14 February 2019

Office of the Company Secretary

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242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

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The Manager

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

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Financial results for the half-year ended 31 December 2018

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 2018.

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 2018 and any public disclosures made by Telstra in accordance with the continuous disclosure requirements of the Listing Rules and the Corporations Act 2001.

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

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

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

Yours faithfully

Sue Laver
Company Secretary

APPENDIX 4D (ASX LISTING RULE 4.2A.3)
HALF-YEAR REPORT
31 December 2018
Telstra Corporation Limited ABN 33 051 775 556

1. Results for announcement to the market

Telstra Group	Half-year ended 31 Dec			
	2018	2017	Movement	
		Restated		
	$m	$m	$m	%
Revenue (excluding finance income) from ordinary activities	12,586	12,809	(223)	(1.7)
Other income	1,212	1,582	(370)	(23.4)
Total income	**13,798**	**14,391**	**(593)**	**(4.1)**
Finance income	99	117	(18)	(15.4)
Profit for the period	1,228	1,692	(464)	(27.4)
Profit for the period attributable to equity holders of Telstra Entity	**1,233**	**1,713**	**(480)**	**(28.0)**
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	1,233	1,713	(480)	(28.0)

2. Dividend information

Telstra Entity	Amount per share	Franked amount per share
	cents	cents
Interim ordinary dividend per share	5	5
Interim special dividend per share	3	3
Total interim dividend per share	**8**	**8**
Interim dividend dates		
Record date	28 February 2019	
Payment date	29 March 2019	

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

3. Net tangible assets per security information

Telstra Group	As at 31 Dec	
	2018	2017
		Restated
	cents	cents
Net tangible assets per security	56.3	50.8

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 2018 was 11,893 million shares (2017: 11,893 million).

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

Telstra Group			% of equity held by ultimate parent	
			As at	
			31 Dec 2018	30 Jun 2018
Name of entity	Country of incorporation	Date of control obtained or lost	%	%
Control lost				
Telstra Colorado Pty Ltd[1]	Australia	04 July 2018	-	100.0
AFN Solutions Pty Ltd[2]	Australia	07 July 2018	-	50.1
Ooyala Inc.[3]	United States	02 October 2018	-	97.0
Ooyala AB[3]	Sweden	02 October 2018	-	97.0
Pacnet Services Holdings China Limited[4]	Bermuda	16 October 2018	-	100.0

1 During the period, the entity was deregistered.
2 During the period, the entity was disposed of.
3 During the period, the entity and its controlled entities were disposed of.
4 During the period, the entity was liquidated.

A complete list of our controlled entities as at 30 June 2018 is available online at www.telstra.com.au/aboutus/investors/financial-information/financial-results.

5. Details of investments in joint ventures

Telstra Group			Ownership interest	
			As at	
			31 Dec 2018	30 Jun 2018
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
Joint ventures				
3GIS Pty Ltd	Management of former 3GIS Partnership (non-operating)	Australia	50.0	50.0
Telstra Ventures Fund II, L.P.	Venture capital	Guernsey	62.5	62.5
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	45.0	50.0
Reach Limited[1]	International connectivity services	Bermuda	50.0	50.0

1 Balance date is 31 December.

6. Details of investments in associated entities

Telstra Group			Ownership interest	
			As at	
			31 Dec 2018	30 Jun 2018
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
Associated entities				
Asia Netcom Philippines Corporation [1]	Ownership of physical property	Philippines	40.0	40.0
Australia-Japan Cable Holdings Limited [1]	Network cable provider	Bermuda	46.9	46.9
Dacom Crossing Corporation [1]	Network cable provider	Korea	49.0	49.0
Digitel Crossing Inc. [1]	Telecommunication services	Philippines	40.0	40.0
enepath (Group Holdings) Pte Ltd [2]	Trading turret and calling software provider	Singapore	28.1	28.1
PharmX Pty Ltd	Internet based ordering gateway	Australia	15.0	15.0
Pivotal Labs Sydney Pty Ltd [3]	Software development	Australia	20.0	20.0
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	Australia	30.0	30.0
NXE Australia Pty Limited	Pay television	Australia	35.0	35.0
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0

1 Balance date is 31 December.
2 Balance date is 31 March.
3 Balance date is 31 January.

7. Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) continues to operate for the interim dividend for the financial year 2019. The election date for participation in the DRP is 1 March 2019.

Additional Appendix 4D disclosure requirements can be found in the notes in 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 of Directors (the Board), the Directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited (Telstra) and the entities it controlled at the end of or during the half-year ended 31 December 2018. Financial comparisons used in this report are of results for the half-year ended 31 December 2018 compared with the half-year ended 31 December 2017 for income statement analysis, and 31 December 2018 compared with 30 June 2018 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 10 of the Half-Year results and operations review accompanying this Directors' Report.

Dividends

Since the end of the half-year, the Directors resolved to pay an interim dividend for the financial year 2019 of 8 cents per ordinary share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. The interim dividend will be fully franked at a tax rate of 30 per cent. The record date for the interim dividend will be 28 February 2019, with payment being made on 29 March 2019. From 27 February 2019, shares will trade excluding entitlement to the dividend.

Our final dividend for the financial year ended 30 June 2018 of 11 cents per ordinary share ($1,308 million), comprising a final ordinary dividend of 7.5 cents and a final special dividend of 3.5 cents, was paid during the half-year ended 31 December 2018. This dividend was fully franked at a tax rate of 30 per cent. The final dividend had a record date of 30 August 2018 and payment was made on 27 September 2018.

The Dividend Reinvestment Plan (DRP) continues to operate for the interim dividend for the financial year 2019. The election date for participation in the DRP is 1 March 2019.

Directors

Directors who held office during the half-year ended 31 December 2018 and until the date of this report were:

Director	Period of directorships
John P Mullen	Chairman since 2016, Director since 2008
Andrew R Penn	Chief Executive Officer and Managing Director since 2015
Craig W Dunn	Director since 2016
Peter R Hearl	Director since 2014
Jane S Hemstritch	Director from 2016 until 15 January 2019
Russell A Higgins	Director from 2009 until 16 October 2018
Niek Jan van Damme	Director since 16 October 2018
Nora L Scheinkestel	Director since 2010
Margaret L Seale	Director since 2012
Roy H Chestnutt	Director since 2018
Steven M Vamos	Director from 2009 until 16 October 2018
Trae A N Vassallo	Director from 2015 until 16 October 2018

On 13 February 2019, the Board announced the appointment of Eelco Blok as a non-executive Director, with effect from 15 February 2019. He will stand for election at our 2019 Annual General Meeting.

Auditors' Independence Declaration

A copy of the Auditor's Independence Declaration is on page 2 and forms part of this report.

Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and issued pursuant to section 341(1) of the Corporations Act 2001. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars ($m), except where otherwise indicated.

This report is made on 14 February 2019 in accordance with a resolution of the Directors.

John P Mullen
Chairman
14 February 2019

Andrew R Penn
Chief Executive Officer and Managing Director
14 February 2019

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

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
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Auditor's Independence Declaration to the Directors of Telstra Corporation Limited

As lead auditor for the review of Telstra Corporation Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne
14 February 2019

Half year results and operations review

Summary financial results	1H19 $m	1H18 restated $m	Change %
Revenue (excluding finance income)	**12,586**	12,809	(1.7)
Total income (excluding finance income)	**13,798**	14,391	(4.1)
Operating expenses	**9,541**	9,264	3.0
Share of net profit/(loss) from joint ventures and associated entities	**1**	(31)	n/m
EBITDA	**4,258**	5,096	(16.4)
Depreciation and amortisation	**2,141**	2,219	(3.5)
EBIT	**2,117**	2,877	(26.4)
Net finance costs	**320**	296	8.1
Income tax expense	**569**	889	(36.0)
Profit for the period	**1,228**	1,692	(27.4)
Profit attributable to equity holders of Telstra	**1,233**	1,713	(28.0)
Capex[1]	**2,340**	2,299	1.8
Free cashflow	**627**	1,716	(63.5)
Earnings per share (cents)	**10.4**	14.4	(27.8)

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

Reported results

Telstra delivered 1H19 results in line with guidance, showing solid performance in customer numbers and share in the face of intense competition as well as strong delivery against the T22 strategy. The results were impacted by the further rollout of the nbn™ network, with approximately 55 per cent of premises now connected.

On a reported basis, total income was down 4.1 per cent, EBITDA was down 16.4 per cent and NPAT was down 27.4 per cent. On a guidance basis, total income was down 3.9 per cent and EBITDA was down 15.1 per cent. While the results show parts of our business continue to face short term challenges, there are positive signs particularly with the significant increase in retail postpaid mobile services.

Demand for telco products and services continues to grow and telco infrastructure will increase in importance over the next decade. With the onset of 5G, we expect to see positive ARPU influences across the industry from uptake and new services as we have with other new Gs.

Our T22 strategy is enabling the business to take advantage of future opportunities, building on the investment in networks and digitisation announced in 2016. It is one of the most ambitious transformation projects currently being undertaken amongst telcos globally, designed to accelerate our rate of change and to lift our level of aspiration to deliver simpler, more flexible products and services with a great digital service experience for our customers.

We made significant progress reducing underlying fixed costs and remain on track to meet FY19 targets as part of the goal of achieving $2.5 billion net productivity improvement by FY22. In 1H19 underlying fixed costs were down 4.2 per cent or $162 million. Around $900 million in annualised cost reductions have been achieved since FY16 and we will accelerate our productivity program in the second half of FY19 and into FY20.

First half performance against our FY19 Executive Variable Remuneration Plan (EVP) metrics is included on page 11. For additional detail on these EVP metrics and targets, refer to our "Letter to Shareholders" dated 11 October 2018 available at https://www.telstra.com.au/aboutus/investors/announcements.

The numbers and commentary in the product, expense and segment performance sections have been prepared on a continuing operations basis and align with the statutory financial statements. Comparatives from FY18 have been restated where applicable as a result of the adoption of AASB15. The Summary Statement of Financial Position comparative date is restated as at 1 July 2018 as the adoption of AASB9 impacts opening balances only.

Results on a guidance basis[1]	1H19	FY19 Guidance
Total income[2]	**$13.8b**	$26.2b to $28.1b
EBITDA excluding restructuring costs	**$4.7b**	$8.7b to $9.4b
Net one-off nbn Definitive Agreement (DA) receipts less nbn net Cost to Connect (C2C)	**$0.8b**	$1.5b to $1.7b
Restructuring costs	**$0.3b**	~$0.6b
Capex	**$2.3b**	$3.9b to $4.4b
Free cashflow	**$0.7b**	$3.1b to $3.6b

Guidance versus reported results[1]	1H19 Reported results $m	1H19 Adjustments $m	1H19 Guidance basis $m
Total income[2]	**13,798**	(1)	**13,797**
EBITDA	**4,258**	418	**4,676**
Free cashflow	**627**	112	**739**

1. This guidance assumes wholesale product price stability and no impairments to investments or core assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout and migration in FY19 is broadly in accordance with the nbn Corporate Plan 2019. The guidance is provided on the basis of AASB15. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex. Please refer to the guidance versus reported results reconciliation on page 10. This reconciliation has been reviewed by our auditors.
2. Total income excludes finance income.

On 14 February 2019, the Directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 8.0 cents per ordinary share, comprising an interim ordinary dividend of 5.0 cents and an interim special dividend of 3.0 cents. The interim ordinary dividend represents a 84 per cent payout ratio on 1H19 underlying earnings (defined as net profit after tax from continuing operations excluding net one-off nbn receipts) while the interim special dividend represents a 68 per cent payout ratio of 1H19 net one-off nbn receipts (defined as net one-off nbn DA receipts less nbn net C2C less tax), consistent with our capital management framework and dividend policy. Our underlying earnings were $707 million while net one-off nbn receipts were $526 million.

Shares will trade excluding entitlement to the dividends from 27 February 2019 with payment on 29 March 2019.

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.

Income related to recurring nbn Infrastructure Service Agreement (ISA) amounts and nbn commercial works are included in Telstra InfraCo. One-off nbn DA and ISA amounts are included in Other Segments, and non-nbn commercial works are included in Telstra Enterprise.

Segment total income

Total income	1H19 $m	1H18 restated $m	Change %
Telstra Consumer and Small Business	**7,212**	7,320	(1.5)
Telstra Enterprise	**3,955**	3,903	1.3
Networks and IT	**34**	40	(15.0)
Other Segments	**1,041**	1,463	(28.2)
Telstra InfraCo including internal access charges	**2,502**	1,665	50.3
Internal access charges	**(946)**	-	n/m
Total Telstra segments	**13,798**	14,391	(4.1)

Telstra Consumer and Small Business
Telstra Consumer and Small Business provides telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small business customers in Australia. Income in this segment decreased by 1.5 per cent to $7,212 million.

Telstra Consumer income decreased by 1.4 per cent and Telstra Small Business income decreased by 1.9 per cent, largely impacted by a 6.6 per cent decline in fixed across both segments. Mobile services revenue decreased by 1.5 per cent as Average Revenue Per User (ARPU) reductions offset customer net additions. Network Applications and Services (NAS) revenue continued to grow, increasing by 12.2 per cent, primarily driven by growth in unified communications and cloud services.

Telstra Enterprise
Telstra Enterprise is responsible for sales and contract management for medium and large business and government customers in Australia and globally. It also provides product management for advanced technology solutions and services, including Data & IP networks and NAS products such as managed networks, unified communications, cloud, industry solutions and integrated services.

