



16 February 2017

**Office of the Company Secretary**

The Manager

Market Announcements Office  
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Dear Sir or Madam

**ELECTRONIC LODGEMENT**

**Telstra Corporation Limited - Financial results for the half-year ended 31 December 2016**

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 2016.

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 2016 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 <https://www.telstra.com.au/aboutus/investors/financial-information/financial-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 2016**  
**Telstra Corporation Limited ABN 33 051 775 556**

**1. Results for announcement to the market**

Telstra Group	Half-year ended 31 December			
	2016	2015	Movement	
	\$m	\$m	\$m	%
<b>Revenue (excluding finance income)</b>				
- from continuing operations	12,806	13,289	(483)	(3.6)
- from discontinued operations <sup>1</sup>	-	392	(392)	(100.0)
<b>Revenue (excluding finance income) from ordinary activities</b>	<b>12,806</b>	<b>13,681</b>	<b>(875)</b>	<b>(6.4)</b>
Other income from continuing operations	897	513	384	74.9
<b>Total income from continuing and discontinued operations</b>	<b>13,703</b>	<b>14,194</b>	<b>(491)</b>	<b>(3.5)</b>
Finance income from continuing and discontinued operations	77	70	7	10.0
<b>Profit for the period attributable to equity holders of Telstra Entity</b>	<b>1,791</b>	<b>2,093</b>	<b>(302)</b>	<b>(14.4)</b>
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	1,791	2,093	(302)	(14.4)

<sup>1</sup> No operations have been discontinued during the half-year ended 31 December 2016. In the comparative period, the Autohome and Sensis groups have been classified as discontinued operations. The financial information in the comparative period has been restated to disclose Autohome Group as a discontinued operation following its disposal in the second half of the financial year 2016. Refer to note 5.2 to the half-year financial statements for further details.

**2. Dividend information**

Telstra Entity	Amount per share	Franked amount per share
	cents	cents
Interim dividend per share	15.5	15.5
<b>Interim dividend dates</b>		
Record date	2 March 2017	
Payment date	31 March 2017	

Refer to note 4.1 to the half-year financial statements and the half-year Directors' Report for other dividend-related disclosures.

**3. Net tangible assets per security information**

Telstra Group	As at 31 December	
	2016	2015
	cents	cents
Net tangible assets per security	45.4	39.6

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 2016 was 11,893 million shares (2015: 12,226 million).

The increase in net tangible assets per security from 31 December 2015 was mainly driven by the impacts of the sale of Autohome Group in June 2016 resulting in higher tangible assets and the impact of the share buy-backs completed in the half-year ended 31 December 2016. As part of our capital management program, we announced the completion of an off-market share buy-back of 282,167,516 ordinary shares and the completion of an on-market share buy-back of 50,190,465 ordinary shares. The shares bought back were subsequently cancelled. Refer to note 4.2 to the half-year financial statements for further details.

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

Telstra Group			% of equity held by ultimate parent	
			As at	
			31 Dec 2016	30 Jun 2016
Name of entity	Country of incorporation	Date of control obtained or lost	%	%
<b>Control obtained</b>				
Fusion Payments Pty Ltd	Australia	2 December 2016	100.0	-
Mercury Holdings Corporation Pty Ltd <sup>1</sup>	Australia	31 July 2016	100.0	-
Telstra Energy (Generation) Pty Ltd <sup>2</sup>	Australia	8 July 2016	100.0	-
<b>Control lost</b>				
Telstra Asia Holdings Limited <sup>3</sup>	British Virgin Islands	29 November 2016	-	100.0
Telstra Holdings (Bermuda) No 2 Limited <sup>3</sup>	Bermuda	21 November 2016	-	100.0
Cable Telecommunication Limited <sup>3</sup>	United Kingdom	1 November 2016	-	100.0
Telstra (Cable Telecom) Limited <sup>3</sup>	United Kingdom	1 November 2016	-	100.0
Telstra (CTE) Limited <sup>3</sup>	United Kingdom	1 November 2016	-	100.0
Telstra (PSINet) <sup>3</sup>	United Kingdom	1 November 2016	-	100.0

<sup>1</sup> We acquired Mercury Holdings Corporation Pty Ltd and its controlled entities.

<sup>2</sup> During the period, the entity was incorporated.

<sup>3</sup> During the period, these entities were liquidated.

A complete list of our controlled entities as at 30 June 2016 is available online at [www.telstra.com.au/aboutus/investors/financial-information/financial-results](http://www.telstra.com.au/aboutus/investors/financial-information/financial-results). Refer to note 5.1 to the half-year financial statements for further details on newly acquired controlled entities.

**5. Details of investments in joint ventures**

Telstra Group			Ownership interest	
			As at	
			31 Dec 2016	30 Jun 2016
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
<b>Joint ventures</b>				
Foxtel Partnership	Pay television	Australia	50.0	50.0
Foxtel Television Partnership	Pay television	Australia	50.0	50.0
Customer Services Pty Ltd	Customer service	Australia	50.0	50.0
Foxtel Management Pty Ltd	Management services	Australia	50.0	50.0
Foxtel Cable Television Pty Ltd	Pay television	Australia	80.0	80.0
Reach Limited <sup>1</sup>	International connectivity services	Bermuda	50.0	50.0
3GIS Pty Ltd	Management of former 3GIS Partnership (non-operating)	Australia	50.0	50.0
Health Engine Pty Ltd	Online healthcare booking	Australia	31.5	31.5
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	50.0	50.0

<sup>1</sup> Balance date is 31 December.

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**HALF-YEAR REPORT**  
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**6. Details of investments in associated entities**

<b>Telstra Group</b>			Ownership interest	
			As at	
			31 Dec 2016	30 Jun 2016
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
<b>Associated entities</b>				
Australia-Japan Cable Holdings Limited <sup>1</sup>	Network cable provider	Bermuda	46.9	46.9
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0
Mandoe Pty Ltd	Signage software provider	Australia	28.4	28.4
IPscape Pty Ltd	Cloud based call centre solution	Australia	25.0	25.0
Whispir Limited	Software as a solution provider	Australia	24.8	24.2
IP Health Pty Ltd	Software development	Australia	32.9	32.9
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	Australia	30.0	30.0
Near Pte Ltd <sup>2</sup>	Location intelligence and analytics	Singapore	12.5	13.2
Panviva Pty Ltd	Cloud based business process guidance software	Australia	22.4	22.5
Gorilla Technology Group Inc. <sup>1</sup>	Video analytics software provider	Taiwan/Cayman Islands	8.9	8.9
enepath (Group Holdings) Pte Ltd <sup>2</sup>	Voice software provider	Singapore	24.8	21.4
PharmX Pty Ltd	Internet based ordering gateway	Australia	30.0	30.0
Asia Netcom Philippines Corporation <sup>1</sup>	Data communication service provider	Philippines	40.0	40.0
Dacom Crossing Corporation <sup>1</sup>	Network cable provider	Korea	49.0	49.0
Digitel Crossing Inc. <sup>1</sup>	Telecommunication services	Philippines	40.0	40.0
Pivotal Labs Sydney Pty Ltd	Software development	Australia	20.0	20.0

<sup>1</sup> Balance date is 31 December.

<sup>2</sup> Balance date is 31 March.

**7. Dividend Reinvestment Plan**

The Board has determined that the Dividend Reinvestment Plan (DRP) will continue to operate for the interim dividend for the financial year 2017. The election date for participation in the DRP is 3 March 2017.

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 Board, the Directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited (Telstra) and the entities it controlled at the end of or during the half-year ended 31 December 2016.

Financial comparisons used in this report are of results for the half-year ended 31 December 2016 compared with the half-year ended 31 December 2015 for income statement analysis, and 31 December 2016 compared with 30 June 2016 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 9 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 2 March 2017, with payment to be made on 31 March 2017.

Our final dividend for the financial year ended 30 June 2016 of 15.5 cents per ordinary share (\$1,894 million) was paid during the half-year ended 31 December 2016. This dividend was fully franked at a tax rate of 30 per cent. The final dividend had a record date of 25 August 2016 and payment was made on 23 September 2016.

The Dividend Reinvestment Plan (DRP) continues to operate for the interim dividend for the financial year 2017. The election date for participation in the DRP is 3 March 2017.

## Directors

Directors who held office during the half-year ended 31 December 2016 and until the date of this report were:

Director	Period of directorships
John P Mullen	Chairman since 27 April 2016, Director since 2008
Andrew R Penn	Chief Executive Officer and Managing Director since 2015
Jane S Hemstritch	Director since 12 August 2016
Craig W Dunn	Director since 12 April 2016
Peter R Hearl	Director since 2014
Russell A Higgins	Director since 2009
Nora L Scheinkestel	Director since 2010
Margaret L Seale	Director since 2012
Steven M Vamos	Director since 2009
Trae A N Vassallo	Director since 2015
Chin Hu Lim	Director since 2013 until 11 October 2016

## Capital management

As part of our capital management program, on 3 October 2016 we announced the completion of an off-market share buy-back of 282,167,516 ordinary shares (or 2.31 per cent of our total shares on issue). The ordinary shares were bought back at a price of \$4.43 per share for an aggregate consideration of \$1.25 billion. This represented a 14 per cent discount to the Telstra market price of \$5.1482 (being the volume weighted average price of Telstra ordinary shares over the five trading days up to and including the closing date of 30 September 2016), and comprised a fully franked dividend component of \$2.65 per share (or \$748 million in total) and a capital component of \$1.78 per share (or \$502 million in total).

On 13 December 2016, we also announced the completion of an on-market share buy-back of 50,190,465 ordinary shares for total consideration of \$250 million.

The shares bought back were subsequently cancelled.


## Auditors' 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 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 (\$m), except where otherwise indicated.

This report is made on 16 February 2017 in accordance with a resolution of the Directors.



John P Mullen  
Chairman  
16 February 2017



Andrew R Penn  
Chief Executive Officer and Managing Director  
16 February 2017

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

As lead auditor for the audit of Telstra Corporation Limited for the half-year ended 31 December 2016, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



A Price  
Partner  
Melbourne  
16 February 2017

# Half-year results and operations review

## Reported results

Telstra has performed well in a highly competitive market, gaining subscriber numbers in mobiles, retail fixed plans and market share in nbn despite increased competition. We have a clear strategy to differentiate our products through the speed, coverage and reliability of our networks, innovative product design and new customer experiences, including access to media content. We are committed to improving the experience we provide our customers and as announced in August 2016, we are investing up to \$3 billion incremental capital expenditure in networks for the future and digitisation of the business. This investment will position us to deliver significant customer benefits, reinforce our market differentiation over the longer term, and deliver business benefits such as capital efficiency, reduced operating costs and increased revenue.

Regulatory decisions impacted reported first half 2017 income and EBITDA by \$400 million and \$38 million respectively for the Mobile Terminating Access Service (MTAS) and the fixed line services and domestic transmission capacity services Final Access Determinations (FAD). Excluding these impacts, higher total income was achieved through double digit growth in Network Applications and Services (NAS) and increased receipts from nbn co. Net profit after tax reduced to \$1.8 billion due to planned restructuring costs and increased amortisation associated with shorter asset life for business software.

First half income growth was impacted by lower hardware revenue. Given this, we expect that full year FY17 income growth will be at the bottom end of our mid to high-single digit range. In the second half of FY17, the MTAS impacts in the first half will drop out of the comparison in the second half so the full year effect will be smaller, and the nbn rollout is expected to accelerate in accordance with the nbn Corporate Plan.

