

12 February 2015

**Office of the Company Secretary**

The Manager

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AUSTRALIA

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Australian Securities Exchange  
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SYDNEY NSW 2000

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**ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Telstra Corporation Limited - Financial results for the half-year ended 31 December 2014**

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 2014.

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 2014 and any public disclosures made by Telstra in accordance with the continuous disclosure requirements of the Listing Rules and the Corporations Act 2001.

Telstra has announced today that it will reactivate its Dividend Reinvestment Plan (DRP) making it available from the financial year 2015 final dividend to be paid in September. An amended Financial Calendar for 2015, reflecting a revised ex-date and record date for the final dividend to accommodate the DRP, is included in the Half-Year Results and Operations Review.

Telstra will also lodge an Appendix 3A.1 containing information regarding the interim dividend, in accordance with the Listing Rules.

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

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

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

Yours faithfully



**Damien Coleman**  
Company Secretary

APPENDIX 4D (ASX LISTING RULE 4.2A.3)  
HALF-YEAR REPORT  
31 DECEMBER 2014  
TELSTRA CORPORATION LIMITED ABN 33 051 775 556

Results for announcement to the market

|  | Telstra Group               |               |              |               |
|--|-----------------------------|---------------|--------------|---------------|
|  | Half-year ended 31 December |               |              |               |
|  | 2014                        | 2013          | Movement     | Movement      |
|  | \$m                         | \$m           | \$m          | %             |
| Revenue (excluding finance income) from continuing operations.....                         | 12,720                      | 12,626        | 94           | 0.7%          |
| Revenue (excluding finance income) from discontinued operation (a) .....                   | -                           | 358           | (358)        | (100.0%)      |
| <b>Revenue (excluding finance income) from ordinary activities .....</b>                   | <b>12,720</b>               | <b>12,984</b> | <b>(264)</b> | <b>(2.0%)</b> |
| Other income .....   | 294                         | 177           | 117          | 66.1%         |
| <b>Total income from continuing and discontinued operations.....</b>                       | <b>13,014</b>               | <b>13,161</b> | <b>(147)</b> | <b>(1.1%)</b> |
| Finance income.....  | 89                          | 68            | 21           | 30.9%         |
| Profit for the period attributable to equity holders of Telstra Entity .....               | 2,085                       | 1,704         | 381          | 22.4%         |
| Profit from ordinary activities after tax attributable to equity holders of Telstra Entity | 2,085                       | 1,704         | 381          | 22.4%         |

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

Dividend information

|                                  | Amount<br>per share<br>(cents) | Franked<br>amount<br>per share<br>(cents) |
|----------------------------------|--------------------------------|---|
| Interim dividend per share ..... | 15                             | 15  |
| <b>Interim dividend dates</b>    |                                |   |
| Record date .....                |                                | 27 February 2015                          |
| Payment date .....               |                                | 27 March 2015                             |

Net Tangible Assets per security information

|  | Telstra Group     |       |
|--|-------------------|-------|
|  | as at 31 December |       |
|  | 2014              | 2013  |
|  | cents             | cents |
| Net tangible assets per security ..... | 41.1              | 37.4  |

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 2014 was 12,226 million (December 2013: 12,443 million). As part of our capital management program, on 6 October 2014, we completed an off-market share buy-back of 217,418,521 ordinary shares (or 1.75% of our total shares on issue at that date). The ordinary shares were bought back at \$4.60 per share, comprising a fully franked dividend component of \$2.27 per share and a capital component of \$2.33 per share. The shares bought back were subsequently cancelled. The cost of the share buy-back comprised a purchase consideration of \$1,000 million and associated transaction costs of \$4 million.

**APPENDIX 4D (ASX LISTING RULE 4.2A.3)**  
**HALF-YEAR REPORT**  
**31 DECEMBER 2014**  
**TELSTRA CORPORATION LIMITED ABN 33 051 775 556**

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

| Name of entity   | Country of incorporation | Date control obtained or lost | % of equity held by immediate parent |                   |
|--|--------------------------|-------------------------------|--------------------------------------|-------------------|
|  |                          |                               | As at<br>31 Dec 2014<br>%            | 30 June 2014<br>% |
| <b>Control obtained</b>  |                          |                               |                                      |                   |
| Medinexus Pty Ltd .....  | Australia                | 15 Jul 2014                   | 100.0                                | -                 |
| Telstra SNP Monitoring Pty Ltd .....                             | Australia                | 1 Aug 2014                    | 51.0                                 | -                 |
| Telstra Software Group Pty Ltd (a) .....                         | Australia                | 8 Aug 2014                    | 100.0                                | -                 |
| • Ooyala Holdings Inc. (a) .....                                 | United States            | 8 Aug 2014                    | 98.9                                 | -                 |
| • Ooyala Inc. ....   | United States            | 30 Sep 2014                   | 100.0                                | -                 |
| • Ooyala International Inc. ....                                 | United States            | 30 Sep 2014                   | 100.0                                | -                 |
| • Ooyala Singapore Pte Ltd .....                                 | Singapore                | 30 Sep 2014                   | 100.0                                | -                 |
| • Ooyala Australia Pty Ltd .....                                 | Australia                | 30 Sep 2014                   | 100.0                                | -                 |
| • Ooyala UK Limited .....  | United Kingdom           | 30 Sep 2014                   | 100.0                                | -                 |
| • Ooyala Mexico, S. De R.L. De C.V. ....                         | Mexico                   | 30 Sep 2014                   | 100.0                                | -                 |
| • Videoplaza AB .....  | Sweden                   | 20 Oct 2014                   | 100.0                                | -                 |
| • Videoplaza Limited .....                                       | United Kingdom           | 20 Oct 2014                   | 100.0                                | -                 |
| • Aunia Publicidad Interactiva SLU .....                         | Spain                    | 20 Oct 2014                   | 100.0                                | -                 |
| ACN 601 537 928 Pty Ltd (trading as Telstra ReadyCare) .....     | Australia                | 4 Sep 2014                    | 87.5                                 | -                 |
| Bridge Point Communications Pty Ltd .....                        | Australia                | 13 Oct 2014                   | 100.0                                | -                 |
| PT Teltranet Aplikasi Solusi (a) .....                           | Indonesia                | 27 Oct 2014                   | 49.0                                 | -                 |
| ACN 602 764 438 Pty Ltd (trading as CloudMed)(a) .....           | Australia                | 10 Nov 2014                   | 100.0                                | -                 |
| iCareHealth Pty Ltd .....  | Australia                | 13 Nov 2014                   | 100.0                                | -                 |
| AFN Solutions Pty Ltd .....                                      | Australia                | 28 Nov 2014                   | 50.1                                 | -                 |
| Emerging Holdings Pty Ltd .....                                  | Australia                | 1 Dec 2014                    | 100.0                                | -                 |
| • Emerging Systems Pty Ltd .....                                 | Australia                | 1 Dec 2014                    | 100.0                                | -                 |
| • R&R Holdings Asia Pacific Pty Ltd. ....                        | Australia                | 1 Dec 2014                    | 100.0                                | -                 |
| <b>Control lost</b>  |                          |                               |                                      |                   |
| Telstra Octave Holdings Limited (b) .....                        | British Virgin Islands   | 12 Dec 2014                   | -                                    | 100.0             |
| • Octave Investments Holdings Limited (b) .....                  | British Virgin Islands   | 12 Dec 2014                   | -                                    | 100.0             |
| • Sharp Point Group Limited .....                                | British Virgin Islands   | 26 Sep 2014                   | -                                    | 100.0             |
| • Beijing Liang Dian Shi Jian Technology Co. Ltd .....           | China                    | 26 Sep 2014                   | -                                    | 100.0             |
| • Telstra Robin Holdings Limited (b) .....                       | British Virgin Islands   | 28 Nov 2014                   | -                                    | 100.0             |
| Sequel Media Inc. ....   | Cayman Islands           | 26 Nov 2014                   | -                                    | 55.0              |
| • China Topside Limited .....                                    | British Virgin Islands   | 26 Nov 2014                   | -                                    | 100.0             |
| • Beijing Topside Technologies Co. Ltd .....                     | China                    | 26 Nov 2014                   | -                                    | 100.0             |
| • Norstar Advertising Media Holdings Limited .....               | Cayman Islands           | 26 Nov 2014                   | -                                    | 100.0             |
| • Shengtuo Shidai (Beijing) Information Technology Co. Ltd ..... | China                    | 26 Nov 2014                   | -                                    | 100.0             |
| • Union Tough Advertisement Limited .....                        | Hong Kong                | 26 Nov 2014                   | -                                    | 100.0             |
| • Haochen Shidai (Beijing) Advertisement Co. Ltd. ....           | China                    | 26 Nov 2014                   | -                                    | 30.0              |

(a) During the period these entities were incorporated.

(b) During the period these entities were liquidated.

Refer to note 5 in our half-year financial report for further details.

APPENDIX 4D (ASX LISTING RULE 4.2A.3)  
HALF-YEAR REPORT  
31 DECEMBER 2014  
TELSTRA CORPORATION LIMITED ABN 33 051 775 556

Details of investments in joint ventures and associated entities

| Name of entity   | Principal activities                                  | Telstra Group<br>Ownership interest<br>as at |                      |
|--|---|--|----------------------|
|  |   | 31 Dec<br>2014<br>%                          | 30 June<br>2014<br>% |
| <b>Joint ventures</b>  |   |  |                      |
| FOXTEL Partnership   | Pay television  | 50.0   | 50.0                 |
| FOXTEL Television Partnership  | Pay television  | 50.0   | 50.0                 |
| Customer Services Pty Ltd  | Customer service                                      | 50.0   | 50.0                 |
| FOXTEL Management Pty Ltd  | Management services                                   | 50.0   | 50.0                 |
| FOXTEL Cable Television Pty Ltd  | Pay television  | 80.0   | 80.0                 |
| Reach Ltd (incorporated in Bermuda) (a)                                  | International connectivity services                   | 50.0   | 50.0                 |
| 3GIS Pty Ltd (a)   | Management of former 3GIS Partnership (non-operating) | 50.0   | 50.0                 |
| HealthEngine Pty Ltd   | Online healthcare booking                             | 34.8   | 33.3                 |
| <b>Associated entities</b>   |   |  |                      |
| Australian-Japan Cable Holdings Limited<br>(incorporated in Bermuda) (a) | Network cable provider                                | 46.9   | 46.9                 |
| Telstra Super Pty Ltd  | Superannuation trustee                                | 100.0  | 100.0                |
| Mandoe Pty Ltd   | Signage software provider                             | 28.4   | 26.7                 |
| IPscape Pty Ltd  | Cloud based call centre solution                      | 24.9   | 24.9                 |
| Whispir Limited  | Multi-channel messaging solutions                     | 18.0   | 18.0                 |
| IP Health Pty Ltd  | Health software development                           | 32.1   | 32.1                 |
| Project Sunshine I Pty Ltd   | Holding entity of Sensis Pty Ltd (directory services) | 30.0   | 30.0                 |
| Adnear Pte Ltd (incorporated in Singapore) (b)                           | Advertiser focused demand side platform provider      | 13.2   | -                    |
| Panviva Pty Ltd  | Cloud-based business process guidance software        | 23.2   | -                    |

(a) Balance date is 31 December.

(b) Balance date is 31 March.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) continues to be suspended with respect to the interim dividend for the financial year 2015. The DRP rules were amended on 12 February 2015 and it is proposed that the DRP will be reinstated for the final dividend to be paid in September 2015. An amended Financial Calendar for 2015, reflecting a revised Ex-Date and Record Date for the final dividend to accommodate the DRP, is included in the Half-Year Results and Operations Review accompanying the Directors' Report.

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 and the entities it controlled at the end of, or during, the half-year ended 31 December 2014. Financial comparisons used in this report are of results for the half-year ended 31 December 2014 compared with the half-year ended 31 December 2013 for income statement analysis, and 31 December 2014 compared with 30 June 2014 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

The Directors have resolved to pay an interim dividend of 15 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 27 February 2015, with payment to be made on 27 March 2015.

Our final dividend for the financial year ended 30 June 2014 of 15 cents per ordinary share (\$1,866 million) was paid during the half-year ended 31 December 2014. This dividend was fully franked at a tax rate of 30 per cent. The final dividend paid had a record date of 29 August 2014 and payment was made on 26 September 2014.

The Dividend Reinvestment Plan (DRP) continues to be suspended with respect to the interim dividend for the financial year 2015. The DRP rules were amended on the date of this report and it is proposed that the DRP will be reinstated for the final dividend to be paid in September 2015. An amended Financial Calendar for 2015, reflecting a revised Ex-Date and Record Date for the final dividend to accommodate the DRP, is included in the Half-Year Results and Operations Review accompanying this Directors' Report.

## Directors

Directors who held office during the half-year ended 31 December 2014 and until the date of this report were:

| Director                   | Period of directorship                                      |
|----------------------------|---|
| Catherine B Livingstone AO | Chairman since 2009,<br>Director since 2000                 |
| David I Thodey             | Chief Executive Officer and<br>Managing Director since 2009 |
| Geoffrey A Cousins         | Director since 2006   |
| Peter R Hearl              | Director since 15 August 2014                               |
| Russell A Higgins AO       | Director since 2009   |
| Chin Hu Lim                | Director since 2013   |
| John P Mullen              | Director since 2008   |
| Nora L Scheinkestel        | Director since 2010   |
| Margaret L Seale           | Director since 2012   |
| Steven M Vamos             | Director since 2009   |
| John D Zeglis              | Director since 2006   |

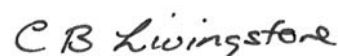
## Auditors' independence declaration

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

## Rounding of amounts

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

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



Catherine B Livingstone AO  
Chairman  
12 February 2015



David I Thodey  
Chief Executive Officer and Managing Director  
12 February 2015

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

In relation to our review of the financial report of Telstra Corporation Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



SJ Ferguson  
Partner  
Sydney, Australia  
12 February 2015

# HALF-YEAR RESULTS AND OPERATIONS REVIEW

## Summary Financial Results

|  | 1H15<br>\$m | 1H14<br>\$m | Change<br>% |
|--|-------------|-------------|-------------|
| Sales revenue  | 12,642      | 12,564      | 0.6         |
| Total income (excluding finance income)                                | 13,014      | 12,803      | 1.6         |
| Operating expenses   | 7,687       | 7,514       | 2.3         |
| EBITDA   | 5,317       | 5,289       | 0.5         |
| Share of net (loss) from joint ventures and associated entities        | (10)        | -           | n/m         |
| Depreciation and amortisation  | 1,989       | 2,013       | (1.2)       |
| EBIT   | 3,328       | 3,276       | 1.6         |
| Net finance costs  | 353         | 490         | (28.0)      |
| Tax  | 876         | 825         | 6.2         |
| Profit for the period from continuing operations                       | 2,099       | 1,961       | 7.0         |
| Profit/(loss) for the period from discontinued operations              | 19          | (221)       | n/m         |
| Profit for the period from continuing and discontinued operations      | 2,118       | 1,740       | 21.7        |
| Profit attributable to equity holders of Telstra                       | 2,085       | 1,704       | 22.4        |
| Capex <sup>(i)</sup>   | 1,728       | 1,814       | (4.7)       |
| Free cashflow from continuing and discontinued operations              | 262         | 1,650       | (84.1)      |
| Earnings per share (cents) from continuing and discontinued operations | 16.9        | 13.7        | 23.4        |

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

## Guidance Versus Reported Results<sup>(i)</sup>

|                              | 1H15<br>Reported results \$m | 1H15<br>Adjustments \$m | 1H15<br>Guidance basis \$m |
|------------------------------|------------------------------|-------------------------|----------------------------|
| Total income <sup>(ii)</sup> | 13,014                       | (82)                    | 12,932                     |
| EBITDA                       | 5,317                        | (3)                     | 5,314                      |
| Free cashflow                | 262                          | 1,824                   | 2,086                      |

(i) This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, the cost of acquisitions and spectrum purchases. Please refer to the guidance versus reported results reconciliation. This reconciliation has been reviewed by our auditors.

(ii) Excludes finance income.

## Reported Results

Our focus on meeting our customers' needs has helped deliver another solid set of results. Our strategy is working; we are improving customer advocacy; driving value from our core business; and building new growth businesses. This half has also seen the continued preservation and creation of shareholder value through capital and portfolio management. Signing of the revised NBN Agreements preserved value for shareholders and we also signed a planning and design contract with NBN Co. during the period.

Following the sale of a 70 per cent stake in our Sensis directories business in February 2014 and the sale of our 76.4 per cent shareholding in the Hong Kong-based mobiles business, CSL New World Mobility Limited ("CSL") in May 2014, the numbers and commentary in the product, expense and segment performance sections have been prepared on a continuing operations basis and aligns with the statutory financial statements.

The financial position section has been prepared on a continuing and discontinued operations basis (that is, they include the results of the Sensis directories business), unless otherwise noted.

## Results on a Guidance Basis<sup>(i)</sup>

|                                     | 1H15          | FY15 guidance         |
|-------------------------------------|---------------|-----------------------|
| Total income growth <sup>(ii)</sup> | 1.0%          | Broadly flat          |
| EBITDA growth                       | 0.5%          | Broadly flat          |
| Capex/sales ratio                   | 13.7%         | ~14% of sales         |
| Free cashflow                       | \$2.1 billion | \$4.6 - \$5.1 billion |

# HALF-YEAR RESULTS AND OPERATIONS REVIEW

## Key Product Revenue

|             | 1H15<br>\$m | 1H14<br>\$m | Change<br>% |
|-------------|-------------|-------------|-------------|
| Fixed       | 3,505       | 3,564       | (1.7)       |
| Mobile      | 5,327       | 4,861       | 9.6         |
| Data and IP | 1,458       | 1,498       | (2.7)       |
| NAS         | 1,007       | 853         | 18.1        |

## Product Profitability EBITDA Margins<sup>(i)</sup>

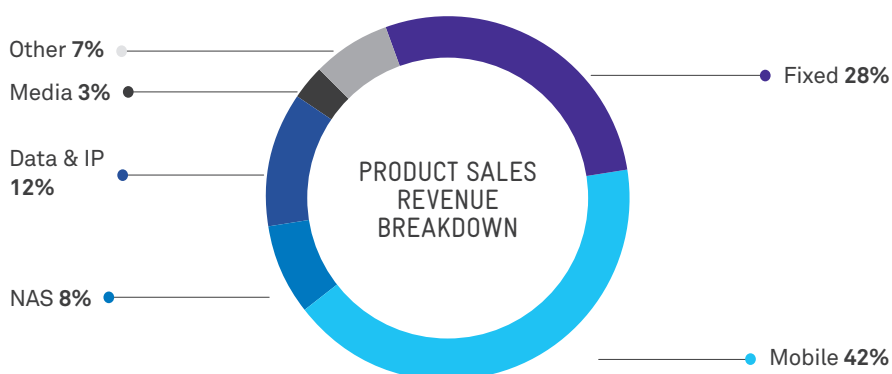
|                             | 1H15 | FY14 | 2H14                 | 1H14 |
|-----------------------------|------|------|----------------------|------|
| Mobile                      | 40%  | 40%  | 41%                  | 39%  |
| Fixed voice <sup>(ii)</sup> | 56%  | 59%  | 57%                  | 61%  |
| Fixed data <sup>(ii)</sup>  | 42%  | 41%  | 42%                  | 39%  |
| Data and IP                 | 64%  | 65%  | 66%                  | 65%  |
| Telstra Group               | 42%  | 42%  | 42% <sup>(iii)</sup> | 42%  |

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

(ii) Margins include NBN voice and data products.