Income for Telstra Enterprise increased by 1.3 per cent to $3,955 million. Telstra Enterprise domestic income was broadly flat. Industry ARPU decline in Data & IP and ongoing fixed voice decline was offset by modest growth in NAS, which increased by 3.7 per cent.

Telstra Enterprise international income increased by 6.0 per cent mainly due to growth in higher margin Data & IP and NAS improvements in cloud services and unified communications.

Networks and IT
Networks and IT (previously Telstra Operations) is responsible for the overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions. It primarily supports the revenue generating activities of other segments. Income decreased by 15.0 per cent to $34 million.

Telstra InfraCo
Telstra InfraCo comprises our fixed network infrastructure assets including data centres, non-mobiles related domestic fibre, copper, hybrid fibre coaxial (HFC), international subsea cables, exchanges, poles, ducts and pipes, and provides access to these assets to other Telstra business units, wholesale customers and nbn co. The segment includes results previously reported under Telstra Wholesale excluding one-off nbn Infrastructure Ownership Payments, and nbn network services to nbn co under the nbn DAs and commercial contracts previously reported under Telstra Operations.

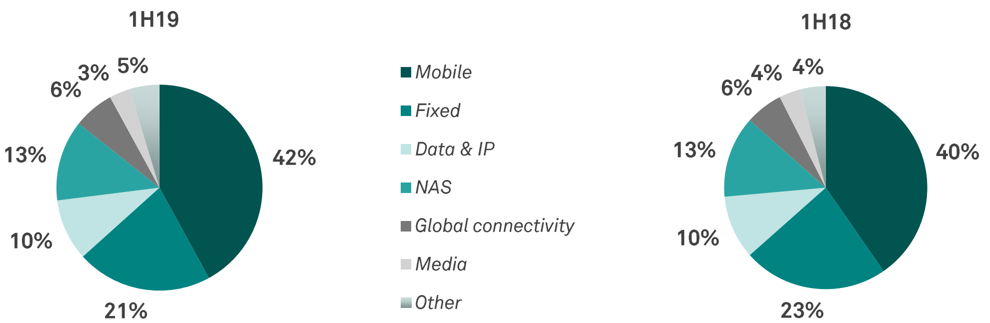
Income excluding internal access charges decreased by 6.5 per cent to $1,556 million due to expected declines from Telstra Wholesale fixed legacy and nbn commercial works, partly offset by recurring nbn DA receipts. Including internal access charges, income increased by 50.3 per cent to $2,502 million.

We continue to explore and implement structures to ensure we have the flexibility we need to create optionality for a demerger or entry of a strategic investor in a post-nbn rollout world. It must be noted that in order to proceed with a demerger or separation of Telstra InfraCo, we would likely need approvals and to ensure that other key stakeholders are comfortable with any proposed transaction.

Other Segments
Certain items of income and expense relating to multiple reportable segments are recorded by our corporate areas and included in the Other Segments category. This category also includes Product and Technology, Global Business Services (GBS) and New Business (including Telstra Health). Income declined by 28.2 per cent mainly due to lower Per Subscriber Address Amount (PSAA) receipts in line with the nbn™ network rollout.

Product performance

Product revenue breakdown



Key product revenue	1H19 $m	1H18 restated $m	Change %
Mobile	**5,291**	5,169	2.4
Fixed	**2,681**	2,957	(9.3)
Data & IP	**1,217**	1,298	(6.2)

NAS	**1,596**	1,664	(4.1)
Global connectivity	**801**	764	4.8

EBITDA margins[1]	1H19 (%)	2H18 restated (%)	1H18 restated (%)	FY18 restated (%)
Mobile	**36**	38	39	39
Fixed (including nbn C2C)	**25**	29	35	32
Data & IP	**64**	65	64	64
NAS	**2**	13	7	10
Global connectivity	**19**	19	18	19

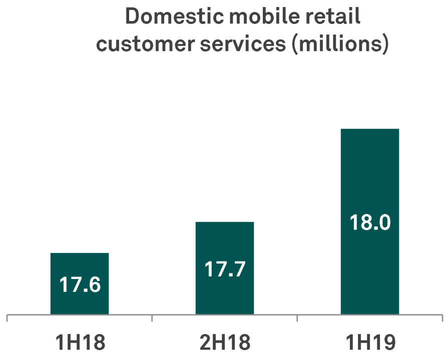
1. The data in this table includes minor adjustments to historic numbers to reflect changes in product hierarchy.

Mobile

Mobile revenue increased by 2.4 per cent to $5,291 million with growth across hardware, postpaid handheld, wholesale and Internet of Things (IoT), partly offset by mobile broadband and prepaid declines.

Retail customer services increased by 240,000 in the half, bringing the total to 18.0 million. We now have 8.1 million postpaid handheld retail customer services, an increase of 239,000 in the half including 115,000 from Belong®.

Postpaid handheld revenue increased by 2.1 per cent to $2,665 million due to continued net add momentum, partly offset by 2.4 per cent ARPU decline from $57.00 to $55.62 resulting from lower out of bundle revenue and increased competition. Minimum Monthly Commitment (MMC) in mass market has remained stable despite ongoing migration to BYO plans.



Prepaid handheld revenue declined by 9.1 per cent to $448 million, with a 0.7 per cent ARPU decline from $22.70 to $22.54 compounded by a 198,000 decline in unique users over the year (60,000 decline in the half).

Mobile broadband revenue declined by 15.9 per cent to $350 million after a reduction of 170,000 customer services in the half and a decline in ARPU. Revenue decline slowed in 1H19 compared to 2H18.

IoT (formerly Machine to Machine) revenue grew by 35.6 per cent to $99 million, increasing customer services by 261,000 in the half due to new solutions being implemented in verticals such as logistics, mining, utilities, agriculture, health and financial services.

Wholesale services revenue increased 10.0 per cent to $99 million while adding 125,000 wholesale mobile services in the half, bringing the total to 1.1 million.

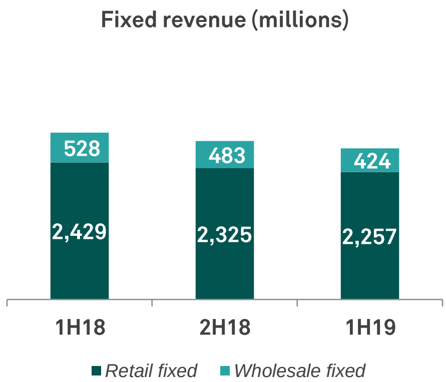
Mobile hardware revenue grew by 9.8 per cent to $1,511 million largely due to a $107 million increase in lease revenue.

Mobile EBITDA margin declined by 3 percentage points to 36 per cent due to lower services and hardware margin including a lease benefit in 1H18, partly offset by fixed cost reduction.

Fixed

Fixed revenue declined by 9.3 per cent to $2,681 million, impacted by nbn migration, competition and ongoing legacy decline. Retail fixed revenue declined by 7.1 per cent to $2,257 million and wholesale fixed revenue declined by 19.7 per cent to $424 million.

Bundles and standalone data revenue declined by 0.4 per cent to $1,653 million due to lower value added services and billed usage. This was largely offset by MMC growth with bundle and standalone data revenue now 97% MMC. ARPU decreased by 3.4 per cent from $78.56 to $75.90, however decline has slowed in 1H19 compared to 2H18. There were 64,000 retail bundles and standalone data net subscriber additions including 22,000 from Belong® in the half, bringing the total bundles and standalone data customers to 3.7 million.



Standalone voice revenue decreased by 24.6 per cent to $477 million with lower usage and decline in services in operation (SIO) due to standalone voice line abandonment and migration to bundles. ARPU declined by 1.6 per cent from $44.40 to $43.70. Standalone voice line loss was 269,000 in the half, taking total standalone voice customers to 1.7 million.

We continue to lead the nbn market with a total of 2,254,000 nbn connections, an increase of 308,000 in the half. Our nbn market share is now 51 per cent (excluding satellite). The Telstra Smart Modem™ is now being utilised by 28 per cent of our fixed data consumer base, providing a better experience on the nbn and improved churn outcomes.

Fixed (including nbn C2C) EBITDA margin declined by 10 percentage points to 25 per cent due to high margin revenue reduction, growing network payments to nbn co and higher hardware costs, partly offset by fixed cost reduction.

Data & IP
Data & IP revenue decreased by 6.2 per cent to $1,217 million reflecting competitive pricing pressures in IP based Virtual Private Network (IPVPN) despite continued growth in service volumes, and legacy product declines especially in ISDN.

IPVPN revenue, which includes IPMAN/Ethernet MAN, IPWAN and nbn, declined by 5.2 per cent to $511 million as SIO growth in fibre and nbn access was offset by declines in legacy copper services. SIO growth was outweighed by continued pressure on yield driving a net reduction to revenue.

ISDN revenue decline accelerated, down 15.9 per cent to $206 million due to service rationalisation of legacy products ahead of regulated migrations to products within the NAS portfolio.

Other data and calling products revenue, which includes wholesale, inbound calling products, internet, media solutions and legacy data, decreased by 2.7 per cent to $500 million. Internet growth of 13.2 per cent due to SIO growth from unlimited offers was offset by declines in legacy calling and data products.

Data & IP EBITDA margin was flat at 64 per cent reflecting continued growth in IPVPN and internet services, offset by declining ARPU on high margin products.

Network Applications and Services (NAS)
NAS revenue declined by 4.1 per cent to $1,596 million as 12.2 per cent growth in Small Business and 3.7 per cent growth in domestic Enterprise was offset by lower nbn commercial works within Telstra InfraCo in line with the progress of the nbn™ rollout.

Managed network services revenue decreased by 4.9 per cent to $291 million, reflecting a decline in one-off revenues within Managed Data Networks, partly offset by a 27.0 per cent growth in security services.

Unified communications revenue increased by 9.7 per cent to $442 million due to increased calling and collaboration annuity revenue from underlying volume growth, in addition to nbn migrations from legacy fixed products.

Cloud services revenue growth of 12.2 per cent to $202 million was facilitated by increased annuity revenue from public cloud services and growth in cloud consulting and professional services.

Industry solutions revenue declined by 15.9 per cent to $573 million due to a reduction in nbn and non-nbn commercial works.

Integrated services revenue declined by 6.4 per cent to $88 million mainly from a decline in project management and professional services.

NAS EBITDA margin decreased by 5 percentage points to 2 per cent due to a change in revenue mix including a decline in nbn commercial works revenues and contract timing impacts.

Global connectivity
Global connectivity represents the international business of Telstra Enterprise. Revenue was flat in local currency (LC) terms with growth in more profitable products within Data & IP offsetting legacy fixed products decline.

Fixed revenue decreased by 10.9 per cent (LC) as fixed legacy products continue to face headwinds from global decline in fixed voice, while Data & IP revenue grew by 3.5 per cent (LC) with solid margins from existing and new capacity. NAS revenue was flat (LC) with growth in cloud services and unified communications offset by price erosion in co-location.

On a reported Australian dollar (AUD) basis, global connectivity revenue increased by 4.8 per cent to $801 million.

Global connectivity EBITDA margin increased by 1 percentage point to 19 per cent due to profitable revenue growth and cost productivity.

Media
Media revenue excluding cable decreased by 6.2 per cent to $411 million due to the performance of Foxtel from Telstra, which declined by 4.8 per cent to $340 million and had 27,000 subscriber exits over the year reflecting a broader industry transition from Broadcast to IPTV. There are now 1,412,000 Telstra TV® devices in the market, an increase of 320,000. Sports Live Pass users increased by more than 1 million to 2,592,000 across AFL, NRL, Netball and FFA, with most users receiving the service as part of their mobile subscription.

Other
Other revenue includes recurring revenue related to nbn co access to our infrastructure (nbn DA), and revenue from other products such as late payment fees and revenue from Telstra Health and Telstra Software.

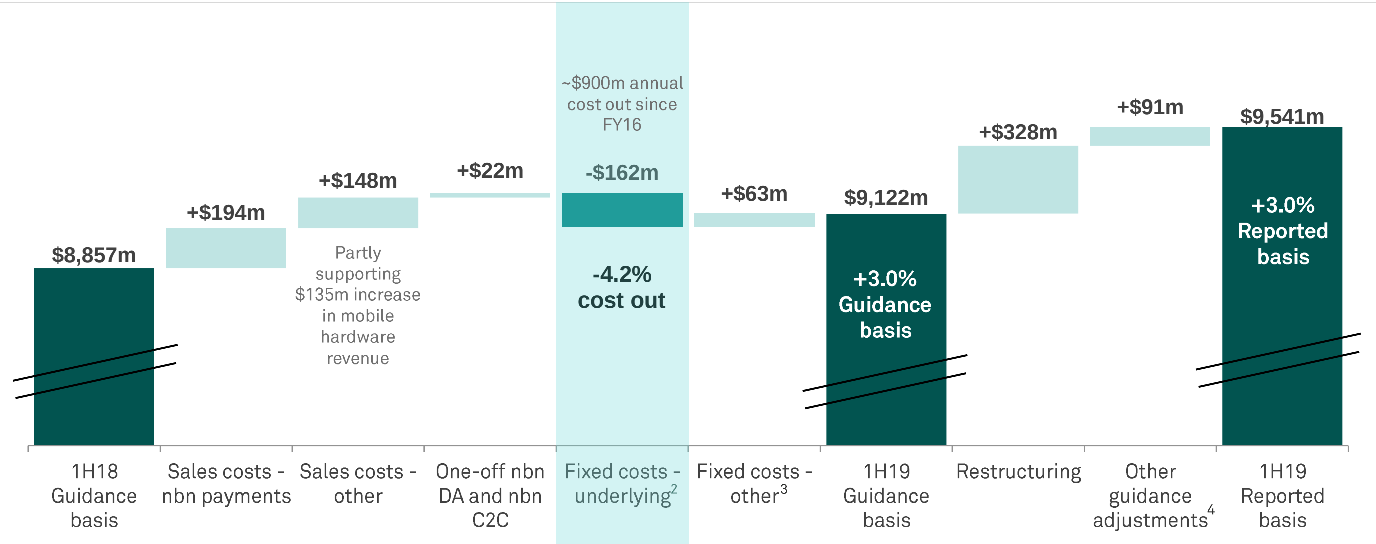
Other income includes gains and losses on asset and investment sales (including assets transferred under the nbn DAs), income from government grants under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), income from nbn™ network disconnection fees (PSAA), subsidies and other miscellaneous items. The decrease in other income of 23.4 per cent is largely due to a decline in one-off PSAA which decreased by 33.2 per cent to $699 million, partly offset by an 8.5 per cent increase in ISA income to $242 million in line with the progress of the nbn™ network rollout. The decline in PSAA receipts from the nbn in FY19 are effectively deferred into future periods. This will be partly offset in FY19 by the natural hedge including benefits from lower nbn C2C, lower network payments to nbn and retained wholesale EBITDA.

