cash (inflow)/outflow	**(1,220)**	1,251
Fair value (losses)/gains impacting:		
Equity	**(4)**	63
Other expenses	**(9)**	(1)
Finance costs	**(13)**	(29)
Other non-cash movements:		
Finance lease additions	**(38)**	(47)
Total non-cash movements	**(64)**	(14)
Total (increase)/decrease in gross debt	**(1,284)**	1,237
Net increase/(decrease) in cash and cash equivalents	**769**	(3,858)
Total increase in net debt	**(515)**	(2,621)
Net debt at 31 December	**(14,081)**	(13,142)
Total equity	**(14,820)**	(13,653)
Total capital	**(28,901)**	(26,795)
	%	%
Gearing ratio	**48.7**	49.0

Net increase/(decrease) in cash and cash equivalents includes foreign exchange differences and is reported net of bank overdrafts of $6 million (2014: nil). Bank overdrafts are recorded against borrowings in the statement of financial position.

5.2 Borrowings and repayment of debt

(a) Funding activities

During the half-year ended 31 December 2015, we repaid $1,067 million of term debt (Australian dollar equivalent) using existing cash balances and bank facilities. This primarily included:
- $781 million Euro bond on 24 July 2015
- $203 million United States dollar private placements on 16 and 29 December 2015.

The above includes the cash settlement of derivative financial instruments used to hedge the borrowings.

NOTE 5. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.2 Borrowings and repayment of debt (continued)

(a) Funding activities (continued)

Significant term debt issuance during the period included:

- On 24 July 2015 we drew down a $300 million term loan note which is repayable on 15 September 2022. Interest is charged at a floating rate (3 month bank bill swap rates) plus a margin of 75 basis points.
- On 16 September 2015 we raised $500 million of Australian dollar denominated senior unsecured fixed rate medium term notes maturing on 16 September 2022. The interest payable is fixed at 4 per cent per annum.
- A $200 million bilateral loan facility was drawn on 23 September 2015. Interest is charged at a floating rate (3 month bank bill swap rates) plus a margin of 88 basis points. The loan is repayable on 23 September 2020.

We have also drawn $300 million under our syndicated bank loan facility (drawn 17 December 2015). This amount is repayable by 9 July 2018.

We continue to hold committed available bank facilities to support our long-term and short-term borrowings.

Table C shows our unused bank facilities at balance dates. During July 2015, our unsecured committed cash standby facilities were cancelled in full. The facilities were undrawn at the time of cancellation.

Table C	Telstra Group	
	As at	
	31 Dec 2015	30 Jun 2015
	$m	$m
Unsecured committed cash standby facilities	-	195
Unsecured syndicated bank loan facility	1,200	1,500
Unsecured bank term loan facility	-	300
Amount of credit unused	**1,200**	1,995

(b) Commercial paper

Our commercial paper is used principally to support working capital and short term liquidity. We have $1,106 million commercial paper on issue under our United States and Australian dollar facilities at 31 December 2015 (June 2015: $155 million), representing the face value repayable at maturity.

5.3 Finance costs

Table D presents our net finance costs for the half-year ended 31 December.

Table D	Telstra Group	
	Half-year ended 31 December	
	2015	2014
	$m	$m
Interest expense on borrowings	428	432
Interest on finance leases	12	10
Interest income on financial instruments	(65)	(85)
Net borrowing costs	375	357
Net interest income on defined benefit plan	(5)	(3)
Other	5	5
Less: Interest capitalised	(33)	(29)
Net finance costs before remeasurements	**342**	330
Net (gains)/losses on derivative financial instruments included in remeasurements	(2)	23
Net finance costs	**340**	353

Other primarily includes rating agency and bank facility expenditure not attributable to a particular borrowing.

Net (gains)/losses on derivative financial instruments included in remeasurements comprise unrealised gains or losses recorded in the income statement which arise from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control. All unrealised amounts unwind to nil at maturity of the underlying instrument.

5.4 Fair value measurement

The financial instruments included in the statement of financial position are either measured at fair value or their carrying values approximate their fair value, with the exception of borrowings, which are held at amortised cost.

In determining fair value we use observable and unobservable inputs. We classify the inputs used in the valuation of our financial instruments according to the following three level hierarchy. The classification is based on the lowest level input that is significant to the fair value measurement as a whole.

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (as prices) or indirectly (derived from prices) observable
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For further details as to how valuation methodologies are applied in determining fair value refer to note 17.2(c) in the 2015 Annual Report.

Assumptions are based on market conditions existing at each reporting date. There have been no changes to valuation techniques used during the period.

NOTE 5. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

5.4 Fair value measurement (continued)

(a) Financial instruments measured at fair value

Table E categorises our financial instruments which are measured at fair value, according to the valuation methodology applied.