(iii) Profit on the sale of CSL has been excluded from these figures.

## Product Sales Revenue Breakdown



Our guidance for fiscal year 2015 remains unchanged. In 2015 Telstra expects continued low single-digit income and EBITDA growth to offset the absence of CSL 2014 operating revenue and EBITDA. As a result, and after excluding the \$561 million profit on sale of CSL in 2014, Telstra's income and EBITDA guidance for 2015 is broadly flat. Telstra expects 2015 free cashflow of between \$4.6 billion and \$5.1 billion and capital expenditure to be around 14 per cent of sales.

Our guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, the cost of acquisitions and spectrum purchases.

On 12 February 2015, the Directors of Telstra resolved to pay a fully franked interim dividend of 15 cents per share. Shares will trade excluding entitlement to the dividend on 25 February 2015 with payment on 27 March 2015.

In response to shareholder feedback, and consistent with our capital management framework of maintaining financial strength and retaining financial flexibility, Telstra is pleased to announce the reactivation of our Dividend Reinvestment Plan (DRP).

The DRP Rules were amended on 12 February 2015 and it is proposed that the DRP will be reactivated for the final dividend to be paid in September 2015.

We are pleased that the reactivation of the DRP will provide our shareholders with enhanced flexibility and an easy way to increase their shareholding. Telstra expects that shares allocated to participants under the DRP for the final dividend will be sourced through an on-market purchase and transfer of shares to participating shareholders.

## Product Performance

### Fixed

Telstra's fixed portfolio comprises fixed voice, fixed data and other fixed revenue (which includes inter-carrier access services and customer premise equipment). Our differentiated fixed products offer fast, reliable and safe broadband, connectivity in and out of the home, clear and reliable home phone calling and premium entertainment.

We continued to see a reduced rate of decline in our fixed portfolio with revenue from our fixed business decreasing by 1.7 per cent to \$3,505 million. Fixed voice revenue decreased by 6.9 per cent to \$1,917 million however, this was largely offset by the growth in fixed data revenue.

The strong fixed result has been driven by the continued success of our differentiated suite of products in



# HALF-YEAR RESULTS AND OPERATIONS REVIEW

the market, including our Entertainer bundles. The total number of customers on a bundled plan increased by 127,000 in the half and there are now two million customers on a bundled plan, or 69 per cent of the retail fixed data customer base.

Our dedicated customer retention program has also led to fewer disconnections.

Fixed data revenue increased by 7.8 per cent to \$1,175 million with increased subscriber growth and higher average revenue per user (ARPU), including notable subscriber growth in Telstra Business Broadband and NBN. Telstra now has three million fixed retail data customers, an increase of 196,000 since December 2013 and 87,000 in the six months to 31 December 2014.

Retail fixed data ARPU increased by 1.3 per cent to \$55.83 as more customers move to a higher value bundled plan.

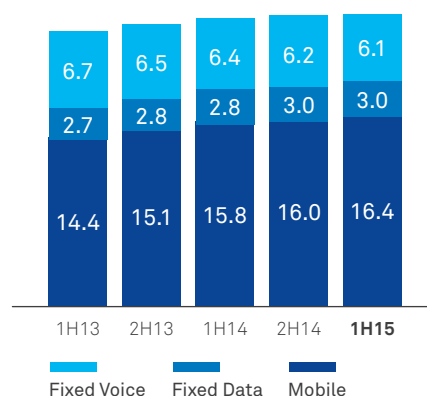
Other fixed revenue decreased by 0.7 per cent to \$413 million with an increase in inter-carrier access services revenue offset by lower customer premise equipment and other fixed telephony revenue.

Fixed voice EBITDA margins decreased to 56 per cent driven by revenue decline, while fixed data EBITDA margins increased to 42 per cent as a result of revenue growth and improved network productivity.

## Mobile

Our mobile portfolio recorded revenue growth of 9.6 per cent to \$5,327 million. This was the strongest level of revenue growth in six halves with growth across all major product categories. Domestic retail customer services increased by 366,000 in the half, bringing the total number to 16.4 million.

**Domestic Retail Customer Services (millions)**



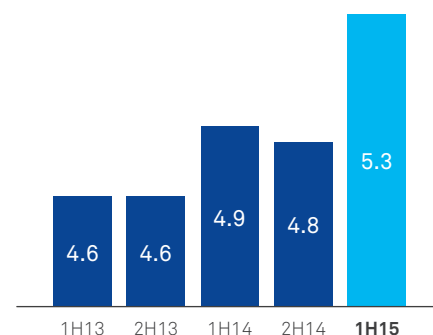
Postpaid handheld revenue grew by 8.3 per cent to \$2,701 million. This was driven by an increase in ARPU, with higher value customers using more data. As a result, ARPU, excluding the impact of mobile repayment options (MRO), increased 4.4 per cent to \$69.71 as these higher value customers used more data. We now have 7.3 million postpaid handheld retail customer services, an increase of 81,000.

Strong growth in ARPU and unique prepaid handheld users drove an 18.9 per cent increase in prepaid handheld revenue. ARPU grew by 13.8 per cent due to increased data usage.

Mobile broadband (MBB) revenue grew by 0.9 per cent to \$649 million. We saw growth in the postpaid MBB category but some substitution from prepaid MBB to tablets. In total, we added 130,000 customer services in the half in the MBB category.

Machine to machine (M2M) saw revenue growth of 17.0 per cent to \$55 million with the addition of 124,000 services following the signing of some key deals in the transport and logistics category.

**Mobile Revenue (\$b)**



We continued to invest in our mobile network. Telstra's 4G coverage now reaches 90 per cent of the Australian population and we plan to take our total 4G coverage to 94 per cent of the Australian population by mid-2015.

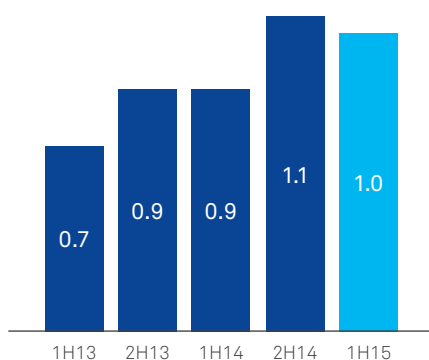
We also launched our new 4GX services which is now offering customers in over 1,000 towns and suburbs some of the fastest mobile data speeds in the world, with top speeds on compatible devices on 4GX up to twice as fast as 4G. This is all part of Telstra's commitment to provide our customers with the best mobile network in Australia and to ensure that we are well placed to manage our customers' ongoing demand for data.

We have 6.7 million 4G devices on our network, comprising 4.9 million handsets, 666,000 tablets, 384,000 dongles and 624,000 Wi-Fi hotspots.

Mobile margin increased to 40 per cent. Improved ARPU trends were offset by higher hardware costs and promotion and advertising expense as a result of the iPhone 6 launch during the half.

# HALF-YEAR RESULTS AND OPERATIONS REVIEW

## NAS Revenue (\$b)



### Data and IP

Data and IP includes revenue from IP access, ISDN services and other data and calling products.

IP Access revenue grew by 1.5 per cent to \$590 million as a result of increased subscriber levels and migration to higher value fibre services. Migration to Unified Communications products in our Network Applications and Services portfolio is the primary driver for the decline in legacy calling products and led to a total Data and IP revenue decline of 2.7 per cent to \$1,458 million. EBITDA margins declined to 64 per cent driven by price competition in the marketplace.

### Network Applications and Services (NAS)

NAS revenue grew by 18.1 per cent to \$1,007 million with continued growth in the key NAS portfolios of Unified Communications, Managed Network Services, Industry Solutions and Cloud. Included in NAS revenue is International NAS which increased by 28.1 per cent to \$41 million.

NAS growth continued in both the Telstra Retail (Business) and Global Enterprise and Services segments driven by existing and new contracts, as well as contributions from O2, NSC Group and Bridge Point.

## Operating Expenses

|                                 | 1H15 \$m     | 1H14 \$m     | Change %   |
|---------------------------------|--------------|--------------|------------|
| Labour                          | 2,432        | 2,367        | 2.7        |
| Goods and services purchased    | 3,262        | 3,295        | (1.0)      |
| Other expenses                  | 1,993        | 1,852        | 7.6        |
| <b>Total operating expenses</b> | <b>7,687</b> | <b>7,514</b> | <b>2.3</b> |

These acquisitions added capabilities to our NAS business and are performing in line with expectations. Overall NAS profitability continued its trend of improvement.

### Media

Media product portfolio revenue increased by 3.8 per cent to \$465 million. This portfolio includes Pay TV, cable and Digital Content Services. Excluding cable, media revenue increased by 4.4 per cent to \$405 million.

Pay TV revenue increased by 4.6 per cent to \$364 million with strong subscriber growth in both Premium Pay TV and Foxtel on T-Box® 'paylite' services following Foxtel plan changes which has provided more value and content to customers through our Entertainer bundles.

Digital Content revenue increased by 2.5% to \$41 million as an increase in online content revenue was partly offset by declining mobile content. Cable access revenue remained flat at \$60 million.

### Expense Performance

#### Labour

Total labour expenses increased by 2.7 per cent or \$65 million to \$2,432 million. Our total full time staff and equivalents increased from the prior period by 470 to 33,578. This increase was driven by organic growth and M&A activity across our NAS portfolio, Telstra Business and Telstra Health business. Offsetting these increases were our restructuring program

across various parts of the business and the divestment of CSL.

Salary and associated costs increased by 7.5 per cent or \$128 million to \$1,834 million. This increase was driven, in the main, by an unfavourable bond rate movement impacting our long service leave and workers compensation provisions (\$74 million), as well as salary and wage increases which also incorporated the change in the statutory superannuation contribution. The increase in FTEs also contributed.

Labour Substitution costs increased by 4.9 per cent or \$19 million to \$403 million. This increase was primarily driven by growth in NBN related works and increased outsourcing of field installation and maintenance activities.

Redundancy expenses decreased by 65.1 per cent or \$82 million to \$44 million. This was driven by the timing of redundancies across the year and redeployment of staff to support growing areas of the business.

#### Goods and services purchased

Goods and services purchased decreased by 1.0 per cent or \$33 million to \$3,262 million. Cost of goods sold (COGS) (which includes mobile handsets, tablets, dongles, fixed and digital products) decreased by 0.3 per cent or \$5 million to \$1,495 million. The two main drivers of this result were the strong demand for our iPhone 6 offering and the equal but offsetting impact of the divestment of our CSL business in May 2014.

# HALF-YEAR RESULTS AND OPERATIONS REVIEW

Network payments decreased by 7.7 per cent or \$68 million to \$814 million. The reduction was mainly attributable to our divestment of CSL and lower payments to overseas carriers.

Other goods and services purchased increased by 4.4 per cent or \$40 million to \$953 million. This was largely driven by increased service fees for Foxtel, cloud services, IPTV and digital content, and mobile insurance in support of increased subscribers. This increase was partially offset by our divestment of CSL.

## Other expenses

Total other expenses increased by 7.6 per cent or \$141 million to \$1,993 million. This increase was the result of higher service contracts and agreements, promotion and advertising costs and was partially offset by a decrease in bad debts and our divestment of CSL.

Service contracts and agreements increased 15.5 per cent or \$102 million to \$762 million. This was driven by NBN related activities and 4G network maintenance. Additionally, the refresh of our Retail outlets and investment in

the simplification of our business also contributed.

Promotion and advertising expenses increased 26.9 per cent or \$43 million to \$203 million. This increase includes the impact of the recent iPhone 6 launch.

## Finance costs

Net finance costs decreased by 28.0 per cent or \$137 million which comprised a reduction in net borrowing costs of \$43 million, an increase of \$17 million in interest revenue, an increase in capitalised interest of \$1 million and a \$76 million reduction in other finance costs. The \$43 million reduction in borrowing costs was predominantly due to lower debt levels resulting from debt maturities which were funded out of existing liquidity.

Gross interest yield for the half remained stable at 5.9 per cent comparable to the prior period. Higher investment yields and higher average cash balances in the current period resulted in the increase in interest revenue. The higher average cash balance was primarily due to proceeds received from prior year divestments of our shareholdings in the Sensis

directories business and CSL.

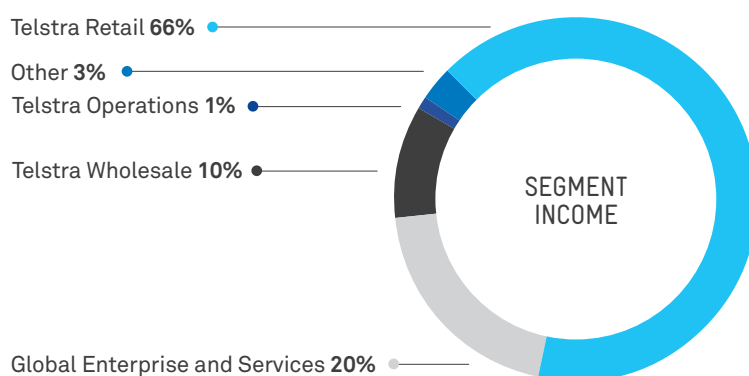
The reduction in other finance costs primarily relates to non-cash revaluation impacts of our offshore debt portfolio and associated hedges that resulted in a floating position (fair value hedges). The early adoption of new accounting standard AASB 9 (2013) allows a component of our borrowing margin to be treated as a cost of hedging and deferred to equity. As a consequence, volatility from these revaluation impacts has been significantly reduced due to changes implemented in the way we designate fair value hedges for accounting purposes. Notwithstanding changes to accounting treatment, the relevant cash flows continue to remain economically and effectively hedged.

## 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 Income

|   | 1H15<br>\$m | 1H14<br>\$m | Change<br>% |
|---|-------------|-------------|-------------|
| Telstra Retail                            | 8,628       | 8,154       | 5.8         |
| Global Enterprise and Services            | 2,623       | 2,528       | 3.8         |
| Telstra Wholesale                         | 1,244       | 1,155       | 7.7         |
| Telstra Operations                        | 182         | 126         | 44.4        |
| Other (excluding Sensis)                  | 337         | 840         | (59.9)      |
| Total Telstra segments (excluding Sensis) | 13,014      | 12,803      | 1.6         |
| Other - Sensis                            | -           | 358         | n/m         |
| Total Telstra segments                    | 13,014      | 13,161      | (1.1)       |



# HALF-YEAR RESULTS AND OPERATIONS REVIEW

Commentary on the performance of our business segments follows.

## Telstra Retail

Telstra Retail brings together our key retail facing businesses including Telstra Consumer, Telstra Business, Telstra Media Group and Telstra Health. Telstra Retail provides a full range of telecommunications products, services and solutions to consumer customers and to Australia's small to medium-sized enterprises, as well as the provision of Foxtel and digital content services.

Income in this segment grew by 5.8 per cent to \$8,628 million and EBITDA increased by 2.0 per cent to \$4,705 million. Telstra Retail experienced strong mobile and fixed data revenue growth in Consumer and Business.

Income in our Consumer business unit grew by 6.9 per cent with strong growth in mobiles and fixed data. Postpaid handheld ARPU increased by 8.3 per cent to \$62.03 and we saw an increase of 66,000 fixed data subscribers in the half.

In Telstra Business, income grew by 2.7 per cent driven by NAS revenue growth and contributions from the strategic investments made such as SNP Security. The NAS portfolio, in particular, Unified Communications which includes IP telephony and T-Suite, saw good momentum and increased 40.8 per cent. There was also strong growth in mobile handheld revenue. Telstra Health contributed income of \$31.5 million in the half.

## 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 also provides product

management for advanced technology solutions including Data and IP networks, and NAS products such as managed network, unified communications, cloud, industry solutions and integrated services. Technical delivery for NAS customers in Australia and globally is also provided by GES.

Income for GES increased by 3.8 per cent to \$2,623 million due to continued strong growth in NAS, a return to growth in enterprise mobility and the inclusion of software business related acquisitions Ooyala and Videoplaza, offset by a revenue decline in Fixed and Data & IP products. Encouragingly we saw improved profitability in NAS but have more work to do to achieve our long term target margins. GES EBITDA declined by \$18 million or 1.5 per cent to \$1,212 million. EBITDA was broadly flat excluding the impact of the software business related acquisitions with the improved NAS performance offsetting the impact of the revenue and EBITDA decline in Fixed and Data and IP products.

## Telstra Wholesale

Wholesale income grew by 7.7 per cent to \$1,244 million. This was largely driven by an increase in NBN infrastructure payments to Telstra which have increased

in line with the NBN rollout. EBITDA contribution increased by 10.5 per cent to \$1,152 million.

## Telstra Operations Group

Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of other segments. It also has NBN and property revenue. The EBITDA contribution improved 2.4 per cent with increases in NBN and property revenue and reductions in labour expenses, partially offset by higher service contracts to support new business growth and NBN related works.

## Other

Our Other category includes the costs of corporate centre functions; payments received under certain NBN agreements; impairments; adjustments to employee provisions for bond rate movements and short term incentives; and redundancy expenses for the parent entity. It also includes China digital media results. The results of our Hong Kong mobiles business CSL, sold in May 2014, and the 70 per cent stake of our Sensis directories business, sold in February 2014, are also included in this category.

## Summary Statement of Cash Flows

|   | 1H15 \$m       | 1H14 \$m | Change %      |
|---|----------------|----------|---------------|
| <b>Net cash provided by operating activities</b>  | <b>3,694</b>   | 3,754    | <b>(1.6)</b>  |
| Total capital expenditure (including investments) | (3,653)        | (2,237)  | 63.3          |
| Other investing activities cash flows             | 221            | 133      | 66.2          |
| <b>Net cash used in investing activities</b>      | <b>(3,432)</b> | (2,104)  | <b>63.1</b>   |
| <b>Free cashflow</b>                              | <b>262</b>     | 1,650    | <b>(84.1)</b> |
| <b>Net cash used in financing activities</b>      | <b>(4,193)</b> | (1,695)  | <b>n/m</b>    |
| <b>Net decrease in cash and cash equivalents</b>  | <b>(3,931)</b> | (45)     | <b>n/m</b>    |

# HALF-YEAR RESULTS AND OPERATIONS REVIEW

## Financial Settings

|                                 | 1H15<br>Actual | Target<br>Zone |
|---------------------------------|----------------|----------------|
| Debt servicing <sup>(i)</sup>   | 1.2x           | 1.3 – 1.8x     |
| Gearing <sup>(ii)</sup>         | 49%            | 50% to 70%     |
| Interest cover <sup>(iii)</sup> | 14.9x          | >7x            |

(i) Debt servicing ratio equals net debt to EBITDA.

(ii) Gearing ratio equals net debt to net debt plus total equity.

(iii) Interest cover equals EBITDA to net interest.

## Financial Position

### Capital expenditure and cash flow

Our operating capital expenditure decreased by 4.7 per cent to \$1,728 million and is in line with our capex to sales guidance of around 14 per cent. This investment has enabled us to meet ongoing strong customer demand arising from the growth in our customer base and continuing investment in areas such as network access projects and wideband projects (high speed dedicated services) that provides infrastructure to support our business and enterprise customers.

Capital expenditure was also incurred to support the accelerated rollout of our 4G LTE mobile network and to meet ongoing delivery of NBN commitments.

Free cashflow generated from operating and investing activities was \$262 million, representing a decline of 84.1 per cent. The difference between our reported free cashflow and free cashflow on a guidance basis of \$2,086 million is predominantly due to spectrum payments of \$1,302 million and M&A activity of \$508 million. These increased payments were partly offset by lower cash capital expenditure.