Expense performance

In June 2018, we announced we would target a $2.5 billion annual reduction in underlying fixed costs by FY22 compared with underlying fixed costs of ~$8.3 billion in base year FY16. We have delivered against our cost ambitions for the half and are in line with the run rate required for our net productivity target with underlying fixed costs declining by 4.2 per cent or $162 million. We have now achieved around $900 million of annual cost out since FY16.

Our total reported costs grew due to increased nbn access payments and other sales costs, offset by fixed cost reduction.

Operating expenses[1]	1H19 $m	1H18 restated $m	Change	
			$m	%
Sales costs	**4,238**	3,896	342	8.8
- nbn payments	**620**	426	194	45.5
- other	**3,618**	3,470	148	4.3
One-off nbn DA and nbn C2C	**240**	218	22	10.1
Fixed costs	**4,644**	4,743	(99)	(2.1)
- underlying[2]	**3,675**	3,837	(162)	(4.2)
- other[3]	**969**	906	63	7.0
Guidance basis	**9,122**	**8,857**	**265**	**3.0**
Restructuring	**328**	134	194	n/m
Other guidance adjustments[4]	**91**	273	(182)	n/m
Reported basis	**9,541**	**9,264**	**277**	**3.0**



1. Restated due to accounting changes and review of fixed costs - underlying and other inclusions. Sales and fixed costs exclude goods and services purchased and fixed costs associated with one-off nbn DA and nbn C2C.
2. Fixed costs - underlying was ~$8.3b in FY16 and targeted to decline by our net cost productivity target of $2.5b by FY22.
3. Fixed costs - other includes significant costs associated with NAS commercial works and NAS variable costs, mobile lease, non-cash items, impairments, M&A and bond rate impacts.
4. Please refer to the guidance versus reported results reconciliation on page 10.

Total operating expenses increased by 3.0 per cent to $9,541 million. Sales costs, which are direct costs associated with revenue and customer growth, increased by $342 million or 8.8 per cent. This was due to a $194 million increase in nbn access payments and a $148 million increase in variable costs which partly supported mobile hardware revenue growth of $135 million. Other fixed costs increased by $63 million or 7.0 per cent, while one-off nbn DA and nbn C2C grew by $22 million or 10.1 per cent in line with the progress of the nbn™ network rollout. These increases were partially offset by a $162 million reduction in underlying fixed costs from our productivity program.

Our progress on achieving our productivity target is reported through the above operating expenses table. The detail below provides commentary on the operating expenses as disclosed in our statutory accounts.

Operating expenses	1H19 $m	1H18 restated $m	Change %
Labour[1]	**2,722**	2,699	0.9
Goods and services purchased[2]	**4,382**	3,989	9.9
Other expenses[1]	**2,437**	2,576	(5.4)
Total operating expenses	**9,541**	9,264	3.0

1. Labour and other expenses consists of fixed costs including amounts related to one-off nbn DA and nbn C2C.
2. Goods and services purchased consists of sales costs including amounts related to one-off nbn DA and nbn C2C.

Labour
Total labour expenses increased by 0.9 per cent or $23 million to $2,722 million. Redundancy costs increased by $169 million, partially offset by a 5.6 per cent or $146 million decrease in salary costs due to lower headcount and reduced labour substitution.

Total full time staff and equivalents (FTE) decreased by 9.3 per cent or 3,205 to 31,419 in the half, largely due to the T22 restructure and a 400 FTE reduction relating to the sale of Ooyala. We expect to realise the financial benefits of these FTE reductions in 2H19 and FY20. During the half, FTE was restated to include contractors, agency labour and employees on long service leave. Under the previous methodology, FTE decreased by 9.3 per cent or 2,996.

Goods and services purchased
Goods and services purchased increased by 9.9 per cent or $393 million to $4,382 million.

Cost of goods sold, which includes mobile handsets, tablets, cellular Wi-Fi, broadband modems and NAS hardware, increased by 3.9 per cent or $67 million to $1,778 million as mobile hardware costs increased due to more expensive handsets being sold.

Network payments increased by 20.6 per cent or $224 million to $1,310 million, including a $194 million increase in nbn access payments as customers migrate across to nbn services. Offshore network payments were $36 million higher mainly due to higher offshore network traffic.

Other goods and services purchased costs increased by 8.6 per cent or $102 million to $1,294 million mainly due to a $56 million increase in service contracts and agreements in support of NAS services.

Other expenses
Total other expenses decreased by 5.4 per cent or $139 million to $2,437 million. Impairment expenses decreased by $310 million largely due to a $273 million impairment charge in 1H18, while other expenses increased by 17.1 per cent or $227 million mainly due to the higher uptake of mobile lease plans. This was partially offset by a 6.9 per cent or $56 million decline in service contract and other agreement costs, driven lower by the productivity and cost reduction programs.

Depreciation and amortisation
Depreciation and amortisation decreased by 3.5 per cent or $78 million to $2,141 million. Review of asset service lives during 1H19 resulted in a $122 million decrease in depreciation expense and a $53 million decrease in amortisation expense for the half.

Foreign currency impacts
For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to Australian dollars increased our expenses by $55 million across labour, goods and services purchased, and other expenses. This foreign exchange impact has been offset by a benefit to sales revenue resulting in a favourable EBITDA contribution of $4 million.

Net finance costs
Net finance costs increased by 8.1 per cent or $24 million to $320 million, comprising of net interest on borrowings of $382 million offset by other net financing impacts of $62 million. Net interest on borrowings increased by $23 million from a $15 million reduction in interest revenue and an $8 million increase in gross borrowing costs. Our gross borrowing yield remains relatively flat at 4.9 per cent. The reduction in interest revenue primarily relates to our joint venture loan asset to Foxtel Management Pty Ltd which was converted to an equity instrument in FY18. Other net financing impacts on a net basis were relatively flat.

Summary Statement of Cash Flows	1H19 $m	1H18 restated $m	Change %
Net cash provided by operating activities	**2,817**	3,773	(25.3)
Capital expenditure (before investments)	**(2,457)**	(2,562)	4.1
Other investing cash flows	**267**	505	(47.1)
Net cash used in investing activities	**(2,190)**	(2,057)	(6.5)
Free cashflow	**627**	1,716	(63.5)

Net cash used in financing activities	**(709)**	(2,068)	65.7
Net (decrease) in cash and cash equivalents	**(82)**	(352)	76.7
Cash and cash equivalents at the beginning of the period	**620**	936	(33.8)
Effects of exchange rate changes on cash and cash equivalents	**3**	-	n/m
Cash and cash equivalents at the end of the period	**541**	584	(7.4)

Financial Position

Capital expenditure and cash flow

Net cash provided by operating activities decreased by 25.3 per cent to $2,817 million mainly due to a decrease in one-off nbn receipts in line with the progress of the nbn™ network rollout and an increase in payments to suppliers and employees. This was partly offset by a reduction in income taxes paid. The increase in net cash used in investing activities primarily reflects the lower proceeds from sale of property, plant and equipment for the period.

Our operating capital expenditure for the half was $2,340 million or 19.6 per cent of sales revenue and remains within the FY19 envelope. We typically spend around 50 per cent of our full year of capital expenditure in the first half, however we expect to spend closer to 60 per cent in 1H19. We anticipate capital expenditure will reduce in FY20 following the completion of our three year strategic investment program of which we have invested approximately $2.6 billion of the up to $3 billion additional capital expenditure to date.

During the half we extended our 5G leadership with a series of world and Australian 5G firsts, achieved our targeted deployment of 200 5G-enabled mobile base stations by the end of 2018, and successfully acquired an additional 30-80 MHz nationwide in the 3.6GHz spectrum auction in November 2018 to secure our 5G future. We met our market commitment of winning all major network surveys, and extended the range of our Narrowband-IoT network to more than 3.5 million square kilometres. We launched our Network as a Service (NaaS) platform which is a key enabler in simplifying our Networks-IT interface and launched the first products to market leveraging the NaaS and its reusable services. Our investments continue to support industry leading mobile differentiation, coverage, speed and resiliency.

Free cashflow generated from operating and investing activities was $627 million representing a decrease of $1,089 million or 63.5 per cent. This was largely due to lower EBITDA, increased working capital, increased restructuring costs and lower net proceeds on disposal, partly offset by lower tax paid and capital expenditure. The $1,359 million decrease in net cash used in financing activities principally reflects higher funding from borrowings and lower dividend paid.

On a guidance basis free cashflow was $739 million, which is lower than historical first half cashflow trends. We are expecting stronger free cashflow performance in the second half of the financial year. Performance against guidance has been adjusted for free cashflow associated with M&A activity ($85 million) and spectrum ($27 million).

Debt position

Our gross debt position was $16,355 million, comprising borrowings of $18,283 million and net derivative assets of $1,928 million. Gross debt increased by $987 million from $15,368 million at 30 June 2018. This represents a financing cash inflow of $996 million from debt issuance of $1,825 million less debt repayments of $829 million, and finance lease additions of $33 million, offset by unrealised revaluation impacts on our borrowings and derivatives of $33 million and reduction in bank overdraft of $9 million.

Debt issuance	$m
1 year Australian dollar floating rate note	300
Other current loans	8
Short term commercial paper (net)	67
Drawn revolving bank facilities	1,450
Total	**1,825**

Debt repayments	$m
Bonds	(752)
Loans	(28)
Australian dollar private placements	(10)
Finance leases	(39)
Total	**(829)**

Net debt increased by $1,075 million to $15,814 million, comprising of the increase in gross debt and an $88 million reduction in cash and cash equivalents. Net of bank overdraft our cash decreased by $79 million.

Financial settings	1H19 Actual	FY19 Comfort zone
Debt servicing[1]	1.7x	1.3 to 1.8x
Gearing[2]	52.2%	50% to 70%
Interest cover[3]	11.2x	>7x

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

We remain within our comfort ranges for all our credit metrics. Our gearing ratio is at 52.2 per cent (50.3 per cent at 30 June 2018), debt servicing is 1.7 times (1.5 times), and interest cover is 11.2 times (14.0 times).

Summary Statement of Financial Position	31 Dec 2018 $m	1 Jul 2018 restated[1] $m	Change %
Current assets	**7,441**	7,202	3.3
Non-current assets	**36,282**	35,432	2.4
Total assets	**43,723**	42,634	2.6
Current liabilities	**8,059**	8,785	(8.3)
Non-current liabilities	**21,159**	19,293	9.7
Total liabilities	**29,218**	28,078	4.1
Net assets	**14,505**	14,556	(0.4)
Total equity	**14,505**	14,556	(0.4)
Return on average assets (%)	**9.9%**	13.8%	(3.9)pp
Return on average equity (%)	**17.0%**	25.0%	(8.0)pp

1. Opening balance of 1 July 2018 used versus 30 June 2018 due to AASB9 restatements going through opening balances only.

Statement of Financial Position
Our balance sheet remains in a strong position with net assets of $14,505 million.

Current assets increased by 3.3 per cent to $7,441 million. Inventories increased by $377 million primarily due to a seasonal increase in mobility inventories to meet higher demand, higher mobility unit costs and increased stock of the newly released Smart Modem™ Gen 2.

Non-current assets increased by 2.4 per cent to $36,282 million. Property, plant and equipment increased by $471 million largely driven by mobile and Network 2020 investments. Derivative financial assets increased by $304 million due to foreign currency movements and other valuation impacts arising from measuring to fair value.

Current liabilities decreased by 8.3 per cent to $8,059 million largely due to a $479 million reduction in borrowings and derivative financial liabilities driven by a reduction in short-term borrowings and a reduction in term debt due to mature within 12 months.

Non-current liabilities increased by 9.7 per cent to $21,159 million mainly due to a $1,728 million increase in borrowings and derivative financial liabilities principally from drawn revolving bank facilities and foreign currency valuation impacts.

Guidance versus reported results

This schedule details the adjustments made to the reported results for the current and comparative period to reflect the performance of the business on the basis on which we provided guidance to the market. This guidance assumes wholesale product price stability and no impairments to investments or core assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout and migration in FY19 is broadly in accordance with the nbn Corporate Plan 2019. The guidance is provided on the basis of AASB 15. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex.