In November 2016 we communicated to the market our intention to conduct a strategic review of our capital allocation strategy taking into consideration the long term business and financial profile of Telstra. The review is looking at all aspects of our capital management framework and also taking into account the specific nature of the payments associated with the nbn.

Since November we have been consulting with our stakeholders, which we will continue to do, as we investigate how we optimise the value from the nbn payments, longer term capex requirements post the rollout of the nbn, investment decisions including M&A criteria, and returns to shareholders including dividends, buybacks and other forms of returns. We remain committed to balance sheet settings consistent with an A band credit rating.

The capital allocation strategy review is ongoing and we will communicate further with the market in due course.

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

	1H17	1H16	Change
	\$m	\$m	%
<b>Summary financial results</b>			
Total revenue	12,806	13,289	(3.6)
Total income (excluding finance income)	13,703	13,802	(0.7)
Operating expenses	8,512	8,524	(0.1)
Share of net (loss) from joint ventures and associated entities	(2)	(5)	60.0
EBITDA	5,189	5,273	(1.6)
Depreciation and amortisation	2,248	2,031	10.7
EBIT	2,941	3,242	(9.3)
Net finance costs	283	347	(18.4)
Income tax expense	873	872	0.1
Profit for the period from continuing operations	1,785	2,023	(11.8)
Profit for the period from discontinued operations	-	112	n/m
Profit for the period from continuing and discontinued operations	1,785	2,135	(16.4)
Profit attributable to equity holders of Telstra	1,791	2,093	(14.4)
Capex <sup>1</sup>	2,050	2,073	(1.1)
Free cashflow from continuing operations	1,378	1,718	(19.8)
Free cashflow from discontinued operations	-	200	n/m
Free cashflow from continuing and discontinued operations	1,378	1,918	(28.2)
Earnings per share (cents)	14.8	17.2	(14.0)

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

Results on a guidance basis <sup>1</sup>	1H17	FY17 guidance
Total income growth <sup>2</sup>	-0.7%	Mid to high-single digit
EBITDA growth	1.7%	Low to mid-single digit
Capex/sales ratio	16.0%	~18%
Free cashflow	\$1.6b	\$3.5b - \$4.0b

1. This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout is in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excludes externally funded capex. Guidance excludes the Ooyala impairment in FY16 and restructuring costs in FY17 of \$300m to \$500m. Please refer to the guidance versus reported results reconciliation on page 9. This reconciliation has been reviewed by our auditors.

2. Total income excludes finance income.

Guidance versus reported results <sup>1</sup>	1H17	1H17	1H17
	Reported results \$m	Adjustments \$m	Guidance basis \$m
Total income <sup>2</sup>	13,703	-	13,703
EBITDA	5,189	172	5,361
Free cashflow	1,378	243	1,621

1. This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout is in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excludes externally funded capex. Guidance excludes the Ooyala impairment in FY16 and restructuring costs in FY17 of \$300m to \$500m. Please refer to the guidance versus reported results reconciliation. This reconciliation has been reviewed by our auditors.

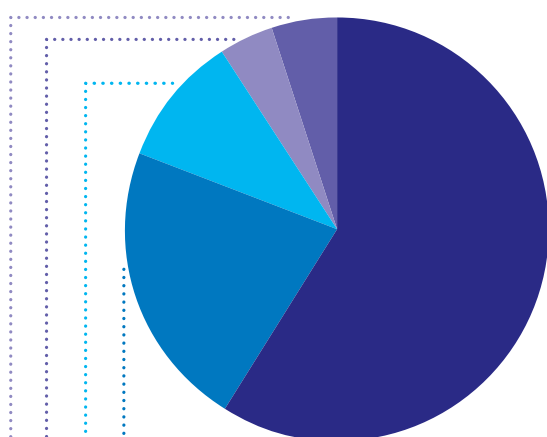
2. Excludes finance income.

On 16 February 2017, the Directors of Telstra resolved to pay a fully franked interim dividend of 15.5 cents per share. Shares will trade excluding entitlement to the dividends on 1 March 2017 with payment on 31 March 2017.

## Segment Performance

We report segment information on the same basis as our internal management reporting structure as at reporting date. Segment comparatives reflect organisational changes that have occurred since the prior reporting period to present a like-for-like view.

### Segment information from continuing operations



Total external income	1H17	1H16	Change
	\$m	\$m	%
Telstra Retail	8,175	8,657	(5.6)
Global Enterprise and Services	2,974	3,123	(4.8)
Telstra Wholesale	1,333	1,310	1.8
Telstra Operations	525	243	116.0
All Other	696	469	48.4
<b>Total Telstra segments</b>	<b>13,703</b>	<b>13,802</b>	<b>(0.7)</b>

59%	.....	● Telstra Retail
22%	.....	● Global Enterprise and Services
10%	.....	● Telstra Wholesale
4%	.....	● Telstra Operations
5%	.....	● All Other

#### 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 fell by 5.6 per cent to \$8,175 million. Excluding the impact of MTAS, income declined by 1.8 per cent.

Telstra Consumer income declined by 5.3 per cent with mobile services revenue decreasing by 10.0 per cent largely due to the impact of MTAS. Fixed voice continued

its ongoing decline, falling by 7.7 per cent. Excluding the impact of MTAS, Telstra Consumer income declined by 1.1 per cent.

Telstra Business income declined by 6.2 per cent with mobile services revenue falling by 11.2 per cent due to the impact of MTAS, international roaming, and competitive pricing. Network Applications and Services (NAS) business revenue continued to grow, increasing by 11.5 per cent, driven primarily by growth in cloud professional services. Excluding the impact of MTAS, Telstra Business income declined by 3.7 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 & 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.



Income for GES decreased by 4.8 per cent to \$2,974 million. GES domestic income declined by 6.1 per cent due to competitive pressures driving industry average revenue per user (ARPU) down in Mobility and Data & IP despite solid growth in connections. The prior corresponding period included receipts associated with significant delivery milestones. GES international income declined by 1.1 per cent, impacted by an appreciation in the Australian dollar compared to the prior corresponding period. Underlying (constant currency) comparative growth was delivered by positive growth in NAS and global connectivity.

#### Telstra Wholesale

Telstra Wholesale is responsible for the provision of a wide range of telecommunication products and services

delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers. Wholesale income grew by 1.8 per cent to \$1,333 million, largely due to an increase in NBN Infrastructure Services Agreement (ISA) receipts which have increased in line with the nbn rollout. Excluding the impact of MTAS and FAD, income grew by 6.0 per cent.

#### Telstra Operations

Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of other segments.

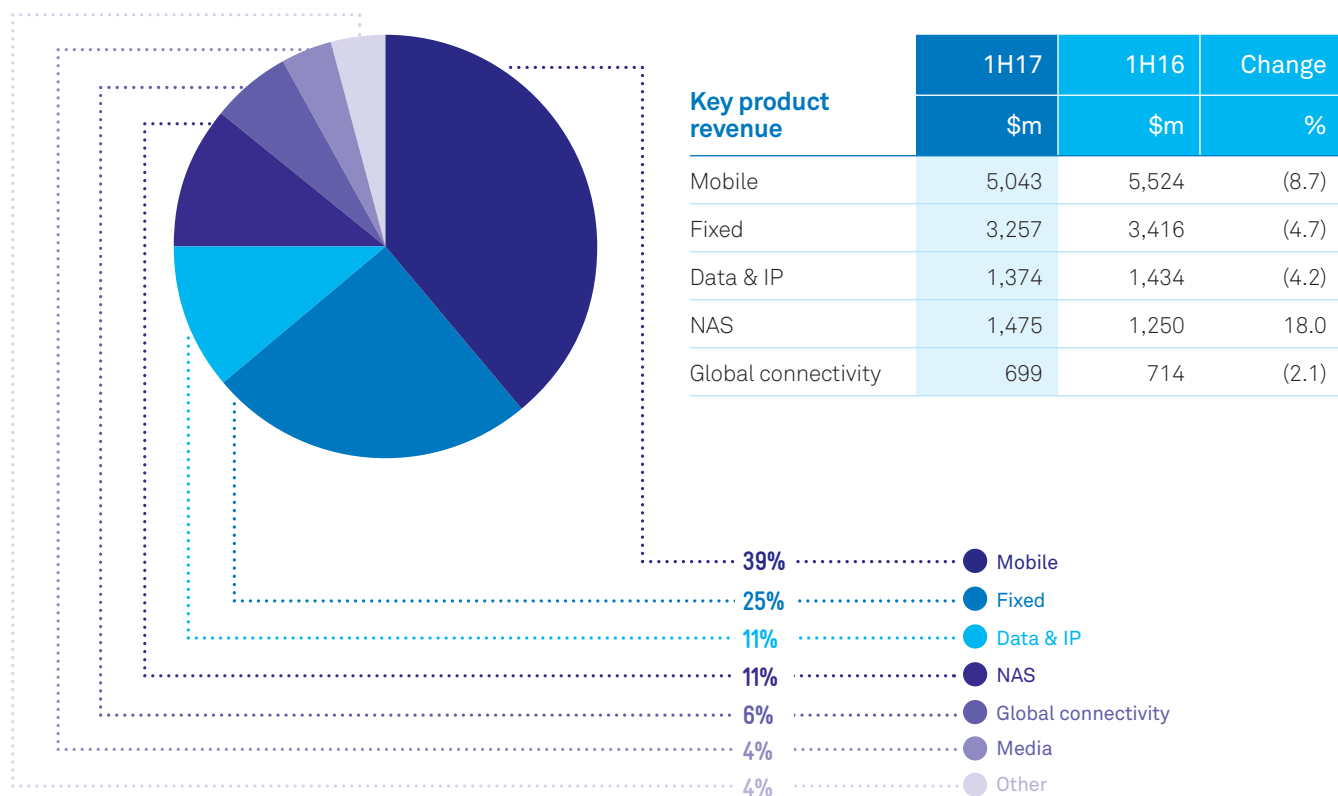
It is also a provider of certain network services to nbn co under the NBN Definitive Agreements (DA) and commercial contracts. Income grew to \$525 million, primarily due to an increase in nbn commercial works.

#### 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 Technology, Innovation and Strategy (including the Telstra Software Group), New Businesses (including Telstra Ventures and Telstra Health), and Media & Marketing. Income growth in this segment was largely due to increased nbn disconnection fees (Per Subscriber Address Amount (PSAA)) in line with the nbn rollout.