Increased cash from operating activities, mainly as a result of revenue growth and timing of working capital, was offset by decreases due to cash from divested entities included in the prior period and higher tax payments.

During the half, Autohome announced a primary and secondary offering. Telstra participated in the secondary offering which diluted our ownership to 55.3 per cent (previously 63.2 per cent at 30 June 2014). The net proceeds to Telstra amounted to \$333million.

### Debt position

Our gross debt position has decreased by \$1,237 million to \$14,811 million. Gross debt comprises borrowings of \$15,627 million and net derivative asset of \$816 million (which includes assets and liabilities both current and non-current). The decrease is primarily due to net debt maturities of \$1,251 million (cash outflow), comprising repayment of long-term debt maturities of \$1,691 million, finance lease repayments of \$40 million and net short term debt issuances of \$480 million.

Offsetting this reduction are non-cash impacts of \$14m comprising revaluation gains of \$33 million offset by finance lease additions of \$47 million.

Net debt increased by \$2,621 million to \$13,142 million. This movement comprises reduction in gross debt of \$1,237 million, offset by a reduction in cash and cash equivalents of \$3,858 million.

The liquidity in the prior period of \$5.5 billion included receipt of proceeds from the divestment of our shareholdings in the Sensis directories business and CSL.

This high level of liquidity and current period cash earnings was predominantly used in the first half to fund debt maturities of \$1.7 billion, spectrum licence payments and dividend payments of \$3.2 billion and the share buyback of \$1 billion.

The gearing ratio increased from 43.0 per cent as at 30 June 2014 to 49.0 per cent which reflects an increase in net debt of \$2,621 million and a reduction in equity resulting from the share buyback during the period.

## Summary Statement of Financial Position

|                              | 1H15 \$m | 2H14 \$m | Change % |
|------------------------------|----------|----------|----------|
| Current assets               | 7,273    | 10,438   | (30.3)   |
| Non current assets           | 31,364   | 28,922   | 8.4      |
| Total assets                 | 38,637   | 39,360   | (1.8)    |
| Current liabilities          | 8,565    | 8,684    | (1.4)    |
| Non current liabilities      | 16,419   | 16,716   | (1.8)    |
| Total liabilities            | 24,984   | 25,400   | (1.6)    |
| Net assets                   | 13,653   | 13,960   | (2.2)    |
| Total equity                 | 13,653   | 13,960   | (2.2)    |
| Return on average assets (%) | 19.0     | 18.7     | 0.3pp    |
| Return on average equity (%) | 30.7     | 26.8     | 3.9pp    |

# HALF-YEAR RESULTS AND OPERATIONS REVIEW

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## Statement of Financial Position

Our balance sheet remains in a strong position with net assets of \$13,653 million.

Current assets decreased by 30.3 per cent to \$7,273 million. This decrease includes a reduction in cash and cash equivalents of \$3,858 million predominantly used to fund debt maturities, spectrum licence payments, dividend payments and the share buyback. Inventories increased by \$167 million largely reflecting a growth in handset inventories to meet higher customer demand.

Derivative current assets increased mainly due to revaluation impacts from movements in foreign exchange rates. Tax receivables increased due to the recognition of a future income tax amendment refund for eligible R&D expenditure incurred in FY2014.

Non current assets increased by 8.4 per cent to \$31,364 million. Intangible assets increased largely due to acquisition of spectrum licences and an increase in goodwill, arising from acquisition of various controlled entities.

An increase in derivative assets is primarily attributable to net foreign currency and other valuation impacts arising from measuring to fair value.

Current liabilities decreased by 1.4 per cent to \$8,565 million as a number of our derivative financial liabilities matured during the period. The revaluation of the remaining derivative financial liabilities also had a positive effect. This decrease was partially offset by the issuance of the

new short term debt and reclassification of the current portion from our long term borrowings.

Non current liabilities decreased by 1.8 per cent to \$16,419 million. The value of long term borrowings decreased due to revaluation impacts from movements in foreign exchange rates and reclassification of the current portion. The decrease in derivative financial liabilities is mainly an impact of revaluations, which reflect movements in foreign currencies as well as interest rates.

Defined benefit pension liabilities increased as a result of an actuarial loss recognised due to a lower bond rate partially offset by actuarial gains on asset and settlement gain on Telstra Super. Deferred tax liability decreased predominantly due to the tax effect of an actuarial loss recognised for the Telstra Super defined benefit liability during the period offset by the tax effect of our offshore acquisitions, mainly Ooyala.

Total equity decreased by 2.2 per cent to \$13,653 million. This was largely a result of dividends paid in the half and the completion of the \$1 billion share buyback. Telstra bought back around 217.4 million shares or 1.75% of Telstra's issued shares. A reduction in the bond rate also caused a \$209 million actuarial loss in equity relating to the defined benefit pension liability. In the prior period, an increase in the bond rate resulted in an actuarial gain of \$286 million.

Half Year ended 31 December 2014

This schedule details the adjustments made to the reported results for the current year to reflect the performance of the business on the basis which we provided guidance to the market. Our guidance assumes wholesale product price stability, no impairments to investments and excludes any proceeds or gain on the sale, and purchase of businesses and spectrum.

|  | REPORTED      |               |                | ADJUSTMENTS H1 FY15 |                                    |                                 |                                  |             |             |                     |                  | GUIDANCE BASIS |              |
|--|---------------|---------------|----------------|---------------------|------------------------------------|---------------------------------|----------------------------------|-------------|-------------|---------------------|------------------|----------------|--------------|
|  | H1 FY15       | H1 FY14       | Growth         | Sensis (i)          | M&A (ii)<br>Controlled<br>Entities | M&A (ii)<br>JVs /<br>Associates | M&A (ii)<br>Other<br>Investments | CSL (iii)   | Octave (iv) | Sequel<br>Media (v) | Spectrum<br>(vi) | H1 FY15        | Growth       |
|  | \$m           | \$m           | %              | \$m                 | \$m                                | \$m                             | \$m                              | \$m         | \$m         | \$m                 | \$m              | \$m            | %            |
| Sales revenue  | 12,642        | 12,564        | 0.6%           | 0                   | (49)                               | 0                               | 0                                | 0           | (0)         | 0                   | 0                | 12,593         | 0.2%         |
| Total revenue  | 12,720        | 12,626        | 0.7%           | 0                   | (49)                               | 0                               | 0                                | 0           | (0)         | 0                   | 0                | 12,671         | 0.4%         |
| <b>Total income (excl. finance income)</b>                             | <b>13,014</b> | <b>12,803</b> | <b>1.6%</b>    | <b>0</b>            | <b>(55)</b>                        | <b>0</b>                        | <b>0</b>                         | <b>0</b>    | <b>(27)</b> | <b>0</b>            | <b>0</b>         | <b>12,932</b>  | <b>1.0%</b>  |
| Labour   | 2,432         | 2,367         | 2.7%           | 0                   | (33)                               | 0                               | 0                                | 0           | 0           | 0                   | 0                | 2,399          | 1.4%         |
| Goods and services purchased   | 3,262         | 3,295         | (1.0%)         | 0                   | (25)                               | 0                               | 0                                | 0           | 0           | 0                   | 0                | 3,237          | (1.8%)       |
| Other expenses   | 1,993         | 1,852         | 7.6%           | 0                   | (11)                               | 0                               | 0                                | (10)        | 0           | 0                   | 0                | 1,972          | 6.5%         |
| <b>Operating expenses</b>  | <b>7,687</b>  | <b>7,514</b>  | <b>2.3%</b>    | <b>0</b>            | <b>(69)</b>                        | <b>0</b>                        | <b>0</b>                         | <b>(10)</b> | <b>0</b>    | <b>0</b>            | <b>0</b>         | <b>7,608</b>   | <b>1.3%</b>  |
| Share of net profit/(loss) from joint ventures and associated entities | (10)          | 0             | n/a            | 0                   | 0                                  | 0                               | 0                                | 0           | 0           | 0                   | 0                | (10)           | n/a          |
| <b>EBITDA</b>  | <b>5,317</b>  | <b>5,289</b>  | <b>0.5%</b>    | <b>0</b>            | <b>14</b>                          | <b>0</b>                        | <b>0</b>                         | <b>10</b>   | <b>(27)</b> | <b>0</b>            | <b>0</b>         | <b>5,314</b>   | <b>0.5%</b>  |
| Depreciation and amortisation  | 1,989         | 2,013         | (1.2%)         | 0                   | (4)                                | 0                               | 0                                | 0           | 0           | 0                   | 0                | 1,985          | (1.4%)       |
| <b>EBIT</b>  | <b>3,328</b>  | <b>3,276</b>  | <b>1.6%</b>    | <b>0</b>            | <b>18</b>                          | <b>0</b>                        | <b>0</b>                         | <b>10</b>   | <b>(27)</b> | <b>0</b>            | <b>0</b>         | <b>3,329</b>   | <b>1.6%</b>  |
| Net finance costs  | 353           | 490           | (28.0%)        | 0                   | (2)                                | 0                               | 0                                | 0           | 0           | 0                   | 0                | 351            | (28.4%)      |
| <b>Profit before income tax expense</b>                                | <b>2,975</b>  | <b>2,786</b>  | <b>6.8%</b>    | <b>0</b>            | <b>20</b>                          | <b>0</b>                        | <b>0</b>                         | <b>10</b>   | <b>(27)</b> | <b>0</b>            | <b>0</b>         | <b>2,978</b>   | <b>6.9%</b>  |
| Income tax expense   | 876           | 825           | 6.2%           | 0                   | 1                                  | 0                               | 0                                | 0           | 0           | 0                   | 0                | 877            | 6.3%         |
| <b>Profit for the year from continuing operations</b>                  | <b>2,099</b>  | <b>1,961</b>  | <b>7.0%</b>    | <b>0</b>            | <b>19</b>                          | <b>0</b>                        | <b>0</b>                         | <b>10</b>   | <b>(27)</b> | <b>0</b>            | <b>0</b>         | <b>2,101</b>   | <b>7.1%</b>  |
| (Loss)/profit for the year from discontinued operation                 | 19            | (221)         | n/a            | 0                   | 0                                  | 0                               | 0                                | 0           | 0           | 0                   | 0                | 19             | n/a          |
| <b>Profit for the year from continuing and discontinued operations</b> | <b>2,118</b>  | <b>1,740</b>  | <b>21.7%</b>   | <b>0</b>            | <b>19</b>                          | <b>0</b>                        | <b>0</b>                         | <b>10</b>   | <b>(27)</b> | <b>0</b>            | <b>0</b>         | <b>2,120</b>   | <b>21.8%</b> |
| <b>Attributable to:</b>  |               |               |                |                     |                                    |                                 |                                  |             |             |                     |                  |                |              |
| Equity holders of the Telstra Entity                                   | 2,085         | 1,704         | 22.4%          | 0                   | 19                                 | 0                               | 0                                | 10          | (27)        | 0                   | 0                | 2,087          | 22.5%        |
| Non controlling interests  | 33            | 36            | (8.3%)         | 0                   | 0                                  | 0                               | 0                                | 0           | 0           | 0                   | 0                | 33             | (8.3%)       |
| <b>Free cashflow</b>   | <b>262</b>    | <b>1,650</b>  | <b>(84.1%)</b> | <b>(4)</b>          | <b>449</b>                         | <b>15</b>                       | <b>44</b>                        | <b>10</b>   | <b>0</b>    | <b>8</b>            | <b>1,302</b>     | <b>2,086</b>   |              |

This table was subject to review by our auditors.

**Note:**

On a guidance basis, Income growth on PCP was 1.0% and EBITDA growth on PCP was 0.5%. On a guidance basis and excluding CSL trading from PCP, Income growth on PCP was 6.2% and EBITDA growth on PCP was 3.5%. Free Cashflow PCP included \$170m of M&A outlay related to DCA, Fred, NSC, Box, Ooyala. On a guidance basis and excluding this PCP M&A, 1H FY15 Free Cashflow of \$2,086m represents growth on PCP of 14.6%.

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

**(i) Sensis adjustments:**

Adjustments related to Sensis discontinued operation. Free Cashflow adjustment of \$4m related to the receipt from completion adjustment on Sensis sale.

**(ii) Mergers & Acquisitions:**

Adjustments relating to mergers and acquisition activities. This includes Ooyala, VideoPlaza and Telstra SNP Monitoring, Bridgepoint, iCareHealth, Joint Ventures/Associates and Other investments to 31 December 2014.

**(iii) CSL adjustments:**

CSL indemnity payment as a result of subsequent events.

**(iv) Octave adjustments:**

On 10 December 2013, Telstra Octave Holdings Limited acquired the remaining 33 per cent interest in Octave Investments Holdings Limited in exchange for selling the net assets of the five variable interest entities controlled by Sharp Point Group Limited. As our control did not change in Octave Investments Holdings Limited, the associated gain of \$27m was held in our General Reserve in equity at June 2014. On 12 December 2014, we liquidated Octave Investments Holdings Limited and Telstra Octave Holdings Limited and as a result of us ceasing to own both the entities, the \$27m gain held in equity was transferred to the Income Statement in accordance with accounting standards.

**(v) Sequel Media adjustments:**

On 26 November 2014 our controlled entity Telstra Holdings Pty Ltd disposed of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) for a total consideration of \$18 million, resulting in a \$2 million net loss on sale, largely representing the \$2 million foreign currency translation loss reclassified on the disposal from reserves to the income statement. On completion of the sale we deconsolidated 100 per cent of the Sequel Media Inc. balance sheet, including \$26 million of cash balances disposed.

**(vi) Spectrum adjustments:**

Adjustments relating to the impact of Free Cashflow associated with our Spectrum purchases and renewals for the year (\$1,302m, 2 x 20MHz in the 700 MHz band (40 MHz in total) and 2 x 40 MHz in the 2.5 GHz band (80 MHz in total)).

# HALF-YEAR RESULTS AND OPERATIONS REVIEW

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## 2015 Indicative Financial Calendar<sup>(i)</sup>

With the proposed reactivation of Telstra's Dividend Reinvestment Plan (DRP) for the Financial Year 2015 final dividend, the ex-date and record date for the final dividend has been brought forward by one day and the last date for making an election to participate in the DRP (the DRP Election Date) has been included.

|                                     |   |
|-------------------------------------|---|
| Ex-dividend share trading commences | Wednesday 25 February 2015              |
| Record date for interim dividend    | Friday 27 February 2015                 |
| Interim dividend paid               | Friday 27 March 2015                    |
| Annual Results announcement         | Thursday 13 August 2015                 |
| Ex-dividend share trading commences | Tuesday 25 August 2015 <sup>(ii)</sup>  |
| Record date for final dividend      | Thursday 27 August 2015 <sup>(ii)</sup> |
| DRP Election Date <sup>(iii)</sup>  | Friday 28 August 2015                   |
| Final dividend paid                 | Friday 25 September 2015                |
| Annual General Meeting              | Tuesday 13 October 2015                 |

(i) Dates are indicative only and may be subject to change. Any revision to the above dates will be notified to the ASX.

(ii) Revised.

(iii) New date.



# TELSTRA CORPORATION LIMITED AND CONTROLLED ENTITIES

Australian Business Number (ABN): 33 051 775 556

## FINANCIAL REPORT

for the half-year ended 31 December 2014

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# INCOME STATEMENT

For the half-year ended 31 December 2014

|   |      | Telstra Group   |        |
|---|------|-----------------|--------|
|   |      | Half-year ended |        |
|   |      | 31 December     |        |
|   |      | 2014            | 2013   |
|   |      | \$m             | \$m    |
|   | Note |                 |        |
| <b>Continuing operations</b>  |      |                 |        |
| <b>Income</b>   |      |                 |        |
| Revenue (excluding finance income).....   |      | 12,720          | 12,626 |
| Other income.....   |      | 294             | 177    |
|   |      | <b>13,014</b>   | 12,803 |
| <b>Expenses</b>   |      |                 |        |
| Labour.....   |      | 2,432           | 2,367  |
| Goods and services purchased.....   |      | 3,262           | 3,295  |
| Other expenses.....   |      | 1,993           | 1,852  |
|   |      | <b>7,687</b>    | 7,514  |
| Share of net (loss) from joint ventures and associated entities.....                      |      | (10)            | -      |
|   |      | <b>7,697</b>    | 7,514  |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)..... |      | 5,317           | 5,289  |
| Depreciation and amortisation.....  |      | 1,989           | 2,013  |
| Earnings before interest and income tax expense (EBIT).....                               |      | <b>3,328</b>    | 3,276  |
| Finance income.....   |      | 89              | 68     |
| Finance costs.....  |      | 442             | 558    |
| Net finance costs.....  | 6    | <b>353</b>      | 490    |
| <b>Profit before income tax expense</b> .....   |      | <b>2,975</b>    | 2,786  |
| Income tax expense.....   |      | 876             | 825    |
| <b>Profit for the period from continuing operations</b> .....                             |      | <b>2,099</b>    | 1,961  |
| <b>Discontinued operation</b>   |      |                 |        |
| Profit/(loss) for the period from discontinued operation.....                             | 9    | 19              | (221)  |
| <b>Profit for the period from continuing and discontinued operations</b> .....            |      | <b>2,118</b>    | 1,740  |
| <b>Attributable to</b>  |      |                 |        |
| Equity holders of Telstra Entity.....   |      | 2,085           | 1,704  |
| Non-controlling interests.....  |      | 33              | 36     |
|   |      | <b>2,118</b>    | 1,740  |
| <b>Earnings per share from continuing operations (cents per share)</b>                    |      |                 |        |
| Basic.....  |      | <b>16.8</b>     | 15.5   |
| Diluted.....  |      | <b>16.7</b>     | 15.5   |
| <b>Earnings per share (cents per share)</b>   |      |                 |        |
| Basic.....  |      | <b>16.9</b>     | 13.7   |
| Diluted.....  |      | <b>16.9</b>     | 13.7   |

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

# STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2014

|  | Telstra Group                  |              |
|--|--------------------------------|--------------|
|  | Half-year ended<br>31 December |              |
|  | 2014                           | 2013         |
|  | \$m                            | \$m          |
| <b>Profit for the period from continuing and discontinued operations</b>   |                                |              |
| Attributable to equity holders of Telstra Entity .....   | 2,085                          | 1,704        |
| Attributable to non-controlling interests .....  | 33                             | 36           |
|  | <b>2,118</b>                   | <b>1,740</b> |
| <b>Items that will not be reclassified to the income statement</b>   |                                |              |
| Retained profits:  |                                |              |
| - gains from investments in equity instruments designated at fair value through other comprehensive income ..... | 1                              | -            |
| - actuarial (loss)/gain on defined benefit plans attributable to equity holders of Telstra Entity .....          | (209)                          | 286          |
| - income tax on actuarial gain/(loss) on defined benefit plans .....   | 63                             | (85)         |
| - actuarial gain on defined benefit plans attributable to non-controlling interests .....                        | -                              | 1            |
| Foreign currency translation reserve:  |                                |              |
| - translation differences of foreign operations attributable to non-controlling interests .....                  | 24                             | 10           |
|  | <b>(121)</b>                   | <b>212</b>   |
| <b>Items that may be subsequently reclassified to the income statement</b>                                       |                                |              |
| Foreign currency translation reserve:  |                                |              |
| - translation differences of foreign operations attributable to equity holders of Telstra Entity .....           | 98                             | 61           |
| - income tax on movements in the foreign currency translation reserve .....                                      | 5                              | 6            |
| - translation differences transferred to the income statement on disposal of controlled entities .....           | 2                              | -            |
| Cash flow hedging reserve:   |                                |              |
| - changes in fair value of cash flow hedges .....  | 403                            | 411          |
| - changes in fair value transferred to other expenses .....  | (481)                          | (541)        |
| - changes in fair value transferred to goods and services purchased .....  | -                              | (11)         |
| - changes in fair value transferred to finance costs .....   | 103                            | 105          |
| - changes in fair value transferred to property, plant and equipment .....                                       | (1)                            | -            |
| - income tax on movements in the cash flow hedging reserve .....   | (7)                            | 11           |
| Foreign currency basis spread reserve:   |                                |              |
| - changes in the value of the foreign currency basis spread .....  | 53                             | -            |
| - income tax on movements in the foreign currency basis spread reserve .....                                     | (16)                           | -            |
|  | <b>159</b>                     | <b>42</b>    |
| <b>Total other comprehensive income .....</b>  | <b>38</b>                      | <b>254</b>   |
| <b>Total comprehensive income for the period .....</b>   | <b>2,156</b>                   | <b>1,994</b> |
| Total comprehensive income attributable to equity holders of Telstra Entity .....                                | 2,099                          | 1,947        |
| Total comprehensive income attributable to non-controlling interests .....                                       | 57                             | 47           |