	Reported			Adjustments Dec-18					Dec-17					Guidance Basis		
	Half year ended 31 Dec			M&A Controlled Entities[1]	M&A JVs / Associates[1]	M&A Disposals[1]	Restructuring[2]	Spectrum[3]	Impairment[4]	Foxtel[5]	Spectrum[6]	M&A[7]	Restructuring[8]	Half year ended 31 Dec		
	2018	2017 restated	Growth											2018	2017 restated	Growth
	$m	$m	%	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	%
Total revenue	12,586	12,809	(1.7%)	0	0	(1)	0	0	0	(38)	0	0	0	12,585	12,771	(1.5%)
Total income (excl. finance income)	**13,798**	14,391	**(4.1%)**	**0**	**0**	**(1)**	**0**	**0**	**0**	**(38)**	**0**	**0**	0	**13,797**	14,353	**(3.9%)**
Labour	2,722	2,699	0.9%	0	0	0	(216)	0	0	0	0	0	(43)	2,506	2,656	(5.7%)
Goods and services purchased	4,382	3,989	9.9%	0	0	0	0	0	0	0	0	0	0	4,382	3,989	9.9%
Other expenses	2,437	2,576	(5.4%)	0	0	(91)	(112)	0	(273)	0	0	0	(91)	2,234	2,212	1.0%
Operating expenses	**9,541**	9,264	**3.0%**	**0**	**0**	**(91)**	**(328)**	**0**	**(273)**	**0**	**0**	**0**	(134)	**9,122**	8,857	**3.0%**
Share of net gain/(loss) from joint ventures and associated	1	(31)	n/m	0	0	0	0	0	0	44	0	0	0	1	13	(92.3%)
EBITDA	**4,258**	5,096	**(16.4%)**	**0**	**0**	**90**	**328**	**0**	**273**	**6**	**0**	**0**	**134**	**4,676**	5,509	**(15.1%)**
Depreciation and amortisation	2,141	2,219	(3.5%)	0	0	0	0	0	0	0	0	0	0	2,141	2,219	(3.5%)
EBIT	**2,117**	2,877	**(26.4%)**	**0**	**0**	**90**	**328**	**0**	**273**	**6**	**0**	**0**	**134**	**2,535**	3,290	**(22.9%)**
Net finance costs	320	296	8.1%	0	0	0	0	0	0	0	0	0	0	320	296	8.1%
Profit before income tax expense	**1,797**	2,581	**(30.4%)**	**0**	**0**	**90**	**328**	**0**	**273**	**6**	**0**	**0**	**134**	**2,215**	2,994	**(26.0%)**
Income tax expense	569	889	(36.0%)	0	0	0	98	0	0	(11)	0	0	40	667	918	(27.3%)
Profit for the period	**1,228**	1,692	**(27.4%)**	**0**	**0**	**90**	**230**	**0**	**273**	**17**	**0**	**0**	**94**	**1,548**	2,076	**(25.4%)**
Attributable to:																
Equity holders of Telstra Entity	1,233	1,713	(28.0%)	0	0	90	230	0	264	17	0	0	94	1,553	2,088	(25.6%)
Non-controlling interests	(5)	(21)	76.2%	0	0	0	0	0	9	0	0	0	0	(5)	(12)	58.3%
Free cashflow	**627**	1,716	**(63.5%)**	**3**	**17**	**65**	**0**	**27**	**0**	**0**	**27**	**20**	0	**739**	1,763	**(58.1%)**

2017 has been restated for the impacts of AASB15.
This table has been reviewed by our auditors.
Reported EBITDA includes restructuring costs, FY19 guidance EBITDA excludes restructuring costs.

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

(1) Mergers & Acquisitions (M&A) adjustments:
Adjustments relating to acquisition and disposals of controlled entities, joint ventures, associates and other investments and any associated net gains or losses and contingent consideration.
Joint Ventures/Associates mainly include additional investments in our interest in the Telstra Ventures Fund II, L.P.
During this period we disposed of our investment in Ooyala Inc, Ooyala AB and their controlled entities and Orion Health Group Ltd. We also received deferred consideration from our disposal of 1300 Australia Pty Ltd and from the sell down of our interest in the Telstra Ventures Fund II, L.P.

(2) Restructuring adjustments:
Adjustments for the strategic focus (T22 program) announced at last financial full year results to improve customer experience, simplify structure and cut costs, in addition to our normal business as usual redundancies for the period.
Adjustments for the strategic focus on the incremental capex spend to promote sustainable network differentiation, support digitisation, productivity and boost customer experience.

(3) Spectrum adjustments:
Adjustment relating to the impact on free cashflow associated with our spectrum purchases and renewals for the period including:
$27m for renewal of spectrum licences in the 900 MHz band.
Payments for spectrum and apparatus licences in various spectrum bands.

(4) Impairment adjustments:
Adjustments relating to an impairment of $273m for the remaining goodwill, intangibles and property, plant and equipment in Ooyala.

(5) Foxtel adjustments:
Adjustments relating to fair value gains resulting from the conversion of the shareholder loan into additional investment in the Foxtel joint venture and recognition of our cumulative unrecognised share of equity accounted losses.

(6) Spectrum adjustments:
Adjustments relating to the impact on free cashflow associated with our spectrum purchases and renewals for the period including:
$27m for renewal of Spectrum licences in the 900MHz band (2x8.4MHz national PMTS Class B licence).

(7) M&A adjustments:
Adjustments relating to acquisition and disposals of controlled entities, joint ventures, associates and other investments and any associated net gains or losses and contingent consideration.

(8) Restructuring adjustments
Adjustments for the strategic focus on accelerating restructure activity including Fitter and Faster programs ($43m), in addition to our normal business as usual redundancies for the period.
Adjustments for the strategic focus on the incremental capex spend announced at last financial full year results to promote sustainable network differentiation, support digitisation, productivity and boost customer experience ($91m).

Executive Variable Remuneration Plan (EVP) Metric Additional Detail

<table>
<tr><th></th><th colspan="7">As per Executive Remuneration Update - Letter to Shareholders dated 11 October 2018</th><th></th></tr>
<tr><th></th><th>Measures</th><th colspan="2">Metric</th><th>FY18 Base</th><th>Gate</th><th>Target</th><th>Max</th><th>1H19 Actual</th></tr>
<tr><td rowspan="4">Financial</td><td>Total income</td><td colspan="2">Total income $m</td><td>29,042</td><td>Above Bottom of Market Guidance</td><td>Approx At Midpoint of Market Guidance</td><td>Above Top End of Market Guidance</td><td>On track for Market Guidance.</td></tr>
<tr><td>EBITDA</td><td colspan="2">EBITDA excluding restructuring costs $m</td><td>10,407</td><td>Above Bottom of Market Guidance</td><td>Approx At Midpoint of Market Guidance</td><td>Above Top End of Market Guidance</td><td>On track for Market Guidance.</td></tr>
<tr><td>FCF</td><td colspan="2">FCF excluding spectrum $m</td><td>4,808</td><td>Above Bottom of Market Guidance</td><td>Approx At Midpoint of Market Guidance</td><td>Above Top End of Market Guidance</td><td>On track for Market Guidance. Expected to be at the lower end of guidance.</td></tr>
<tr><td>Net opex reduction</td><td colspan="2">Underlying core fixed cost reduction $m</td><td>-</td><td>388</td><td>438</td><td>513</td><td>162</td></tr>
<tr><td rowspan="5">Strategic, Customer & Transformation</td><td>Episode NPS</td><td colspan="2">Improvement in Episode NPS</td><td>19</td><td>21</td><td>24</td><td>27</td><td>21</td></tr>
<tr><td rowspan="2">Product Portfolio Simplification</td><td rowspan="2">Number of active plans</td><td>C&SB</td><td>400</td><td>40</td><td>30</td><td>20</td><td>120</td></tr>
<tr><td>TE</td><td>651</td><td>570</td><td>549</td><td>527</td><td>567</td></tr>
<tr><td>Digital Delivery</td><td colspan="2">C&SB Digital Sales Transactions / Total Transactions ratio</td><td>6.20%</td><td>11.30%</td><td>14.00%</td><td>16.50%</td><td>9.70%</td></tr>
<tr><td>People Capability & Engagement</td><td colspan="2">Maintenance of Employee Engagement from FY18 baseline</td><td>74</td><td>n/a</td><td>74</td><td>76</td><td>n/a</td></tr>
</table>

Notes:

- The measures and metrics appearing in this table are for the purpose of the EVP and do not constitute market guidance.
- Total income excludes finance income.
- FY19 market guidance means guidance as set out in Telstra's ASX announcement dated 6 September 2018.
- Targets set in accordance with FY19 Business Plan, taking into account competitive operating environment and profile to achievement of T22 targets.
- FY18 Base is shown under FY18 accounting standards. The FY18 base for Financial measures as shown above represent the FY18 reported financials with EBITDA ($10,121m reported) adjusted for $286m restructuring costs and FCF ($4,695m reported) adjusted for $113m spectrum payments.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial report

for the half-year ended 31 December 2018

About this report

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

Telstra Corporation Limited (referred to as the Company or Telstra Entity) is a 'for profit' company limited by shares and incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX). Our issued shares are also quoted on the New Zealand Stock Exchange (NZX).

Our half-year financial report (the Report) does not include all of the information required for the full financial report. It should be read in conjunction with our 2018 Annual Report and together with any public announcements made by us in accordance with the continuous disclosure obligations arising under the ASX listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

Reading the financials

Section introduction

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

Note and topic summary

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

Narrative table

Some narrative disclosures are presented in a tabular format to provide readers with a clearer understanding of the information being presented.

Information panel

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

Contents

Income Statement

For the half-year ended 31 December 2018

Telstra Group	Note	Half-year ended 31 Dec 2018	Half-year ended 31 Dec 2017
			Restated
		$m	$m
Income			
Revenue (excluding finance income)	2.2	12,586	12,809
Other income	2.2	1,212	1,582
		13,798	**14,391**
Expenses			
Labour		2,722	2,699
Goods and services purchased		4,382	3,989
Net impairment losses on financial assets		88	103
Other expenses		2,349	2,473
		9,541	**9,264**
Share of net profit/(loss) from joint ventures and associated entities		**1**	**(31)**
		9,540	**9,295**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**4,258**	**5,096**
Depreciation and amortisation		2,141	2,219
Earnings before interest and income tax expense (EBIT)		**2,117**	**2,877**
Finance income	2.2	99	117
Finance costs		419	413
Net finance costs	4.2	**320**	**296**
Profit before income tax expense		**1,797**	**2,581**
Income tax expense		569	889
Profit for the period		**1,228**	**1,692**
Profit/(loss) attributable to:			
Equity holders of Telstra Entity		1,233	1,713
Non-controlling interests		(5)	(21)
		1,228	**1,692**
Earnings per share (cents per share)		cents	cents
Basic		10.4	14.4
Diluted		10.4	14.4

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

Statement of Comprehensive Income

For the half-year ended 31 December 2018

Telstra Group	Half-year ended 31 Dec	
	2018	2017
		Restated
	$m	$m
Profit/(loss) for the period attributable to:		
Equity holders of Telstra Entity	1,233	1,713
Non-controlling interests	(5)	(21)
	1,228	**1,692**
Items that will not be reclassified to the income statement		
Retained profits		
Actuarial loss on defined benefit plans attributable to equity holders of Telstra Entity	(63)	(29)
Income tax on actuarial loss on defined benefit plans	19	9
Fair value of equity instruments reserve		
Loss on investments in equity instruments designated at fair value through other comprehensive income	(2)	(22)
Share of other comprehensive income of equity accounted entities	22	-
Income tax on fair value movements for investments in equity instruments	(5)	2
Foreign currency translation reserve		
Translation differences of foreign operations attributable to non-controlling interests	(4)	-
	(33)	**(40)**
Items that may be subsequently reclassified to the income statement		
Foreign currency translation reserve		
Translation differences of foreign operations attributable to equity holders of Telstra Entity	27	(15)
Share of foreign currency translation reserve of equity accounted entities	-	3
Cash flow hedging reserve		
Movements in cash flow hedging reserve	33	2
Income tax on movements in the cash flow hedging reserve	(10)	-
Foreign currency basis spread reserve		
Changes in the value of the foreign currency basis spread	1	-
	51	**(10)**
Total other comprehensive income	**18**	**(50)**
Total comprehensive income for the period	**1,246**	**1,642**
Total comprehensive income attributable to:		
Equity holders of Telstra Entity	1,255	1,663
Non-controlling interests	(9)	(21)