## Product performance

### Product sales revenue breakdown

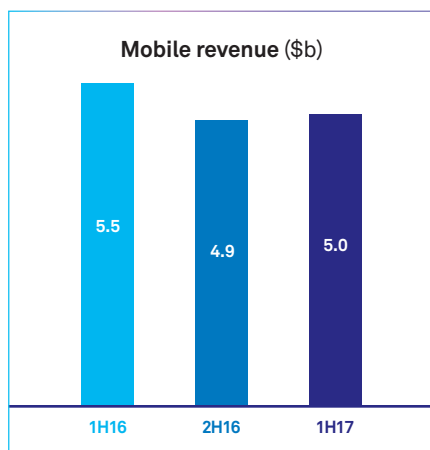


	1H17 %	1H16 %	FY16 %	2H16 %
<b>EBITDA margins<sup>1</sup></b>				
Mobile	41	39	42	46
Fixed voice <sup>2</sup>	50	54	51	49
Fixed data <sup>2</sup>	34	41	41	40
Data & IP	59	62	62	62
NAS	8	2	6	9
Global connectivity	20	18	18	19

1. The data in this table includes minor adjustments to historic numbers to reflect changes in product hierarchy.

2. Margins include nbn voice and data products.

## Mobile



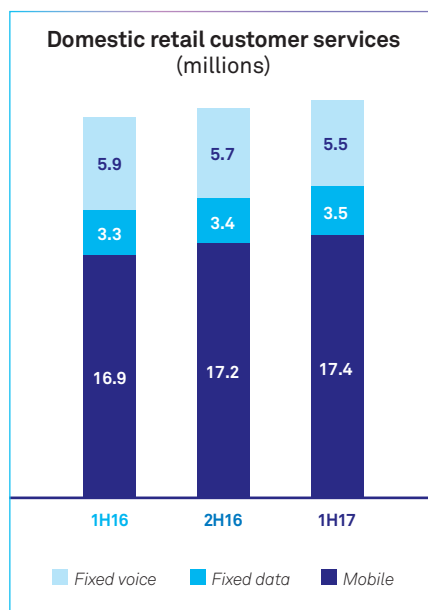
For the half-year ended 31 December 2016, mobile revenue decreased by 8.7 per cent to \$5,043 million. Excluding the impact of MTAS, mobile revenue decreased by 2.4 per cent. This largely reflects the decline in mobile broadband revenue, which fell 14.7 per cent to \$545 million due to a mix shift from old dongle plans to newer tablet plans at a lower ARPU, and increased sharing of data through mobile handsets. Mobile broadband customer services grew by 33,000 in the half, while ARPU declined by 16.6 per cent compared to the prior corresponding period, from \$27.38 to \$22.84. Mobile hardware revenue declined by 4.4 per cent to \$1,072 million due to lower volumes on new devices and a higher take up of bring your own (BYO) device plans compared to the prior corresponding period.

Over the next three years to the end of FY19, we have committed more than \$1.5 billion in additional investment in our networks to maintain our network leadership and quality of services, with the aim of delivering double the speeds of standard 4G to 87 per cent of the Australian population by the end of FY19. Our 4G network now covers 98 per cent of the population and we are working towards 99 per cent coverage. We continue to offer more data and exclusive content in our mobile plans to meet the needs of our customers.

Retail customer services increased by 200,000 in the half, bringing the total to 17.4 million. We now have 7.6 million postpaid handheld retail customer services, an increase of 79,000. Postpaid handheld revenue declined slightly by 0.9 per cent to \$2,681 million (but was marginally higher compared to the second half of FY16), as mobile subscriber growth was offset by an ARPU reduction of 2.6 per cent from \$69.03 to \$67.26 (excluding the impact of mobile repayment options). ARPU continues to be impacted by changes in mobile plan structure (unlimited calls, larger data allowances, lower cost of excess data) and a higher mix of BYO device plans, however minimum monthly commitments continue to rise.

Prepaid handheld revenue grew by 1.4 per cent to \$502 million in the half due to an increase in ARPU and an addition of 39,000 unique users. ARPU grew by 1.4 per cent to \$21.50 as a result of increased voice and data recharges.

Mobile EBITDA margin increased by 2 percentage points to 41 per cent compared to the prior corresponding period. Excluding the margin impact of MTAS, EBITDA margin growth was flat. EBITDA margin was 5 percentage points higher at 46 per cent in the second half of FY16 largely due to one-off roaming credits.



## Fixed

Our fixed portfolio offers broadband, 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, providing Wi-Fi access to thousands of Australians through over 750,000 hotspots nationally including over 4,700 public hotspots. There are more than 1.5 million customers activated to use Telstra Air, reflecting our customers' increasing appetite for data and a desire to access this data wherever they go.

Total fixed revenue declined by 4.7 per cent to \$3,257 million. Fixed voice revenue decreased by 9.4 per cent to \$1,606 million while fixed data revenue grew by 1.8 per cent to \$1,276 million. Retention activity has broadly maintained the rate of fixed voice decline. Retail fixed voice line loss was 161,000 in the half, taking total retail fixed voice customers to 5.5 million. Fixed voice ARPU decline was consistent with the prior period, decreasing by 4.8 per cent to \$38.71.

The increase in fixed data revenue was primarily due to 90,000 retail net subscriber additions, bringing the total retail fixed data subscriber number to 3.5 million. This was partly offset by lower ARPU which decreased by 2.7 per cent to \$50.20. The total number of customers taking up a

bundle has increased in the six months to 31 December 2016 by 124,000. There are now 2.8 million customers on a bundled plan, or 85 per cent of the retail fixed data customer base.

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. Our bundled products, including our "Hottest Entertainment Bundle" launched in October 2016, are performing well. We continue to lead the market with a total of 792,000 nbn connections, an increase of 292,000 in the half.

Other fixed revenue, which includes intercarrier services, payphones, customer premises equipment and narrowband, decreased by 3.8 per cent to \$375 million. Intercarrier access services revenue declined by 4.1 per cent which includes the impact of the ACCC Final Access Determination for Fixed Line Services.

Fixed voice and fixed data EBITDA margins declined compared to the prior corresponding period due to the upfront costs in connecting our nbn customers in addition to growing ongoing network payments to nbn co. Fixed voice EBITDA margin decreased by 4 percentage points, while fixed data EBITDA margin decreased by 7 percentage points. However, compared to the second half of FY16, fixed voice EBITDA margin increased by 1 percentage point due to reduced core fixed costs, partially offset by growing network payments to nbn co.

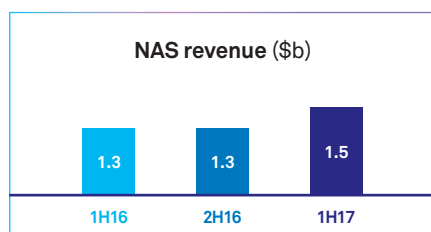
We continue to focus on reducing costs in our fixed product portfolio by developing digital platforms in sales and self-service functionality to establish online as the preferred point of contact for customers, and further automating and digitising the customer experience.

## Data & IP

Our Data & IP product and service offerings enable Telstra to deliver world class technology solutions for our customers. Data & IP revenue decreased by 4.2 per cent to \$1,374 million, which was largely due to increased competitive pressure and a decline in the domestic market. Within Data & IP, other data and calling products which include wholesale internet and data, and inbound calling products, decreased by 3.9 per cent to \$518 million. IP access declined by 1.0 per cent, reflecting decreasing yield from increased competition, offsetting growth in IP customer connections. The accelerated decline in ISDN revenue, down 10.6 per cent, was largely due to continued customer migration to IP access, NAS and nbn.

Data & IP EBITDA margin decreased by 3 percentage points to 59 per cent, impacted by lower yields due to competitive pricing pressure.

## Network Applications and Services (NAS)



NAS revenue grew by 18.0 per cent to \$1,475 million with double digit growth due to increased commercial works for nbn co. Industry solutions revenue growth of 56.1 per cent was driven by nbn commercial works, while cloud services growth of 41.4 per cent was facilitated by consulting professional services and key acquisitions. On a comparable basis, revenue growth across managed services, unified communications, and integrated services were lower as a result of the achievement of significant delivery milestones in the prior corresponding period.

NAS continued to deliver EBITDA margin improvement, up this half-year by 6 percentage points through operational leverage, scalable standardised offerings, and a lower cost global delivery model. Compared to the second half of FY16, EBITDA margin declined by 1 percentage point due to the timing of delivery milestones.

## Global connectivity

Global connectivity represents the international GES business, and has been separated from the domestic fixed, Data & IP and NAS businesses. On a reported AUD basis, global connectivity declined by 2.1 per cent to \$699 million, impacted by AUD appreciation from 1H16 to 1H17. The decline was primarily led by a 2.9 per cent decrease in Data & IP and a decline in fixed of 4.7 per cent. However, revenue grew by 2.6 per cent in local currency terms as customers continued to respond positively to the suite of products and services available as a result of the combination of the Pacnet network and the Telstra brand.

On a local currency basis, global connectivity EBITDA grew 16.4 per cent, while EBITDA margin improved by 2 percentage points compared to the prior corresponding period due to the continued delivery of synergies and the portfolio of available products and services.

## Media

Media is focused on delivering world class content experiences and leadership in technology that is simple and intuitive, adding value and differentiating Telstra's core products with Foxtel from Telstra, Telstra TV, BigPond Movies, and sport and music content subscriptions.

Media revenue including cable revenue increased by 9.7 per cent to \$522 million,

while media excluding cable increased by 12.7 per cent to \$471 million. Foxtel from Telstra grew 11.4 per cent to \$390 million, with 88,000 subscriber additions over the past year.

There are now 622,000 Telstra TV devices in the market, making it the fastest growing streaming device in Australia, helping to contribute to growth in other media revenue.

Our mobile media strategy helped deliver unique and exclusive content for our mobility customers. Mobile content subscribers and bundled customers increased across AFL, NRL and Apple Music, helping to drive further content usage across our core mobile products.

## Other

Other sales revenue and other income includes income related to nbn co access to our infrastructure, and revenue from Telstra Health and Telstra Software Group. Other income includes gains and losses on asset and investment sales (including assets transferred under the NBN DA), income from government grants under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), income from NBN disconnection fees (PSAA), subsidies and other miscellaneous items. The increase in other income of 74.9 per cent during the period was largely due to an increase in one-off PSAA and ISA receipts in line with the progress of the nbn rollout.

## Expense Performance

	1H17	1H16 <sup>1</sup>	Change	
	\$m	\$m	\$m	%
<b>Operating expenses</b>				
Core sales costs <sup>2</sup>	3,598	3,838	(240)	(6.3)
Core fixed costs	4,353	4,369	(16)	(0.4)
- Underlying	3,439	3,531	(92)	(2.6)
- NAS labour and corporate <sup>3</sup>	914	838	76	9.1
New business costs <sup>4</sup>	177	196	(19)	(9.7)
One-off NBN DA and nbn Cost to Connect	212	121	91	75.2
Guidance adjustments <sup>5</sup>	172	-	172	n/m
<b>Total Reported</b>	<b>8,512</b>	<b>8,524</b>	<b>(12)</b>	<b>(0.1)</b>

1. 1H16 reclassified to reflect Autohome being a discontinued operation.

2. Core sales costs excludes goods and services purchased associated with new business and nbn Cost to Connect (C2C).

3. NAS labour and corporate costs include significant transactions and events associated with NAS commercial works and labour, global connectivity costs, and corporate items.

4. New business includes Telstra Health, Telstra Software Group and Telstra Ventures.

5. Guidance adjustments mostly reflect a portion of restructuring costs in FY17 of \$300m to \$500m.

Total operating expenses were broadly flat, declining 0.1 per cent to \$8,512 million. A \$240 million or 6.3 per cent decline in core sales costs were the largest influence on operating expenses. Core sales costs are direct costs associated with revenue and customer growth. Underlying core fixed costs declined by \$92 million or 2.6 per cent.

	1H17	1H16	Change
Operating expenses	\$m	\$m	%
Labour	2,684	2,634	1.9
Goods and services purchased	3,693	3,897	(5.2)
Other expenses	2,135	1,993	7.1
Total operating expenses	8,512	8,524	(0.1)

### Labour

Total labour expenses increased by 1.9 per cent or \$50m to \$2,684 million. Total full time staff and equivalents (FTE) decreased by 1,088 to 32,551. The movement in FTE includes the acquisition of Kloud, Readify and MSC (495 FTE for 1H17). There was also a 443 FTE increase to support the nbn contract for HFC delivery (announced 11 April 2016). Offsetting these increases were reductions in FTE in the core business, in line with restructuring activity conducted throughout the half-year.