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

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

|   |      | Telstra Group         |                        |
|---|------|-----------------------|------------------------|
|   |      | As at                 |                        |
|   | Note | 31 Dec<br>2014<br>\$m | 30 June<br>2014<br>\$m |
| <b>Current assets</b>                                     |      |                       |                        |
| Cash and cash equivalents .....                           | 5    | 1,669                 | 5,527                  |
| Trade and other receivables .....                         |      | 4,578                 | 4,172                  |
| Inventories .....   |      | 529                   | 362                    |
| Derivative financial assets .....                         |      | 75                    | 23                     |
| Current tax receivables .....                             |      | 60                    | 2                      |
| Prepayments .....   |      | 362                   | 329                    |
| Assets classified as held for sale .....                  | 9    | -                     | 23                     |
| <b>Total current assets .....</b>                         |      | <b>7,273</b>          | <b>10,438</b>          |
| <b>Non current assets</b>                                 |      |                       |                        |
| Trade and other receivables .....                         |      | 1,060                 | 973                    |
| Inventories .....   |      | 32                    | 29                     |
| Investments - accounted for using the equity method ..... |      | 187                   | 196                    |
| Investments - other .....                                 |      | 107                   | 127                    |
| Property, plant and equipment .....                       |      | 19,719                | 19,842                 |
| Intangible assets .....                                   |      | 8,332                 | 6,382                  |
| Derivative financial assets .....                         |      | 1,914                 | 1,322                  |
| Deferred tax assets .....                                 |      | 13                    | 7                      |
| Defined benefit assets .....                              | 7    | -                     | 44                     |
| <b>Total non current assets .....</b>                     |      | <b>31,364</b>         | <b>28,922</b>          |
| <b>Total assets .....</b>                                 |      | <b>38,637</b>         | <b>39,360</b>          |
| <b>Current liabilities</b>                                |      |                       |                        |
| Trade and other payables .....                            |      | 3,720                 | 3,834                  |
| Provisions .....  |      | 966                   | 932                    |
| Borrowings .....  |      | 2,452                 | 2,277                  |
| Derivative financial liabilities .....                    |      | 62                    | 400                    |
| Current tax payables .....                                |      | 321                   | 296                    |
| Revenue received in advance .....                         |      | 1,044                 | 926                    |
| Liabilities classified as held for sale .....             | 9    | -                     | 19                     |
| <b>Total current liabilities .....</b>                    |      | <b>8,565</b>          | <b>8,684</b>           |
| <b>Non current liabilities</b>                            |      |                       |                        |
| Other payables .....                                      |      | 67                    | 66                     |
| Provisions .....  |      | 276                   | 261                    |
| Borrowings .....  |      | 13,175                | 13,547                 |
| Derivative financial liabilities .....                    |      | 1,111                 | 1,169                  |
| Deferred tax liabilities .....                            |      | 1,260                 | 1,286                  |
| Defined benefit liability .....                           | 7    | 138                   | -                      |
| Revenue received in advance .....                         |      | 392                   | 387                    |
| <b>Total non current liabilities .....</b>                |      | <b>16,419</b>         | <b>16,716</b>          |
| <b>Total liabilities .....</b>                            |      | <b>24,984</b>         | <b>25,400</b>          |
| <b>Net assets .....</b>                                   |      | <b>13,653</b>         | <b>13,960</b>          |
| <b>Equity</b>   |      |                       |                        |
| Share capital .....                                       |      | 5,178                 | 5,719                  |
| Reserves .....  |      | 267                   | (228)                  |
| Retained profits .....                                    |      | 7,910                 | 8,331                  |
| Equity available to Telstra Entity shareholders .....     |      | 13,355                | 13,822                 |
| Non-controlling interests .....                           |      | 298                   | 138                    |
| <b>Total equity .....</b>                                 |      | <b>13,653</b>         | <b>13,960</b>          |

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

# STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2014

|  | Note | Telstra Group               |                |
|--|------|-----------------------------|----------------|
|  |      | Half-year ended 31 December |                |
|  |      | 2014                        | 2013           |
|  |      | \$m                         | \$m            |
| <b>Cash flows from operating activities</b>  |      |                             |                |
| Receipts from customers (inclusive of goods and services tax (GST))  |      | 14,243                      | 14,446         |
| Payments to suppliers and to employees (inclusive of GST)  |      | (9,780)                     | (10,099)       |
| Government grants received   |      | 158                         | 138            |
| Net cash generated by operations   |      | 4,621                       | 4,485          |
| Income taxes paid  |      | (927)                       | (731)          |
| <b>Net cash provided by operating activities</b>   |      | <b>3,694</b>                | <b>3,754</b>   |
| <b>Cash flows from investing activities</b>  |      |                             |                |
| Payments for:  |      |                             |                |
| - property, plant and equipment  |      | (1,398)                     | (1,613)        |
| - intangible assets  |      | (1,766)                     | (456)          |
| Capital expenditure (before investments)   |      | (3,164)                     | (2,069)        |
| - shares in controlled entities and businesses (net of cash acquired)  | 5    | (430)                       | (113)          |
| - payments for joint ventures and associated entities  |      | (15)                        | -              |
| - payments for other investments   |      | (44)                        | (55)           |
| Total capital expenditure  |      | (3,653)                     | (2,237)        |
| Proceeds from:   |      |                             |                |
| - sale of property, plant and equipment  |      | 43                          | 22             |
| - sale of shares in controlled entities (net of cash disposed)   |      | (4)                         | -              |
| Proceeds from finance lease principal amounts  |      | 48                          | 46             |
| Interest received  |      | 70                          | 42             |
| Settlement of hedges in net investments  |      | (2)                         | (24)           |
| Term deposits  |      | 3                           | (4)            |
| Distributions received from joint ventures and associated entities   |      | 63                          | 51             |
| <b>Net cash used in investing activities</b>   |      | <b>(3,432)</b>              | <b>(2,104)</b> |
| <b>Operating cash flows less investing cash flows</b>  |      | <b>262</b>                  | <b>1,650</b>   |
| <b>Cash flows from financing activities</b>  |      |                             |                |
| Proceeds from borrowings   |      | 515                         | 1,100          |
| Proceeds from borrowings from joint ventures and associated entities   | 5    | 79                          | -              |
| Repayment of borrowings  |      | (1,805)                     | (564)          |
| Repayment of finance lease principal amounts   |      | (40)                        | (42)           |
| Share buy-back   | 5    | (1,004)                     | -              |
| Staff repayments of share loans  |      | 2                           | 1              |
| Purchase of shares for employee share plans  |      | (54)                        | (61)           |
| Proceeds received from exercise of equity instruments  |      | -                           | 26             |
| Proceeds from sale of controlled entity shares   | 5    | 333                         | -              |
| Finance costs paid   |      | (471)                       | (479)          |
| Issue of equity by controlled entities   | 5    | 121                         | 160            |
| Payment for share buy-back of non-controlling interests  |      | -                           | (72)           |
| Proceeds from sale of controlled entity shares on behalf of non-controlling interests                                    |      | 33                          | -              |
| Payments to non-controlling interests for sale of their shares in controlled entity (including tax paid on their behalf) |      | (36)                        | -              |
| Dividends paid to equity holders of Telstra Entity   | 3    | (1,866)                     | (1,742)        |
| Dividends paid to non-controlling interests  |      | -                           | (22)           |
| <b>Net cash used in financing activities</b>   |      | <b>(4,193)</b>              | <b>(1,695)</b> |
| <b>Net (decrease) in cash and cash equivalents</b>   |      | <b>(3,931)</b>              | <b>(45)</b>    |
| Cash and cash equivalents at the beginning of the period   |      | 5,527                       | 2,479          |
| Effects of exchange rate changes on cash and cash equivalents  |      | 73                          | 21             |
| <b>Cash and cash equivalents at the end of the period</b>  | 5    | <b>1,669</b>                | <b>2,455</b>   |

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

# STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2014

## Telstra Group

|   | Share capital<br>\$m | Reserves                                   |                                 |   |  | General reserve<br>(e)<br>\$m | Retained profits<br>\$m | Total<br>\$m  | Non-controlling interests<br>\$m | Total equity<br>\$m |
|---|----------------------|--|---------------------------------|---|--|-------------------------------|-------------------------|---------------|----------------------------------|---------------------|
|   |                      | Foreign currency translation<br>(a)<br>\$m | Cash flow hedging<br>(b)<br>\$m | Foreign currency basis spread<br>(c)<br>\$m | Fair value of equity instruments<br>(d)<br>\$m |                               |                         |               |                                  |                     |
| <b>Balance at 1 July 2014</b> .....                       | 5,719                | (86)                                       | (122)                           | -   | -  | (20)                          | 8,331                   | 13,822        | 138                              | 13,960              |
| Profit for the period .....                               | -                    | -  | -                               | -   | -  | -                             | 2,085                   | 2,085         | 33                               | 2,118               |
| Other comprehensive income .....                          | -                    | 105  | 17                              | 37  | 1  | -                             | (146)                   | 14            | 24                               | 38                  |
| Total comprehensive income for the period .....           | -                    | 105  | 17                              | 37  | 1  | -                             | 1,939                   | 2,099         | 57                               | 2,156               |
| Dividends .....   | -                    | -  | -                               | -   | -  | -                             | (1,866)                 | (1,866)       | -                                | (1,866)             |
| Share buy-back (f) .....                                  | (510)                | -  | -                               | -   | -  | -                             | (494)                   | (1,004)       | -                                | (1,004)             |
| Non-controlling interests on acquisitions .....           | -                    | -  | -                               | -   | -  | -                             | -                       | -             | 15                               | 15                  |
| Non-controlling interests on disposals .....              | -                    | -  | -                               | -   | -  | -                             | -                       | -             | (13)                             | (13)                |
| Transfers to income statement (e) .....                   | -                    | -  | -                               | -   | -  | (27)                          | -                       | (27)          | -                                | (27)                |
| Transactions with non-controlling interests (g) .....     | -                    | -  | -                               | -   | -  | 362                           | -                       | 362           | 90                               | 452                 |
| Amounts repaid on share loans provided to employees ..... | 2                    | -  | -                               | -   | -  | -                             | -                       | 2             | -                                | 2                   |
| Additional shares purchased .....                         | (54)                 | -  | -                               | -   | -  | -                             | -                       | (54)          | -                                | (54)                |
| Share based payments .....                                | 21                   | -  | -                               | -   | -  | -                             | -                       | 21            | 11                               | 32                  |
| <b>Balance at 31 December 2014</b> .....                  | <b>5,178</b>         | <b>19</b>                                  | <b>(105)</b>                    | <b>37</b>                                   | <b>1</b>                                       | <b>315</b>                    | <b>7,910</b>            | <b>13,355</b> | <b>298</b>                       | <b>13,653</b>       |
| <b>Balance at 1 July 2013</b> .....                       | 5,711                | (499)                                      | (92)                            | -   | -  | (28)                          | 7,519                   | 12,611        | 264                              | 12,875              |
| Profit for the period .....                               | -                    | -  | -                               | -   | -  | -                             | 1,704                   | 1,704         | 36                               | 1,740               |
| Other comprehensive income .....                          | -                    | 67   | (25)                            | -   | -  | -                             | 201                     | 243           | 11                               | 254                 |
| Total comprehensive income for the period .....           | -                    | 67   | (25)                            | -   | -  | -                             | 1,905                   | 1,947         | 47                               | 1,994               |
| Dividends .....   | -                    | -  | -                               | -   | -  | -                             | (1,742)                 | (1,742)       | (22)                             | (1,764)             |
| Changes in non-controlling interests (g) .....            | -                    | -  | -                               | -   | -  | 13                            | -                       | 13            | 9                                | 22                  |
| Amounts repaid on share loans provided to employees ..... | 1                    | -  | -                               | -   | -  | -                             | -                       | 1             | -                                | 1                   |
| Additional shares purchased .....                         | (61)                 | -  | -                               | -   | -  | -                             | -                       | (61)          | -                                | (61)                |
| Exercise of employee share options .....                  | 25                   | -  | -                               | -   | -  | -                             | -                       | 25            | -                                | 25                  |
| Share based payments .....                                | 22                   | -  | -                               | -   | -  | -                             | -                       | 22            | 3                                | 25                  |
| <b>Balance at 31 December 2013</b> .....                  | <b>5,698</b>         | <b>(432)</b>                               | <b>(117)</b>                    | <b>-</b>                                    | <b>-</b>                                       | <b>(15)</b>                   | <b>7,682</b>            | <b>12,816</b> | <b>301</b>                       | <b>13,117</b>       |

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

# STATEMENT OF CHANGES IN EQUITY

## For the half-year ended 31 December 2014 (continued)

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

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

(c) The foreign currency basis spread reserve represents changes in the foreign currency basis spread of our hedging instruments deferred in equity and amortised to the income statement over the life of the financial instrument.

(d) Fair value of equity instruments reserve represents changes in fair value of equity instruments we elected to measure at fair value through other comprehensive income.

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

On 10 December 2013, Telstra Octave Holdings Limited acquired the remaining 33 per cent interest in Octave Investments Holdings Limited in exchange for selling the net assets of the five variable interest entities controlled by Sharp Point Group Limited. Subsequently on 12 December 2014, we liquidated Octave Investments Holdings Limited and Telstra Octave Holdings Limited and as a result a \$27 million gain was transferred from the general reserve to the income statement.

(f) On 6 October 2014, we completed an off-market share buy-back of 217,418,521 ordinary shares as part of our capital management program. Refer to note 5 for further details.

(g) Our ownership of Autohome Inc. decreased from 63.2 per cent at 30 June 2014 (this percentage takes into account shares that Autohome Inc. has reserved but not granted, pursuant to Autohome Inc.'s employee equity compensation plans) to 55.3 per cent at 31 December 2014 due to employee share issues, sale of a portion of our Autohome Inc. shares and Autohome Inc.'s on-market share issue. None of these transactions resulted in a change of control and we recognised a \$362 million increase in general reserve.

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

Refer to note 5 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 1. BASIS OF PREPARATION

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

Our half-year financial report is a condensed general purpose financial report and is to be read in conjunction with our Annual Financial Report as at 30 June 2014. This should also be read together with any public announcements made by us in accordance with the continuous disclosure obligations arising under Australian Securities Exchange listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

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

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

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

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

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

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

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

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

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

### 1.2 Clarification of terminology used in our income statement

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

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

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

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

### 1.3 Rounding

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



## (Continued)

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

### 2.1 Changes in accounting policies

Apart from the following changes in accounting policies that occurred during the period, our accounting policies are consistent with those disclosed in the Annual Financial Report as at 30 June 2014:

#### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013))

In December 2013, the AASB issued AASB 2013-9: "Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments" which completed a series of amendments to AASB 9: "Financial Instruments" (AASB 9 (2013)). AASB 9 (2013) replaces the relevant sections of AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139) and applies to annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. We early adopted AASB 9 (2013) on a retrospective basis, with the exception of hedge accounting, from 1 July 2014 without restatement of prior periods. Hedge accounting must be applied on a prospective basis. No material differences were identified on the adoption of AASB 9 (2013).

AASB 9 (2013) simplifies the classification and recognition of financial instruments and aligns hedge accounting more closely with common risk management practices.

#### Changes to classification and measurement of financial assets and financial liabilities

##### Financial assets

AASB 9 (2013) requires that an entity classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and the contractual characteristics of the financial assets.

A financial asset is measured at amortised cost if two criteria are met:

- the objective of the business model is to hold the financial asset for the collection of the contractual cash flows
- the contractual cash flows under the instrument solely represent payments of principal and interest.

The new standard removes a requirement to separate embedded derivatives from financial asset hosts. Instead, a hybrid contract should be classified in its entirety at either amortised cost or fair value.

An election can be made to designate a financial asset as measured at fair value through profit or loss on initial recognition if this significantly reduces an accounting mismatch. The designation at fair value through profit or loss is irrevocable.

AASB 9 (2013) prohibits reclassifications except in rare circumstances when the entity's business model changes; in which case, the entity is required to reclassify affected financial assets prospectively.

All equity investments in scope of AASB 9 (2013) should be measured at fair value. The new standard provides the option to present separately in other comprehensive income unrealised and realised fair value gains and losses on equity investments that are not held for trading. Such designation is only available on initial recognition on an instrument-by-instrument basis and it is irrevocable. There is no subsequent recycling of fair value gains and losses to profit or loss; however, dividends from such investments will continue to be recognised in profit or loss. AASB 9 (2013) removes the exemption which allowed unquoted equity instruments to be recognised at historical cost but provides guidance on when cost may be an appropriate estimate of fair value.

##### Financial liabilities

The requirements in AASB 139 regarding classification and measurement of financial liabilities have been retained, including the related application and implementation guidance. Financial liabilities continue to be measured at either fair value through profit or loss or amortised cost. The criteria for designating a financial liability at fair value through profit or loss also remain unchanged.

Where financial liabilities are designated at fair value through profit or loss changes in the fair value due to changes in our own credit risk can be recognised in other comprehensive income and there is no subsequent recycling of these amounts to profit or loss (accumulated gains or losses may be transferred within equity). Where this creates an accounting mismatch in profit or loss, all fair value movements must be recognised in profit or loss.

#### Changes to hedge accounting

AASB 9 (2013) aligns hedge accounting more closely with common risk management practices. Hedge ineffectiveness will continue to be recognised in profit or loss. An entity is still required to prepare contemporaneous documentation; however, the information to be documented under AASB 9 (2013) differs.

The following summarises the key changes:

- Risk components that are separately identifiable and reliably measurable will be eligible as hedged items, including non-financial items
- Effectiveness measurement testing is required only on a prospective basis. New hedge effectiveness criteria include existence of an economic relationship between the hedged item and the hedging instrument
- Certain requirements must be met for discontinuing hedge relationship. Changes to the hedge relationship may result in rebalancing of the hedge ratio rather than de-designation
- Hedging of groups of net positions is permitted subject to certain criteria.

The accounting and presentation requirements for hedge accounting remain largely unchanged, however additional disclosures are required under the new standard.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### 2.1 Changes in accounting policies (continued)

#### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013))(continued)

##### Impact of changes to classification and measurement of financial assets and financial liabilities

On adoption of AASB 9 (2013) we have classified our financial assets as subsequently measured at either amortised costs or fair value, depending on the business model for those assets and on the assets' contractual cash flow characteristics.

