

Registered number: 3830643

TELSTRA LIMITED

Annual Report and Financial Statements

For the Year Ended June 30, 2016

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TELSTRA LIMITED

Company Information

Directors	M Gould D Rogerson
Company secretary	M Gould
Registered number	3830643
Registered office	2nd Floor, Blue Fin Building 110 Southwark Street London SE1 0TA

TELSTRA LIMITED

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TELSTRA LIMITED

Strategic Report For the Year Ended June 30, 2016

Business review

The directors believe the company is well positioned to perform in the future.

Revenue increased by £2,867 thousands equivalent to 4% from £73,540 thousands in 2015 to £76,407 thousands in 2016. The revenue growth was generated from hosting and data services.

Gross profit increased by £1,008 thousands from £46,656 thousands in 2015 to £47,664 thousands in 2016.

Admin expenses increased by 4% from £42,909 thousands in 2015 to £44,743 thousands in 2016.

Shareholders' funds have decreased by £893 thousands mainly due to increase in labour operating expenses.

Principal risks and uncertainties

Competitive Risk

Competitive risks are driven by a changing market environment and the continued competition in the UK and international telecommunications markets. This trend is expected to continue, but it is mitigated by management's ongoing review of the market and the company's ability to differentiate its service model as reflected in improving Net Promoter Scores - a system to get customers feedback.

Legislative Risk

There currently appears to be no significant legislative risk for the business.

Foreign Exchange Risk

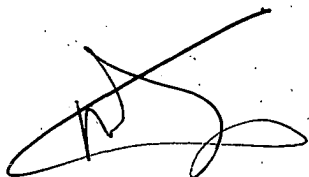
The company makes supplies and is supplied in foreign currencies. Debtors and Creditors are assessed regularly and any currency exposure is reviewed. Where appropriate customer contracts make provision for a change in price if the currency deviates more than a set amount from the base.

Credit risk

The directors ensure that a strict policy of credit checking is employed for all new customers and that all debts are regularly reviewed.

This report was approved by the board on **30/03/2017** and signed on its behalf.

M Gould
Director



TELSTRA LIMITED

Directors' Report For the Year Ended June 30, 2016

The directors present their annual report and the audited financial statements for the year ended June 30, 2016.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity

The principal activity of the company is to provide business to business telecommunication services for domestic and international companies.

Results and dividends

The loss for the year, after taxation, amounted to £893 thousand (2015 - profit £192 thousand).

The directors do not recommend the payment of a dividend (2015 - £ nil).

Directors

The directors who served during the year and upto the date of signing the financial statements were:

M Gould
D Rogerson

Future developments

The directors aim to maintain the current management policies and do not anticipate any significant change in the continuing activities of the company in the foreseeable future.

TELSTRA LIMITED

Directors' Report (continued) For the Year Ended June 30, 2016

Going concern

The Company has been a provider of telecommunication services and will continue to provide these services during the course of the following year. The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The Directors do not consider the net current liability position of the Company to be a going concern issue as the position is driven by amounts owed to Group undertakings which are under the direct control of the Company. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Additionally, the Company has received a letter of parental support from Telstra Corporation, its ultimate parent company, which confirms that Telstra Corporation will continue to provide financial support to the Company for a period of twelve months from the signing of the Auditor's Report in the financial statements.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

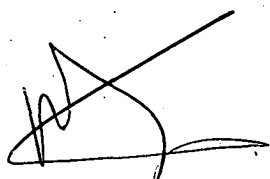
- so far as the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the directors has taken all the steps that ought to have been taken as a directors in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

M Gould
Director
Date:



30/03/2017

TELSTRA LIMITED

Independent Auditor's Report to the Members of Telstra Limited

We have audited the financial statements of Telstra Limited for the year ended June 30, 2016, which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at June 30, 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practices including Financial Reporting Standards 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with those financial statements.

TELSTRA LIMITED

Independent Auditor's Report to the Members of Telstra Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Neil Cullum (Senior statutory auditor)

for and on behalf of

Ernst & Young LLP (Statutory Auditor)

London

Date:

31/5/2017

TELSTRA LIMITED

**Statement of Comprehensive Income
For the Year Ended June 30, 2016**

	Note	2016 £000	2015 £000
Turnover	3	76,407	73,540
Cost of sales		(28,743)	(26,884)
Gross profit		47,664	46,656
Administrative expenses		(44,743)	(42,909)
Operating profit	4	2,921	3,747
Interest receivable	8	28	53
Interest payable	9	(3,777)	(3,734)
(Loss)/Profit before tax		(828)	66
Taxation	10	(65)	126
(Loss)/Profit for the financial year		(893)	192
Total comprehensive (loss)/income for the year		(893)	192

The notes on pages 9 to 33 form part of these financial statements.