Salary and associated costs decreased by 2.4 per cent or \$47 million to \$1,891 million. A favourable bond rate movement of \$75 million for long service leave and worker's compensation contributed to the decrease. This was offset by new salary and associated costs for Kloud, Readify and MSC (\$33 million), and HFC delivery. Underlying reduction in FTE costs more than offset inflationary increases.

An increase in labour outsourcing of 7.2 per cent or \$32 million resulted in an increase of labour substitution costs.

Redundancy costs increased by 64.0 per cent or \$57 million as a result of an increased focus on accelerating restructuring activity relating to our productivity programs.

### Goods and services purchased

Goods and services purchased decreased by 5.2 per cent or \$204 million to \$3,693 million. Cost of goods sold (COGS) (which includes directly variable costs, including mobile handsets, tablets, dongles and broadband modems) decreased by 6.5 per cent or \$111 million to \$1,597 million impacted by lower mobile hardware sales.

Network payments decreased by 23.2 per cent or \$239 million to \$789 million including a \$351m decrease in carrier network payments largely a result of the MTAS impact on voice and SMS terminating charges and lower mobile roaming charges. These decreases were partially offset by a \$109 million increased nbn access payments as we move customers to the nbn.

### Other expenses

Total other expenses increased by 7.1 per cent or \$142 million to \$2,135 million as a result of increased costs for service contracts and other agreements.

Service contract and other agreement costs increased by \$117 million to \$874 million.

The increase in costs was largely driven by increased growth in our services business.

### Depreciation and Amortisation

Depreciation and Amortisation increased by 10.7 per cent to \$2,248 million due to ongoing investment in business software assets with shorter useful lives.

Depreciation will increase as a result of our incremental capital expenditure announced in August 2016 of up to \$3 billion over the next three years to the end of FY19.

### Foreign currency impacts

For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to Australian dollars decreased our expenses by \$50 million on the prior period across labour, goods and services purchased, and other expenses. This foreign exchange impact has been offset by a loss to sales revenue, resulting in a favourable EBITDA contribution of \$6 million.

### Net finance costs

Net finance costs decreased by 18.4 per cent or \$64 million to \$283 million primarily due to a reduction in finance costs of \$50 million and higher finance income from financial instruments of \$19 million.

The main movements included an increase in interest income from financial instruments of \$19 million from the prior year. This was driven by interest earned on cash and liquid investments due to holding higher average cash balances period on period resulting primarily from the receipt of Autohome sale proceeds in June 2016.

Gross borrowing costs (including finance leases) decreased by \$15 million from prior year primarily as a result of a reduction in our cost of borrowing. Our average borrowing costs on gross debt for the period was 5.4 per cent compared to 5.6 per cent in the prior period. This reflects the enduring benefit of refinancing debt at rates below our existing cost of funds, and a reduction in market rates impacting both our variable rate long-term debt and short-term debt. We will continue to see the favourable impact of refinancing as debt with higher cost of funds matures.

The reduction in finance costs includes a \$32 million favourable movement in remeasurements. These remeasurements represent (non-cash) unrealised gains and losses associated with our derivative financial instruments.

The adoption of AASB 9 (2013) has enabled us to significantly reduce volatility associated with market movements as a result of the deferral of hedging costs in equity and associated transition adjustments. Remeasurements can vary significantly period on period and are not considered part of underlying economic performance.

Capitalised interest is favourable by \$4 million compared to the prior period due to higher net work in progress (associated with our capital expenditure spend), partially offset by a lower capitalisation rate due to lower cost of borrowing.

## Financial Position

### Capital expenditure and cash flow

Net cash provided by operating activities declined by 14.0 per cent to \$3,162 million which included Autohome earnings in the prior corresponding period and restructuring costs in the six months to 31 December 2016. Our operating capital expenditure for the half was 16.0 per cent of sales revenue or \$2,050 million, however this will accelerate to approximately 18.0 per cent during the FY17-19 period as the up to \$3 billion of incremental capital expenditure is invested across the business. We are spending a significant proportion of our 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. We are also committed to investing in our networks for the future and digitisation to drive improvements in customer experience. This investment will position us to deliver significant customer benefits and reinforce our market differentiation over the longer term, as well as deliver business benefits such as capital efficiency, reduced operating costs and increased revenue.

Free cashflow generated from operating and investing activities was \$1,378 million, representing a decrease of \$540 million on the prior period. This was primarily due to the decline in net cash provided by operating activities as detailed above, while net cash used in investing activities remained broadly flat. On a guidance basis free cashflow was \$1,621 million. Guidance has been adjusted in the current period for free cashflow associated with restructuring costs (\$129 million), M&A activity (\$64 million), spectrum (\$27 million), and Autohome (\$23 million).

Summary Statement of Cash Flows	1H17	1H16	Change
	\$m	\$m	%
Net cash provided by operating activities	3,162	3,677	(14.0)
Total capital expenditure	(2,258)	(2,244)	(0.6)
Sale of shares in controlled entities (net of cash disposed)	-	6	n/m
Other investing cash flows	474	479	(1.0)
Net cash used in investing activities	(1,784)	(1,759)	(1.4)
Free cashflow	1,378	1,918	(28.2)
Net cash used in financing activities	(3,741)	(1,160)	n/m
Net increase/(decrease) in cash and cash equivalents	(2,363)	758	n/m
Cash and cash equivalents at the beginning of the year	3,550	1,396	154.3
Effects of exchange rate changes on cash and cash equivalents	1	11	(90.9)
Cash and cash equivalents at the end of the period	1,188	2,165	(45.1)

Financial settings	1H17 Actual	FY17 Comfort zone
Debt servicing <sup>1</sup>	1.4x	1.3 – 1.8x
Gearing <sup>2</sup>	50.4%	50% to 70%
Interest cover <sup>3</sup>	14.7x	>7x

1. Debt servicing ratio equals net debt to EBITDA.
2. Gearing ratio equals net debt to net debt plus total equity.
3. Interest cover equals EBITDA to net interest.

## Debt position

Our gross debt position at 31 December 2016 was \$16,011 million, comprising borrowings of \$17,210 million and net derivative assets of \$1,199 million. Gross debt has remained consistent with June 2016 (\$16,009 million) resulting from a \$574 million increase in debt as shown in the table below, offset by a \$572 million cash outflow on debt maturities and other non-cash adjustments.

Debt issuance	\$m
Net short term commercial paper issuance	550
Finance lease additions (non-cash)	24
<b>Total</b>	<b>574</b>

Debt maturities within the period included \$375 million of term debt and \$62 million of finance lease repayments. A further \$126 million is due to non-cash revaluations such as unrealised movements on our derivatives.

Net debt has increased by \$2,364 million to \$14,823 million primarily as a result of a decrease in cash and cash equivalents of \$2,362 million. This is driven by free cashflow of \$1,378 million and net non-cash movements impacting gross debt of \$102 million, being more than offset by financing outflows principally due to the \$1.5 billion share buybacks. At 31 December 2016, cash and cash equivalents were \$1,188 million.

Financial parameters remain at the conservative end of our comfort zones. Debt servicing (net debt/EBITDA) is at 1.4x and is within our comfort zone (June 2016: 1.2x).

Our gearing, measured as net debt as a proportion of total capital value, is 50.4 per cent (June 2016: 43.9 per cent). We also monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover was 14.7x (June 2016: 13.0x). During the 6-12 month period of the capital allocation strategy review, announced at Investor Day in November 2016, the current settings of our comfort zones will remain unchanged.



	1H17	FY16	Change
Summary Statement of Financial Position	\$m	\$m	%
Current assets	7,853	9,340	(15.9)
Non-current assets	33,901	33,946	(0.1)
Total assets	41,754	43,286	(3.5)
Current liabilities	10,023	9,188	9.1
Non-current liabilities	17,162	18,191	(5.7)
Total liabilities	27,185	27,379	(0.7)
Net assets	14,569	15,907	(8.4)
Total equity	14,569	15,907	(8.4)
Return on average assets (%)	14.8	16.2	(1.4)pp
Return on average equity (%)	23.6	25.7	(2.1)pp

### Statement of Financial Position

Our balance sheet remains in a strong position with net assets of \$14,569 million. Current assets decreased by 15.9 per cent to \$7,853 million largely as a result of the reduction in cash and cash equivalents of \$2,362 million used to fund debt maturities and the share buybacks. This was partly offset by trade and other receivables, which increased by \$470 million primarily due to an increase in trade debtors (including increased billings for NBN ISA), and a \$319 million increase in inventories, primarily driven by works relating to the nbn rollout.

Non-current assets decreased by 0.1 per cent to \$33,901 million. A decrease of \$302 million in derivative financial assets was driven by foreign currency movements and other valuation impacts arising from measuring to fair value. As our derivatives are used to hedge foreign currency and interest rate exposures, the movement in derivative position was largely offset by corresponding movements in borrowings and reserves (equity). This was partially offset by property, plant and equipment which increased by \$207 million, driven by investments made to upgrade our mobile networks.

Current liabilities increased by 9.1 per cent to \$10,023 million. Current borrowings increased by \$1,081 million primarily due to a reclassification of long-term debt due to mature within the next 12 months. Short-term commercial paper, which is held principally to support working capital and liquidity requirements, has also increased from June 2016. This was partially offset by a reduction in current tax payable of \$109 million largely due to an increase in PAYG tax instalments paid during the year.

Non-current liabilities decreased by 5.7 per cent to \$17,162 million. Non-current borrowings have decreased by \$1,173 million primarily as a result of the reclassification of debt due to mature within 12 months to current borrowings. Exchange rate movements also impact our offshore borrowings however as we hedge all foreign currency risk, this movement was fully offset by a decrease in our net derivative asset position.

## 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 assumed wholesale product price stability from the beginning of the financial year and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout is in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excluded externally funded capex. Guidance excluded the Ooyala impairment in FY16 and restructuring costs in FY17 of \$300m to \$500m.

