18 February 2016

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

The Manager

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

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited – Financial results for the half-year ended 31 December 2015 – Market Release

In accordance with the Listing Rules, I attach a copy of a market release, for immediate release to the market.

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

Yours faithfully

Damien Coleman
Company Secretary

Telstra delivers growth in customer base, income and net profit after tax

Financial highlights for the six months ended 31 December 2015:

- Reported total income excluding finance income increased 9.1 per cent to $14.2 billion
- Reported EBITDA increased 1.7 per cent to $5.4 billion
- Net profit after tax increased 0.8 per cent to $2.1 billion
- Earnings per share increased 1.8 per cent to 17.2 cents
- Fully franked interim dividend of 15.5 cents, up 3.3 per cent returning $1.9 billion to shareholders
- Added 235,000 domestic retail mobile services to 16.9 million, 121,000 retail fixed broadband customers and 163,000 retail fixed bundle customers
- Capital expenditure increased 20.0 per cent to $2.1 billion

18 February 2016 – Telstra today announced it had grown retail fixed bundle and mobile customer numbers, achieved income growth across all segments as well as higher net profit after tax in the first half of financial year 2016, confirming it was on track to meet its full year guidance.

Reported total income excluding finance income increased 9.1 per cent to $14.2 billion. Telstra Directors confirmed a fully franked interim dividend of 15.5 cents, up 3.3 per cent, returning $1.9 billion to shareholders.

The results represent the first full six month operating period with Pacnet Limited, acquired in April 2015. On a guidance basis and excluding Pacnet operating results, total income excluding finance income increased 7.3 per cent and EBITDA increased 1.4 per cent.

Chief Executive Officer Andrew Penn said the results reflected the importance of Telstra's strategy of improving customer advocacy, continuing to drive value and growth from core businesses, and supporting its growth agenda to create value for shareholders.

Mr Penn said improving customer advocacy remained the single most important driver of Telstra's strategy, and would be achieved only with world class customer service, technology, networks and delivery.

"Our results have been achieved against increased mobile competition and acceleration in the NBN multi-technology model roll out. We have continued to innovate and develop products and services to meet changing customer preferences and expectations in our fixed and mobile businesses," Mr Penn said.

"We are actively working to simplify our business, drive down costs and help our customers experience what technology can do for their lives and businesses. As a result, our Net Promoter System result was three points higher than the first half of FY15."

Network superiority

Mr Penn said Telstra had continued to invest in its core technology so that customers enjoyed the benefits of world class networks.

"We strengthened our domestic network leadership with our 4G footprint covering 96 per cent of the Australian population with 99 per cent planned by June 2017," he said.

"More than 1,200 additional sites have been upgraded to 4GX standard for more reliable service and coverage in more places including deeper in buildings. We also have more than 500,000 customers registered with our Telstra Air Wi-Fi network including 120,000 mobile customers."

Mobile revenue increased 3.7 per cent to $5.5 billion. Post-paid handheld mobile churn remained at world class lows, decreasing 0.1 percentage points to 10.7 per cent. Telstra added 235,000 domestic retail mobile services, including 80,000 post-paid handheld customers to take its total mobile subscriber base to 16.9 million.

Overall revenue from Telstra's fixed business declined 1.5 per cent to $3.6 billion, while fixed data revenue grew 6.7 per cent to $1.3 billion and the decline of fixed voice revenue was contained to 7.6 per cent.

Growth and new businesses
Mr Penn said significant progress had been made in Telstra's international growth strategy, particularly in Asia with the acquisition of Pacnet contributing $247 million to income growth.

"We are tracking ahead of our targeted integration synergies and have successfully combined the teams of the two companies across branding, products, pricing and customer relationships," he said.

"Our telkomtelstra joint venture in Indonesia is fully operational and serving its first customers, as well as showcasing business offerings through Indonesia's first Customer Experience Centre."

International revenues from Network Applications and Services (NAS) more than doubled to $86 million benefitting from increased scale through Pacnet.

Overall, NAS revenue increased 32.7 per cent to $1.3 billion, with strong underlying performance across all NAS offerings and the achievement of significant contractual milestones on some major accounts. NAS has achieved more than 20 per cent revenue growth in five of the past seven half-years.

Productivity
Reported operating expenses increased 14.2 per cent to $8.8 billion, or 11.4 per cent excluding Pacnet. Operating expense increases were largely from new growth businesses, including Pacnet, and sales costs directly associated with revenue and customer growth in core businesses.

Mr Penn said Telstra was on track with its productivity program, with a renewed focus on fixed costs.

"We are committed to improving productivity. We are on track to reduce our full year fixed costs on a year on year basis. Adjusting for significant transactions and events, fixed costs were down $40 million or 1.1 per cent for the half," he said.

National Broadband Network
Telstra earned income of $636 million under the NBN Definitive Agreements. At the end of last year, Telstra announced it had signed a Memorandum of Understanding to negotiate a significant contract for Telstra to support the NBN network build in areas currently covered by Telstra's hybrid fibre-coaxial footprint. In addition, Telstra was awarded work as one of the network operations and maintenance services providers to NBN, with work anticipated to start in March 2016.

Cash and capital management
Net cash from operating activities of $3.7 billion was comparable to the prior period. Free cashflow from operating and investing activities was $1.9 billion compared with $0.3 billion. The prior period included spectrum payments of $1.3 billion and acquisitions of $508 million.

Mr Penn said Telstra remained committed to its capital management strategy, underpinned by clear focus on optimising and maximising returns to shareholders, maintaining financial strength and retaining financial flexibility.

The Telstra Board of Directors resolved to pay a fully franked interim dividend of 15.5 cents per share. The interim dividend was up 3.3 per cent compared with the prior corresponding period and comparable to the FY15 final dividend. Shares will trade excluding entitlement to the dividend on 1 March with payment on 1 April.

Outlook
Telstra's guidance for financial year 2016 remains unchanged.

In 2016, Telstra expects to deliver mid-single digit income growth and low-single digit EBITDA growth. Free cashflow is expected to be between $4.6 billion and $5.1 billion and capital expenditure to be around 15 per cent of sales to fund increased mobile network investment. Capital expenditure as a percentage of sales in the first half was 15.2 per cent.

MARKET RELEASE

IT'S HOW WE CONNECT

This guidance assumes wholesale product price stability from the beginning of the financial year and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excludes externally funded capex.

ENDS

Media contact: Nicole McKechnie, +61 (0) 429 004617
Email: media@team.telstra.com

Investor contact: Peter Kopanidis, +61 (0) 412 171673
Email: investor.relations@team.telstra.com

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