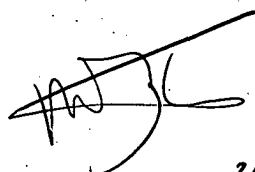
TELSTRA LIMITED
Registered number: 3830643

Balance Sheet
As at June 30, 2016

	Note	2016 £000	As restated 2015 £000
Fixed assets			
Intangible assets	11	23,342	23,342
Tangible assets	12	48,228	52,022
Investments	13	69,597	69,594
		<u>141,167</u>	<u>144,958</u>
Current assets			
Debtors: amounts falling due within one year	14	11,312	9,929
Cash at bank and in hand	15	12,127	7,417
		<u>23,439</u>	<u>17,346</u>
Creditors: amounts falling due within one year	16	(97,840)	(93,624)
Net current liabilities		<u>(74,401)</u>	<u>(76,278)</u>
Total assets less current liabilities		<u>66,766</u>	<u>68,680</u>
Creditors: amounts falling due after more than one year	17	(31,542)	(31,542)
		<u>35,224</u>	<u>37,138</u>
Provisions for liabilities	20	(345)	(1,388)
		<u>(345)</u>	<u>(1,388)</u>
Net assets		<u><u>34,879</u></u>	<u><u>35,750</u></u>
Capital and reserves			
Called up share capital	21	76,444	76,444
Share premium account		142	120
Retained earnings		(41,707)	(40,814)
		<u><u>34,879</u></u>	<u><u>35,750</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

M Gould
Directors



30/03/2017

TELSTRA LIMITED

**Statement of Changes in Equity
For the Year Ended June 30, 2016**

	Called up share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At July 1, 2014.	76,444	116	(41,006)	35,554
Profit for the year	-	-	192	192
Total comprehensive income for the year	-	-	192	192
Share-based payments	-	4	-	4
At June 30, 2015	76,444	120	(40,814)	35,750
Loss for the year	-	-	(893)	(893)
Total comprehensive loss for the year	-	-	(893)	(893)
Share-based payments	-	22	-	22
At June 30, 2016	76,444	142	(41,707)	34,879

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

1. Accounting policies

1.1 Basis of preparation of financial statements

Telstra Limited is a limited liability company incorporated in England and Wales. Its registered address is 2nd Floor, Blue Fin Building, London SE1 0TA.

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

The Company transitioned from previous UK GAAP with effect from July 1, 2014. Information on the impact of first-time adoption of FRS 101 is given in note 26.

The Company has taken advantage of the exemption in s401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements, as it is a wholly owned indirect subsidiary of Telstra Corporation Limited which prepares consolidated financial statements in which the Company is included.

The financial statements are presented in the Company's functional currency of pounds Sterling, rounded to the nearest thousand (£000) unless otherwise stated.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Further information is given in note 2 below.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

1. Accounting policies (continued)

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held For Sale and Discontinued Operations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
 - paragraph 50 of IAS 41 Agriculture
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

1. Accounting policies (continued)

1.3 Going concern

The Company has been a provider of telecommunication services and will continue to provide these services during the course of the following year. The Company has considerable financial resources together with long term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The Directors do not consider the net current liability position of the Company to be a going concern issue as the position is driven by amounts owed to Group undertakings which are under the direct control of the Company. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Additionally, the Company has received a letter of parental support from Telstra Corporation, its ultimate parent company, which confirms that Telstra Corporation will continue to provide financial support to the Company for a period of twelve months from the signing of the Auditor's Report in the financial statements.

1.4 Revenue recognition

Revenue represents the fair value of the consideration received or receivable. Revenue is recorded net of sales returns, trade allowances, discounts, sales incentives, duties and taxes. We generate revenue primarily from the following business activities:

Telecommunication services

Revenue from:

- calls is earned on completion of the call
 - internet and data is earned on a straight-line basis over the period of service provided
- Installation and connection fees that are not considered to be separate services are deferred and recognised over the contract term.

Interest income

We record interest income on an accrual basis.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

1. Accounting policies (continued)

1.5 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

When a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probably and can be measured reliably. However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination. Changes in the estimated value of contingent consideration arising on business combinations completed as a consequence result in a change in the carrying value of the related goodwill.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

1.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold property and improvements	- Three to ten years
Plant & machinery	- Three to ten years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

1. Accounting policies (continued)

1.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

1.8 Trade debtors

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

1.9 Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.10 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'Administrative expenses'.