	Reported continuing operations Half-year ended 31 December			Adjustments Dec-16							Guidance Basis Half-year ended 31 December		
	2016	2015	Growth	M&A Controlled Entities <sup>(1)</sup>	M&A JVs / Associates <sup>(1)</sup>	M&A Other Investments <sup>(1)</sup>	M&A Disposals <sup>(1)</sup>	Restructuring Costs <sup>(2)</sup>	Spectrum <sup>(3)</sup>	Autohome <sup>(4)</sup>	2016	2015	Growth
	\$m	\$m	%	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Sales revenue	12,787	13,235	(3.4%)	0	0	0	0	0	0	0	12,787	13,235	(3.4%)
Total revenue	12,806	13,289	(3.6%)	0	0	0	0	0	0	0	12,806	13,289	(3.6%)
Total income (excl. finance income)	13,703	13,802	(0.7%)	0	0	0	0	0	0	0	13,703	13,802	(0.7%)
Labour	2,684	2,634	1.9%	(3)	0	0	0	(94)	0	0	2,587	2,634	(1.8%)
Goods and services purchased	3,693	3,897	(5.2%)	(2)	0	0	0	0	0	0	3,691	3,897	(5.3%)
Other expenses	2,135	1,993	7.1%	(2)	0	0	0	(71)	0	0	2,062	1,993	3.5%
Operating expenses	8,512	8,524	(0.1%)	(7)	0	0	0	(165)	0	0	8,340	8,524	(2.2%)
Share of net profit/ (loss) from joint ventures and associated entities	(2)	(5)	60.0%	0	0	0	0	0	0	0	(2)	(5)	60.0%
EBITDA	5,189	5,273	(1.6%)	7	0	0	0	165	0	0	5,361	5,273	1.7%
Depreciation and amortisation	2,248	2,031	10.7%	(1)	0	0	0	0	0	0	2,247	2,031	10.6%
EBIT	2,941	3,242	(9.3%)	8	0	0	0	165	0	0	3,114	3,242	(3.9%)
Net finance costs	283	347	(18.4%)	0	0	0	0	0	0	0	283	347	(18.4%)
Profit before income tax expense	2,658	2,895	(8.2%)	8	0	0	0	165	0	0	2,831	2,895	(2.2%)
Income tax expense	873	872	0.1%	2	0	0	0	50	0	0	925	872	6.1%
Profit for the year from continuing operations	1,785	2,023	(11.8%)	6	0	0	0	115	0	0	1,906	2,023	(5.8%)
Profit/(loss) for the period from discontinued operations	-	112	n/m	0	0	0	0	0	0	0	-	112	n/m
Profit for the period from continuing and discontinued operations	1,785	2,135	(16.4%)	6	0	0	0	115	0	0	1,906	2,135	(10.7%)
Attributable to:													
Equity holders of Telstra Entity	1,791	2,093	(14.4%)	6	0	0	0	115	0	0	1,912	2,093	(8.6%)
Non controlling interests	(6)	42	(114.3%)	0	0	0	0	0	0	0	(6)	42	(114.3%)
Free cashflow	1,378	1,918	(28.2%)	51	5	9	(1)	129	27	23	1,621	1,918	(15.5%)

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:

(1) **Mergers & Acquisitions adjustments:**

Adjustments relating to acquisition of controlled entities and businesses. This includes the acquisition of Mercury Holdings Corporation Pty Ltd and its controlled entities, Fusion Payments Pty Ltd and the acquisition of the Cognevo business from the Wynyard Group. Joint Ventures/Associates includes additional equity injections in Near Pte Ltd, ProQuo Pty Ltd and enepath (Group Holdings) Pte Ltd. Other Investments include purchase of shares/additional shares in NSOne Inc, Attack IQ Inc, Headspin Inc and Monk's Hill Ventures Fund. During this period we disposed of our investment in Vonage Holdings Corporation.

(2) **Restructuring Costs adjustments:**

Adjustments for the strategic focus on accelerating restructure activity including Fitter and Faster programs (\$160m), in addition to our normal business as usual redundancies for the period. Adjustments for the strategic focus on the incremental capex spend announced at last financial full year results to promote sustainable network differentiation, support digitisation, productivity and boost customer experience (\$5m).

(3) **Spectrum adjustments:**

Adjustments relating to the impact on Free Cashflow associated with our Spectrum purchases and renewals for the period (\$27m for Spectrum licences in the PTS 900 MHz/PMTS Class B (935-960 MHz)).

(4) **Autohome adjustments:**

Autohome Group was disposed on 23 June 2016 and classified as a discontinued operation in the second half of financial year 2016. There has been \$23m net cash used in the operating activities during the current period to settle accrued transaction costs related to the Autohome disposal.

# Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

## Financial report

for the half-year ended 31 December 2016



### About this report

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

Our half-year financial report (the Report) does not include all of the information required for the full financial report. It should be read in conjunction with our 2016 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.

We have restructured the Report to align it with the streamlined format of the financial report in our 2016 Annual Report and provide users with financial information that is more understandable and better structured to explain our financial performance and financial position. As a result, certain immaterial disclosures have been removed and some items have been rearranged.

### Reading the financials

#### Section introduction

Introduction at the start of each section outlines the focus of the section and explains the purpose and content of that section.

#### Note and topic summary

A summary at the start of certain notes explains the objectives and content of that note, or at the start of certain specific topics clarifies complex concepts, with which users may not be familiar.

#### Information panel

The information panel describes our key accounting estimates and judgements applied in the preparation of the financial report, which are relevant to that section or note.

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# Income Statement

For the half-year ended 31 December 2016

Telstra Group	Note	Half-year ended 31 December	
		2016	2015
		\$m	\$m
<b>Continuing operations</b>			
<b>Income</b>			
Revenue (excluding finance income)	2.2	12,806	13,289
Other income	2.2	897	513
		<b>13,703</b>	<b>13,802</b>
<b>Expenses</b>			
Labour		2,684	2,634
Goods and services purchased		3,693	3,897
Other expenses		2,135	1,993
		<b>8,512</b>	<b>8,524</b>
Share of net (loss) from joint ventures and associated entities		(2)	(5)
		<b>8,514</b>	<b>8,529</b>
<b>Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)</b>		<b>5,189</b>	<b>5,273</b>
Depreciation and amortisation		2,248	2,031
<b>Earnings before interest and income tax expense (EBIT)</b>		<b>2,941</b>	<b>3,242</b>
Finance income		77	63
Finance costs		360	410
<b>Net finance costs</b>	4.3	<b>283</b>	<b>347</b>
<b>Profit before income tax expense</b>		<b>2,658</b>	<b>2,895</b>
Income tax expense		873	872
<b>Profit for the period from continuing operations</b>		<b>1,785</b>	<b>2,023</b>
<b>Discontinued operations</b>			
Profit for the period from discontinued operations		-	112
<b>Profit for the period from continuing and discontinued operations</b>		<b>1,785</b>	<b>2,135</b>
<b>Profit/(loss) attributable to</b>			
Equity holders of Telstra Entity		1,791	2,093
Non-controlling interests		(6)	42
		<b>1,785</b>	<b>2,135</b>
<b>Earnings per share from continuing operations (cents per share)</b>		<b>cents</b>	<b>cents</b>
Basic		14.8	16.6
Diluted		14.8	16.6
<b>Earnings per share (cents per share)</b>			
Basic		14.8	17.2
Diluted		14.8	17.1

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

# Statement of Comprehensive Income

For the half-year ended 31 December 2016

Telstra Group	Half-year ended 31 December	
	2016	2015
	\$m	\$m
<b>Profit/(loss) for the period from continuing and discontinued operations attributable to</b>		
- equity holders of Telstra Entity	1,791	2,093
- non-controlling interests	(6)	42
	<b>1,785</b>	<b>2,135</b>
<b>Items that will not be reclassified to the income statement</b>		
<b>Retained profits</b>		
- actuarial gain/(loss) on defined benefit plans attributable to equity holders of Telstra Entity	190	(94)
- income tax on actuarial gain/(loss) on defined benefit plans	(57)	28
<b>Fair value of equity instruments reserve</b>		
- gains from investments in equity instruments designated at fair value through other comprehensive income	64	45
- income tax on gains from investments in equity instruments	-	(5)
<b>Foreign currency translation reserve</b>		
- translation differences of foreign operations attributable to non-controlling interests	(3)	7
	<b>194</b>	<b>(19)</b>
<b>Items that may be subsequently reclassified to the income statement</b>		
<b>Foreign currency translation reserve</b>		
- translation differences of foreign operations attributable to equity holders of Telstra Entity	25	101
- share of foreign currency translation reserve of equity accounted entities	1	-
<b>Cash flow hedging reserve</b>		
- movements in cash flow hedging reserve	50	39
- income tax on movements in the cash flow hedging reserve	(15)	(12)
<b>Foreign currency basis spread reserve</b>		
- changes in the value of the foreign currency basis spread	26	(40)
- income tax on movements in the foreign currency basis spread reserve	(9)	12
	<b>78</b>	<b>100</b>
<b>Total other comprehensive income</b>	<b>272</b>	<b>81</b>
<b>Total comprehensive income for the period</b>	<b>2,057</b>	<b>2,216</b>
<b>Total comprehensive income attributable to equity holders of Telstra Entity from</b>		
- continuing operations	2,066	2,094
- discontinued operations	-	73
	<b>2,066</b>	<b>2,167</b>
<b>Total comprehensive income attributable to non-controlling interests</b>	<b>(9)</b>	<b>49</b>

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

# Statement of Financial Position

As at 31 December 2016

Telstra Group	Note	As at	
		31 Dec 2016	30 Jun 2016
		\$m	\$m
<b>Current assets</b>			
Cash and cash equivalents		1,188	3,550
Trade and other receivables		5,207	4,737
Inventories		876	557
Derivative financial assets		93	62
Current tax receivables		4	8
Prepayments		485	426
<b>Total current assets</b>		<b>7,853</b>	<b>9,340</b>
<b>Non-current assets</b>			
Trade and other receivables		1,184	1,293
Inventories		29	29
Investments – accounted for using the equity method		165	171
Investments – other		466	394
Property, plant and equipment		20,788	20,581
Intangible assets		9,143	9,229
Derivative financial assets		1,878	2,180
Deferred tax assets		45	54
Defined benefit assets		203	15
<b>Total non-current assets</b>		<b>33,901</b>	<b>33,946</b>
<b>Total assets</b>		<b>41,754</b>	<b>43,286</b>
<b>Current liabilities</b>			
Trade and other payables		3,855	3,948
Employee benefits		861	913
Other provisions		100	92
Borrowings		3,736	2,655
Derivative financial liabilities		254	286
Current tax payables		67	176
Revenue received in advance		1,150	1,118
<b>Total current liabilities</b>		<b>10,023</b>	<b>9,188</b>
<b>Non-current liabilities</b>			
Other payables		67	66
Employee benefits		157	169
Other provisions		128	127
Borrowings		13,474	14,647
Derivative financial liabilities		518	663
Deferred tax liabilities		1,662	1,493
Defined benefit liability		4	4
Revenue received in advance		1,152	1,022
<b>Total non-current liabilities</b>		<b>17,162</b>	<b>18,191</b>
<b>Total liabilities</b>		<b>27,185</b>	<b>27,379</b>
<b>Net assets</b>		<b>14,569</b>	<b>15,907</b>
<b>Equity</b>			
Share capital	4.2	4,413	5,167
Reserves	4.2	204	62
Retained profits		9,924	10,642
<b>Equity available to Telstra Entity shareholders</b>		<b>14,541</b>	<b>15,871</b>
Non-controlling interests		28	36
<b>Total equity</b>		<b>14,569</b>	<b>15,907</b>

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

# Statement of Cash Flows

For the half-year ended 31 December 2016

Telstra Group	Note	Half-year ended 31 December	
		2016	2015
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax (GST))		15,039	15,642
Payments to suppliers and employees (inclusive of GST)		(11,173)	(11,128)
Government grants received		178	152
<b>Net cash generated by operations</b>		<b>4,044</b>	<b>4,666</b>
Income taxes paid		(882)	(989)
<b>Net cash provided by operating activities</b>		<b>3,162</b>	<b>3,677</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,672)	(1,606)
Payments for intangible assets		(528)	(589)
<b>Capital expenditure (before investments)</b>		<b>(2,200)</b>	<b>(2,195)</b>
Payments for businesses and shares in controlled entities (net of cash acquired)		(44)	(10)
Payments for joint ventures and associated entities		(5)	(27)
Payments for other investments		(9)	(12)
<b>Total capital expenditure (including investments)</b>		<b>(2,258)</b>	<b>(2,244)</b>
Proceeds from sale of property, plant and equipment		365	257
Proceeds from sale of shares in controlled entities (net of cash disposed)		-	6
Proceeds from sale of other investments		1	52
Distributions received from joint ventures and associated entities		10	81
Interest received		55	38
Other		43	51
<b>Net cash used in investing activities</b>		<b>(1,784)</b>	<b>(1,759)</b>
<b>Operating cash flows less investing cash flows</b>		<b>1,378</b>	<b>1,918</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,392	3,009
Repayment of borrowings		(1,226)	(1,782)
Repayment of finance lease principal amounts		(62)	(7)
Share buy-back		(1,502)	-
Purchase of shares for employee share plans		(22)	(68)
Finance costs paid		(429)	(420)
Dividends paid to equity holders of Telstra Entity	4.1	(1,894)	(1,893)
Other		2	1
<b>Net cash used in financing activities</b>		<b>(3,741)</b>	<b>(1,160)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,363)</b>	<b>758</b>
Cash and cash equivalents at the beginning of the period		3,550	1,396
Effects of exchange rate changes on cash and cash equivalents		1	11
Cash and cash equivalents at the end of the period	2.3	<b>1,188</b>	<b>2,165</b>