Table E	Telstra Group							
	As at							
	31 December 2015				30 June 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Investments in listed securities	11	-	-	11	24	-	-	24
Derivative financial instruments	-	2,085	-	2,085	-	1,797	-	1,797
Investments in unlisted securities	-	-	135	135	-	-	113	113
	11	2,085	135	2,231	24	1,797	113	1,934
Liabilities								
Derivative financial instruments	-	(949)	-	(949)	-	(1,125)	-	(1,125)
Contingent consideration	-	-	(22)	(22)	-	-	(24)	(24)
	-	(949)	(22)	(971)	-	(1,125)	(24)	(1,149)
Total	11	1,136	113	1,260	24	672	89	785

(i) Investments in unlisted securities

These securities are not listed on any stock exchange, and a quoted price in an active market is not available.

During the half-year ended 31 December 2015 we have not received any dividends from our investments in these equity instruments and there have been no transfers to or from equity in relation to these investments.

Table F details movements in the Level 3 unlisted security balances.

Table F	Unlisted securities
	Level 3
	$m
Opening balance 1 July 2015	113
Purchases	12
Retained interest in a former associated entity	8
Remeasurement recognised in other comprehensive income	49
Disposals	(47)
Closing balance 31 December 2015	135

The remeasurement recognised in other comprehensive income includes revaluation of Elemental Technologies Inc. ($21 million) and Elastica Inc. ($13 million). Both these entities have been sold during the period for $28 million and $19 million, respectively.

The retained interest in a former associated entity represents our former associated entity, which is now fair valued as we have lost significant influence and discontinued the equity accounting method.

(ii) Contingent consideration liabilities

Contingent consideration liabilities are included in the statement of financial position as trade and other payables.

(b) Borrowings

The fair value of total borrowings estimated using market values at 31 December 2015 was $18,747 million (June 2015: $16,975 million). The carrying value of total borrowings as per the statement of financial position is $17,388 million (June 2015: $15,634 million).

5.5 Financial risk factors

We use derivative financial instruments to manage our exposure to financial risks, including market risks (interest rate risk and foreign currency risk), credit risk and liquidity risk. The half-year financial report does not include all financial risk management information and disclosures required in the annual financial statements. For further details on our financial risk management refer to note 18 in the 2015 Annual Report. There have been no material changes to our risk management policies since 30 June 2015.

NOTE 6. CHANGES IN THE GROUP STRUCTURE

6.1 Acquisitions

There were no individually material acquisitions during the period ended 31 December 2015. These acquisitions have been summarised below.

In April 2015, we acquired 100 per cent shareholding in Pacnet Limited and its controlled entities (Pacnet Group) with the exception of Pacnet Service (USA) Inc. (Pacnet US). Acquisition of Pacnet US was subject to regulatory approval in the United States and was carved out of the Pacnet Group. On 2 July 2015, following the receipt of the US regulatory approval we completed the acquisition of Pacnet US for a total consideration of $2 million. This completed our acquisition of the Pacnet Group.

On 8 July 2015 and 30 September 2015, we acquired the businesses of Sesco (Security) Co Pty Ltd and Haste Control Services which provide electronic security and monitoring systems. These acquisitions will contribute to Telstra's Network Applications and Services' growth strategy.

On 31 July 2015, we acquired 100 per cent shareholding in Health IQ Pty Ltd (Health IQ). Health IQ provides integration solutions between disparate hospital information systems. This acquisition will contribute to Telstra Health's strategy to become Australia's leading provider of integrated eHealth solutions.

On 30 November 2015, we acquired the business of EOS Technologies Pty Ltd (EOS). EOS was part of the Silver Chain Group that provides aged, disabled and terminally ill people with personal health care services. This acquisition will contribute to Telstra Health's strategy to become Australia's leading provider of integrated eHealth solutions.

The effect of these acquisitions is detailed below:

	Telstra Group
	Half-year ended 31 December
	2015
	$m
Consideration for acquisition	
Cash consideration	8
Contingent consideration	4
Non-cash consideration	2
Total purchase consideration	14
Cash balances acquired	(2)
Non-cash consideration	(2)
Outflow of cash on acquisition	10
	Fair value
Assets/(liabilities) at acquisition date	
Cash and cash equivalents	2
Trade and other receivables	29
Current tax receivables	1
Property, plant and equipment	25
Intangible assets	4
Trade and other payables	(48)
Revenue received in advance	(2)
Other liabilities	(3)
Deferred tax liabilities	(1)
Net assets	7
Goodwill on acquisition	3
Total purchase consideration	10
Contribution to the Group's performance from the acquisition date	
Income	2
Profit before income tax	1

Cash consideration includes other completion adjustments related to prior period acquisitions. Contingent consideration includes payments for targets related to prior period acquisitions achieved by 30 June 2015.

The fair value of the trade and other receivables equalled the gross contractual amount which is expected to be collectible.

The goodwill comprises revenue growth opportunities, cost synergies, workforce talents and profitability of the acquired businesses. None of the goodwill recognised is expected to be deductible for income tax purposes.