1.11 Share based payments

The Company recognises a capital contribution for all share based remuneration awarded to employees. The capital contribution is determined with reference to the fair value at grant date of the equity instruments issued by Telstra Corporation Limited, the ultimate parent undertaking.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

1. Accounting policies (continued)

1.12 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.13 Finance leases: the Company as lessee

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

1.14 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Balance Sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement.

1.15 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

1.16 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation; it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where material, expected future cash flows are discounted to present value using a pre-tax rate reflective of the risks to the liability.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. Where discounting occurs, the increase in the provision resulting from the unwind of the discount is recognised as a future cost.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

1. Accounting policies (continued)

1.17 Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it related to items that are credited or charged directly to equity. Otherwise income tax is recognised in the statement of comprehensive income.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

2. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements have had the most significant effect on amounts recognised in the financial statements:

Finance / Operating lease commitments

The Company has entered into commercial property leases as a lessee it obtains the use of property, plant and equipment. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

Impairment of intangible assets

The Company reviews impairment of intangible assets on an annual basis. This requires an estimation of the fair value of the cash-generating units to which the intangible assets are allocated. Estimating the fair value amount requires management to make an estimate of the expected future cash flows from the cash-generating unit in the forecasted period and also to determine a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of investments in subsidiaries

Determining whether the company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the Company to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet date was £70 million with no impairment loss recognised in 2016.

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 19.

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

3. Turnover

An analysis of turnover by class of business is as follows:

	2016 £000	2015 £000
Voice	249	459
Hosting & Security	62,361	59,408
Intercompany revenue	13,797	13,673
	<u>76,407</u>	<u>73,540</u>

Analysis of turnover by country of destination:

	2016 £000	2015 £000
United Kingdom	69,282	66,964
Rest of the world	7,125	6,576
	<u>76,407</u>	<u>73,540</u>

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

4. Operating profit

The operating profit is stated after (crediting)/charging:

	2016 £000	2015 £000
Depreciation of tangible fixed assets		
- owned by the company	5,397	5,131
- held under finance leases	1,262	1,262
Exchange differences	(394)	(109)
Operating lease rentals		
- plant and machinery	2,415	2,350
- land and buildings	2,215	1,985

5. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2016 £000	2015 £000
Fees for the audit of the Company	155	140
Auditors' remuneration - non-audit services	8	-
	163	140

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

6. Staff costs

Staff costs including director's remuneration, were as follows:

	2016 £000	2015 £000
Wages and salaries	15,742	14,973
Social security costs	2,322	2,201
Cost of defined contribution pension scheme	610	578
	<u>18,674</u>	<u>17,752</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Sales	66	64
Admin	117	115
	<u>183</u>	<u>179</u>

7. Directors' remuneration

The aggregate remuneration paid by the Company for qualifying services by the directors was as follows:

	2016 £000	2015 £000
Remuneration	242	227
Contributions to defined contribution pension scheme	14	13
	<u>256</u>	<u>240</u>

One of the directors was remunerated by a fellow group Company. In the opinion of the directors, it is not practicable to apportion his remuneration between qualifying services to the company and other services to the Telstra Group.

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

8. Interest receivable

	2016 £000	2015 £000
Interest receivable from group companies	28	53
	<u>28</u>	<u>53</u>

9. Interest payable and similar charges

	2016 £000	2015 £000
Group interest payable	911	900
Interest payable on finance leases and hire purchase contracts	2,866	2,834
	<u>3,777</u>	<u>3,734</u>

10. Taxation

	2016 £000	2015 £000
Corporation tax		
Current tax on (loss)/profit for the year	113	234
Total current tax	<u>113</u>	<u>234</u>
Deferred tax		
Origination and reversal of temporary differences	(48)	(360)
Total deferred tax	<u>(48)</u>	<u>(360)</u>
Taxation	<u>65</u>	<u>(126)</u>

TELSTRA LIMITED

Notes to the Financial Statements
For the Year Ended June 30, 2016

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015 - *lower than*) the standard rate of corporation tax in the UK of 20% (2015 - 20.75%). The differences are explained below:

	2016 £000	2015 £000
(Loss)/Profit on ordinary activities before tax	(828)	65
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.75%)	(166)	13
Effects of:		
Expenses not deductible for tax purposes	131	117
Utilisation of tax losses	-	(191)
Adjustments to tax charge in respect of prior years	100	(65)
Total tax charge for the year	65	(126)

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% will take effect from April 1, 2017. A further reduction from 19% to 17% will start from April 1, 2020.