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

# Statement of Changes in Equity

For the half-year ended 31 December 2016

Telstra Group	Share capital	Reserves	Retained profits	Total	Non-controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2016</b>	<b>5,167</b>	<b>62</b>	<b>10,642</b>	<b>15,871</b>	<b>36</b>	<b>15,907</b>
Profit/(loss) for the period	-	-	1,791	<b>1,791</b>	(6)	<b>1,785</b>
Other comprehensive income	-	142	133	<b>275</b>	(3)	<b>272</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>142</b>	<b>1,924</b>	<b>2,066</b>	<b>(9)</b>	<b>2,057</b>
Dividends	-	-	(1,894)	<b>(1,894)</b>	(1)	<b>(1,895)</b>
Share buy-back (net of income tax)	(754)	-	(748)	<b>(1,502)</b>	-	<b>(1,502)</b>
Transactions with non-controlling interests	-	-	-	-	1	<b>1</b>
Amounts repaid on share loans provided to employees	1	-	-	<b>1</b>	-	<b>1</b>
Additional shares purchased	(22)	-	-	<b>(22)</b>	-	<b>(22)</b>
Share-based payments	21	-	-	<b>21</b>	1	<b>22</b>
<b>Balance at 31 December 2016</b>	<b>4,413</b>	<b>204</b>	<b>9,924</b>	<b>14,541</b>	<b>28</b>	<b>14,569</b>
<b>Balance at 1 July 2015</b>	<b>5,198</b>	<b>372</b>	<b>8,533</b>	<b>14,103</b>	<b>407</b>	<b>14,510</b>
Profit for the period	-	-	2,093	<b>2,093</b>	42	<b>2,135</b>
Other comprehensive income	-	140	(66)	<b>74</b>	7	<b>81</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>140</b>	<b>2,027</b>	<b>2,167</b>	<b>49</b>	<b>2,216</b>
Dividends	-	-	(1,893)	<b>(1,893)</b>	(1)	<b>(1,894)</b>
Transactions with non-controlling interests	-	17	-	<b>17</b>	(13)	<b>4</b>
Amounts repaid on share loans provided to employees	1	-	-	<b>1</b>	-	<b>1</b>
Additional shares purchased	(68)	-	-	<b>(68)</b>	-	<b>(68)</b>
Share-based payments	28	-	-	<b>28</b>	23	<b>51</b>
<b>Balance at 31 December 2015</b>	<b>5,159</b>	<b>529</b>	<b>8,667</b>	<b>14,355</b>	<b>465</b>	<b>14,820</b>

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

## Section 1. Basis of preparation

This section explains the basis of preparation of our half-year financial report and provides an update on some of our key accounting estimates and judgements to reflect latest information available.



### 1.1 Basis of preparation of the half-year financial report

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 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) Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191.

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

Except as disclosed in note 6.1, the same accounting policies including the principles of consolidation have been applied by each entity in the consolidated group and are consistent with those adopted and disclosed in our 2016 Annual Report.

The income statement in the comparative period has been restated to disclose Autohome Group as a discontinued operation following its disposal in the second half of the financial year 2016.

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

### 1.2 Key accounting estimates and judgements

Preparing our half-year financial report requires management to make estimates and judgements. In preparing this report, the key sources of estimation uncertainty were consistent with those applied in the 2016 Annual Report.

Some of the critical judgements and estimates used by management in applying the Group's accounting policies for the period ending 31 December 2016 have been updated to reflect latest information available. They can be located in the following notes:

Key accounting estimates and judgements	Note	Page
Impact of NBN Infrastructure Services Agreement (ISA) on our sales revenue and other income	2.2	11
Useful lives and residual values	3.1	12
Impact of NBN Infrastructure Services Agreement (ISA) on our fixed assets base	3.1	13

### 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 primarily uses EBITDA and earnings before interest and income tax expense (EBIT), in combination with other financial measures, 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 widely recognised measure of operating performance.

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

## Section 2. Our performance

This section explains our results and performance and includes our segment results, which are reported on the same basis as our internal management reporting structure.



### 2.1 Segment information

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. We present our reportable segments and measure our segment results on continuing operations basis, i.e. the same basis as our internal management reporting structure.

Our operating segments represent the business units which offer our main products and services in the market, however only some of our operating segments meet the disclosure criteria for reportable segments.

#### 2.1.1 Operating segments

We report segment information on the same basis as our internal management reporting structure at the reporting date. Segment comparatives reflect any organisational changes that have occurred since the prior reporting period to present a like-for-like view.

There have been no changes to our operating segments since 30 June 2016, other than International & New Business changed its name to New Businesses.

We have four reportable segments:

- Telstra Retail (TR)
- Global Enterprise and Services (GES)
- Telstra Operations (TOps)
- Telstra Wholesale (TW).

The 'All Other' category includes business units that do not qualify as operating segments in their own right and the results of the New Businesses, Media & Marketing and Technology Innovation & Strategy operating segments which do not meet the disclosure requirements of a reportable segment. A detailed description of our reportable segments is included in note 2.1.1 to the financial statements in our 2016 Annual Report.

#### 2.1.2 Segment results

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution. EBITDA contribution excludes the effects of all inter-segment balances and transactions, with the exception of transactions referred to under the segment results and reconciliation of EBITDA 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 2.1.1 to the financial statements in our 2016 Annual Report.

## Section 2. Our performance (continued)

### 2.1 Segment information (continued)

#### 2.1.2 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 2016.

Segment comparatives have been restated to exclude \$392 million of total revenue and \$137 million of EBITDA contribution from the discontinued operation of the Autohome group. The results of discontinued operations of the Autohome and Sensis groups constituted a reconciling item between segment results (i.e. EBITDA contribution) and Telstra Group's reported profit before income tax expense.

There were no discontinued operations in the current reporting period.

Telstra Group	TR	GES	TOps	TW	All Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Half-year ended 31 December 2016						
<b>Continuing operations</b>						
Revenue from external customers	8,135	2,964	369	1,193	145	<b>12,806</b>
Other income	40	10	156	140	551	<b>897</b>
<b>Total income from continuing operations</b>	<b>8,175</b>	<b>2,974</b>	<b>525</b>	<b>1,333</b>	<b>696</b>	<b>13,703</b>
Share of net (loss) from joint ventures and associated entities	-	-	-	-	(2)	<b>(2)</b>
<b>EBITDA contribution</b>	<b>4,415</b>	<b>1,120</b>	<b>(1,316)</b>	<b>1,228</b>	<b>(258)</b>	<b>5,189</b>
Depreciation and amortisation						(2,248)
<b>Telstra Group EBIT from continuing operations</b>						<b>2,941</b>
Net finance costs						(283)
<b>Profit before income tax expense from continuing operations</b>						<b>2,658</b>
Profit before income tax expense from discontinued operations						-
<b>Telstra Group profit before income tax expense</b>						<b>2,658</b>
Half-year ended 31 December 2015						
<b>Continuing operations</b>						
Revenue from external customers	8,622	3,116	142	1,218	191	<b>13,289</b>
Other income	35	7	101	92	278	<b>513</b>
<b>Total income from continuing operations</b>	<b>8,657</b>	<b>3,123</b>	<b>243</b>	<b>1,310</b>	<b>469</b>	<b>13,802</b>
Share of net (loss) from joint ventures and associated entities	-	-	-	-	(5)	<b>(5)</b>
<b>EBITDA contribution</b>	<b>4,717</b>	<b>1,207</b>	<b>(1,399)</b>	<b>1,210</b>	<b>(462)</b>	<b>5,273</b>
Depreciation and amortisation						(2,031)
<b>Telstra Group EBIT from continuing operations</b>						<b>3,242</b>
Net finance costs						(347)
<b>Profit before income tax expense from continuing operations</b>						<b>2,895</b>
Profit before income tax expense from discontinued operations						145
<b>Telstra Group profit before income tax expense</b>						<b>3,040</b>

The effects of the following inter-segment transactions have not been excluded from segment EBITDA contribution:

- revenue from external customers in the GES segment includes \$103 million (2015: \$105 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 \$7 million (2015: \$11 million) of inter-segment expenses treated as external revenue in TW and eliminated in the 'All Other' category.



## Section 2. Our performance (continued)

## 2.2 Income

Telstra Group	Note	Half-year ended 31 December	
		2016	2015
		\$m	\$m
<b>Continuing operations</b>			
<b>Sales revenue</b>			
Rendering of services		11,030	11,608
Sale of goods		1,291	1,402
Construction contracts		466	225
		<b>12,787</b>	<b>13,235</b>
Other revenue (excluding finance income)		19	54
<b>Total revenue (excluding finance income)</b>		<b>12,806</b>	<b>13,289</b>
<b>Other income</b>			
Net gain on disposal of property, plant and equipment and intangibles		235	120
Government grants		97	123
NBN disconnection fees		535	231
Other miscellaneous income		30	39
		<b>897</b>	<b>513</b>
<b>Total income (excluding finance income)</b>		<b>13,703</b>	<b>13,802</b>
Finance income		77	63
<b>Total income from continuing operations</b>		<b>13,780</b>	<b>13,865</b>
Total income from discontinued operations (excluding finance income)	5.2	-	392
Finance income	5.2	-	7
<b>Total income from discontinued operations</b>		<b>-</b>	<b>399</b>

Government grants include income under the Telstra Universal Service Obligation Performance Agreement (TUSOPA) and other individually immaterial contracts accounted for as government grants. There are no unfulfilled conditions or other contingencies attached to these grants.

## Section 2. Our performance (continued)

### 2.2 Income (continued)

#### 2.2.1 Recognition and measurement

#### Impact of NBN Infrastructure Services Agreement (ISA) on our sales revenue and other income

nbn co makes decisions about the access technologies (e.g. fibre to the premises 'FTTP', fibre to the basement 'FTTB', fibre to the node 'FTTN' or Hybrid Fibre Coaxial '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 NBN Infrastructure Services Agreement (ISA). These assets include lead-in conduits (LICs), certain copper and HFC assets and associated passive infrastructure (being infrastructure that supports the relevant copper and HFC assets). In addition to the progressive transfer of these assets, we also provide nbn co with a long-term access to certain other components of our infrastructure.

Under the ISA, we receive from nbn co the following payments:

- Infrastructure Ownership Payments (IOPs) for the transfer of LICs, certain copper and HFC assets and associated passive infrastructure
- Infrastructure Access Payments (IAPs) for long-term access to ducts and pits
- payments for long-term access to other infrastructure, including dark fibre and exchange rack space.

IOPs are received over the duration of the nbn™ network rollout, CPI adjusted and linked to the progress of the nbn™ network rollout progress.

IAPs are also indexed to CPI, will grow in line with the nbn™ network rollout until its completion and subsequently continue for the remaining contracted period. IAPs will be recognised over an average 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™ network footprint.