As at 1 July 2014 we elected to measure our existing investments in securities, previously held at cost as available-for-sale, at fair value through other comprehensive income, with the exception of our investment in Ooyala Inc. measured at fair value through profit or loss prior to obtaining control via a step acquisition (refer to note 5 for further details). The fair value of all the investments approximated their carrying value at 30 June 2014.

There were no changes in classification or measurement of our financial liabilities.

There was no impact on the statement of comprehensive income or the statement of changes in equity on adoption of AASB 9 (2013) in relation to classification and measurement of financial assets and financial liabilities.

The following table summarises the impact on the classification and measurement of our financial assets as at 1 July 2014:

| Presented in statement of financial position | Financial asset                                      | AASB 139              | AASB 9 (2013)  | Telstra Group     |                 |
|--|--|-----------------------|--|-------------------|-----------------|
|  |  |                       |  | As at 1 July 2014 |                 |
|  |  |                       |  | Reported<br>\$m   | Restated<br>\$m |
| Cash and cash equivalents                    | Bank deposits and negotiable certificates of deposit | Available for sale    | Amortised cost   | 5,222             | 5,222           |
| Trade and other receivable – current         | Loans and receivables - current                      | Loans and receivables | Amortised cost   | 4,172             | 4,172           |
| Trade and other receivable – non current     | Loans and receivables - non current                  | Loans and receivables | Amortised cost   | 973               | 973             |
| Investments other – non current              | Equity investments not held for trading              | Available for sale    | Fair value through profit or loss / other comprehensive income | 127               | 127             |

For more details on the classification of financial assets see note 6.

(Continued)

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

### 2.1 Changes in accounting policies (continued)

#### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013))(continued)

##### Impact of changes to hedge accounting

##### Hedge relationships

Transactions previously de-designated from fair value hedge relationships relating to a portion of our borrowing portfolio have been re-instated in fair value hedges with effect from 1 July 2014. These transactions were and continue to be in effective economic relationships based on contractual amounts and cash flows over the life of the transaction, however previously they did not satisfy the requirements for hedge accounting. We have also redefined our hedge relationships relating to the portion of our offshore borrowing portfolio in fair value hedges to exclude borrowing margins from the hedged risk. This has resulted in de-designating our existing fair value hedge relationships and re-designating from 1 July 2014 and does not result in any change to the underlying economic objective of the hedging, i.e. to convert foreign currency borrowings to floating Australian dollar borrowings. The above changes did not result in any market transactions.

##### Foreign currency basis spreads and forward element of forward contracts

We have the option to exclude the forward element of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related or time-period related hedged items.

We have elected to separate and exclude foreign currency basis spreads from financial instruments that are designated hedging instruments of our foreign currency overseas borrowings. The cumulative change in fair value of the foreign currency basis spreads is recognised in a separate component of equity. These amounts are reclassified from equity to profit or loss in the same period as the hedged borrowings affect profit or loss.

For designated hedge relationships of forecast transactions we may choose to separate the forward element of forward contracts which hedge transaction related items such that only the change in the spot element of the forward contract is designated as the hedging instrument. Where this is the case, the cumulative change in fair value of the forward elements of forward contracts is recognised in a separate component of equity. These amounts are reclassified from equity to profit or loss in the same period as the hedged items affect profit or loss.

The following accounting policies are applicable from 1 July 2014:

##### Transactions and balances

Foreign currency transactions are converted into the relevant functional currency at market exchange rates applicable at the date of each transaction. Amounts payable or receivable in foreign currencies at reporting date are converted into the relevant functional currency at market exchange rates at reporting date. Any currency translation gains and losses that arise are included in our income statement. Where we enter into a hedge for a specific expenditure commitment or for the construction of an asset, hedging gains and losses are accumulated in other comprehensive income over the period of the hedge and are transferred to the carrying value of the asset upon completion, or included in the income statement at the same time as the discharge of the expenditure commitment.

Non-monetary items in foreign currency that are measured at fair value (i.e. certain equity instruments not held for trading) are translated using the exchange rates at the date when the fair value was determined with the translation differences reported as part of the fair value gain or loss. The fair value changes presented in other comprehensive income in accordance with AASB 9 (2013) include any related foreign exchange component.

##### Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits and negotiable certificates of deposit that are held for the purposes of meeting short term cash commitments rather than investment purposes.

Bank deposits and negotiable certificates of deposit are classified as financial assets held at amortised cost.

##### Trade and other receivables

Trade and other receivables are financial assets. They are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

An allowance for doubtful debts is raised to reduce the carrying amount of trade receivables, based on a review of outstanding amounts at reporting date. The allowance for doubtful debts is based on historical trends and management's assessment of general economic conditions. An allowance for doubtful debts is raised when management considers there is a credit risk, an insolvency risk or an incapacity to pay a legally recoverable debt.

Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### 2.1 Changes in accounting policies (continued)

#### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013))(continued)

##### Investments in listed securities and in other corporations

Our investments in listed securities and in other corporations where we do not have control, joint control or significant influence, are initially measured at fair value. The subsequent changes in fair value of investments held for trading are recognised in the income statement. For the investments not held for trading we can elect to present the subsequent changes in fair value in the income statement or through other comprehensive income. The election is made on initial recognition, is irrevocable and is made on an investment by investment basis depending on strategic intent.

Fair values are calculated on the following basis:

- for listed securities traded in an active market, we use the current quoted market bid price at reporting date
- for investments in unlisted entities whose securities are not traded in an active market, we establish fair value by using other valuation techniques, including reference to discounted cash flows and fair values of recent orderly transactions between market participants involving instruments that are substantially the same, maximising the use of observable (market) inputs and minimising the use of unobservable (non-market) inputs.

We remeasure the fair value of our investments in listed securities and other corporations. Purchases and sales of investments are recognised on settlement date, being the date on which we receive or deliver an asset.

##### Impairment of financial assets

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets, other than investments in equity instruments, are impaired. Our investments in securities are measured at fair value and are not tested for impairment.

For financial assets held at amortised cost, we consider the financial asset to be impaired when there is objective evidence, as a result of one or more events, that the present value of estimated discounted future cash flows is lower than the carrying value. Any impairment losses are recognised immediately in the income statement.

##### Fair value hedges

Where fair value hedges qualify for hedge accounting, the gain or loss on the hedging instruments are recognised in the income statement, except where those hedging instruments hedge investments in equity instruments where we have elected to present changes in fair value in other comprehensive income in which case the gains or losses on the hedging instrument will be recognised within other comprehensive income. The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and is recognised in the income statement except where the hedged item is an equity instrument where we have elected to present fair value in other comprehensive income in which case the hedging gain or loss on the hedged item shall remain in other comprehensive income.

When a hedged item is an unrecognised firm commitment, the cumulative change in its fair value subsequent to designation is recognised as an asset or a liability with a corresponding gain or loss recognised in the income statement.

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period. Where these fair value hedges qualify for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains or losses in relation to the hedged item where those gains or losses relate to the risk intended to be hedged.

If the hedged item is an equity instrument where we have elected to present changes in fair value in other comprehensive income, and the hedged exposure is one that could affect other comprehensive income, recognised hedge ineffectiveness is presented in other comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### 2.1 Changes in accounting policies (continued)

#### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013))(continued)

##### De-designation of hedge relationships

We will discontinue hedge accounting prospectively only when the hedging relationship, or part of the hedging relationship no longer qualifies for hedge accounting, which includes where there has been a change to our risk management objective and strategy for undertaking the hedge and instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is consistent with our documented risk management objective.

For borrowings de-designated from fair value hedge relationships, from the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are accounted for on an amortised cost basis consistent with a revised effective interest rate as at the de-designation date. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives. The cumulative gains or losses previously recognised from the remeasurement of these borrowings as at the date of de-designation are unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs.

##### Embedded derivatives

Derivatives embedded in host contracts which are financial assets are not separated from financial asset hosts and a hybrid contract is classified in its entirety at either amortised cost or fair value.

Derivatives embedded in other financial liabilities or other host contracts are treated as separate financial instruments when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

#### (b) Other

In addition to the above changes in accounting policy, we note the following new accounting standards that are applicable to us from 1 July 2014:

- AASB 1031: "Materiality"
- AASB 2012-3: "Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities [AASB 132]"
- AASB 2013-9: "Amendments to Australian Accounting Standards - Part B: Materiality"
- AASB 2014-1: "Amendments to Australian Accounting Standards - Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles, Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119), Part C: Materiality".

These new accounting standards do not have any material impact on our financial results.

### 2.2 Estimates, assumptions and judgements

#### (a) Property, plant and equipment

##### Depreciation

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

The net effect of the assessment of service lives for the half-year ended 31 December 2014 was a \$7 million increase in depreciation expense (2013: \$79 million decrease).

#### (b) Intangible Assets

##### Amortisation

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

The net effect of the reassessment of our amortisation expense for the half-year ended 31 December 2014 was nil (2013: \$25 million decrease).

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

Apart from those already disclosed in our Annual Financial Report as at 30 June 2014, the accounting standards that will be applicable to us in future reporting periods, that have not been early adopted during the half-year ended 31 December 2014, are detailed below:

#### (a) Financial instruments

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

AASB 9 (2014) is the final version of a new principal standard which consolidates requirements on the classification and measurement of financial assets and liabilities; hedge accounting and an expected credit losses model for impairment of financial assets that replaces the incurred loss impairment model used today. It supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010).

AASB 9 (2014) and AASB 2014-7 apply to annual reporting periods beginning on or after 1 January 2018 (i.e. from 1 July 2018 for Telstra), with early adoption permitted as set out in those standards.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015. We have early adopted the previous version of the standard, AASB 9 (2013): "Financial Instruments", from 1 July 2014. This version excludes the impairment section.

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", the Australian equivalent of IFRS 15: "Revenue from Contracts with Customers" issued by International Accounting Standards Board in May 2014, and AASB 2014-5: "Amendments to Australian Accounting Standards arising from 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 and AASB 2014-5 apply to Telstra from 1 July 2017, with early application permitted. We are currently assessing the impact of AASB 15 on our financial results.

#### (c) Other

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

- AASB 2014-3: "Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]"
- AASB 2014-4: "Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]"
- AASB 2014-9: "Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements [AASB 127]"
- AASB 2014-10: "Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128]"
- 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 2015-3: "Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality".

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

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 3. DIVIDENDS

Our dividends provided for and paid during the half-year are listed below:

|  | Telstra Entity<br>Half-year ended<br>31 December |             |
|--|--|-------------|
|  | 2014<br>\$m                                      | 2013<br>\$m |
| <b>Dividends paid</b>                    |  |             |
| Previous year final dividend paid.....   | 1,866  | 1,742       |
| <b>Dividends paid per ordinary share</b> |  |             |
| Previous year final dividend paid.....   | 15.0   | 14.0        |

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

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

|  | Telstra Entity<br>Half-year ended<br>31 December |               |
|--|--|---------------|
|  | 2014<br>cents                                    | 2013<br>cents |
| <b>Dividends per ordinary share to be paid</b> |  |               |
| Interim dividend fully franked.....            | 15.0   | 14.5          |

As the interim dividend for the half-year ended 31 December 2014 was not determined or publicly recommended by the Board of Directors (the Board) as at 31 December 2014, no provision for dividend has been raised in the statement of financial position. The interim dividend has been reported as an event subsequent to reporting date. Refer to note 11 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 4. SEGMENT INFORMATION

### Operating segments

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

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

In our segment results, the "All Other" category consists of various business units that do not qualify as reportable segments in their own right. The comparative period also includes the results of entities fully or partially divested in prior periods, namely CSL New World Mobility Limited and its controlled entities (CSL Group) and Sensis Pty Ltd and its controlled entities (Sensis Group).

Following the disposal of the CSL Group in May 2014, our Telstra International Group (TIG) segment mainly consists of the results of Autohome Inc., our controlled entity listed on the New York Stock Exchange (NYSE). In consideration of the NYSE listing rules and the rules and regulations of the U.S. Securities and Exchange Commission applicable to Autohome Inc., the results of the TIG segment have been combined and disclosed in the "All Other" category. This is in compliance with AASB 8: "Operating Segments".

There have been no other changes to our operating segments during the half-year ended 31 December 2014.

For a description of our reportable segments refer to note 5 of the 30 June 2014 Financial Report.

### Segment results

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

We have no reconciling items between segment results and Telstra Group's reported EBITDA. The reconciliation of segment results to the Telstra Group's reported EBIT and profit before income tax expense in the financial statements includes only depreciation and amortisation expenses and net finance costs.

Certain items of income and expense are recorded by our corporate areas, rather than being allocated to each segment. These items include:

- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy (our reportable segments record these amounts upfront)
- the majority of redundancy expenses for the Telstra Entity.

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

- revenue associated with mobile handsets sold via dealers for the Global Enterprises and Services (GES) segment is allocated to the Telstra Retail (TR) segment along with the associated costs of goods and services purchased, as the TR segment manages our supplier, delivery and dealership arrangements. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage services are recorded in the TR and GES segments depending on the type of customer segment serviced
- Network Applications and Services (NAS) costs associated with revenue from the Telstra Business (TB) customers, included in the TR segment, are reported in the GES segment
- the Telstra Operations (TOPs) segment result includes network service delivery costs for the TR, GES and Telstra Wholesale (TW) customers
- the TOPs segment recognises certain expenses in relation to the installation and running of the Hybrid Fibre Coaxial (HFC) cable network
- domestic promotion and advertising expenses for the Telstra Entity are recorded centrally in the TR head office function
- call centre costs associated with the GES segment are included in the TR segment.



# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment results (continued)

The following tables detail our segment results, based on the reporting structure as at 31 December 2014:

| <b>Telstra Group</b>                          |              |                  |                   |              |                          |               |
|---|--------------|------------------|-------------------|--------------|--------------------------|---------------|
| <b>Half-year ended</b>                        | <b>TR</b>    | <b>GES (iii)</b> | <b>TOps (iii)</b> | <b>TW</b>    | <b>All Other (iv)(v)</b> | <b>Total</b>  |
| <b>31 December 2014</b>                       | <b>\$m</b>   | <b>\$m</b>       | <b>\$m</b>        | <b>\$m</b>   | <b>\$m</b>               | <b>\$m</b>    |
| Revenue from external customers (i) .....     | 8,598        | 2,612            | 90                | 1,198        | 222                      | 12,720        |
| Other income .....                            | 30           | 11               | 92                | 46           | 115                      | 294           |
| <b>Total income</b> .....                     | <b>8,628</b> | <b>2,623</b>     | <b>182</b>        | <b>1,244</b> | <b>337</b>               | <b>13,014</b> |
| Labour .....                                  | 628          | 520              | 811               | 38           | 435                      | 2,432         |
| Goods and services purchased (i) .....        | 2,688        | 658              | 5                 | 43           | (132)                    | 3,262         |
| Other expenses .....                          | 607          | 233              | 792               | 11           | 331                      | 1,974         |
| Share of equity accounted (losses) (ii) ..... | -            | -                | -                 | -            | (10)                     | (10)          |
| <b>EBITDA contribution</b> .....              | <b>4,705</b> | <b>1,212</b>     | <b>(1,426)</b>    | <b>1,152</b> | <b>(307)</b>             | <b>5,336</b>  |

| <b>Telstra Group</b>                      |              |                  |                   |              |                          |               |
|---|--------------|------------------|-------------------|--------------|--------------------------|---------------|
| <b>Half-year ended</b>                    | <b>TR</b>    | <b>GES (iii)</b> | <b>TOps (iii)</b> | <b>TW</b>    | <b>All Other (iv)(v)</b> | <b>Total</b>  |
| <b>31 December 2013</b>                   | <b>\$m</b>   | <b>\$m</b>       | <b>\$m</b>        | <b>\$m</b>   | <b>\$m</b>               | <b>\$m</b>    |
| Revenue from external customers (i) ..... | 8,120        | 2,524            | 55                | 1,123        | 1,162                    | 12,984        |
| Other income .....                        | 34           | 4                | 71                | 32           | 36                       | 177           |
| <b>Total income</b> .....                 | <b>8,154</b> | <b>2,528</b>     | <b>126</b>        | <b>1,155</b> | <b>1,198</b>             | <b>13,161</b> |
| Labour .....                              | 584          | 430              | 824               | 37           | 660                      | 2,535         |
| Goods and services purchased (i) .....    | 2,370        | 669              | 5                 | 40           | 259                      | 3,343         |
| Other expenses .....                      | 586          | 199              | 758               | 35           | 531                      | 2,109         |
| <b>EBITDA contribution</b> .....          | <b>4,614</b> | <b>1,230</b>     | <b>(1,461)</b>    | <b>1,043</b> | <b>(252)</b>             | <b>5,174</b>  |

(i) Revenue from external customers in GES includes \$86 million (2013: \$83 million) of inter-segment revenue treated as external expenses in TR and TW, which is eliminated in the "All Other" category.

External expenses in GES also include \$12 million (2013: \$12 million) of inter-segment expenses treated as external revenue in TW and eliminated in the "All Other" category.

(ii) The "All Other" category includes a \$10 million (2013: nil) share of net (loss) from our 30 per cent investment in Project Sunshine I Pty Ltd, the new holding company of the Sensis Group.

(iii) In the current period GES segment includes costs related to NAS revenue reported in this segment (\$6 million labour and \$51 million other expenses, mainly for commercial recoverable works, where customers contribute to the extension of our networks). In the comparative period these costs were reported in the TOps segment, while the related NAS revenue was reported in the GES segment.

(iv) Following the disposal of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) on 26 November 2014, the current period includes only four months of the Sequel Media Group results. The comparative period includes six months. Refer to notes 5 and 9 for further details.

(v) Following the sale of the CSL Group, the comparative period includes six months of the CSL group results.

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in the Sensis Group and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. Following the disposal of the Sensis Group, the current period includes \$19 million net profit (reduction in other expenses) related to the discontinued operation. The comparative period includes six months of the Sensis Group results, including the total income from the discontinued operation of \$358 million and a net loss of \$221 million.

Refer to note 9 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment results (continued)

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

|   | <b>Telstra Group</b>   |             |
|---|------------------------|-------------|
|   | <b>Half-year ended</b> |             |
|   | <b>31 December</b>     |             |
|   | <b>2014</b>            | <b>2013</b> |
|   | <b>\$m</b>             | <b>\$m</b>  |
| EBITDA contribution .....   | <b>5,643</b>           | 5,426       |
| All Other .....   | <b>(307)</b>           | (252)       |
| <b>Telstra Group EBITDA</b> .....   | <b>5,336</b>           | 5,174       |
| Depreciation and amortisation .....                                       | <b>(1,989)</b>         | (2,105)     |
| <b>Telstra Group EBIT</b> .....   | <b>3,347</b>           | 3,069       |
| Net finance costs .....   | <b>(353)</b>           | (490)       |
| <b>Telstra Group profit before income tax expense</b> .....               | <b>2,994</b>           | 2,579       |
| Telstra Group profit before income tax expense, including:                |                        |             |
| Profit before income tax expense from continuing operations .....         | <b>2,975</b>           | 2,786       |
| Profit/(loss) before income tax expense from discontinued operation ..... | <b>19</b>              | (207)       |
| <b>Telstra Group profit before income tax expense</b> .....               | <b>2,994</b>           | 2,579       |

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 5. NOTES TO THE STATEMENT OF CASH FLOWS

### Reconciliation of cash and cash equivalents

|  | Telstra Group     |              |
|--|-------------------|--------------|
|  | As at 31 December |              |
|  | 2014              | 2013         |
|  | \$m               | \$m          |
| Cash at bank and on hand .....                                       | 335               | 340          |
| Bank deposits, negotiable certificates of deposit .....              | 1,334             | 2,115        |
| <b>Cash and cash equivalents in the statement of cash flows.....</b> | <b>1,669</b>      | <b>2,455</b> |

### Acquisitions

#### Current period

#### Ooyala Inc.

On 30 September 2014, our newly incorporated controlled entity, Ooyala Holdings Inc., in which we hold a 98.9 per cent shareholding, acquired additional shares in our existing investment, Ooyala Inc. Ooyala Holdings Inc. now owns all of the shares in Ooyala Inc. which has a number of controlled entities.