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

11. Intangible assets

	Goodwill £000
Cost	
At July 1, 2015	42,440
At June 30, 2016	42,440
Amortisation	
At July 1, 2015	19,098
At June 30, 2016	19,098
Net book value	
At June 30, 2016	23,342
<i>At June 30, 2015</i>	23,342

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

12. Tangible fixed assets

	Leasehold properties & improvement £000	Plant & machinery £000	Total £000
Cost			
At July 1, 2015	48,140	38,005	86,145
Additions	125	2,765	2,890
Disposals	(2,607)	(1,587)	(4,194)
At June 30, 2016	<u>45,658</u>	<u>39,183</u>	<u>84,841</u>
Depreciation			
At July 1, 2015	16,251	17,873	34,124
Charge for the year on owned assets	858	4,539	5,397
Charge for the year on financed assets	1,262	-	1,262
Disposals	(2,607)	(1,563)	(4,170)
At June 30, 2016	<u>15,764</u>	<u>20,849</u>	<u>36,613</u>
Net book value			
At June 30, 2016	<u>29,894</u>	<u>18,334</u>	<u>48,228</u>
At June 30, 2015	<u>31,890</u>	<u>20,132</u>	<u>52,022</u>

The carrying value of tangible fixed assets held under finance leases at June 30, 2016 was £27,073,860 (2015 - £28,335,554).

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

13. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At July 1, 2015	69,594
Additions	3
At June 30, 2016	69,597
Net book value	
At June 30, 2016	69,597
At June 30, 2015	69,594

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

13. Investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company at June 30, 2016:

Name	Country of incorporation	Class of shares	Holding	Principal activity
Telstra (Cable Telecom) Limited	England and Wales	Ordinary Shares	100 %	Non- Trading
PSINet Jersey Limited	Jersey	Ordinary Shares	100 %	Non- Trading
Inteligen Communications Limited	England and Wales	Ordinary Shares	100 %	Non- Trading
Telstra (CTE) Limited	England and Wales	Ordinary Shares	100 %	Non- Trading
Cable Telecommunications Limited	England and Wales	Ordinary Shares	100 %	Non- Trading
London Hosting Centre Limited	Jersey	Ordinary Shares	100 %	Non- Trading
Cordoba Holdings Limited	Jersey	Ordinary Shares	100 %	Non- Trading
PSINet Datacentre UK Limited	England and Wales	Ordinary Shares A&B	100 %	Non- Trading
Telstra (PSINet)	England and Wales	Ordinary Shares (Indirect holding)	100 %	Non- Trading
Dr Foster Intelligence Limited	England and Wales	Ordinary Shares	100 %	Non- Trading
Dr Foster Limited	England and Wales	Ordinary Shares (Indirect holding)	100 %	Provision of health service information
Dr Foster Research Limited	England and Wales	Ordinary Shares (Indirect holding)	100 %	Non- Trading
Dr Foster Inc	United States of America	Ordinary Shares (Indirect holding)	100 %	Non- Trading

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

14. Debtors: amounts due within one year

	2016 £000	2015 £000
Trade debtors	4,075	2,508
Amounts owed by group undertakings	40	7
Other debtors	970	1,040
Prepayments and accrued income	5,440	5,636
Deferred taxation (Note 19)	787	738
	<u>11,312</u>	<u>9,929</u>

All amounts due from group undertakings are unsecured and repayable on demand. Interest accrues on these amounts, excluding group relief, at rates of 2% per annum.

15. Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank	12,127	7,417
	<u>12,127</u>	<u>7,417</u>

16. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	2,556	1,979
Amounts owed to group undertakings	73,807	73,713
Taxation and social security	1,356	1,499
Obligations under finance lease contracts	897	546
Other creditors	280	281
Accruals and deferred income	18,944	15,606
	<u>97,840</u>	<u>93,624</u>

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

17. Creditors: amounts falling due after more than one year

	2016 £000	2015 £000
Obligations under finance lease contracts	31,542	31,542
	<u>31,542</u>	<u>31,542</u>

18. Obligation under finance leases

The Company's London Hosting Centre is subject to a finance lease arrangement. The lease has a renewal option but no purchase option. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