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

Statement of Financial Position

As at 31 December 2018

Telstra Group	Note	As at 31 Dec 2018 $m	As at 30 Jun 2018 Restated $m	As at 1 Jul 2017 Restated $m
Current assets				
Cash and cash equivalents	2.3	541	629	938
Trade and other receivables and contract assets	3.3	5,471	5,588	6,090
Inventories		869	492	469
Deferred contract costs		89	69	106
Derivative financial assets		33	75	21
Current tax receivables		7	6	11
Prepayments		431	431	412
Total current assets		**7,441**	**7,290**	**8,047**
Non-current assets				
Trade and other receivables and contract assets	3.3	870	730	971
Inventories		20	19	29
Investments – accounted for using the equity method		1,274	1,237	194
Investments – other		18	36	292
Property, plant and equipment		22,579	22,108	21,350
Intangible assets		7,823	7,922	8,317
Deferred contract costs		1,254	1,180	997
Derivative financial assets		2,201	1,897	1,623
Deferred tax assets		58	54	44
Defined benefit asset		185	250	142
Total non-current assets		**36,282**	**35,433**	**33,959**
Total assets		**43,723**	**42,723**	**42,006**
Current liabilities				
Trade and other payables		4,430	4,528	3,944
Employee benefits		822	868	865
Other provisions		79	89	169
Borrowings and derivative financial liabilities	4.2	1,157	1,636	2,518
Current tax payables		52	132	161
Contract liabilities and other revenue received in advance		1,519	1,532	1,424
Total current liabilities		**8,059**	**8,785**	**9,081**
Non-current liabilities				
Other payables		68	65	70
Employee benefits		151	157	160
Other provisions		160	168	134
Borrowings and derivative financial liabilities	4.2	17,432	15,704	15,344
Deferred tax liabilities		1,658	1,537	1,443
Defined benefit liabilities		7	7	6
Contract liabilities and other revenue received in advance		1,683	1,681	1,617
Total non-current liabilities		**21,159**	**19,319**	**18,774**
Total liabilities		**29,218**	**28,104**	**27,855**
Net assets		**14,505**	**14,619**	**14,151**
Equity				
Share capital		4,436	4,428	4,421
Reserves		(65)	(131)	(105)
Retained profits		10,153	10,335	9,816
Equity available to Telstra Entity shareholders		**14,524**	**14,632**	**14,132**
Non-controlling interests		(19)	(13)	19
Total equity		**14,505**	**14,619**	**14,151**

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

Statement of Cash Flows

For the half-year ended 31 December 2018

Telstra Group	Note	Half-year ended 31 Dec 2018 $m	Half-year ended 31 Dec 2017 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		14,975	15,679
Payments to suppliers and employees (inclusive of GST)		(11,797)	(11,256)
Government grants received		144	156
Net cash generated by operations		**3,322**	**4,579**
Income taxes paid		(505)	(806)
Net cash provided by operating activities		**2,817**	**3,773**
Cash flows from investing activities			
Payments for property, plant and equipment		(1,835)	(1,928)
Payments for intangible assets		(622)	(634)
Capital expenditure (before investments)		**(2,457)**	**(2,562)**
Payments for businesses and shares in controlled entities (net of cash acquired)		(114)	(53)
Payments for joint ventures and associated entities		(17)	(2)
Payments for other investments		-	(31)
Total capital expenditure (including investments)		**(2,588)**	**(2,648)**
Government grants received		34	-
Proceeds from sale of property, plant and equipment		249	413
Proceeds from sale of shares in controlled entities (net of cash disposed)		42	42
Proceeds from sale of other investments		4	24
Distributions received from joint ventures and associated entities		1	9
Interest received		18	34
Proceeds from finance lease principal amounts		50	69
Net cash used in investing activities		**(2,190)**	**(2,057)**
Operating cash flows less investing cash flows		**627**	**1,716**
Cash flows from financing activities			
Proceeds from borrowings		2,942	4,366
Repayment of borrowings		(1,907)	(4,127)
Repayment of finance lease principal amounts		(39)	(60)
Purchase of shares for employee share plans		-	(18)
Finance costs paid		(397)	(387)
Dividends paid to equity holders of Telstra Entity	4.1	(1,308)	(1,842)
Net cash used in financing activities		**(709)**	**(2,068)**
Net (decrease) in cash and cash equivalents		**(82)**	**(352)**
Cash and cash equivalents at the beginning of the period		620	936
Effects of exchange rate changes on cash and cash equivalents		3	-
Cash and cash equivalents at the end of the period	2.3	**541**	**584**

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

Statement of Changes in Equity

For the half-year ended 31 December 2018

Telstra Group	Note	Share capital	Reserves	Retained profits	Total	Non-controlling interests	Total equity
		$m	$m	$m	$m	$m	$m
Balance as previously reported at 30 June 2018		**4,428**	**(117)**	**10,716**	**15,027**	**(13)**	**15,014**
Change in accounting policy arising from AASB 15: 'Revenue from contracts with customers'	1.4	-	(14)	(381)	**(395)**	-	**(395)**
Restated balance at 30 June 2018		**4,428**	**(131)**	**10,335**	**14,632**	**(13)**	**14,619**
Change in accounting policy arising from AASB 9: 'Financial instruments'	1.4	-	-	(63)	**(63)**	-	**(63)**
Restated balance at 1 July 2018		**4,428**	**(131)**	**10,272**	**14,569**	**(13)**	**14,556**
Profit/(loss) for the period		-	-	1,233	**1,233**	(5)	**1,228**
Other comprehensive income		-	66	(44)	**22**	(4)	**18**
Total comprehensive income for the period		**-**	**66**	**1,189**	**1,255**	**(9)**	**1,246**
Dividends		-	-	(1,308)	**(1,308)**	-	**(1,308)**
Non-controlling interests on disposals		-	-	-	**-**	5	**5**
Transactions with non-controlling interests		-	-	-	**-**	(2)	**(2)**
Share-based payments		8	-	-	**8**	-	**8**
Balance at 31 December 2018		**4,436**	**(65)**	**10,153**	**14,524**	**(19)**	**14,505**
Balance as previously reported at 1 July 2017		**4,421**	**(105)**	**10,225**	**14,541**	**19**	**14,560**
Change in accounting policy arising from AASB 15: 'Revenue from contracts with customers'	1.4	-	-	(409)	**(409)**	-	**(409)**
Restated balance at 1 July 2017		**4,421**	**(105)**	**9,816**	**14,132**	**19**	**14,151**
Restated profit/(loss) for the period		-	-	1,713	**1,713**	(21)	**1,692**
Restated other comprehensive income		-	(30)	(20)	**(50)**	-	**(50)**
Restated total comprehensive income for the period		**-**	**(30)**	**1,693**	**1,663**	**(21)**	**1,642**
Dividends		-	-	(1,842)	**(1,842)**	(1)	**(1,843)**
Transactions with non-controlling interests		-	(2)	-	**(2)**	1	**(1)**
Amounts repaid on share loans provided to employees		1	-	-	**1**	-	**1**
Additional shares purchased		(18)	-	-	**(18)**	-	**(18)**
Share-based payments		18	-	-	**18**	3	**21**
Restated balance at 31 December 2017		**4,422**	**(137)**	**9,667**	**13,952**	**1**	**13,953**

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

Section 1. Basis of preparation

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

1.1 Basis of preparation of the half-year financial report

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

The Report is presented in Australian dollars and, unless otherwise stated, all values have been rounded to the nearest million dollars ($m) under the option available to us under the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191.

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

The same accounting policies, including the principles of consolidation, have been applied by each entity in the consolidated group and are consistent with those adopted and disclosed in our 2018 Annual Report with the exception of new accounting policies adopted as disclosed in note 5.1.1.

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

1.2 Key accounting estimates and judgements

Preparing the Report requires management to make estimates and judgements. In preparing this report, the key sources of estimation uncertainty were consistent with those applied in the 2018 Annual Report with the exception of management judgements resulting from the adoption of the new accounting policies.

The key judgements and estimates used by management in applying the Group's accounting policies for the period ended 31 December 2018 have been updated to reflect latest information available. They can be located in the following notes:

Key accounting estimates and judgements	Note	Page
Assessment of a significant financing component in our contracts with customers	2.2	29
Determination of standalone selling prices	2.2	29
Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income	2.2	30
Determination of cash generating units (CGUs) and their recoverable amount for impairment assessment	3.1	32
Useful lives and residual values of fixed assets	3.1	32
Impact of nbn Infrastructure Services Agreement (ISA) on our fixed assets base	3.1	33
Amortisation period of deferred contract costs	3.2	33

1.3 Terminology used in our income statement

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflect our profit for the period, prior to including the effect of net finance costs, income taxes, depreciation and amortisation. Our management primarily uses EBITDA and earnings before interest and income tax expense (EBIT), in combination with other financial measures, to evaluate the Company's operating performance. In addition, we believe EBITDA is useful to our shareholders, analysts and other members of the investment community who also view EBITDA as a widely recognised measure of operating performance.

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

1.4 Adoption of the new accounting standards

In the financial year 2019, we have adopted new accounting policies for revenue recognition, deferred contract costs and impairment of financial assets. A summary of the key impacts, restatement of the financial statements previously reported and key changes to our measurement, recognition and presentation of the impacted balances and transactions have been detailed below.

(a) First time adoption of the new revenue standard

In December 2014, the AASB issued AASB 15: 'Revenue from Contracts with Customers' and AASB 2014-5: 'Amendments to Australian Accounting Standards arising from AASB 15'. In October 2015, the AASB issued AASB 2015-8: 'Amendments to Australian Accounting Standards – Effective Date of AASB 15' which deferred the effective date of the new revenue standard from 1 January 2017 to 1 January 2018. In May 2016, the AASB issued AASB 2016-3: 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'. All these standards are further collectively referred to as AASB 15.

AASB 15 has superseded the existing accounting standards and interpretations for revenue and subscriber acquisition costs in the telecommunications industry.

We have adopted AASB 15 from 1 July 2018 and applied the standard retrospectively to prior reporting periods from 1 July 2017 ('transition date'), subject to permitted and elected practical expedients. As a result, all comparative information in the financial statements has been prepared as if AASB 15 had always been in effect with a cumulative adjustment as at 1 July 2017.

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(a) First time adoption of the new revenue standard (continued)

The following practical expedients have been used for the transition to AASB 15:

- we have not restated contracts completed before 1 July 2017 (i.e. those contracts for which we have transferred all goods and services identified under the superseded accounting standards and interpretations)
- in the comparative reporting period of financial year 2018, for contracts that have variable consideration, we have used the transaction price at the date the contract was completed rather than estimating variable consideration amounts
- for contracts that were modified before 1 July 2017, we have not restated those contracts for their modifications effective prior to 1 July 2017 in accordance with AASB 15. Instead, we have reflected the aggregate effect of all modifications that occurred before 1 July 2017.

The application of AASB 15 did not affect our cash flows from operations or the methods and underlying economics through which we transact with our customers.

On adoption of the new standard, we have made the following adjustments to our financial statements for the financial year 2019 to reflect the requirements of AASB 15:

- $409 million after tax ($505 million before tax) decrease in opening retained earnings as at 1 July 2017 with corresponding adjustments against relevant line items in the statement of financial position
- $119 million decrease in total income, $154 million decrease in operating expenses, $35 million increase in EBITDA, $22 million increase in net finance costs, $13 million increase in profit before tax and $10 million increase in our net profit after tax for the half-year ended 31 December 2017, and
- $201 million decrease in total income, $277 million decrease in operating expenses, $76 million increase in EBITDA, $39 million increase in net finance costs, $37 million increase in profit before tax and $28 million increase in our net profit after tax for the year ended 30 June 2018.

AASB 15 adoption also resulted in changes to presentation and classification of certain items in the statement of financial position and in the income statement.

Refer to Tables A and B for impacts on our statement of financial position as at 1 July 2017 and 30 June 2018, respectively and to Tables C and D for impacts on our income statement and statement of comprehensive income for the half-year ended 31 December 2017.

(b) First time adoption of the new impairment rules for financial assets

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

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

We early adopted the previous version of the standard, AASB 9 (2013), from 1 July 2014. This version excluded the impairment requirements, which replaced the incurred loss impairment model used previously with an expected credit loss model for impairment of financial assets. Expected credit losses are based on the difference between the contractual cash flows due under the contract and all the cash flows that we expect to receive. The differences are then discounted at the asset's original effective interest rate.

We have applied the requirements of the new financial assets impairment model on a prospective basis from 1 July 2018 to balances, which incorporate the relevant restatements on a retrospective basis as at 1 July 2017 on the first time adoption of the new revenue standard.

Given AASB 9 requires us to hold allowances for expected rather than incurred credit losses, the allowance is therefore recognised earlier and most portfolio allowance holdings have increased. The increase in allowance resulted in a $63 million after tax ($89 million before tax) reduction of opening retained earnings at 1 July 2018.

We have elected to apply the AASB 9 exemption and have not restated comparative periods in the year of initial application. As a consequence, the impairment allowance has not been restated in the comparative period but the difference between the previous and restated carrying amounts is reflected in the opening retained earnings as at 1 July 2018. Net impairment losses on financial assets as presented in the income statement in the comparative period were measured under the prior requirements.

Refer to Table B for impacts on our statement of financial position.

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(c) Overall impact on adoption of the new accounting policies

Tables A to D summarise the overall impact of changes in the accounting policies on our financial statements.