Ooyala enables broadcasters, operators, and media organisations to deliver digital TV and video content across any device to mass audiences, using analytics to provide recommendations, personalised content and advertising to the end user. We acquired Ooyala to create an integrated software business.

As at 30 June 2014, we owned 27 per cent (undiluted) of equity in Ooyala Inc. valued at \$64 million. The investment was accounted for as an available-for-sale investment because it did not meet the AASB 128: "Investments in Associates and Joint Ventures" criteria for equity accounting as an associate. On 1 July 2014, i.e. the first time adoption date of AASB 9 (2013): "Financial Instruments", the existing investment was remeasured at fair value with subsequent changes to be recorded through profit or loss. The investment was revalued immediately before the acquisition of the additional shares resulting in a \$6 million gain recognised in the income statement.

The total consideration for 98.9 per cent ownership of Ooyala amounted to \$364 million, including a non cash consideration of \$72 million (\$70 million representing the fair value of our existing investment in Ooyala and \$2 million representing the portion of an employee cash incentive plan replacing the existing shared based payments plan at the date of acquisition).

The goodwill comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

The costs incurred in completing this transaction amounted to \$1 million and are included in "Other expenses" in the income statement.

The effect of the acquisition is detailed below:

|   | Ooyala                           |                           |
|---|----------------------------------|---------------------------|
|   | Half-year ended 31 December 2014 |                           |
|   | \$m                              | \$m                       |
| <b>Consideration for acquisition</b>                  |                                  |                           |
| Cash consideration for acquisition .....              | 292                              |                           |
| Non cash consideration .....                          | 72                               |                           |
| <b>Total purchase consideration.....</b>              | <b>364</b>                       |                           |
| Cash balances acquired.....                           | (18)                             |                           |
| Non cash consideration .....                          | (72)                             |                           |
| <b>Outflow of cash on acquisition.....</b>            | <b>274</b>                       |                           |
|   | <b>Fair value</b>                | <b>Carrying value (*)</b> |
| <b>Assets/(liabilities) at acquisition date</b>       |                                  |                           |
| Cash and cash equivalents.....                        | 18                               | 18                        |
| Trade and other receivables.....                      | 39                               | 39                        |
| Property, plant and equipment.....                    | 5                                | 5                         |
| Intangible assets .....                               | 60                               | 3                         |
| Other assets .....                                    | 3                                | 3                         |
| Trade and other payables.....                         | (34)                             | (34)                      |
| Unearned revenue .....                                | (22)                             | (28)                      |
| Other liabilities.....                                | (1)                              | (1)                       |
| Deferred tax liabilities .....                        | (20)                             | -                         |
| Net assets .....                                      | 48                               | 5                         |
| Adjustment to reflect non-controlling interests ..... | (1)                              |                           |
| <b>Goodwill on acquisition .....</b>                  | <b>317</b>                       |                           |
| <b>Total purchase consideration.....</b>              | <b>364</b>                       |                           |

(\*) Carrying value in entity's financial statements

The fair value of trade and other receivables amounted to \$39 million. The gross contractual amount of these receivables was \$39 million, of which \$39 million is expected to be collectible.

The \$1 million non-controlling interest recognised at the acquisition date was measured as a proportionate share of identifiable net assets.

Since the date of acquisition, Ooyala has contributed income of \$16 million and a loss before income tax expense of \$21 million.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### Acquisitions (continued)

#### Videoplaza AB

On 20 October 2014, our controlled entity Ooyala Holdings Inc., in which we own a 98.9 per cent shareholding, acquired 100 per cent shareholding in Videoplaza AB and its controlled entities (Videoplaza) for a total consideration of \$77 million, including \$3 million contingent on the entities achieving predetermined financial and non-financial targets by 30 June 2016.

Videoplaza is a leader in video advertising technology and monetization. It operates premium video advertising serving platforms and programmatic trading solutions, delivering advertising to viewers across all devices. It is used by broadcasters and media companies in Europe and the Asia Pacific region to maximise video monetisation.

This acquisition provides Ooyala Inc. with access to the fast-growing video advertising market and build out a new business dimension in advertising.

The goodwill comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

The costs incurred in completing this transaction amounted to \$1 million and are included in "Other expenses" in the income statement.

The effect of the acquisition is detailed below:

|   | Videoplaza                          |                           |
|---|-------------------------------------|---------------------------|
|   | Half-year ended<br>31 December 2014 |                           |
|   | \$m                                 | \$m                       |
| <b>Consideration for acquisition</b>            |                                     |                           |
| Cash consideration for acquisition .....        | 74                                  |                           |
| Contingent consideration .....                  | 3                                   |                           |
| <b>Total purchase consideration</b> .....       | <b>77</b>                           |                           |
| Cash balances acquired .....                    | (5)                                 |                           |
| Contingent consideration .....                  | (3)                                 |                           |
| <b>Outflow of cash on acquisition</b> .....     | <b>69</b>                           |                           |
|   | <b>Fair value</b>                   | <b>Carrying value (*)</b> |
| <b>Assets/(liabilities) at acquisition date</b> |                                     |                           |
| Cash and cash equivalents .....                 | 5                                   | 5                         |
| Trade and other receivables .....               | 2                                   | 2                         |
| Property, plant and equipment .....             | 1                                   | 1                         |
| Intangible assets .....                         | 3                                   | -                         |
| Other assets .....                              | 1                                   | 1                         |
| Trade and other payables .....                  | (4)                                 | (5)                       |
| Deferred tax liabilities .....                  | (1)                                 | -                         |
| Net assets .....                                | 7                                   | 4                         |
| <b>Goodwill on acquisition</b> .....            | <b>70</b>                           |                           |
| <b>Total purchase consideration</b> .....       | <b>77</b>                           |                           |

(\*) Carrying value in entity's financial statements

The fair value of trade and other receivables amounted to \$2 million. The gross contractual amount of these receivables was \$2 million, of which \$2 million is expected to be collectible.

Since the date of acquisition, Videoplaza AB has contributed income of \$2 million and a loss before income tax expense of \$2 million.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### Acquisitions (continued)

#### Other acquisitions

On 15 July 2014, we acquired a 100 per cent shareholding in Medinexus Pty Ltd (Medinexus) for a total consideration of \$4 million. Medinexus provides a cloud based solution to diagnostic imaging providers that enables them to receive e-referrals from healthcare providers and deliver digitised images and reports back to the referrer via the internet.

On 1 August 2014, we acquired a controlling 51 per cent shareholding in Telstra SNP Monitoring Pty Ltd (TSM) for a total consideration of \$20 million. TSM provides back-to-base monitoring of alarm systems from two monitoring centres and delivers security installation projects.

On 13 October 2014, we acquired a 100 per cent shareholding in Bridge Point Communications Pty Ltd (Bridge Point) for a total consideration of \$13 million. Bridge Point is a provider of information security, networks and data management solutions.

On 13 November 2014, we acquired a 100 per cent shareholding in iCareHealth Pty Ltd (iCareHealth) for a total consideration of \$26 million, including \$9 million deferred consideration and \$1 million contingent on the entity achieving predetermined targets by 30 June 2016. iCareHealth provides e-health solutions for residential aged care.

On 28 November 2014, we acquired a controlling 50.1 per cent shareholding in AFN Solutions Pty Ltd (AFN) for a total consideration of \$6 million. AFN provides products, services and consulting in the security sector.

On 1 December 2014, we acquired a 100 per cent shareholding in Emerging Holdings Pty Ltd and its controlled entities (Emerging Holdings) for a total consideration of \$15 million, including \$4 million contingent on the entity achieving predetermined targets by 4 February 2019. Emerging Holdings provides e-health solutions to hospitals.

On 15 December 2014, our controlled entity ACN 602 764 438 Pty Ltd (CloudMed) acquired the assets of Cloud 9 Software Pty Ltd and IdeaObject Software Private Limited for a total consideration of \$19 million, including \$3 million contingent consideration. CloudMed provides eHealth cloud software solutions to general practitioners in Australia and hospitals in Asia.

The aggregate non-controlling interests recognised at the acquisition dates of the above acquisitions was measured as a proportionate share of identifiable net assets.

The costs incurred in completing these transactions amounted to \$2 million and are included in "Other expenses" in the income statement.

The effect of all these acquisitions on payments for shares in controlled entities is detailed below:

|   | Other acquisitions                  |                           |
|---|-------------------------------------|---------------------------|
|   | Half-year ended<br>31 December 2014 |                           |
|   | \$m                                 | \$m                       |
| <b>Consideration for acquisition</b>                  |                                     |                           |
| Cash consideration for acquisition .....              | 86                                  |                           |
| Contingent consideration .....                        | 8                                   |                           |
| Deferred consideration .....                          | 9                                   |                           |
| <b>Total purchase consideration .....</b>             | <b>103</b>                          |                           |
| Cash balances acquired.....                           | (7)                                 |                           |
| Contingent consideration .....                        | (8)                                 |                           |
| Deferred consideration .....                          | (9)                                 |                           |
| <b>Outflow of cash on acquisition.....</b>            | <b>79</b>                           |                           |
|   | <b>Fair value</b>                   | <b>Carrying value (*)</b> |
| <b>Assets/(liabilities) at acquisition date</b>       |                                     |                           |
| Cash and cash equivalents.....                        | 7                                   | 7                         |
| Trade and other receivables.....                      | 22                                  | 22                        |
| Property, plant and equipment.....                    | 2                                   | 2                         |
| Intangible assets .....                               | 50                                  | 1                         |
| Other assets.....                                     | 2                                   | 2                         |
| Trade and other payables.....                         | (15)                                | (15)                      |
| Unearned revenue .....                                | (4)                                 | (4)                       |
| Other liabilities.....                                | (4)                                 | (4)                       |
| Deferred tax liabilities .....                        | (9)                                 | -                         |
| Net assets .....                                      | 51                                  | 11                        |
| Adjustment to reflect non-controlling interests ..... | (10)                                |                           |
| <b>Goodwill on acquisition .....</b>                  | <b>62</b>                           |                           |
| <b>Total purchase consideration.....</b>              | <b>103</b>                          |                           |

(\*) Carrying value in entity's financial statements

Since the dates of acquisition, all these acquired entities have contributed income of \$30 million and nil profit before income tax expense.

There is no goodwill that is expected to be deductible for tax purposes.

If all the acquisitions made in the current period had occurred on 1 July 2014, our adjusted consolidated income and consolidated profit before income tax expense for the period ending 31 December 2014 for the Telstra Group would have been \$13,109 million and \$2,926 million, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### Acquisitions (continued)

#### Acquisition of Pacnet Limited

On 22 December 2014, we entered into a legally binding agreement to acquire Pacnet Limited (Pacnet), an Asian telecommunications and services provider of connectivity, managed services and data centre services to carriers, multinational corporations and governments in the Asia-Pacific region. The transaction is subject to regulatory and Pacnet's financier approvals and it is expected to be completed by mid-2015. The US\$697 million acquisition price is subject to completion adjustments and includes US\$400 million of gross debt.

As at 31 December 2014, no consideration had been transferred. Due to the above conditions precedent as at the date of this report we did not obtain control of Pacnet and the acquisition date was not determined.

#### Prior period

On 22 August 2013, we acquired a 100 per cent shareholding in NSC Group Pty Ltd (NSC) and its controlled entities for a total consideration of \$45 million.

On 2 September 2013, we acquired a 100 per cent shareholding in DCA eHealth Solutions Pty Ltd (DCA Health) and its controlled entities for a total consideration of \$44 million.

On 30 September 2013, we acquired a 50 per cent shareholding in Fred IT Group Pty Ltd and its controlled entities (Fred IT Group) for a total consideration of \$27 million, with \$3 million of this contingent upon the entity achieving pre-determined targets for the earn out period of financial year 2014. At 30 June 2014 earn out targets were reassessed resulting in \$3 million additional contingent consideration being recognised in the income statement. Total contingent consideration of \$6 million was paid in the current reporting period. We consolidate the results of Fred IT Group as we have control through our decision making ability on the board.

On 31 December 2013, we acquired a 100 per cent shareholding in O2 Networks Pty Ltd via an acquisition of three holding entities: Prentice Management Consulting Pty Ltd, Kelzone Pty Ltd and Goodwin Enterprises (Vic) Pty Ltd, for a total consideration of \$55 million, with \$4 million of this contingent upon the entity achieving predetermined targets by 30 June 2014. Provisional accounting at 31 December 2013 was finalised in the second half of the financial year 2014 and included in our 30 June 2014 Annual Financial Report, resulting in an additional consideration of \$2 million. Furthermore, based on the final assessment of the predetermined targets only \$2 million of the contingent consideration was paid in the current period, with the remaining balance reversed to the income statement.

The effect of these acquisitions on payments for share in controlled entities are detailed below:

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

(\*) Carrying value in entity's financial statements.

There is no goodwill that is expected to be deductible for tax purposes.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### Acquisitions (continued)

#### Prior period (continued)

The following transactions impacted cash flows from financing activities:

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

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

### Disposals

#### Current period

On 26 November 2014, our controlled entity Telstra Holdings Pty Ltd disposed of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) for a total consideration of \$18 million (including cash balances), resulting in a \$2 million net loss on sale, largely representing the \$2 million foreign currency translation loss reclassified on the disposal from reserves to the income statement. On completion of the sale we deconsolidated the Sequel Media Inc. balance sheet, including \$26 million of cash balances disposed.

#### Autohome Inc.

Our ownership interest in Autohome Inc. decreased from 63.2 per cent at 30 June 2014 (this percentage takes into account shares that Autohome has reserved but not granted, pursuant to Autohome's employee equity compensation plans) to 62.9 per cent following employee share issues. Following this on 25 November 2014, our controlled entity Telstra Holdings Pty Ltd disposed of a 6.4 per cent interest in Autohome Inc. for a total consideration of \$333 million (net of underwriting commissions). At the same time Autohome Inc. completed an on-market share issue for total consideration of \$116 million. The combined effect of the two transactions decreases Telstra Holdings Pty Ltd ownership in Autohome Inc. from 62.9 per cent to 55.3 per cent. None of these transactions resulted in a change of control. Changes in valuation of non-controlling interests resulting from these transactions are recorded in the general reserve.

#### Prior period

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

### Goodwill reconciliation

| Telstra Group   | Goodwill<br>\$m |
|---|-----------------|
| Goodwill at cost at 1 July 2013 .....                 | 1,650           |
| Accumulated impairment at 1 July 2013 .....           | (268)           |
| <b>Written down value at 1 July 2013</b> .....        | <b>1,382</b>    |
| - acquisition of controlled entities .....            | 120             |
| - impairment losses from discontinued operation ..... | (100)           |
| - transfers to non current assets held for sale ....  | (1,029)         |
| - net foreign currency exchange differences .....     | 49              |
| Goodwill at cost at 31 December 2013 .....            | 516             |
| Accumulated impairment at 31 December 2013 ..         | (94)            |
| <b>Written down value at 31 December 2013</b> .....   | <b>422</b>      |
| Goodwill at cost at 1 July 2014 .....                 | 489             |
| Accumulated impairment at 1 July 2014 .....           | (94)            |
| <b>Written down value at 1 July 2014</b> .....        | <b>395</b>      |
| - acquisition of controlled entities .....            | <b>449</b>      |
| - net foreign currency exchange differences .....     | <b>43</b>       |
| Goodwill at cost at 31 December 2014 .....            | <b>887</b>      |
| Accumulated impairment at 31 December 2014 ..         | -               |
| <b>Written down value at 31 December 2014</b> .....   | <b>887</b>      |

### Other transactions

#### Share buy-back

As part of our capital management program, on 6 October 2014, we completed an off-market share buy-back of 217,418,521 ordinary shares (or 1.75 per cent of our total shares on issue). The ordinary shares were bought back at \$4.60 per share, which represented a 14 per cent discount to the market price and comprised a fully franked dividend component of \$2.27 per share and a capital component of \$2.33 per share. The shares bought back were subsequently cancelled.

The total cost of the share buy-back amounted to \$1,004 million, including \$4 million of associated transaction costs.

#### Other

On 12 December 2014, we contributed \$5 million cash to incorporate PT Teltranet Aplikasi Solusi, with an additional \$5 million contributed by other shareholders. We own 49 per cent shareholding in the entity, however, we control it through our decision making ability on the board.

During the period we borrowed \$79 million (2013: nil) under a loan agreement with our associated entity, Project Sunshine I Pty Ltd. The loan interest rate is 8 per cent per annum and has a maturity date of 31 December 2015.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 6. FINANCE COSTS, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

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

Our overall risk management program seeks to mitigate these risks and reduce volatility in our financial performance and support the delivery of our financial targets. Financial risk management is carried out centrally by our Treasury department under policies approved by the Board.

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

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

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

### (a) Finance costs

Our finance costs for the half-year ended 31 December 2014 are detailed below:

| Table A  | Telstra Group               |      |
|--|-----------------------------|------|
|  | Half-year ended 31 December |      |
|  | 2014                        | 2013 |
|  | \$m                         | \$m  |
| Interest on borrowings .....   | 432                         | 475  |
| Interest on finance leases .....   | 10                          | 10   |
| Finance income .....   | (85)                        | (68) |
| <b>Net borrowing costs (i)</b>   | <b>357</b>                  | 417  |
| Net interest on net defined benefit plans .....  | (3)                         | 4    |
| (Gain)/loss on fair value hedges - effective (ii)  | (1)                         | 69   |
| Loss on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (ii) ..... | -                           | 31   |
| Loss/(gain) on cash flow hedges - ineffective  | 16                          | (15) |
| Other .....  | 13                          | 12   |
|  | <b>382</b>                  | 518  |
| Less: interest on borrowings capitalised (iii) ..  | (29)                        | (28) |
|  | <b>353</b>                  | 490  |

(i) The period-on-period decrease in net borrowing costs was predominantly due to lower debt levels from debt maturities and an increase in investment income from higher average cash balances and investment yields period on period. The average interest yield on average gross debt during the six months to 31 December 2014 was 5.9 per cent (2013: 5.9 per cent).

(ii) On adoption of AASB 9 (2013): "Financial Instruments" and effective from 1 July 2014 we de-designated existing fair value hedge relationships and re-designated them in new fair value hedge relationships to exclude borrowing margins from the hedged risk. Also, transactions previously de-designated from fair value hedge relationships relating to a portion of our borrowings portfolio have been reinstated in fair value hedges with effect from 1 July 2014. The resulting cumulative fair value adjustment as at the date of de-designation is unwound and amortised to the income statement and included within other finance costs over the remaining life of the borrowings. There has been no change to the underlying economic objective of this hedging which is to convert fixed rate borrowings to floating Australian dollar borrowings.