	2016 £000	2015 £000
Within one year	1,949	1,883
Between 1-2 years	2,672	2,582
Between 2-5 years	8,591	8,300
Over 5 years	66,699	69,661
	<u>79,911</u>	<u>82,426</u>
Less: future finance charges	(47,472)	(50,338)
Total	<u><u>32,439</u></u>	<u><u>32,088</u></u>

	2016 £000	2015 £000
Liabilities		
Within one year	897	546
After one year	31,542	31,542
	<u>32,439</u>	<u>32,088</u>

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

19. Deferred taxation

	2016 £000	2015 £000
At beginning of year	738	377
Credited to statement of comprehensive income	49	361
At end of year	787	738

The deferred tax asset is made up as follows:

	2016 £000	2015 £000
Accelerated capital allowances	754	654
Pension surplus	33	2
Provisions	-	82
	787	738

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

20 Provisions

	Onerous Lease Provisions £000	Dilapidation Provision £000	Other provision £000	Total £000
At July 1, 2015	73	1,034	281	1,388
Charged to statement of comprehensive income	158	65	-	223
Utilised in year	(39)	(946)	(281)	(1,266)
At June 30, 2016	192	153	-	345

Onerous Lease Provision

The provision relates to onerous contracts for property leases in Cambridge and Jersey which terminated in April and June 2016.

Dilapidations Provision

The provision relates to dilapidation costs for Cambridge, Paul Street, Blue Fin and Jersey properties.

Other provision

Other provision comprises of restructuring costs which was utilised in the financial year.

21. Share capital

	2016 £000	2015 £000
Authorised 88,000,000 Ordinary Shares of £1 each	88,000	88,000
Allotted, called up and fully paid 76,444,486 Ordinary Shares of £1 each	76,444	76,444

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

22. Share based payments

The Company's ultimate holding company, Telstra Corporation Limited, operates a number of different short and long term incentive plans for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Telstra group. The Company records the share based expense as a further investment in Telstra Limited and correspondingly further equity issued to its parent company Telstra Holdings Pty Ltd.

The nature and relevant details of existing plan that Telstra Limited employees participated are disclosed below:

Employee Share Plan (ESP) restricted shares

Pursuant to the ESP provided in financial years 2014, 2013 and 2012, eligible participants are granted restricted shares of Telstra Corporation Limited at no cost. The shares are held by the Telstra Growthshare Trust on behalf of employees until the restriction period ends. During the restriction period, employees are entitled to exercise the voting rights attached to the shares and to receive dividends on the shares. The shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment. There are no performance hurdles for these Restricted Shares. The fair value of the Restricted Shares is determined based on the market value of the ordinary shares of Telstra on the date of grant.

International Employee Share Plan restricted shares

Pursuant to the International ESP provided in financial years 2016 and 2015, eligible employees are granted restricted shares of Telstra Corporation Limited at no cost. The shares are held by the Telstra Growthshare Trust on behalf of employees until the restriction period ends. During the restriction period, employees are entitled to exercise the voting rights attached to the shares and to receive dividends on the shares. The shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment because of death or total and permanent disablement. If relevant employment ceases before the three year restriction period is over for any other reason, the employee will forfeit all of the shares that have been allocated to them. The fair value of the Restricted Shares is determined based on the market value of the ordinary shares of Telstra on the date of grant.

Summary of movements and further information regarding each type of ESP that was outstanding during the year is as follows:

	ESP 2016	ESP 2015	ESP 2014	ESP 2013
Allocation date	26-Feb-16	27-Feb-15	28-Feb-14	21-Feb-13
End date	26-Feb-19	27-Feb-18	28-Feb-17	21-Feb-16
Exercise price	nil	nil	nil	nil
Fair value	A\$5.24	A\$6.50	A\$5.10	A\$4.58
Outstanding at 1 July 2016	-	12,954	10,000	7,200
Granted during the year	19,800	-	-	-
Forfeited during the year	(500)	(1,354)	-	-
Exercised during the year	-	-	(1,100)	(7,200)
Outstanding at 30 June 2016	19,300	11,600	8,900	-
Weighted average share price at date of exercise	-	-	A\$5.71	A\$5.33

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

23. Commitments under operating leases

The Company has entered into operating leases on certain properties and equipment. The majority of contracts has duration from 1 to 3 years, with option to renew before the expiry of the lease term. The contract for Blue Fin office has been renewed for another 5 years till 2025, with no option for renewal nor escalation clauses. The contract for Woking Hosting Center property lease will expire in 2021, with option to extend for a further period of 12 years and a fixed escalation of 3% per annum. At June 30, 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	37	-
Later than 1 year and not later than 5 years	1,590	1,246
Later than 5 years	362	336
	<u>1,989</u>	<u>1,582</u>

24. Other financial commitments

The company has a financial commitment with an annual value of £2,858,362 (2015: £2,775,108) relating to equipment charges at Woking Hosting Centre.