If all the acquisitions made in the half-year had occurred on 1 July 2015, our adjusted continuing operations consolidated income and consolidated profit before income tax expense for the half-year ended 31 December 2015 for the Telstra Group would have been $14,196 million and $3,031 million, respectively.

NOTE 7. IMPAIRMENT

7.1 Impairment testing

We test goodwill and indefinite life intangibles for impairment when an indicator of impairment exists and at least on an annual basis. All other non-current tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. For our impairment testing we identify cash generating units (CGUs), i.e. the smallest groups of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets.

(a) Cash generating units with allocated goodwill

Consistent with 30 June 2015, we have used value in use and fair value less cost of disposal methods to perform our impairment testing. Our assumptions to estimate the recoverable amount using value in use 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 forecasts unless a longer period is justified. These forecasts are management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

The value in use calculations are sensitive to changes in discount rates and terminal growth rates. Since 30 June 2015, there have been no material changes to these assumptions as applied to each of the tested CGUs, except for Ooyala.

As at 31 December 2015, we treated the assets of Ooyala, Videoplaza and Nativ, which we acquired as part of our overall strategy to deliver an integrated video content offering, as a single CGU, with the combined goodwill of $514 million. The three businesses are now operating and managed as a single business, under Ooyala Holdings, with the assets of each (work force, IP, customer base, engineering) being used across all three to generate combined cash inflows.

The key assumptions used in determining the recoverable amount of the Ooyala Holdings Group CGU included a discount rate of 18.08 per cent (June 2015: n/a) and a terminal growth rate of 3.0 per cent (June 2015: n/a). Sensitivity analysis was undertaken to examine the effect of a change in a key assumption on this CGU. The discount rate would need to increase by 193 basis points (June 2015: n/a) or the terminal value growth rate would need to be a growth of negative 1.3 per cent (June 2015: n/a) before the recoverable amount of the CGU would be equal to its carrying value.

We have completed impairment testing of non-current assets, and as at 31 December 2015, the carrying value of these assets did not exceed their recoverable amounts determined for impairment testing purposes.

Sensitivity analysis was undertaken to examine the effect of a change in a key assumption on the other tested CGUs. The discount rate would need to increase by 200 basis points (June 2015: 210 basis points) or the terminal value growth rate would need to be a growth of 0.4 per cent (June 2015: 0.5 per cent) before the recoverable amount of any of the CGUs would be equal to the carrying value.

At 31 December 2015, the carrying amount of our goodwill was $1,709 million (June 2015:$1,652 million). The increase resulted from $54 million in foreign exchange rate fluctuations of goodwill allocated to the CGUs which operate in overseas locations and $3 million related to acquisitions and disposals.

(b) Our telecommunications network

Since 30 June 2015, we have determined that under the revised NBN Definitive Agreements (NBN DAs) our ubiquitous telecommunications network now also includes the Hybrid Fibre Coaxial (HFC) cable network, which used to be a separate CGU. This change resulted mainly from the fact that under the revised NBN DAs cash inflows generated by both networks can no longer be separated. No one item of telecommunications equipment is of any value without the other asset to which it is connected in order to achieve delivery of our products and services.

During the half-year ended 31 December 2015 we have assessed our telecommunications network CGU to identify indicators of impairment using both external and internal sources of information. This included consideration of the impact of the revised NBN DAs on our fixed asset base as disclosed under key accounting estimates, assumptions and judgements in note 1. No such indicators have been identified.

NOTE 8. CONTINGENT LIABILITIES, CONTINGENT ASSETS AND EXPENDITURE COMMITMENTS

8.1 Contingent liabilities and contingent assets

As at 31 December 2015 commitments of our joint venture Foxtel amounted to approximately $2,314 million (June 2015: $2,779 million), with our share equal to 50 per cent. The $465 million decrease resulted from a reduction in minimum subscriber guarantees, broadcasting and transponder commitments. The minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements.

Since 30 June 2015, there have been no significant changes to:

- contingent liabilities arising from common law claims
- indemnities, performance guarantees and financial support.

We have no significant contingent assets as at 31 December 2015.

8.2 Expenditure commitments

During the period, we have entered into agreements to purchase hardware, software, infrastructure and services over the period from 1 January 2016 to 31 December 2018. The associated capital commitment as at 31 December 2015 was $376 million.

NOTE 9. EVENTS AFTER REPORTING DATE

We are not aware of any matter or circumstance that has occurred since 31 December 2015 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:

9.1 Interim dividend

Refer to note 3 for the details of the interim dividend for the half-year ended 31 December 2015.

DIRECTORS' DECLARATION

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

(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 2015, as set out on pages 2 to 17 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

  (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 2015.

C B Livingstone

Catherine B Livingstone AO
Chairman

Andrew R Penn
Chief Executive Officer and
Managing Director

18 February 2016
Melbourne, Australia

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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 2015, 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 2015 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:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Ernst & Young

Ernst & Young

SJ Ferguson
Partner
Melbourne
18 February 2016