The current year revaluation impacts of our offshore debt portfolio and associated hedges that are in fair value hedges have been reduced. This is partly due to changes implemented in the way we designate fair value hedges for accounting purposes and the adoption of AASB 9 (2013), which allows a component of Telstra's borrowing margin associated with cross currency swaps to be treated as a cost of hedging and deferred to equity. Residual volatility from market movements during the period has also not been significant. Costs of hedging deferred to equity are amortised to the income statement and included within other finance costs over the remaining life of the borrowing.

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

(iii) Interest on borrowings has been capitalised using a capitalisation rate of 6.2 per cent (2013: 6.4 per cent).



# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### (b) Capital management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, to continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

During the half-year ended 31 December 2014, we paid dividends of \$1,866 million (2013: \$1,742 million). Refer to note 3 for further details.

During the half-year ended 31 December 2014 we also completed an off-market share buyback at a price of \$4.60 per share for a total of \$1,004 million (including associated transaction costs). This comprised a capital component of \$2.33 per share and a fully franked dividend component of \$2.27.

We are not subject to any externally imposed capital requirements.

#### Agreement with lenders

During the current and prior periods there were no defaults or breaches on any of our agreements with our lenders.

#### Gearing and net debt

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

Our target range for the net debt gearing ratio is currently 50 to 70 per cent (2013: 50 to 70 per cent). Refer to section (d) for information on net debt and gearing.

### (c) Valuation and disclosure within fair value hierarchy

For interest bearing financial instruments we adopt a “clean price” whereby the reported balance of our derivative instruments and borrowings excludes accrued interest. Accrued interest is recorded in current “trade and other receivables” and current “trade and other payables” in the statement of financial position.

We categorise our financial instruments within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole and use the following methods to estimate the fair value:

- 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.

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

The fair value of the financial instruments and the classification within the fair value hierarchy are shown in Table D. There were no transfers between Levels 1 and 2 for recurring fair value measurements for our financial instruments during the period.

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

#### Borrowings, cross currency and interest rate swaps

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

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

We have therefore classified these financial instruments based on the observable market inputs as Level 2.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### (c) Valuation and disclosure within fair value hierarchy (continued)

#### Forward contracts

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

#### Investments in equity instruments

We hold a number of securities not listed on any stock exchange and where a quoted market price in an active market is not available. The fair value of these unlisted securities is classified as Level 3 and shown in Table B. We establish the fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent orderly sell transactions between market participants involving instruments that are substantially the same, maximising the use of observable (market) and unobservable (non-market) inputs.

On adoption of AASB 9 (2013): "Financial Instruments" from 1 July 2014 we have elected to present subsequent changes resulting from remeasurement of fair values of our investments in equity instruments in other comprehensive income, with the exception of our investment in Ooyala Inc. measured at fair value through profit or loss prior to obtaining control via a step acquisition and subsequently consolidating its results (refer to note 5 for further details). This presentation basis is considered appropriate as these investments are not held for short term trading purposes.

| Table B  | Unlisted securities<br>Level 3<br>\$m |
|--|---------------------------------------|
| <b>Opening balance 1 July 2014 (a)</b> .....               | <b>126</b>                            |
| Purchases (b) .....  | <b>26</b>                             |
| Remeasurement recognised in the income statement (c) ..... | <b>6</b>                              |
| Disposals (c) .....  | <b>(70)</b>                           |
| <b>Closing balance 31 December 2014</b> .....              | <b>88</b>                             |

(a) As at 30 June 2014 and under AASB 139: "Financial Instruments: Recognition and Measurement", our available-for-sale investments comprising unlisted securities were measured at historical cost. On adoption of AASB 9 (2013): "Financial Instruments" fair values were determined and accordingly these investments were restated into Level 3 of the fair value hierarchy on 1 July 2014 (refer to note 2.1 for further details). These fair value estimates approximate the carrying value at 30 June 2014.

(b) During the half-year ended 31 December 2014 we acquired a number of individually insignificant investments in unlisted securities.

(c) During the half-year ended 31 December 2014, we recognised a \$6 million gain on remeasurement of our equity investment in Ooyala Inc. The investment was remeasured prior to the step acquisition, which resulted in obtaining control of the entity. We elected to present changes from remeasurement of fair values of this investment in the income statement. Refer to note 5 for further details.

During the year, we have not received any dividends from our investments in equity instruments. During the year no gains or losses were recognised in other comprehensive income and there have been no transfers to or from equity in relation to these investments.

#### Contingent consideration payable

Other payables include contingent consideration liabilities arising on a number of business combinations and related to additional consideration payable for acquisitions of our controlled entities if certain future conditions are met. Amounts classified as a financial liability are recognised at fair value at the date of acquisition and subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

| Table C  | Contingent consideration<br>Level 3<br>\$m |
|--|--|
| <b>Opening balance 1 July 2014</b> .....               | <b>10</b>                                  |
| Additions (a) .....                                    | <b>11</b>                                  |
| Remeasurement recognised in the income statement ..... | <b>(2)</b>                                 |
| Amounts used .....                                     | <b>(8)</b>                                 |
| <b>Closing balance 31 December 2014</b> .....          | <b>11</b>                                  |

(a) During the half-year ended 31 December 2014 we acquired the following controlled entities where total consideration included a contingent consideration amount:

- Videoplaza AB and its controlled entities
- iCareHealth Pty Ltd
- Emerging Holdings Pty Ltd and its controlled entities
- ACN 602 764 438 Pty Ltd (CloudMed).

Refer to note 5 for further details.

On initial recognition the fair value of contingent consideration was estimated based on our expectations of future performance of the businesses. Subsequent measurement is based on the present value of the future expected cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### (d) Net debt and gearing

The carrying amounts, fair values and face values of each category of our financial instruments are shown in Table D. For foreign denominated balances face value equates to the face value in the underlying currency converted at the spot exchange rate as at balance date.

Fair values are provided for each category of financial instruments including those not recognised at fair value for accounting purposes.

Table D

|  |                      | Telstra Group          |                 |                 |                      |                 |                 |
|--|----------------------|------------------------|-----------------|-----------------|----------------------|-----------------|-----------------|
|  |                      | As at 31 December 2014 |                 |                 | As at 30 June 2014   |                 |                 |
|  | Fair value hierarchy | Carrying amount        | Fair value      | Face value      | Carrying amount      | Fair value      | Face value      |
|  |                      | Receivable/(Payable)   |                 |                 | Receivable/(Payable) |                 |                 |
|  |                      | \$m                    | \$m             | \$m             | \$m                  | \$m             | \$m             |
| Promissory notes   | Level 2              | (825)                  | (825)           | (826)           | (365)                | (365)           | (365)           |
| Offshore borrowings  | Level 2              | (11,594)               | (12,833)        | (11,063)        | (12,357)             | (13,041)        | (11,977)        |
| Telstra bonds and domestic borrowings                        | Level 2              | (2,813)                | (3,034)         | (2,795)         | (2,793)              | (2,952)         | (2,793)         |
| Loans from associated entities                               | Level 2              | (79)                   | (81)            | (79)            | -                    | -               | -               |
| Finance lease payable  |                      | (316)                  | (316)           | (433)           | (309)                | (309)           | (444)           |
| <b>Total borrowings</b>                                      |                      | <b>(15,627)</b>        | <b>(17,089)</b> | <b>(15,196)</b> | <b>(15,824)</b>      | <b>(16,667)</b> | <b>(15,579)</b> |
| Cross currency swap asset                                    | Level 2              | 994                    | 994             | 927             | 578                  | 578             | 647             |
| Interest rate swap asset                                     | Level 2              | 933                    | 933             | -               | 766                  | 766             | -               |
| Forward contract asset                                       | Level 2              | 62                     | 62              | 63              | 1                    | 1               | 1               |
| <b>Total derivative assets</b>                               |                      | <b>1,989</b>           | <b>1,989</b>    | <b>990</b>      | <b>1,345</b>         | <b>1,345</b>    | <b>648</b>      |
| Cross currency swap liability                                | Level 2              | (456)                  | (456)           | (442)           | (968)                | (968)           | (934)           |
| Interest rate swap liability                                 | Level 2              | (711)                  | (711)           | -               | (582)                | (582)           | -               |
| Forward contract liability                                   | Level 2              | (6)                    | (6)             | (15)            | (19)                 | (19)            | (21)            |
| <b>Total derivative liability</b>                            |                      | <b>(1,173)</b>         | <b>(1,173)</b>  | <b>(457)</b>    | <b>(1,569)</b>       | <b>(1,569)</b>  | <b>(955)</b>    |
| <b>Net derivative asset/(liability)</b>                      |                      | <b>816</b>             | <b>816</b>      | <b>533</b>      | <b>(224)</b>         | <b>(224)</b>    | <b>(307)</b>    |
| <b>Gross debt</b>  |                      | <b>(14,811)</b>        | <b>(16,273)</b> | <b>(14,663)</b> | <b>(16,048)</b>      | <b>(16,891)</b> | <b>(15,886)</b> |
| Cash at bank and on hand                                     |                      | 335                    | 335             | 335             | 305                  | 305             | 305             |
| Bank deposits, negotiable certificates of deposit            |                      |                        |                 |                 |                      |                 |                 |
| - at amortised cost (i)                                      |                      | 1,334                  | 1,334           | 1,342           | 5,222                | 5,222           | 5,252           |
| <b>Telstra Group net debt</b>                                |                      | <b>(13,142)</b>        | <b>(14,604)</b> | <b>(12,986)</b> | <b>(10,521)</b>      | <b>(11,364)</b> | <b>(10,329)</b> |
| <b>Other financial Instruments</b>                           |                      |                        |                 |                 |                      |                 |                 |
| <b>Interest bearing financial assets - at amortised cost</b> |                      |                        |                 |                 |                      |                 |                 |
| Finance lease receivable                                     |                      | 281                    | 281             | 313             | 277                  | 277             | 314             |
| Amounts owed by joint ventures and associated entities       |                      | 451                    | 451             | 451             | 451                  | 451             | 451             |
| Other receivables (i)  |                      | -                      | -               | -               | 3                    | 3               | 3               |
| <b>Net interest bearing financial liabilities</b>            |                      | <b>(12,410)</b>        | <b>(13,872)</b> | <b>(12,222)</b> | <b>(9,790)</b>       | <b>(10,633)</b> | <b>(9,561)</b>  |
| <b>Equity investments - at fair value</b>                    |                      |                        |                 |                 |                      |                 |                 |
| Listed securities  | Level 1              | 19                     | 19              | 19              | 1                    | 1               | 1               |
| Unlisted securities  | Level 3              | 88                     | 88              | 88              | 126                  | n/a             | 126             |
| <b>Loans and receivables - at amortised cost</b>             |                      |                        |                 |                 |                      |                 |                 |
| Trade/other receivables and accrued revenue (i)              |                      | 4,906                  | 4,906           | 5,040           | 4,414                | 4,414           | 4,534           |
| Amounts owed by joint ventures and associated entities (i)   |                      | -                      | -               | 6               | -                    | -               | 6               |
| <b>Financial liabilities - at amortised cost</b>             |                      |                        |                 |                 |                      |                 |                 |
| Trade/other creditors and accrued expenses (i)               |                      | (3,767)                | (3,767)         | (3,767)         | (3,890)              | (3,890)         | (3,890)         |
| Deferred consideration for capital expenditure               |                      | (20)                   | (20)            | (20)            | (10)                 | (10)            | (10)            |
| <b>Net financial liabilities</b>                             |                      | <b>(11,184)</b>        | <b>(12,646)</b> | <b>(10,856)</b> | <b>(9,149)</b>       | <b>(10,118)</b> | <b>(8,794)</b>  |

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

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### (d) Net debt and gearing (continued)

The carrying amount of our borrowings issued offshore are denominated in the currencies as shown in Table E.

|                             | As at              |                     |
|-----------------------------|--------------------|---------------------|
|                             | 31 Dec 2014<br>\$m | 30 June 2014<br>\$m |
| Australian dollar .....     | 189                | 190                 |
| Euro .....                  | 9,174              | 9,533               |
| United States dollar.....   | 1,397              | 1,210               |
| British pound sterling..... | -                  | 361                 |
| Japanese yen.....           | 381                | 494                 |
| New Zealand dollar.....     | 96                 | 236                 |
| Swiss franc.....            | 294                | 282                 |
| Hong Kong dollar.....       | 54                 | 47                  |
| Indian rupee .....          | 9                  | 4                   |
|                             | <b>11,594</b>      | <b>12,357</b>       |

The accumulated amount of fair value hedge adjustments which are included in the carrying amount of our borrowings that are in fair value hedges are shown below:

|   | As at 31 December 2014 |                     |                     | As at 30 June 2014 |                     |                     |
|---|------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
|   | Promissory notes       | Offshore borrowings | Domestic borrowings | Promissory notes   | Offshore borrowings | Domestic borrowings |
|   | \$m                    | \$m                 | \$m                 | \$m                | \$m                 | \$m                 |
| <b>In fair value hedges</b>   |                        |                     |                     |                    |                     |                     |
| Face value as at 31 December (i).....   | 586                    | 4,855               | 950                 | 265                | 3,774               | 950                 |
| Balance of unamortised discounts/premiums .....   | -                      | (25)                | (5)                 | -                  | (26)                | (6)                 |
| <b>Amortised cost</b> .....   | <b>586</b>             | <b>4,830</b>        | <b>945</b>          | 265                | 3,748               | 944                 |
| Accumulated amount of fair value hedge adjustments attributable to hedged risk relating to movements in market interest rates included in the carrying amount (i) ..... | -                      | 591                 | 35                  | -                  | 463                 | 20                  |
| <b>Carrying amount</b> .....  | <b>586</b>             | <b>5,421</b>        | <b>980</b>          | 265                | 4,211               | 964                 |

(i) For foreign denominated borrowings face value equates to the face value in the underlying currency converted at the spot exchange rate as at balance date. Revaluation impacts since inception of the borrowing due to foreign exchange movements are reflected in the amortised cost balance.

Fair value revaluation impacts arising from movements in foreign currency exchange rates and market interest rates (that relate to the hedged risk) are effectively hedged. We use cross currency and interest rate swaps as fair value hedges to convert fixed rate borrowings into Australian dollar floating rate borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

### (d) Net debt and gearing (continued)

The movement in the carrying amount of our net debt and our gearing ratio is shown in Table G below.

| Table G  | Telstra Group               |          |
|--|-----------------------------|----------|
|  | Half-year ended 31 December |          |
|  | 2014                        | 2013     |
|  | \$m                         | \$m      |
| <b>Opening net debt - 1 July</b>   | <b>10,521</b>               | 13,149   |
| Debt issuance - offshore and domestic borrowings .....   | <b>85</b>                   | 498      |
| Net short term borrowings.....   | <b>395</b>                  | 602      |
| Repayment of borrowings .....  | <b>(1,691)</b>              | (564)    |
| Finance lease repayments.....  | <b>(40)</b>                 | (42)     |
| <b>Net cash (outflow)/ inflow .....</b>  | <b>(1,251)</b>              | 494      |
| <b>Non-cash movements in gross debt before tax</b>   |                             |          |
| Revaluation (gains)/losses affecting cash flow hedging reserve.....  | <b>(24)</b>                 | 36       |
| Revaluation losses/(gains) affecting foreign currency translation reserve .....                              | <b>14</b>                   | (3)      |
| Revaluation gain affecting cost of hedge reserve .....   | <b>(53)</b>                 | -        |
| Revaluation losses affecting other expenses .....  | <b>1</b>                    | 9        |
| <b>Revaluation losses/(gains) affecting finance costs .....</b>  |                             |          |
| Fair value hedges (refer Table H below) .....  | <b>(1)</b>                  | 69       |
| Cash flow hedges (refer (i) below).....  | <b>16</b>                   | (15)     |
| Transactions not in / de-designated from fair value hedge relationships .....                                | <b>-</b>                    | 31       |
| Amortisation of discounts - effective interest method.....   | <b>5</b>                    | 9        |
| Other .....  | <b>9</b>                    | -        |
| <b>Other non-cash movements .....</b>  |                             |          |
| Finance lease additions .....  | <b>47</b>                   | 70       |
| <b>Total non-cash movements .....</b>  | <b>14</b>                   | 206      |
| <b>Total (decrease)/increase in gross debt.....</b>  | <b>(1,237)</b>              | 700      |
| Net (increase)/decrease in cash and cash equivalents (including foreign currency exchange differences) ..... | <b>3,858</b>                | 24       |
| <b>Total increase in net debt.....</b>   | <b>2,621</b>                | 724      |
| Closing net debt .....   | <b>13,142</b>               | 13,873   |
| <b>Total equity .....</b>  | <b>13,653</b>               | 13,117   |
| <b>Total capital .....</b>   | <b>26,795</b>               | 26,990   |
|  | <b>%</b>                    | <b>%</b> |
| <b>Gearing ratio .....</b>   | <b>49.0</b>                 | 51.4     |

(i) Represents the current period adjustment required to adjust the cash flow hedge reserve to the lower of (in absolute amounts) the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value of the hedged item from inception of the hedge. The change in value of the hedged borrowings used as the basis for recognising hedge

ineffectiveness for the period is \$131 million which when compared to the offsetting gain in the hedging derivatives results in a net residual loss of \$16 million in the current period.

Debt issuances during the year comprised:

- \$79 million loan from associated entities
- \$6 million other subsidiary loans.

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

- \$857 million Euro public bond, matured 15 July 2014
- \$584 million British pound public bond, matured 6 August 2014
- \$65 million Japanese yen private placement, matured 29 September 2014
- \$62 million Japanese yen private placement, matured 4 November 2014
- \$123 million New Zealand dollar public bond, matured 24 November 2014

Long term debt of \$1,610 million will mature within 12 months. This represents the contractual face value amount after hedging. Included in this amount are offshore borrowings that were swapped into Australian dollars at inception of the borrowing through to maturity through the use of cross currency and interest rate swaps, creating Australian dollar obligations.

The amount of \$1,610 million is different to the carrying amount of \$1,540 million that is included in current borrowings (along with promissory notes of \$825 million and finance leases of \$87 million) in the statement of financial position. The carrying amount reflects the amount of our borrowings due to mature within 12 months prior to netting offsetting risk positions of associated derivative financial instruments hedging these borrowings. The carrying amount reflects a mixed measurement basis, with part of the borrowing portfolio recorded at amortised cost and part adjusted for fair value movements attributable to hedged risks.

Table H shows the current period ineffectiveness relating to financial instruments in designated fair value hedge relationships which are included in net debt.

| Table H   | Telstra Group                     |                                   |
|---|-----------------------------------|-----------------------------------|
|   | Half-year ended 31 December       |                                   |
|   | 2014                              | 2013                              |
|   | Fair value hedges (gain)/loss \$m | Fair value hedges (gain)/loss \$m |
| Re-measurement of hedged item used to measure ineffectiveness.... | <b>347</b>                        | 384                               |
| Change in value of hedging instruments.....                       | <b>(348)</b>                      | (315)                             |
| <b>Net (gain)/loss before tax .....</b>                           | <b>(1)</b>                        | 69                                |
| <b>Net loss after tax .....</b>                                   | <b>-</b>                          | 48                                |

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 7. POST EMPLOYMENT BENEFITS

We participate in or sponsor defined benefit and defined contribution schemes. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions received fixed contributions and our legal or constructive obligation is limited to these contributions.

For details of the defined benefit plans that we participate in refer to note 24 of the 30 June 2014 Financial Report.

### Defined benefit scheme settlement event

On 6 November 2014, 708 members covered by the defined benefit scheme accepted a voluntary offer from Telstra Super to transfer from the defined benefit scheme to a defined contribution scheme. As a result, we settled all defined benefit obligations relating to these employees and recognised a \$28 million (2013: nil) gain on settlement.