Table A: Impact of changes in the accounting policies on the statement of financial position as at 1 July 2017

Table A Telstra Group	As at 30 Jun 2017	AASB 15	As at 1 Jul 2017
	Reported	Adjustments	Restated
	$m	$m	$m
Current assets			
Cash and cash equivalents	938	-	938
Trade and other receivables and contract assets	5,468	622	6,090
Inventories	893	(424)	469
Deferred contract costs	-	106	106
Derivative financial assets	21	-	21
Current tax receivables	11	-	11
Prepayments	531	(119)	412
Total current assets	**7,862**	**185**	**8,047**
Non-current assets			
Trade and other receivables and contract assets	1,039	(68)	971
Inventories	29	-	29
Investments - accounted for using the equity method	194	-	194
Investments - other	292	-	292
Property, plant and equipment	21,350	-	21,350
Intangible assets	9,558	(1,241)	8,317
Deferred contract costs	-	997	997
Derivative financial assets	1,623	-	1,623
Deferred tax assets	44	-	44
Defined benefit asset	142	-	142
Total non-current assets	**34,271**	**(312)**	**33,959**
Total assets	**42,133**	**(127)**	**42,006**
Current liabilities			
Trade and other payables	4,189	(245)	3,944
Employee benefits	865	-	865
Other provisions	190	(21)	169
Borrowings and derivative financial liabilities	2,518	-	2,518
Current tax payables	161	-	161
Contract liabilities and other revenue received in advance	1,236	188	1,424
Total current liabilities	**9,159**	**(78)**	**9,081**
Non-current liabilities			
Other payables	70	-	70
Employee benefits	160	-	160
Other provisions	134	-	134
Borrowings and derivative financial liabilities	15,344	-	15,344
Deferred tax liabilities	1,539	(96)	1,443
Defined benefit liability	6	-	6
Contract liabilities and other revenue received in advance	1,161	456	1,617
Total non-current liabilities	**18,414**	**360**	**18,774**
Total liabilities	**27,573**	**282**	**27,855**
Net assets	**14,560**	**(409)**	**14,151**

Section 1. Basis of preparation (continued)

Table A Telstra Group	As at 30 Jun 2017	AASB 15	As at 1 Jul 2017
	Reported	Adjustments	Restated
	$m	$m	$m
Equity			
Share capital	4,421	-	4,421
Reserves	(105)	-	(105)
Retained profits	10,225	(409)	9,816
Equity available to Telstra Entity shareholders	**14,541**	**(409)**	**14,132**
Non-controlling interests	19	-	19
Total equity	**14,560**	**(409)**	**14,151**

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(c) Overall impact on adoption of the new accounting policies (continued)

Table B: Impact of changes in the accounting policies on the statement of financial position as at 1 July 2018

Table B Telstra Group	As at 30 Jun 2018 Reported $m	AASB 15 Adjustments $m	As at 30 Jun 2018 Restated $m	AASB 9 Adjustments $m	As at 1 Jul 2018 Restated $m
Current assets					
Cash and cash equivalents	629	-	629	-	629
Trade and other receivables and contract assets	5,018	570	5,588	(88)	5,500
Inventories	801	(309)	492	-	492
Deferred contract costs	-	69	69	-	69
Derivative financial assets	75	-	75	-	75
Current tax receivables	6	-	6	-	6
Prepayments	548	(117)	431	-	431
Total current assets	**7,077**	**213**	**7,290**	**(88)**	**7,202**
Non-current assets					
Trade and other receivables and contract assets	1,012	(282)	730	(1)	729
Inventories	19	-	19	-	19
Investments - accounted for using the equity method	1,237	-	1,237	-	1,237
Investments - other	36	-	36	-	36
Property, plant and equipment	22,108	-	22,108	-	22,108
Intangible assets	9,180	(1,258)	7,922	-	7,922
Deferred contract costs	-	1,180	1,180	-	1,180
Derivative financial assets	1,897	-	1,897	-	1,897
Deferred tax assets	54	-	54	-	54
Defined benefit asset	250	-	250	-	250
Total non-current assets	**35,793**	**(360)**	**35,433**	**(1)**	**35,432**
Total assets	**42,870**	**(147)**	**42,723**	**(89)**	**42,634**
Current liabilities					
Trade and other payables	4,835	(307)	4,528	-	4,528
Employee benefits	868	-	868	-	868
Other provisions	118	(29)	89	-	89
Borrowings and derivative financial liabilities	1,636	-	1,636	-	1,636
Current tax payables	132	-	132	-	132
Contract liabilities and other revenue received in advance	1,227	305	1,532	-	1,532
Total current liabilities	**8,816**	**(31)**	**8,785**	**-**	**8,785**
Non-current liabilities					
Other payables	65	-	65	-	65
Employee benefits	157	-	157	-	157
Other provisions	171	(3)	168	-	168
Borrowings and derivative financial liabilities	15,704	-	15,704	-	15,704
Deferred tax liabilities	1,624	(87)	1,537	(26)	1,511
Defined benefit liabilities	7	-	7	-	7
Contract liabilities and other revenue received in advance	1,312	369	1,681	-	1,681
Total non-current liabilities	**19,040**	**279**	**19,319**	**(26)**	**19,293**
Total liabilities	**27,856**	**248**	**28,104**	**(26)**	**28,078**
Net assets	**15,014**	**(395)**	**14,619**	**(63)**	**14,556**

Section 1. Basis of preparation (continued)

Table B Telstra Group	As at 30 Jun 2018	AASB 15	As at 30 Jun 2018	AASB 9	As at 1 Jul 2018
	Reported	Adjustments	Restated	Adjustments	Restated
	$m	$m	$m	$m	$m
Equity					
Share capital	4,428	-	4,428	-	4,428
Reserves	(117)	(14)	(131)	-	(131)
Retained profits	10,716	(381)	10,335	(63)	10,272
Equity available to Telstra Entity shareholders	**15,027**	**(395)**	**14,632**	**(63)**	**14,569**
Non-controlling interests	(13)	-	(13)	-	(13)
Total equity	**15,014**	**(395)**	**14,619**	**(63)**	**14,556**

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(c) Overall impact on adoption of the new accounting policies (continued)

Table C: Impact of changes in the accounting policies on the income statement

Table C Telstra Group	Half-year ended 31 Dec		
	2017 Reported $m	AASB 15 Adjustments $m	2017 Restated $m
Income			
Revenue (excluding finance income)	12,907	(98)	12,809
Other income	1,603	(21)	1,582
	14,510	**(119)**	**14,391**
Expenses			
Labour	2,663	36	2,699
Goods and services purchased	4,238	(249)	3,989
Net impairment losses on financial assets	103	-	103
Other expenses	2,414	59	2,473
	9,418	**(154)**	**9,264**
Share of net loss from joint ventures and associated entities	**(31)**	**-**	**(31)**
	9,449	**(154)**	**9,295**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**5,061**	**35**	**5,096**
Depreciation and amortisation	2,219	-	2,219
Earnings before interest and income tax expense (EBIT)	**2,842**	**35**	**2,877**
Finance income	48	69	117
Finance costs	322	91	413
Net finance costs	**274**	**22**	**296**
Profit before income tax expense	**2,568**	**13**	**2,581**
Income tax expense	886	3	889
Profit for the period	**1,682**	**10**	**1,692**
Profit/(loss) attributable to:			
Equity holders of Telstra Entity	1,703	10	1,713
Non-controlling interests	(21)	-	(21)
	1,682	**10**	**1,692**
Earnings per share (cents per share)	cents	cents	cents
Basic	14.3	0.1	14.4
Diluted	14.3	0.1	14.4

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(c) Overall impact on adoption of the new accounting policies (continued)

Table D: Impact of changes in the accounting policies on the statement of comprehensive income

Table D	Half-year ended 31 Dec		
Telstra Group	2017	AASB 15	2017
	Reported	Adjustments	Restated
	$m	$m	$m
Profit/(loss) for the period attributable to:			
Equity holders of Telstra Entity	1,703	10	1,713
Non-controlling interests	(21)	-	(21)
	1,682	**10**	**1,692**
Items that will not be reclassified to the income statement			
Retained profits			
Actuarial loss on defined benefit plans attributable to equity holders of Telstra Entity	(29)	-	(29)
Income tax on actuarial loss on defined benefit plans	9	-	9
Fair value of equity instruments reserve			
Loss on investments in equity instruments designated at fair value through other comprehensive income	(22)	-	(22)
Income tax on fair value movements for investments in equity instruments	2	-	2
Foreign currency translation reserve			
Translation differences of foreign operations attributable to non-controlling interests	-	-	-
	(40)	**-**	**(40)**
Items that may be subsequently reclassified to the income statement			
Foreign currency translation reserve			
Translation differences of foreign operations attributable to equity holders of Telstra Entity	(20)	5	(15)
Share of foreign currency translation reserve of equity accounted entities	3	-	3
Cash flow hedging reserve			
Movements in cash flow hedging reserve	2	-	2
Income tax on movements in the cash flow hedging reserve	-	-	-
Foreign currency basis spread reserve			
Changes in the value of the foreign currency basis spread	-	-	-
	(15)	**5**	**(10)**
Total other comprehensive income	**(55)**	**5**	**(50)**
Total comprehensive income for the period	**1,627**	**15**	**1,642**
Total comprehensive income attributable to:			
Equity holders of Telstra Entity	1,648	15	1,663
Non-controlling interests	(21)	-	(21)

Changes in the accounting policies impacting retained profits and reserves (foreign currency translation reserve) are presented as restatements directly in the Statement of Changes in Equity.

Key changes in the accounting policies resulting from the adoption of the new accounting standards are explained below.

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(d) Changes in the accounting policy for revenue from contracts with customers

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, and requires revenue to be recognised in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected in exchange for transferring those goods or services. This is achieved by applying the following five steps:

- identify the contract with the customer
- identify the performance obligations in the contract
- determine the transaction price
- allocate the transaction price to the performance obligations in the contract based on their relative standalone selling prices
- recognise revenue when (or as) performance obligations are satisfied.

AASB 15 also provides guidance relating to the treatment of contract costs which are not in scope of other accounting standards, i.e. incremental costs of obtaining a contract and costs to fulfil the contract.

The adoption of the new revenue standard resulted in a number of accounting policy changes, a financial impact to our opening retained earnings as at 1 July 2017 and restatement of the financial performance for the half-year ended 31 December 2017 and the year ended 30 June 2018. Impacts identified primarily related to the timing of revenue recognition, the deferral of costs to obtain a contract with a customer, expensing some of the previously deferred expenditure to fulfil a contract and changes in the classification of revenue and related items in the financial statements. These changes are summarised below.

(i) Our contracts with customers

We generate revenue from customer contracts, which vary in their form (standard or bespoke), legal term (casual, short-term or long-term) and customer segment (consumer, small to medium business and government and large enterprise). AASB 15 impacts differ depending on the type of customer contract, with the main contracts being:

- homogeneous retail consumer contracts (mass market prepaid and postpaid mobile, fixed and media offerings)
- retail small to medium business contracts (mass market and off-the shelf technology solutions)
- retail enterprise and government contracts (carriage, standardised and bespoke technology solutions and their management)
- network capacity contracts (mainly Indefeasible Right of Use)
- wholesale contracts for telecommunication services
- nbn Definitive Agreements (nbn DAs) and related arrangements
- network design, build and maintenance contracts (mainly with nbn co).

(ii) Identifying customer contracts, their combinations and modifications

AASB 15 focuses on legal rights and obligations included in a contract (which may be a combined contract) when determining the contract level and its term for accounting purposes. AASB 15 guidance also assumes that the contract will not be cancelled, renewed or modified. Establishing the contract term for accounting purposes impacts determination of performance obligations and the transaction price to be allocated to goods and services. Therefore, the timing and amount of revenue recognised may be impacted.

Our mobile long-term contracts often offer a bundle of hardware (delivered upfront) and services (delivered over the contract term), where the customer pays a monthly fee and receives a discount, which is allocated between the hardware and services based on their relative selling prices. When determining the customer contract, AASB 15 requires us to assess the combination of two or more contracts entered into at or near the same time with the same customer. As a result, we have changed the accounting treatment of customer contracts sold via our dealer channel, where the previously applied substance over form principle has been overridden by the new contract combination rules. This precluded us from combining separate legal contracts, i.e. with the dealer for hardware and the customer for services. Consequently, no discounts have been allocated to hardware sold via dealer channel, which resulted in a higher hardware revenue at the time of its recognition and lower services revenue over the customer contract term.

Our nbn DAs and related arrangements include a number of separate legal contracts with both nbn co and the Commonwealth Government (being related parties hence treated as the same customer for accounting purposes) which have been negotiated together with a common commercial objective. The nbn DAs were originally signed in 2011 and subsequently modified in 2014 and 2015. These separate legal contracts have been combined under the AASB 15 assessment. However, the combined nbn DAs and related arrangements include a number of out of scope elements. This includes Telstra Universal Service Obligation Performance Agreement and the Retraining Deed, which have both been separately priced and continue to be accounted for as government grants. The Subscriber Agreement also continues to be separately accounted for as other income given the nbn disconnection fees do not relate to our ordinary activities and there is no price dependency on other nbn DAs. On the other hand, the additional payment received under the Information Campaign and Migration (ICM) Deed for the build of nbn related infrastructure, has been combined and accounted for together with the Infrastructure Services Agreement (ISA). ISA also includes payments for sale of our infrastructure assets, which are not in scope of AASB 15, however, the timing of control transfer for these assets and the amount of consideration to be included in the net gain on their disposal have been determined by reference to the AASB 15 principles. The combined accounting contract comprised of nbn DAs and related arrangements has a minimum fixed term of 30 years for accounting purposes.

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(d) Changes in the accounting policy for revenue from contracts with customers (continued)

(ii) Identifying customer contracts, their combinations and modifications (continued)

Prior to the transition date, our accounting was largely aligned to the legal term of the contacts, which in some cases only provided general terms and conditions (including price lists) under which customers could order goods and services in the future. On adoption of AASB 15, the contract term for accounting purposes has changed for a number of our enterprise and government contracts, our wholesale contracts and commercial contracts with nbn co. This is because the five steps apply to goods or services ordered under each valid purchase order or a statement of work raised under the terms of these agreements.

AASB 15 gives far greater detail on how to account for contract modifications than the prior revenue accounting principles. Changes must be accounted for either as a retrospective cumulative change to revenue (creating either a catch up or deferral of past revenues for all performance obligations in the original contract), a prospective change to revenue with a reallocation of revenues amongst remaining performance obligations in the original contract, as a separate contract which will not require any reallocation to performance obligations in the original contract, or both a cumulative change and prospective change to revenue in the original contract.