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 progress of the nbn™ network rollout and the final number of our existing fixed line premises as defined and determined under the ISA. A change in the nbn™ network rollout progress and/or the final number of these premises could result in a material change to the amount of IOPs and IAPs recognised in the income statement.

We have applied management judgement in determining our best estimate of the amounts of IOPs and IAPs recognised for the half-year ended 31 December 2016. The changes in these estimates in the current period had no material impact on the amounts recognised in the income statement.

Should evidence exist in future reporting periods that changes these best estimates, other income and sales revenue will be adjusted in future reporting periods.

### 2.3 Notes to the statement of cash flows

#### 2.3.1 Cash and cash equivalents

Telstra Group	As at 31 December	
	2016	2015
	\$m	\$m
Cash at bank and on hand	242	637
Bank deposits and negotiable certificates of deposit	946	1,534
	<b>1,188</b>	<b>2,171</b>
Bank overdraft	-	(6)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>1,188</b>	<b>2,165</b>

## Section 3. Our core assets and working capital

This section provides an update of any changes in cash generating units and the impairment assessment for our core long-term tangible and intangible assets that underpin the Group's performance.

### 3.1 Property, plant and equipment, goodwill and other intangible assets

Our impairment assessment compares the carrying value of our cash generating units (CGUs) with their recoverable amounts. The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. The value in use calculations use key assumptions such as cash flow forecasts, discount rates and terminal growth rates.

Goodwill and intangible assets with indefinite useful lives are not subject to amortisation and are assessed for impairment at least on an annual basis, or whenever an indicator of impairment exists. 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 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.

#### 3.1.1 Cash generating units with allocated goodwill

During the half-year ended 31 December 2016, there have been no changes to our CGUs with allocated goodwill. We have assessed our CGUs to identify indicators of impairment, using both external and internal sources of information, and having considered any such indicators have concluded that no impairment charge is required.

We have used the value in use method to perform our impairment testing and estimate the recoverable amount of each asset or CGU. Our assumptions have been based on past experience and our expectations for the future, with cash flow projections based on a maximum five-year management-approved forecast (unless a longer period was justified). The forecast used 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 2016, there have been no material changes to these assumptions as applied to each of the tested CGUs.

At 31 December 2016, the recoverable amount of the Ooyala Holdings Group CGU approximates its carrying amount.

In relation to the other CGUs we applied sensitivity analysis to examine the effect of a change in a key assumption. The discount rate would need to increase by 240 basis points (June 2016: 100 basis points) or the terminal value growth rate would need to decrease by 370 basis points (June 2016: 280 basis points) before the recoverable amount of any of these CGUs would equal its carrying value.

#### 3.1.2 Our telecommunications network

Consistent with 30 June 2016, we have determined that under the revised NBN Definitive Agreements our ubiquitous networks also includes the Hybrid Fibre Coaxial (HFC) cable network. 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 2016, we have assessed our telecommunications network CGU to identify indicators of impairment, using both external and internal sources of information. No such indicators have been identified.

#### 3.1.3 Depreciation and amortisation

##### Useful lives and residual values

We apply management judgement to estimate useful lives and residual values of our property, plant and equipment and identifiable intangible assets and review them each year. If useful lives or residual values need to be modified, the depreciation and amortisation expense changes from the date of the 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 2016, the net effect of the assessment of useful lives was a \$15 million decrease (2015: \$46 million) in depreciation expense and a \$37 million increase (2015: \$20 million decrease) in amortisation expense.

## Section 3. Our core assets and working capital (continued)

### 3.1 Property, plant and equipment, goodwill and other intangible assets (continued)

#### 3.1.3 Depreciation and amortisation (continued)

#### Impact of NBN Infrastructure Services Agreement (ISA) on our fixed assets base

Under the NBN Infrastructure Services Agreement (ISA), we need to progressively transfer the relevant Telstra assets to nbn co. These assets include lead-in conduits (LICs), certain copper and HFC assets and associated passive infrastructure (being infrastructure that supports the relevant copper and HFC assets).

As at 31 December 2016, the net book value of assets that are in scope to be potentially transferred to nbn co under the ISA amounted to \$893 million. This represented four per cent of the net book value of our total property, plant and equipment. We have applied management judgement in assessing the useful lives of the in-scope assets based on the anticipated nbn™ network rollout period.

The nbn™ network rollout will also to a lesser extent impact useful lives of other assets, e.g. transmission and switching technologies, which will not be transferred to nbn co. The full impact on our useful 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™ network rollout progresses. For the half-year ended 31 December 2016, we have applied management judgement in assessing the useful lives of these assets based on our best estimate of the expected consequential impacts of the nbn™ network rollout. The result of our assessment is included in the net effect of our useful lives assessment.

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.

## Section 4. Our capital and risk management

This section sets out the policies and procedures applied to manage our capital structure and the financial risks we are exposed to. Our total capital is defined as equity and net debt. We manage our capital structure in order to maximise shareholders' return, maintain optimal cost of capital and provide flexibility for strategic investments.

### 4.1 Dividends

This note includes the previous year final dividend paid and current year interim dividend to be paid.

As the current year interim dividend resolution was passed on 16 February 2017, no provision had been raised as at 31 December 2016.

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).

The table below provides details about the previous year final dividend paid during the financial year 2017.

Telstra Entity	Half-year ended 31 December			
	2016	2015	2016	2015
	\$m	\$m	cents	cents
<b>Dividends paid</b>				
Previous year final dividend paid	1,894	1,893	15.5	15.5

On 3 October 2016, we completed an off-market share buy-back, which comprised a fully franked dividend component of \$748 million. Refer to note 4.2.1 for further details.

On 16 February 2017, the Directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend for the financial year 2017 of 15.5 cents per ordinary share. The record date for the interim dividend will be 2 March 2017, with payment being made on 31 March 2017. On 1 March 2017, shares will trade excluding entitlement to the dividend.

The interim dividend will be fully franked at a tax rate of 30 per cent. As at 31 December 2016 the interim dividend for the financial year 2017 was not determined or publicly recommended by the Board, therefore no provision for the interim dividend has been raised in the statement of financial position. However, a provision for the interim dividend payable amounting to \$1,842 million has been raised as at the date of resolution.

The DRP continues to operate for the interim dividend for the financial year 2017. The election date for participation in the DRP is 3 March 2017.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the interim dividend, except for \$790 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 2016 was a \$61 million debit. 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 2017 interim dividend.

### 4.2 Equity

#### 4.2.1 Share capital

Table A Telstra Group	As at	
	31 Dec 2016	30 Jun 2016
	\$m	\$m
Contributed equity	4,530	5,284
Share loan to employees	(12)	(13)
Shares held by employee share plans	(94)	(109)
Net services received under employee share plans	(11)	5
	<b>4,413</b>	<b>5,167</b>

#### (a) Contributed equity

As part of our capital management program, on 3 October 2016 we announced the completion of an off-market share buy-back of 282,167,516 ordinary shares (or 2.31 per cent of our total shares on issue). The ordinary shares were bought back at \$4.43 per share, which represented a 14 per cent discount to the Telstra market price of \$5.1482 (being the volume weighted average price of Telstra ordinary shares over the five trading days up to and including the closing date of 30 September 2016), and comprised a fully franked dividend component of \$2.65 per share (or \$748 million in total) and a capital component of \$1.78 per share (or \$502 million in total). The total off-market share buy-back amounted to \$1,252 million, including \$2 million of associated transaction costs (net of income tax).

On 13 December 2016, we also completed the on-market share buy-back of 50,190,465 ordinary shares, which amounted to \$250 million.

The shares bought back were subsequently cancelled. As at 31 December 2016, we have 11,893,297,855 (June 2016: 12,225,655,836) authorised fully paid ordinary shares on issue.

#### (b) Share buy-backs impact on Earnings per share (EPS)

EPS is the amount of post-tax profit attributable to each share. It excludes profit attributable to non-controlling interest and takes into account the average number of shares weighted by the number of days on issue. Our off-market and on-market share buy-backs were completed on 3 October 2016 and 13 December 2016 respectively, resulting in 332,357,981 shares being cancelled. Our EPS would have been higher had the share buy-backs been completed at the beginning of this reporting period.



Leanne – GM Cloud &amp; Data Centre Operations

## Section 4. Our capital and risk management (continued)

### 4.2 Equity (continued)

#### 4.2.2 Reserves

Table B details our reserve balances.

Table B Telstra Group	Foreign currency translation reserve		Cash flow hedge reserve	Foreign currency basis spread reserve	Fair value of equity instruments reserve	General reserve	Total reserves
	Telstra Entity	Equity accounted entities					
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2016</b>	<b>95</b>	<b>-</b>	<b>(93)</b>	<b>48</b>	<b>14</b>	<b>(2)</b>	<b>62</b>
Other comprehensive income	25	1	35	17	64	-	142
<b>Balance at 31 December 2016</b>	<b>120</b>	<b>1</b>	<b>(58)</b>	<b>65</b>	<b>78</b>	<b>(2)</b>	<b>204</b>
<b>Balance at 1 July 2015</b>	<b>121</b>	<b>-</b>	<b>(114)</b>	<b>50</b>	<b>6</b>	<b>309</b>	<b>372</b>
Other comprehensive income	101	-	27	(28)	40	-	140
Transactions with non-controlling interests	-	-	-	-	-	17	17
<b>Balance at 31 December 2015</b>	<b>222</b>	<b>-</b>	<b>(87)</b>	<b>22</b>	<b>46</b>	<b>326</b>	<b>529</b>

### 4.3 Capital management and financial instruments

Table A lists the carrying value of our net debt components.

This note provides information about components of our net debt and related finance costs, as well as our capital management policies.

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.

#### 4.3.1 Net debt

A parameter used to monitor capital management is the gearing ratio. Our comfort zone for the gearing ratio is currently 50 to 70 per cent (June 2016: 50 to 70 per cent) and is calculated as net debt divided by total capital, where:

- **net debt** equals 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 Telstra Group	As at	
	31 Dec 2016	30 Jun 2016
	\$m	\$m
Borrowings	(17,210)	(17,302)
Derivative financial instruments	1,199	1,293
Cash and cash equivalents	1,188	3,550
<b>Net debt</b>	<b>(14,823)</b>	<b>(12,459)</b>

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 2016.

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management and financial instruments (continued)

#### 4.3.1 Net debt (continued)

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

Table B Telstra Group	Half-year ended 31 December	
	2016	2015
	\$m	\$m
<b>Net debt at 1 July</b>	<b>(12,459)</b>	<b>(13,566)</b>
Debt issuance	-	(1,337)
Net commercial paper	(550)	(957)
Debt repayments	384	1,067
Finance lease repayments	62	7
<b>Net cash inflow</b>	<b>(104)</b>	<b>(1,220)</b>
<b>Fair value gains/(losses) impacting</b>		
Equity	90	(4)
Other expenses	14	(9)
Finance costs	22	(13)
<b>Other non-cash movements</b>		
Finance lease additions	(24)	(38)
<b>Total non-cash movements</b>	<b>102</b>	<b>(64)</b>
<b>Total increase in gross debt</b>	<b>(2)</b>	<b>(1,284)</b>
Net (decrease)/increase in cash and cash equivalents	(2,362)	769
<b>Total increase in net debt</b>	<b>(2,364)</b>	<b>(515)</b>
<b>Net debt at 31 December</b>	<b>(14,823)</b>	<b>(14,081)</b>
Total equity	(14,569)	(14,820)
<b>Total capital</b>	<b>(29,392)</b>	<b>(28,901)</b>
	<b>%</b>	<b>%</b>
Gearing ratio	50.4	48.7

#### 4.3.2 Borrowings and repayment of debt

##### (a) Funding activities

During the half-year ended 31 December 2016, we repaid \$375 million of term debt using existing cash balances. This included:

- \$100 million Australian dollar private placements on 2 August 2016
- \$275 million Australian dollar floating rate notes on 1 December 2016.