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

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

|   | Telstra Group         |                        |                       |
|---|-----------------------|------------------------|-----------------------|
|   | As at                 |                        |                       |
|   | 31 Dec<br>2014<br>\$m | 30 June<br>2014<br>\$m | 31 Dec<br>2013<br>\$m |
| Fair value of defined benefit plan assets .....                                 | 2,653                 | 2,953                  | 3,080                 |
| Present value of defined benefit obligation .....                               | 2,791                 | 2,909                  | 2,844                 |
| Net defined benefit (liability)/asset .....                                     | (138)                 | 44                     | 236                   |
| <b>Comprised of</b>   |                       |                        |                       |
| Net defined benefit (liability)/asset attributable to Telstra Super Scheme..... | (138)                 | 44                     | 228                   |
| Net defined benefit asset attributable to CSL Limited Retirement Scheme.....    | n/a                   | n/a                    | 8                     |
|   | (138)                 | 44                     | 236                   |

### (b) Principal actuarial assumptions

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

|  | Telstra Super                  |           | CSL Retirement Scheme          |           |
|--|--------------------------------|-----------|--------------------------------|-----------|
|  | Half-year ended<br>31 December |           | Half-year ended<br>31 December |           |
|  | 2014<br>%                      | 2013<br>% | 2014<br>%                      | 2013<br>% |
| Discount rate (i).....                                 | 2.9                            | 4.5       | n/a                            | 2.4       |
| Expected rate of increase in future salaries (ii)..... | 3.5                            | 3.5       | n/a                            | 4.0 - 6.0 |

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

For Telstra Super we have used a blended 10 year Australian government bond rate as the term from the Australian bond market match the closest to the term of the defined benefit obligations. Refer to the statement of comprehensive income for actuarial loss on our defined benefit plan.

For the CSL Retirement Scheme, as at 31 December 2013 we extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange fund notes to 11 years to match the term of the defined benefit obligations.

(ii) Our assumption for the salary inflation rate for Telstra Super is 3.5 per cent, which is reflective of our long term expectation for salary increases. As at 31 December 2013, the salary inflation rate for CSL Retirement Scheme was 6.0 per cent in financial years 2014 to 2015 and 4.0 per cent thereafter which reflects the long term expectations for salary increases.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 7. POST EMPLOYMENT BENEFITS (CONTINUED)

### (c) Employer contributions

Our employer contributions are currently determined by the funding deed we have with Telstra Super. Under the terms of the deed, contributions are currently required to be made with reference to the average vested benefits index (VBI) in respect of the defined benefit liabilities (the ratio of defined benefit plan assets to vested benefits for defined benefits), although the deed also allows us to choose to contribute at a higher rate than specified. Our employer contributions are also influenced by the actuary's recommendations and legislative requirements. At VBI levels greater than 103 per cent, we are not required to pay any contributions under the funding deed.

For the quarter ended 31 December 2014, the VBI was 111 per cent (2013: 109 per cent). While no contributions are required under the funding deed, consistent with the actuarial recommendation, we have continued to contribute (in respect of defined benefit divisions of Telstra Super) at a rate of 15 per cent (2013: 15 per cent) of defined benefit members' salaries effective December 2014.

For the six months ended 31 December 2014, the total cash payments made by us in relation to contributions to Telstra Super was \$210 million (2013: \$201 million). This consists of the following:

- employer cash contributions of \$152 million (2013: \$150 million)
- employees pre and post-tax salary sacrifice contributions of \$48 million (2013: \$41 million)
- payroll tax of \$10 million (2013: \$10 million).

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

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations. We expect to make total cash payments of \$380 million for the year ending 30 June 2015. This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions. Contributions to the defined benefit divisions are estimated at a contribution rate of 15 per cent for financial year 2015. This contribution rate could change depending on market conditions during financial year 2015.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 8. IMPAIRMENT

### Cash generating units

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

The carrying amount of our goodwill is detailed below:

|   | Goodwill              |                        |
|---|-----------------------|------------------------|
|   | As at                 |                        |
|   | 31 Dec<br>2014<br>\$m | 30 June<br>2014<br>\$m |
| <b>CGUs</b>                               |                       |                        |
| Telstra UK Group (*) .....                | 69                    | 65                     |
| 1300 Australia Group.....                 | 16                    | 16                     |
| Autohome (*) .....                        | 123                   | 108                    |
| O2 Networks Group.....                    | 47                    | 47                     |
| Telstra Enterprise & Services Group ..... | 122                   | 122                    |
| HealthConnex Group .....                  | 16                    | 16                     |
| Fred IT Group .....                       | 21                    | 21                     |
| Ooyala Group (*) (a).....                 | 339                   | -                      |
| Videoplaza Group (*) (b) .....            | 72                    | -                      |
| Other .....                               | 62                    | -                      |
|   | <b>887</b>            | <b>395</b>             |

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

(a) On 30 September 2014, we acquired additional shares in our existing investment in Ooyala Inc. and its controlled entities (Ooyala Group), increasing our overall ownership to 98.9 per cent. No indication of impairment has been identified since the acquisition date. Refer to note 5 for further details.

(b) On 20 October 2014, our controlled entity Ooyala Holdings Inc., acquired 100 per cent shareholding in Videoplaza AB and its controlled entities (Videoplaza Group). No indication of impairment has been identified since the acquisition date. Refer to note 5 for further details.

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

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

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

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

### Impairment testing

Our impairment testing compares the carrying amount of an individual asset or CGU with its recoverable amount as determined using a value in use calculation, with the exception of Autohome whose recoverable amount was determined using fair value less cost of disposal as an observable market price is available for Autohome following its listing on the NYSE.



# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 8. IMPAIRMENT (CONTINUED)

### Impairment testing (continued)

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

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

|  | Discount rate<br>(c) |                      | Terminal value<br>growth rate (d) |                      |
|--|----------------------|----------------------|-----------------------------------|----------------------|
|  | As at                |                      | As at                             |                      |
|  | 31 Dec<br>2014<br>%  | 30 June<br>2014<br>% | 31 Dec<br>2014<br>%               | 30 June<br>2014<br>% |
| Telstra UK Group .....                       | 6.6                  | 8.1                  | 3.0                               | 3.0                  |
| 1300 Australia Group.....                    | 10.4                 | 11.7                 | 3.0                               | 3.0                  |
| O2 Networks Group.....                       | 11.1                 | 12.4                 | 3.0                               | 3.0                  |
| Telstra Enterprise &<br>Services Group ..... | 13.9                 | 14.3                 | 3.0                               | 3.0                  |
| HealthConnex Group .....                     | 10.5                 | 11.7                 | 3.0                               | 3.0                  |
| Fred IT Group .....                          | 10.4                 | 11.5                 | 3.0                               | 3.0                  |

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

(d) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGU's long term performance in its respective markets.

The value in use calculations are sensitive to changes in discount rates, earnings and foreign exchange rates varying from the assumptions and forecast data used in the impairment testing. As such, sensitivity analysis was undertaken to examine the effect of a change in a variable on each CGU. The discount rate would need to increase by 439 basis points (30 June 2014: 431 basis points) or the terminal value growth rate would need to be negative growth of 2.5 per cent (30 June 2014: negative 3.0 per cent) before the recoverable amount of any of the CGUs would be equal to the carrying value.

From 30 June 2014 onwards and following the Autohome Inc. listing on 11 December 2013 the recoverable amount calculation for this CGU was based on fair value less cost of disposal measured with reference to quoted market prices in an active market (Level 1). Our assumption for determining the fair value less cost of disposal for the Autohome CGU was based on the NYSE 31 December 2014 closing share price of US\$36.36, which represented a quoted price in an active market. Telstra holds 61,824,328 shares valued at US\$2,248 million (A\$2,747 million).

### Ubiquitous telecommunications network and HFC cable network

On 14 December 2014 we signed revised Definitive Agreements with NBN Co and the Commonwealth Government to enable the rollout of the Government's multi-technology mix (MTM) National Broadband Network (NBN). The agreements remain subject to a number of conditions precedent, including Australian Competition and Consumer Commission (ACCC) acceptance of a revised Migration Plan and receipt of acceptable rulings from the Australian Tax Office.

Our discounted expected future cash flows we expect to receive under the existing National Broadband Network (NBN) Definitive Agreements (DAs) support the carrying amount of the networks. This is based on:

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

The main change to the original agreements relates to the approach taken to our copper and HFC networks. Under the original agreements, we were required to progressively disconnect premises connected to our copper and HFC broadband networks as the NBN is rolled out. Under the revised agreements, we will continue to disconnect premises. However, where NBN Co uses the copper and HFC networks to deliver an NBN service, we will progressively transfer ownership, and the operational and maintenance responsibilities for the relevant copper and HFC assets, to NBN Co. The payment structure remains linked to the rollout of the NBN. We will also continue to deliver Foxtel pay TV services through continued access to the HFC network negotiated with NBN Co; and NBN Co has agreed to reimburse us for any direct, reasonable, substantiated and incremental costs we incur as a result of the move by NBN Co to the MTM rollout.

The estimated net present value (NPV) which the revised agreements are expected to deliver is equivalent, on a like for like basis, to the estimated NPV of the original agreements. Therefore, if the conditions precedent are satisfied or waived and the revised DAs come into full force and effect, we expect our discounted future cash flows will continue to support the recoverable amount of both networks.

Based on the revised DAs we do not anticipate the agreements would give rise to any material impairment of our networks.

Given the above, the results of our impairment testing for the networks show that the carrying amounts are recoverable for the half-year ended 31 December 2014.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 9. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

### Current period

There were no non current assets held for sale or discontinued operations as at and for the half-year ended 31 December 2014.

### Prior period

#### Sensis disposal group and discontinued operation

On 17 December 2013, the Directors approved the divestment of 70 per cent of our directories business and on 13 January 2014 a sale agreement was signed. The sale excluded voice services business and included economic benefits to us from services we will continue to provide to Sensis Pty Ltd and its controlled entities (Sensis Group). Voice services, including the 1234 and 12456 services, are a part of our core telecommunication offering and will continue to be operated by us.

The Sensis Group represented a separate major line of business and was responsible for management of the domestic directories and advertising business, including print and digital directories, digital mapping and satellite navigation, digital display and business information services.

In accordance with AASB 5: "Non current Assets Held for Sale and Discontinued Operations", the Sensis Group was disclosed as a discontinued operation and the carrying value of assets and liabilities of the Sensis Group, with the exception of the cash balances which were excluded from the sale agreement, were classified as held for sale as at 31 December 2013 and measured at the lower of the carrying amount and fair value less costs to sell prior to their disposal.

The sale was completed on 28 February 2014 via disposal of our 100 per cent shareholding in the Sensis Group for a total cash consideration of \$454 million and acquisition of 30 per cent shareholding in Project Sunshine I Pty Ltd, the new holding company of the Sensis Group.

Adjustments related to the discontinued operation in the current period and six months of the Sensis Group results in the comparative period are reported in the "All Other" category in our segment disclosures in note 4. The "All Other" category also includes a \$10 million share of net loss (2013: nil) from our 30 per cent investment in the new holding company of the Sensis Group.

Financial information related to the discontinued operation is set out below.

|  | <b>Sensis Group</b>    |            |
|--|------------------------|------------|
|  | <b>Half-year ended</b> |            |
|  | <b>31 December</b>     |            |
|  | <b>2014</b>            | 2013       |
|  | <b>\$m</b>             | \$m        |
| Revenue .....  | -                      | 358        |
| Expenses .....   | <b>(19)</b>            | 465        |
| <b>Profit/(loss) before income tax expense</b> .....                                     | <b>19</b>              | (107)      |
| Income tax expense .....   | -                      | 14         |
| <b>Profit/(loss) after income tax expense from discontinued operation</b> .....          | <b>19</b>              | (121)      |
| After-tax (loss) recognised on the re-measurement of the disposal group (a) .....        | -                      | (100)      |
| <b>Profit/(loss) for the period from discontinued operation</b> .....                    | <b>19</b>              | (221)      |
| Net cash provided by operating activities .....  | -                      | 272        |
| Net cash (used in) investing activities .....  | -                      | (37)       |
| <b>Net increase in cash and cash equivalents</b> .....                                   | <b>-</b>               | <b>235</b> |
| <b>Earnings per share for (loss) from discontinued operation (cents per share)</b> ..... | <b>cents</b>           | cents      |
| Basic .....  | <b>0.1</b>             | (1.8)      |
| Diluted .....  | <b>0.2</b>             | (1.8)      |

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

Based on the sale price of \$454 million for 70 per cent of the Sensis Group and the valuation of the retained 30 per cent of our shareholding in the Sensis Group, estimated completion adjustments and subject to final completion adjustments, the carrying value of Sensis Group goodwill was impaired by \$100 million which was recognised in the loss for the period from

discontinued operation for the half-year ended 31 December 2013. On completion of the disposal, goodwill was further impaired by \$50 million bringing the total goodwill impairment of \$150 million recognised in the loss for the year from the discontinued operation for the year ended 30 June 2014 and disclosed in note 12 of the 30 June 2014 Financial Report.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Sensis disposal group and discontinued operation (continued)

|  | <b>Telstra Entity</b>  |       |
|--|------------------------|-------|
|  | <b>Half-year ended</b> |       |
|  | <b>31 December</b>     |       |
|  | <b>2014</b>            | 2013  |
|  | <b>\$m</b>             | \$m   |
| <b>Profit attributable to equity holders of Telstra Entity</b> ..... |                        |       |
| Profit from continuing operations .....                              | <b>2,066</b>           | 1,925 |
| Profit/(loss) from discontinued operation .....                      | <b>19</b>              | (221) |
|  | <b>2,085</b>           | 1,704 |

### CSL Hong Kong disposal group

On 20 December 2013 we signed an agreement with HKT Limited to dispose of our entire 76.4 per cent shareholding in CSL New World Mobility Limited and its controlled entities (CSL Group) for a total consideration of \$2,079 million (US\$1,853 million). The sale was subsequently completed on 14 May 2014 following the regulatory approval.

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

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

The disposal of the CSL Group was completed in the second half of financial year 2014, therefore results reported in the comparative period in the "All Other" category in our segment disclosures in note 4 include six months of the consolidated results.

### Sequel Media disposal group

On 2 July 2014 we signed a binding term sheet to dispose of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) for a total consideration of \$3 million (excluding cash balances) subject to completion adjustments.

In accordance with AASB 5, the carrying value of assets and liabilities of the Sequel Media Group, with the exception of cash balances, were classified as held for sale as at 30 June 2014 and measured at the lower of the carrying amount and fair value less costs to sell.

Based on the agreed sale price, subject to completion adjustments, the carrying value of the Sequel Media Group goodwill was impaired by \$12 million in the second half of the financial year 2014. The disposal was completed on 26 November 2014. Refer to note 5 for further details.

The Sequel Media Group is included in the "All Other" category in our segment disclosures in note 4 and includes four months of the Sequel Media Group results in the current period to the date of disposal and six months in the comparative period.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 9. NON CURRENT ASSETS HELD FOR SALE (CONTINUED)

Sequel Media disposal group (continued)

|                                    | Sequel Media Group    |                        |
|------------------------------------|-----------------------|------------------------|
|                                    | As at                 |                        |
|                                    | 31 Dec<br>2014<br>\$m | 30 June<br>2014<br>\$m |
| <b>Current assets</b>              |                       |                        |
| Trade and other receivables.....   | -                     | 13                     |
| Total current assets.....          | -                     | 13                     |
| <b>Non current assets</b>          |                       |                        |
| Property, plant and equipment..... | -                     | 1                      |
| Intangible assets.....             | -                     | 6                      |
| Deferred tax assets.....           | -                     | 3                      |
| Total non current assets.....      | -                     | 10                     |
| <b>Total assets</b> .....          | -                     | 23                     |
| <b>Current liabilities</b>         |                       |                        |
| Trade and other payables.....      | -                     | 14                     |
| Current tax payable.....           | -                     | 2                      |
| Revenue received in advance.....   | -                     | 1                      |
| Total current liabilities.....     | -                     | 17                     |
| <b>Non current liabilities</b>     |                       |                        |
| Deferred tax liabilities.....      | -                     | 2                      |
| Total non current liabilities..... | -                     | 2                      |
| <b>Total liabilities</b> .....     | -                     | 19                     |
| <b>Net assets</b> .....            | -                     | 4                      |

|   | Sequel Media Group    |                        |
|---|-----------------------|------------------------|
|   | As at                 |                        |
|   | 31 Dec<br>2014<br>\$m | 30 June<br>2014<br>\$m |
| <b>Cumulative income or expense recognised in other comprehensive income relating to non current assets classified as held for sale</b> |                       |                        |
| Foreign currency translation reserve attributable to equity holders of Telstra Entity.....  | -                     | 3                      |
| Foreign currency translation reserve attributable to non-controlling interests.....   | -                     | (1)                    |
|   | -                     | 2                      |

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 10. CONTINGENT LIABILITIES, CONTINGENT ASSETS AND EXPENDITURE COMMITMENTS

### Contingent liabilities and contingent assets

We have no significant contingent assets as at 31 December 2014.

#### Common law claims

There have been no significant changes from 30 June 2014 to our contingent liabilities arising from our common law claims.

#### Indemnities, performance guarantees and financial support

There have been no significant changes from 30 June 2014 to our indemnities, performance guarantees and financial support.

#### Other commitments

Our joint venture Foxtel has other commitments amounting to approximately \$2,938 million at 31 December 2014 (June 2014: \$4,658 million), with our share equal to 50 per cent. The reduction in commitments resulted mainly from new agreements for pay television programming signed by Foxtel during the period. Under these agreements Foxtel's commitments relating to minimum subscriber guarantees (MSG) decreased by \$1,832 million. The agreements are for periods of between one and five years and are based on current prices and costs under agreements entered into between the Foxtel Partnership and various other parties. The minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements.

There have been no other significant changes from 30 June 2014 to our commitments.

### Expenditure commitments

During the period we paid \$1,302 million for the 700Mhz and 2.5Ghz spectrum licences won at auction in the prior financial year.

There have been no other significant changes to our expenditure commitments from 30 June 2014.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 11. EVENTS AFTER REPORTING DATE

We are not aware of any matter or circumstance that has occurred since 31 December 2014 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than:

### Interim dividend

On 12 February 2015, the Directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 15 cents per ordinary share. The record date for the interim dividend is 27 February 2015 with payment to be made on 27 March 2015. Shares will trade excluding entitlement to the dividend on 25 February 2015.

The interim dividend of \$1,833million will be fully franked at a tax rate of 30 per cent. The interim dividend resolution was passed on 12 February 2015, therefore the financial effect of the resolution was not brought to account as at 31 December 2014.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the interim dividend, except for \$786 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Dividend Reinvestment Plan (DRP) continues to be suspended with respect to the interim dividend for the financial year 2015. The DRP rules were amended on 12 February 2015 and it is proposed that the DRP will be reinstated for the final dividend to be paid in September 2015. An amended Financial Calendar for 2015, reflecting a revised Ex-Date and Record Date for the final dividend to accommodate the DRP, is included in the Half-Year Results and Operations Review accompanying the Directors' Report.

# 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 2014, as set out on pages 2 to 38 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 2014

*C B Livingstone*      *David Thodey*

Catherine B Livingstone AO  
Chairman

David I Thodey  
Chief Executive Officer  
and Managing Director

12 February 2015  
Sydney, Australia

## 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 2014, 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 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Telstra Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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

## Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



SJ Ferguson  
Partner  
Sydney, Australia  
12 February 2015