Prior to the transition date, we accounted for any changes in our retail mass market contracts prospectively. Under AASB 15 we do not expect material impacts from modifications of these contracts because the standard terms and conditions of our homogeneous mass market contracts are normally not re-negotiated and the customers' rights to move up and down within the plan family are included in each contract from its inception.

However, our bespoke contracts with small business, enterprise and wholesale customers are varied or re-negotiated from time to time. Prior to the transition date, depending on the nature and legal form of the negotiated changes, we have considered the specific facts and circumstances and we have determined the appropriate accounting treatment using the accounting principles that existed at the time. Since transition to AASB 15, the new rules impact any bespoke contract re-negotiations from financial year 2018 onwards. This is because we have elected to apply a transition practical expedient and reflected the aggregate effect of all of the modifications that have occurred before 1 July 2017 when arriving at the retained earnings adjustments. For the restatement of the financial year 2018, we have not identified material adjustments arising from contract modifications of our bespoke contracts.

(iii) Identifying performance obligations

AASB 15 provides guidance on determining if goods or services are distinct and therefore if revenue should be allocated and recognised when these goods have been delivered or the services performed (i.e. when the customer controls them). The new guidance has resulted in some changes to our prior accounting policy of identifying deliverables which have value to the customer on a standalone basis.

Under some of our enterprise and wholesale arrangements, we receive customer and developer contributions to extend, relocate or amend our network assets to ultimately enable delivery of telecommunication services to end users. Prior to the transition date, the contributed network assets (or cash for network construction activities) have been recognised as sales revenue over the period of the network construction activities if they were a separate deliverable under Interpretation 18: 'Transfer of Assets from Customers'. Interpretation 18 has been superseded by AASB 15 and we have changed our accounting for these type of arrangements.

Depending on whether ongoing telecommunication services have also been purchased under the same arrangement, on transition to AASB 15 these contracts will be accounted for in a different way.

Where the counterparty makes a contribution for network construction activities and purchases ongoing services under the same (or linked) contract(s), the arrangement is within the scope of AASB 15. The upfront contribution is added to the total transaction price of the customer contract and allocated to the distinct goods and services to be delivered under that contract. Compared to prior accounting, this resulted in a deferral of sales revenue due to the long term nature of these contracts.

However, where the counterparty does not purchase any ongoing services under the same (or linked) contract(s), the arrangement is neither within the scope of AASB 15 nor covered by any specific accounting guidance. Therefore, we continue to account for them consistently with our previous accounting treatment.

Another change to prior accounting relates to material rights, i.e. separate performance obligations in a customer contract which gives the customer an option to acquire additional goods or services at a discount or for free, i.e. these rights are beneficial. In principle, this concept is largely consistent with our prior accounting policy for non-cash sales incentives treated as separate deliverables. However, determination and measurement of material rights (including accounting for their breakage) differs from our past practice. As a result, revenue has been allocated to some of the goods and services we offer for free in our mass market plans or as part of the small business and enterprise loyalty programs and technology funds. However, we have not identified material adjustments on transition to AASB 15 because the value of material rights is usually insignificant compared to the total contract value.

Finally, within the nbn DAs, the build of nbn related infrastructure under the ICM Deed is not considered a separate performance obligation. As a result, on transition to AASB 15, the payment received, for which revenue had already been recognised between the financial years 2012 and 2014, has instead been treated as an advance receipt for performance obligations transferred over the ISA average contracted period of 35 years, leading to an opening retained earnings adjustment on transition of our nbn DAs and related arrangements.

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(d) Changes in the accounting policy for revenue from contracts with customers (continued)

(iv) Determining and allocating the transaction price

AASB 15 removed the requirement for a contingent consideration accounting policy. Prior to the transition date, in the arrangements with multiple deliverables, we limited revenue to the amount that was not contingent upon the delivery of additional items or meeting other specified performance conditions (non-contingent amount). Because our mobile long-term contracts, which offer a bundle of hardware and services, comprise of two legal contracts and under the terms of these contracts, the allocated hardware amount was not contingent on delivery of future services, in the past we recognised the hardware revenue on delivery of the handset. Therefore, on adoption of AASB 15, we did not identify an acceleration of hardware revenue in our mobiles business due to the removal of the contingent consideration rules. Also, we did not identify material adjustments to small business, enterprise or wholesale contracts as generally they have not been impacted by the contingent consideration rules.

In some of our mass market contracts, the amount of consideration can vary, resulting in variable consideration under AASB 15, because of a price concession offered when a customer agrees to an early upgrade of their contract. However, we have not identified a material adjustment for variable consideration in those contracts on transition to AASB 15.

Some of our contracts offer customers the ability to move up and down within the plan family under predefined terms, in which case at contract inception we should only allocate the lower amount we can contractually enforce and account for any excess amount when it is earned. However, due to the low volume of plan changes, we have not identified material adjustments resulting from this accounting change on transition to AASB 15.

If a customer receives any discount(s) when purchasing a bundle of goods or services under one accounting contract, AASB 15 requires a proportional allocation of the discount(s) to all performance obligations, unless the exception allocation criteria are met, in which case the discount(s) can be allocated to only one or some but not all performance obligations. This differs from our prior policy which allocated cash sales incentives to goods or services contributing towards the earning of the incentives. Meeting the allocation exemption criteria is expected to be rare. On transition to AASB 15, we identified some changes in timing of revenue recognition and product allocations in our mobile and fixed mass market contracts and product allocations in our wholesale contracts.

AASB 15 also provides new guidance on how to determine standalone selling prices, by reference to which the total transaction price gets allocated to goods and services within a contract. Despite the fact that our prior accounting policy used relative selling prices as an allocation basis, i.e. a concept similar to standalone selling prices, AASB 15 requires consideration of similar customer circumstances. As a result, we have identified an adjustment related to our mass market mobile contracts where a higher hardware revenue is recognised at the time of delivery of the hardware, and lower services revenue over the customer contract term. Furthermore, revenue allocation between the products in a bundle has changed.

For our bespoke contracts, no material impacts on transition to AASB 15 have been identified because in general, negotiated prices are aligned with the standalone selling prices of distinct goods and services promised under the contracts.

Under some of our mass market contracts, customers obtain a handset or another device on a device repayment plan, i.e. within deferred payment terms. Under AASB 15, Telstra is considered to provide financing to the customer. AASB 15 requires separate accounting for a significant financing component, measured at contract inception using a discount rate that would reflect the credit characteristics of the party receiving the financing in the contract, i.e. the customer. For our mass market customers, this rate is significantly higher than our past practice of using Telstra's incremental borrowing rate. This change has resulted in a reduction of hardware revenue and a higher interest income being recognised over the contract term.

AASB 15 has also introduced accounting for a significant financing element for arrangements where customers pay for goods or services in advance of receiving them (i.e. Telstra receives financing from the customer). In those circumstances, revenue recognised over the contract term exceeds the cash payments received in advance of performance as interest expense has to be recorded. This change has impacted accounting for some of our domestic and international bespoke network capacity agreements, i.e. Indefeasible Right of Use, which include upfront prepayments and have an average legal contract term between 10 and 33 years.

AASB 15 requires accounting for a financing component only if it is assessed as significant in the context of a contract as a whole. As a result, we have ceased to account for the financing component in our nbn DAs and related arrangements because financing has not been considered significant in these agreements as a whole.

AASB 15 defines a concept of a sale with a right of return and provides clear guidance for accounting for refund liabilities and recognition of the products expected to be returned. We have not identified material impacts for this change but some of our contracts include a right of return and their revenue recognition, measurement and presentation on the balance sheet have been impacted.

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(d) Changes in the accounting policy for revenue from contracts with customers (continued)

(v) Contract costs

AASB 15 provides accounting guidance for incremental costs of obtaining a contract and costs to fulfil a contract. Prior to the transition date, we accounted for these costs under our internal policy based on the Interpretation 1042: 'Subscriber Acquisition Costs in the Telecommunications Industry', which has been superseded by AASB 15. Contract costs which meet AASB 15 criteria to be recognised as an asset must be amortised on a basis consistent with the transfer of goods and services to which these costs relate under existing and anticipated customer contract(s) (for example, the customer can renew the contract for the same or subset of same goods and services).

Under prior accounting, incremental costs to obtain a contract, such as directly attributable sales commissions, have been recognised as assets in deferred expenditure and amortised on a straight line basis over the average customer contract term. Under AASB 15 we have identified a net increase in these capitalised costs due to a combination of factors. We have extended the amortisation periods for sales commissions paid on acquisition of the initial contract where these commissions are not commensurate with recontracting commissions. Therefore, the amortisation period for the initial commissions reflects the expected customer life rather than just an initial contract term. This impact has been partly offset by adjustments for early terminated contracts and commissions related to short term contracts (i.e. one year or less) which have been expensed as incurred under the practical expedient allowed by AASB 15. Under AASB 15, these costs are presented in the statement of financial position as deferred contract costs instead of intangible assets.

We have identified impacts in relation to costs to fulfil a contract. On adoption of AASB 15, we have expensed two major classes of deferred expenditure which were previously included in our intangible assets. These were costs associated with connection and activation activities related to our fixed network contracts and remediation costs related to our nbn DAs and related arrangements. These costs are assessed under AASB 116: 'Property, plant and equipment'. We continue to recognise as assets and amortise over the contract term certain set up costs that relate to our large enterprise contracts. However, these costs are presented in the statement of financial position as deferred contract costs instead of intangible assets.

Our deferred expenditure also included certain balances related to cash and non-cash sales incentives which have been granted mainly to our small business, enterprise and wholesale customers at contract inception. Under prior accounting, both types of incentives reduced sales revenue over the term of the customer contract on a straight line basis. Under AASB 15, these amounts either represent a discount that should reduce the transaction price (if the incentive is cash) or a material right for additional goods or services (if the incentive is non-cash), which represents a separate performance obligation in the customer contract. Given our prior accounting largely aligned with the new requirements, there are no material re-measurement adjustments related to these types of deferred expenditure. However, they have now been presented as part of a contract asset or contract liability under AASB 15.

(vi) Presentation and classification

AASB 15 adoption also required changes to presentation and classification of items in the statement of financial position and in the income statement. This includes presentation in the statement of financial position of a contract asset or contract liability at the contract level, separate presentation of deferred contract costs and appropriate current and non-current classification of all relevant balance sheet line items. On adoption of AASB 15, a number of existing line items in the statement of financial position have been replaced by the new presentation of contract assets and contract liabilities and new line items have been created (e.g. refund liabilities). AASB 15 also requires disclosure of disaggregated revenue which has been included in our segment disclosure in note 2.1.2.

We have revised presentation of multiple line items in the statement of financial position in order to comply with AASB 15 and best present the financial position going forward. The key presentation changes are summarised in the following table.

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(d) Changes in accounting policy for revenue from contracts with customers (continued)

Previous presentation	New presentation	Change
Trade and other receivables	Trade and other receivables and contract assets	Accrued revenue arising from contracts with customers has been presented as contract assets.
Inventories	Inventories	Right to recover products sold with a right of return has been added to the 'inventories' line.
Inventories Prepayments	Trade and other receivables and contract assets Deferred contract costs	Construction work in progress for long term construction contracts which exceeded progress billings has been reclassified from inventories to contract assets. Work in progress of a service provider relating to the satisfaction of future performance obligations included in our inventory or prepayment balances has been reclassified to deferred contract costs as it represents costs to fulfil the contract.
Intangible assets	Deferred contract costs	Deferred expenditure intangible asset class related to costs to obtain or fulfil a contract has been reclassified to deferred contract costs.
Trade and other payables	Contract liabilities and other revenue received in advance	Construction work in progress for long term construction contracts where progress billings exceeded construction work in progress has been reclassified from other payables to contract liabilities. Other payables relating to loyalty funds allowing customers to obtain our goods or services for free have been reclassified to contract liabilities.
Trade and other payables	Trade and other payables	Refund liabilities have been added as part of 'trade and other payables' line.
Revenue received in advance	Contract liabilities and other revenue received in advance	Revenue received in advance arising from contracts with customers has been presented as contract liabilities. In the notes to the full year financial statements, contract liabilities will be separately disclosed from revenue received in advance arising from other types of arrangements (e.g. government grants).

Section 1. Basis of preparation (continued)

1.4 Adoption of the new accounting standards (continued)

(e) Changes in the accounting policy for impairment of financial assets

AASB 9 requires us to estimate the expected credit losses for our financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, on either of the following bases:

- 12-month expected credit loss which results from all possible default events within the 12 months after the reporting date, or
- lifetime expected credit loss which results from all possible default events over the expected life of a financial instrument.

The financial assets subject to the new impairment requirements also include contract assets arising under AASB 15: 'Revenue from Contracts with Customers'.

In general, lifetime expected credit loss measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition. Otherwise, 12-month expected credit loss measurement basis applies. However, the lifetime expected credit loss measurement always applies to trade receivables and contract assets arising under AASB 15 that do not contain a significant financing component. For our lease receivables and for trade receivables and contract assets with a significant financing component, we have elected to calculate lifetime expected credit loss.

(f) Summary of new accounting policies

On adoption of the new accounting standards, our existing accounting policies have been amended to reflect the above changes in revenue recognition, contract costs and impairment of financial assets policies as follows:

New accounting policies	Note	Page
Revenue from contracts with customers	2.2	28
Revenue from other sources	2.2	29
Deferred contract costs	3.2	33
Impairment of financial assets	3.3	34

Section 2. Our performance

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

2.1 Segment information

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management.