We also repaid \$9 million loans from associated entities.

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

Table C shows our undrawn facilities at balance dates.

Table C Telstra Group	As at	
	31 Dec 2016	30 Jun 2016
	\$m	\$m
Unsecured syndicated and bilateral bank loan facilities	1,700	1,700
<b>Amount of credit unused</b>	<b>1,700</b>	<b>1,700</b>

##### (b) Commercial paper

Our commercial paper is used principally to support working capital and short term liquidity. As at 31 December 2016, we have \$1,229 million (June 2016: \$681 million) commercial paper on issue under our United States and Australian dollar facilities. This balance includes the impact of foreign exchange derivatives used to hedge our United States dollar holdings.

#### 4.3.3 Finance costs

Table D presents our net finance costs for the half-year ended 31 December 2016 on a continuing operations basis.

Table D Telstra Group	Half-year ended 31 December	
	2016	2015
	\$m	\$m
Interest expense on borrowings	414	428
Interest on finance leases	11	12
Interest income on financial instruments	(77)	(58)
<b>Net borrowing costs</b>	<b>348</b>	<b>382</b>
Net interest expense/(income) on defined benefit plan	1	(5)
Other	5	5
Less: interest capitalised	(37)	(33)
<b>Net finance costs before remeasurements</b>	<b>317</b>	<b>349</b>
Net gains on derivative financial instruments included in remeasurements	(34)	(2)
<b>Net finance costs</b>	<b>283</b>	<b>347</b>

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

Net gains 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.



## Section 4. Our capital and risk management (continued)

### 4.3 Capital management and financial instruments (continued)

#### 4.3.4 Fair value measurement

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

To determine fair value we use both 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 4.4.5 to the financial statements in our 2016 Annual Report. During the half-year ended 31 December 2016, there were no changes in valuation techniques for recurring fair value measurements of our financial instruments. There were also no transfers between fair value hierarchy levels.

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 2016				30 June 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>								
Derivative financial instruments	-	1,971	-	<b>1,971</b>	-	2,242	-	<b>2,242</b>
Investments in listed securities	267	-	-	<b>267</b>	216	-	-	<b>216</b>
Investments in unlisted securities	-	-	199	<b>199</b>	-	-	178	<b>178</b>
	<b>267</b>	<b>1,971</b>	<b>199</b>	<b>2,437</b>	<b>216</b>	<b>2,242</b>	<b>178</b>	<b>2,636</b>
<b>Liabilities</b>								
Derivative financial instruments	-	(772)	-	<b>(772)</b>	-	(949)	-	<b>(949)</b>
Contingent consideration	-	-	-	<b>-</b>	-	-	(16)	<b>(16)</b>
	-	<b>(772)</b>	-	<b>(772)</b>	-	<b>(949)</b>	<b>(16)</b>	<b>(965)</b>
<b>Total</b>	<b>267</b>	<b>1,199</b>	<b>199</b>	<b>1,665</b>	<b>216</b>	<b>1,293</b>	<b>162</b>	<b>1,671</b>

#### (a) Level 3 financial instruments

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

Table F Telstra Group	Unlisted securities
	Level 3
	\$m
<b>Opening balance 1 July 2016</b>	<b>178</b>
Purchases	9
Remeasurement recognised in other comprehensive income	12
<b>Closing balance 31 December 2016</b>	<b>199</b>

During the half-year ended 31 December 2016 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.

#### 4.3.5 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 4.4 to the financial statements in our 2016 Annual Report. There have been no material changes to our risk management policies since 30 June 2016.



## Section 5. Our investments

This section provides details of changes to our investments in controlled entities and their effect on our financial position and performance during the period.

### 5.1 Changes in the group structure

#### 5.1.1 Acquisitions

There were no individually material acquisitions during the half-year ended 31 December 2016. The individually immaterial acquisitions have been summarised below.

On 31 July 2016, we acquired 100 per cent shareholding in Mercury Holdings Corporation Pty Ltd and its controlled entities (MSC). MSC manages and supports mobile devices through Enterprise Mobility Management and provides professional services which comprise strategy consulting and mobility solutions design.

On 25 November 2016, we acquired the business known as Cognevo from the Wynyard Group. Cognevo provides security and threat analytics to detect anomalies and potential threats in the behaviour of users across the network.

On 2 December 2016, we acquired 100 per cent shareholding in Fusion Payments Pty Ltd, a mobile recharge and payments provider.

The effect of all these acquisitions is detailed in the table below.

Telstra Group	Half-year ended 31 December
	2016
	\$m
<b>Consideration for acquisition</b>	
Cash consideration	35
Contingent consideration	1
<b>Total purchase consideration</b>	<b>36</b>
Cash balances acquired	(1)
Contingent consideration payable	(1)
Contingent consideration paid	9
Deferred consideration paid on prior period acquisition	1
<b>Outflow of cash on acquisition</b>	<b>44</b>
	<b>Fair value</b>
<b>Assets/(liabilities) at acquisition date</b>	
Cash and cash equivalents	1
Trade and other receivables	4
Intangible assets	26
Trade and other payables	(1)
Provisions	(1)
Deferred tax liabilities	(1)
<b>Net assets</b>	<b>28</b>
Goodwill on acquisition	8
<b>Total purchase consideration</b>	<b>36</b>
<b>Contribution to the Group's performance from the acquisition date</b>	
Income	-
Loss before income tax	8

Contingent consideration paid relates to targets achieved on prior period acquisitions.

The fair value of the acquired 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.

Acquisition costs incurred in completing these transactions totalled \$1 million and are included in other expenses in the income statement.

If all the acquisitions made in the half-year had occurred on 1 July 2016, our adjusted Telstra Group consolidated income would have remained unchanged and our adjusted Telstra Group consolidated profit before income tax expense from continuing operations for the half-year ended 31 December 2016 would have decreased by \$6 million to \$2,652 million.

## Section 5. Our investments (continued)

### 5.2 Discontinued operations

There have been no discontinued operations during the half-year ended 31 December 2016. However, the net cash used in operating activities for the half-year ended 31 December 2016 includes \$23 million used to settle outstanding costs related to the Autohome disposal.

In the comparative period, the Autohome and Sensis groups have been classified as discontinued operations as detailed below.

#### 5.2.1 Autohome Group discontinued operation

Autohome Group was disposed on 23 June 2016 and was classified as a discontinued operation in the second half of the financial year 2016. Financial information for the comparative period related to the discontinued operation is set out in the table below.

Autohome Group	Half-year ended 31 December
	2015
	\$m
Revenue	392
Expenses	255
<b>EBITDA</b>	<b>137</b>
Depreciation and amortisation	7
Net finance income	7
<b>Profit before income tax expense</b>	<b>137</b>
Income tax expense	33
<b>Profit after income tax expense from discontinued operations</b>	<b>104</b>
Net cash provided by operating activities	225
Net cash used in investing activities	(25)
Net cash provided by financing activities	1
<b>Net increase in cash and cash equivalents</b>	<b>201</b>
<b>Earnings per share (cents per share)</b>	
Basic	0.5
Diluted	0.5

#### 5.2.2 Sensis Group discontinued operation

Comparative period also includes \$8 million reduction in other expenses related to the disposal of the Sensis Group in February 2014.

## Section 6. Other information

This section provides information and disclosures not included in the other sections, for example our commitments and contingencies, and significant events occurring after reporting date.

### 6.1 Other accounting policies

#### 6.1.1 Changes in accounting policies

We note the following amendments to the accounting standards which are applicable to us from 1 July 2016:

- AASB 2014-3 'Amendments to Australian Accounting Standards - Accounting for Acquisition of Interests in Joint Operations'
- AASB 2014-4 'Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation'
- AASB 2015-1 'Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'
- AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'
- AASB 2015-5 'Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exception'
- AASB 2015-9 'Amendments to Australian Accounting Standards - Scope and Application Paragraphs'.

These amendments do not have any material impact on our financial results.

#### 6.1.2 New accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the half-year ended 31 December 2016 but will be applicable to the Telstra Group in future reporting periods are detailed below.

##### (a) Financial instruments - impairment of financial assets

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 for 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 from 1 January 2017 to 1 January 2018. In May 2016, the AASB issued AASB 2016-3: 'Amendments to Australian Accounting Standards - Clarifications to AASB 15.'

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, AASB 2015-8 and AASB 2016-3 apply to Telstra from 1 July 2018, with early application permitted.

We are continuing our analysis and assessment of the impact of the new revenue standard on our financial results. This includes identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls with the objective of quantifying the expected first time adoption impacts as well as supporting ongoing compliance with the new accounting requirements.

##### (c) New leasing Standard

In February 2016, AASB issued AASB 16: 'Leases', which replaces the current guidance in AASB 117: 'Leases'. The new standard will apply to us from 1 July 2019. Earlier adoption is permitted, but only in conjunction with AASB 15: 'Revenue from Contracts with Customers'.

The new standard requires the lessee to recognise almost all leases in the statement of financial position. A lessee will recognise an asset (the right to use the leased item) and a liability reflecting future lease payments. Depreciation of the leased asset and interest on lease liability will be recognised over the lease term. The exceptions available to lessees relate to short term and low-value leases, however assets subject to subleases do not qualify for the low-value exception.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases and account for them as operating or finance leases.

We are currently assessing the impact of the new leasing standard on our financial results, including presentation of our cash flows.

##### (d) Other

In addition to the above recently issued accounting standards that are applicable in future years, the AASB 2016-5: 'Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions' effective from 1 January 2018 has been issued during the half-year ended 31 December 2016. We do not expect any of the amendments to have a material impact on our financial results upon adoption.

## Section 6. Other information (continued)

### 6.2 Commitments and contingencies

During the period, our capital commitments increased by \$891 million as we entered into a number of agreements, including for the provision of wideband services, equipment to build our optical transport network, and software and build services to support our data centre infrastructure.

Our joint venture Foxtel has other commitments amounting to approximately \$3,330 million at 31 December 2016 (June 2016: \$3,262 million), with our share equal to 50 per cent. The majority of these commitments relate to the committed satellite expenditure payments for transponder services and broadcasting expenditure payments for sports broadcasting rights. The amounts are based on current prices and costs under agreements entered into between the Foxtel Partnership and various other parties. The increase in commitments resulted mainly from new broadcasting rights and new agreements for pay television programming signed by Foxtel during the period.

Since 30 June 2016, 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 2016.

### 6.3 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 31 December 2016 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 the following:

#### 6.3.1 Interim dividend

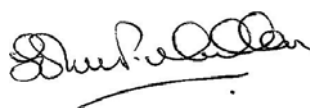
The details of the interim dividend for the half-year ended 31 December 2016 are disclosed in note 4.1.

# 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 2016, as set out on pages 1 to 21 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 2016.

For and on behalf of the board



John P Mullen  
Chairman



Andrew R Penn  
Chief Executive Officer and  
Managing Director

16 February 2017  
Melbourne,  
Australia

## Independent Auditor's Report to the Members of Telstra Corporation Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited, which comprises the statement of financial position as at 31 December 2016, 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 2016 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:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of 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.



Ernst & Young



A Price  
Partner  
Melbourne  
16 February 2017