25. Controlling party

The company is a wholly owned subsidiary of Telstra Global Limited, a company incorporated in the United Kingdom. The ultimate parent undertaking is Telstra Corporation Limited, a company incorporated in Australia.

Group financial statements are drawn up by Telstra Corporation Limited and may be obtained from: Corporate Secretary, Telstra Corporation Limited, 242 Exhibition Street, Melbourne, Victoria 3000, Australia.

TELSTRA LIMITED

Notes to the Financial Statements For the Year Ended June 30, 2016

26. First time adoption of FRS 101

The Company transitioned to FRS 101 from previously extant UK GAAP as at 1 July 2014. The impact of the transition to FRS 101 is as follows:

		As previously stated 1 July 2014 £000	Effect of transition 1 July 2014 £000	FRS 101 (as restated) 1 July 2014 £000	As previously stated 30 June 2015 £000	Effect of transition 30 June 2015 £000	FRS 101 (as restated) 30 June 2015 £000
	Note						
Fixed assets	1	129,726	-	129,726	142,836	2,122	144,958
Current assets	4	29,730	-	29,730	17,136	210	17,346
Creditors: amount falling due within one year	2,3	(90,988)	-	(90,988)	(92,652)	(972)	(93,624)
Net current liabilities		(61,258)	-	(61,258)	(75,516)	(762)	(76,278)
Total assets less current liabilities		68,468	-	68,468	67,320	1,360	68,680
Creditors: amounts falling due after more than one year		(31,542)	-	(31,542)	(31,542)	-	(31,542)
Provisions for liabilities		(839)	-	(839)	(1,388)	-	(1,388)
Net assets		36,087	-	36,087	34,390	1,360	35,750
Capital and reserves		36,087	-	36,087	34,390	1,360	35,750

TELSTRA LIMITED

**Notes to the Financial Statements
For the Year Ended June 30, 2016**

26. First time adoption of FRS 101 (continued)

	Note	As previously stated 30 June 2015 £000	Effect of transition 30 June 2015 £000	FRS 101 (as restated) 30 June 2015 £000
Turnover		73,540	-	73,540
Cost of sales		(26,884)	-	(26,884)
		<hr/>	<hr/>	<hr/>
		46,656	-	46,656
Administrative expenses	1,2,3	(44,592)	1,683	(42,909)
		<hr/>	<hr/>	<hr/>
Operating profit		2,064	1,683	3,747
Interest receivable and similar income		53	-	53
Interest payable and similar charges		(3,734)	-	(3,734)
Taxation	4	(84)	210	126
		<hr/>	<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation and for the financial year		<u>(1,701)</u>	<u>1,893</u>	<u>192</u>

There was no impact on the balance sheet as of July 1, 2014 due to the company took the exemption not to restate business combinations prior to July 1, 2014.

Explanation of changes to previously reported profit and equity:

- Under previous UK GAAP, goodwill was amortised on a straight line basis over 20 years. Under FRS 101, goodwill is reviewed for impairment annually instead of amortisation. As a first time adopter of International Financial Reporting Standards, the company has not restated goodwill arising from business combinations prior to July 1, 2014. However, Company has reversed its administrative expenses by £2,122,000 as of June 30, 2015.
- Under previous UK GAAP, the cost or benefit of lease incentives was recognised over the shorter of the lease term and a period ending on a date which it is expected the prevailing market rental will be payable. Under FRS 101, for operating leases, lessees and lessors should recognise the cost or benefit of lease incentives over the full lease term, usually on a straight line basis. An adjustment for lease incentives amounting to £698,003 was made to reflect full lease term recognition. Adjustment of £532,913 has an impact on opening retained earnings and remaining amount was reversed from administrative expenses.
- Under IAS 19 Employee benefits, short-term accumulating compensated absences, e.g., accrued holiday pay, are recognised as a liability and measured at the additional amount that the entity expects to pay as a result of unused entitlement that has accumulated at the end of the reporting period. A holiday pay accrual has been accounted for of £274,165 at June 30, 2015.
- Corporation tax liability was re-calculated taking into account above adjustments.