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

2.1.1 Operating segments

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

On 20 June 2018, we announced organisational changes effective from 1 July 2018:

- Establishment of a standalone infrastructure business unit, Telstra InfraCo comprising of Telstra Wholesale and Telstra's nbn co commercial works activities in the Networks and IT (previously Telstra Operations) segment. Telstra InfraCo is made up of Telstra's high quality fixed network infrastructure including data centres, non-mobiles related domestic fibre, copper, Hybrid Fibre Coaxial (HFC) cable network, international subsea cables, exchanges, poles, ducts and pipes. It supplies services to other business units within Telstra, wholesale customers and nbn co
- Creation of Global Business Services (GBS) consolidates all large scale repeatable back of house processes across the billing, assurance, activations, field, accounting services, procurement, people and property functions and is designed to leverage scale, innovation and technology to radically improve experience, efficiency and cost
- Telstra Operations was renamed Networks and IT and Technology Innovation and Strategy was renamed Product and Technology Group effective from 1 October 2018.

The 'All Other' category includes business units that do not qualify as operating segments in their own right as well as the operating segments which do not meet the disclosure requirements of a reportable segment, including New Business (which includes Telstra Health), GBS and Product and Technology Group.

We have four reportable segments as follows:

Segment	Operation
Telstra Consumer and Small Business (TC&SB)	• provider of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small business customers in Australia • the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network • online self-service capabilities for customers, from browsing to buying, billing and service requests
Telstra Enterprise (TE)	• sales and customer contract management for large business and government customers in Australia and globally • management of Telstra's networks outside Australia in conjunction with Networks and IT • product management for advanced technology solutions and services, including Data and Internet Protocol (IP) networks, Mobility Applications and Services, and Network Applications and Services (NAS) products such as managed network, unified communications, cloud, industry solutions and integrated services and monitoring in Australia and globally • development of industry vertical solutions based on Telstra's networks and technology

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.1 Operating segments (continued)

Segment	Operation
Networks and IT (N&IT)	• overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions • delivering next generation network technologies to create the largest, fastest, smartest, safest and most reliable set of networks • delivering digital platforms and capabilities to enable digital experiences • evolving network and IT capabilities to deliver technology solutions and services based on customer priorities • strengthening security and automation capabilities to protect our network and data and provide security services to our customers • build and management of the shared platforms, infrastructure, cloud services and technologies for all internal functions
Telstra InfraCo	• provider of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to other carriers, carriage service providers and internet service providers • responsible for fixed network infrastructure including data centres, non-mobiles related domestic fibre, copper, HFC cable, international subsea cables, exchanges, poles, ducts and pipes • providing access to our fixed network infrastructure assets to other Telstra business units, wholesale customers and nbn co • providing nbn co with long term access to certain components of our infrastructure and certain network services under the Infrastructure Services Agreement and commercial contracts • planning, designing, construction of network asset and fibre services for Enterprise, Wholesale and nbn co leveraging Telstra's capabilities

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution. EBITDA contribution excludes the effects of inter-segment balances and transactions, with the exception of transactions referred to following Table A and explained below. As such, only transactions external to the Telstra Group are reported except as otherwise noted.

An exception to the above is how we manage Telstra InfraCo, which is on a stand alone basis and inclusive of its transactions that were entered into from 1 July 2018 onwards with other business units. Other business units, however, do not reflect those transactions with Telstra InfraCo. The following paragraphs describe more specifically the transactions in Telstra InfraCo that are not included in other business units. These transactions are eliminated at the Group level.

Furthermore, certain items of income and expense related to multiple reportable segments are recorded by our corporate areas (included in the 'All Other' category) or fully allocated to one of our segments. A detailed description of these items with the exception of the changes described below, is included in note 2.1.1 to the financial statements in our 2018 Annual Report.

In addition, and as referenced above for Telstra InfraCo, the following points further explain how some items are allocated and managed and, as a result, how they are reflected in our segment results:

- Telstra InfraCo generates revenue from transactions with other business units. The inter-segment transactions that started from 1 July 2018 and relate to access charges for the use of the infrastructure assets are not included in the EBITDA contribution of these other business units. The access charges are charged on the assets which are allocated to Telstra InfraCo, being our fixed network infrastructure. Where such assets are shared with other business units, an allocation of the assets to Telstra InfraCo has been determined based on historical usage. These access charges are determined based on an approach that incorporates a variety of internally and externally observed inputs to reflect an arm's length basis for charging. They are regularly reviewed by management and are eliminated at the Group level for statutory reporting purposes
- From 1 July 2018, the Telstra InfraCo segment result includes operations and maintenance expense. The expense originating from the Networks and IT and 'All Other' segments relates to Telstra InfraCo assets and is eliminated at the Group level. The shared operations and maintenance costs allocated to Telstra InfraCo assets are based on a usage methodology
- The Networks and IT segment result includes network service delivery costs for Telstra Consumer and Small Business and Telstra Enterprise customers as well as Telstra InfraCo. The operations and maintenance costs are included in Telstra InfraCo costs, but have not been excluded from the Networks and IT or 'All Other' segment
- The Networks and IT segment recognises expenses in relation to the installation, maintenance and running of the HFC cable network held in Telstra InfraCo (except for operations and maintenance costs recharged by Networks and IT to Telstra InfraCo), while a portion of the running costs of the HFC cable network is managed by the Corporate Accounting unit (included in the 'All Other' category)
- The Telstra InfraCo segment result includes rental revenue from providing nbn co with long term access to ducts and pits and other components of our infrastructure under the ISA, while the associated costs are reported in the Networks and IT segment and in the 'All Other' category, respectively
- Telstra InfraCo also includes costs associated with support functions from 1 July 2018 which have not been removed from other segments. We allocate these costs by utilising driver-based cost allocation methodology for our internal performance reporting.

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results and disaggregated revenue

Table A details our segment results and a reconciliation of EBITDA contribution to the Telstra Group's reported EBIT and profit before income tax expense, based on the reporting structure as at 31 December 2018. It also presents disaggregated revenue based on the timing of transfer of goods or services.

Table A Telstra Group	TC&SB	TE	N&IT	All Other	Subtotal	Telstra InfraCo	Eliminations	Total
	$m	$m	$m	$m	$m	$m	$m	$m
	Half-year ended 31 Dec 2018							
Revenue from contracts with customers								
At a point in time	1,384	321	-	2	**1,707**	1	-	**1,708**
Over time	5,496	3,483	-	12	**8,991**	1,396	-	**10,387**
	6,880	**3,804**	**-**	**14**	**10,698**	**1,397**	**-**	**12,095**
Revenue from other sources	325	138	23	5	**491**	**-**	**-**	**491**
Revenue from external customers	**7,205**	**3,942**	**23**	**19**	**11,189**	**1,397**	**-**	**12,586**
Revenue from transactions between Telstra InfraCo and other segments						**946**	**(946)**	**-**
Total revenue from external customers and Telstra InfraCo	**7,205**	**3,942**	**23**	**19**	**11,189**	**2,343**	**(946)**	**12,586**
Other income	7	13	11	1,022	**1,053**	159	-	**1,212**
Total income	**7,212**	**3,955**	**34**	**1,041**	**12,242**	**2,502**	**(946)**	**13,798**
Share of net profit/(loss) from joint ventures and associated entities	-	-	-	1	**1**	-	-	**1**
EBITDA contribution	**2,948**	**1,635**	**(692)**	**(815)**	**3,076**	**1,618**	**(436)**	**4,258**
Depreciation and amortisation								(2,141)
Telstra Group EBIT								**2,117**
Net finance costs								(320)
Telstra Group profit before income tax expense								**1,797**

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table A (continued) Telstra Group	TC&SB	TE	N&IT	All Other	Subtotal	Telstra InfraCo	Elimina-tions	Total
	$m	$m	$m	$m	$m	$m	$m	$m
	Half-year ended 31 Dec 2017 (Restated)							
Revenue from contracts with customers								
At a point in time	1,265	284	-	3	**1,552**	1	-	**1,553**
Over time	5,815	3,458	-	24	**9,297**	1,539	-	**10,836**
	7,080	**3,742**	**-**	**27**	**10,849**	**1,540**	**-**	**12,389**
Revenue from other sources	233	146	27	14	**420**	-	-	**420**
Revenue from external customers	**7,313**	**3,888**	**27**	**41**	**11,269**	**1,540**	**-**	**12,809**
Revenue from transactions between Telstra InfraCo and other segments						-	-	**-**
Total revenue from external customers and Telstra InfraCo	**7,313**	**3,888**	**27**	**41**	**11,269**	**1,540**	**-**	**12,809**
Other income	7	15	13	1,422	**1,457**	125	**-**	**1,582**
Total income	**7,320**	**3,903**	**40**	**1,463**	**12,726**	**1,665**	**-**	**14,391**
Share of net (loss) from joint ventures and associated entities	-	-	-	(31)	**(31)**	-	-	**(31)**
EBITDA contribution	**3,457**	**1,695**	**(651)**	**(630)**	**3,871**	**1,225**	**-**	**5,096**
Depreciation and amortisation								(2,219)
Telstra Group EBIT								**2,877**
Net finance costs								(296)
Telstra Group profit before income tax expense								**2,581**

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

- revenue from external customers in the TE segment includes $121 million (2017: $104 million) of inter-segment revenue treated as external expenses in the TC&SB and Telstra InfraCo segments, which is eliminated in the 'All Other' category
- external expenses in the TE segment also include $6 million (2017: $7 million) of inter-segment expenses treated as external revenue in Telstra InfraCo and eliminated in the 'All Other' category.

The EBITDA of 'All Other' includes loss of $89 million from the sale of Ooyala in October 2018.

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Disaggregation of revenue from external customers by geographical market is presented in Table B.

Table B Telstra Group	TC&SB	TE	N&IT	Telstra InfraCo	All Other	Total
	$m	$m	$m	$m	$m	$m
	Half-year ended 31 Dec 2018					
Total revenue from external customers by geographical region						
Australian customers	7,205	3,142	23	1,397	123	**11,890**
Offshore customers	-	800	-	-	(104)	**696**
	7,205	**3,942**	**23**	**1,397**	**19**	**12,586**
	Half-year ended 31 Dec 2017 (Restated)					
Total revenue from external customers by geographical region						
Australian customers	7,313	3,143	27	1,540	110	**12,133**
Offshore customers	-	745	-	-	(69)	**676**
	7,313	**3,888**	**27**	**1,540**	**41**	**12,809**

Our geographical operations are split between our Australian and offshore operations. No individual geographical area of our offshore operations forms a significant part of our operations.

Table C presents disaggregation of revenue from external customers by major products.

Refer to the additional information about inter-segment revenue under Table A in note 2.1.2.

Table C Telstra Group	TC&SB	TE	N&IT	Telstra InfraCo	All Other	Total
	$m	$m	$m	$m	$m	$m
	Half-year ended 31 Dec 2018					
Total revenue from external customers						
Fixed	**2,108**	**139**	**-**	**427**	**7**	**2,681**
Revenue from contracts with customers	2,106	139	-	427	7	**2,679**
Revenue from other sources	2	-	-	-	-	**2**
Mobile	**4,373**	**819**	**-**	**103**	**(4)**	**5,291**
Revenue from contracts with customers	4,127	814	-	103	(4)	**5,040**
Revenue from other sources	246	5	-	-	-	**251**
Data & IP	**86**	**907**	**-**	**224**	**-**	**1,217**
Revenue from contracts with customers	86	907	-	224	-	**1,217**
Network applications and services	**147**	**1,151**	**18**	**274**	**6**	**1,596**
Revenue from contracts with customers	147	1,019	-	274	6	**1,446**
Revenue from other sources	-	132	18	-	-	**150**
Media	**403**	**-**	**-**	**-**	**38**	**441**
Revenue from contracts with customers	404	-	-	-	38	**442**
Revenue from other sources	(1)	-	-	-	-	**(1)**
Global connectivity	**-**	**922**	**-**	**-**	**(121)**	**801**
Revenue from contracts with customers	-	922	-	-	(121)	**801**
Other products and services	**88**	**4**	**5**	**369**	**93**	**559**
Revenue from contracts with customers	10	3	-	369	88	**470**
Revenue from other sources	78	1	5	-	5	**89**
Total revenue from contracts with customers	**6,880**	**3,804**	**-**	**1,397**	**14**	**12,095**
Total revenue from other sources	**325**	**138**	**23**	**-**	**5**	**491**
	7,205	**3,942**	**23**	**1,397**	**19**	**12,586**

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table C (continued) Telstra Group	TC&SB	TE	N&IT	Telstra InfraCo	All Other	Total
	$m	$m	$m	$m	$m	$m
	Half-year ended 31 Dec 2017 (Restated)					
Total revenue from external customers						
Fixed	**2,256**	**166**	**-**	**528**	**7**	**2,957**
Revenue from contracts with customers	2,250	166	-	528	7	**2,951**
Revenue from other sources	6	-	-	-	-	**6**
Mobile	**4,303**	**773**	**-**	**95**	**(2)**	**5,169**
Revenue from contracts with customers	4,164	767	-	95	(2)	**5,024**
Revenue from other sources	139	6	-	-	-	**145**
Data & IP	**98**	**975**	**-**	**225**	**-**	**1,298**
Revenue from contracts with customers	98	975	-	225	-	**1,298**
Network applications and services	**131**	**1,110**	**27**	**391**	**5**	**1,664**
Revenue from contracts with customers	131	970	-	391	5	**1,497**
Revenue from other sources	-	140	27	-	-	**167**
Media	**427**	**-**	**-**	**-**	**41**	**468**
Revenue from contracts with customers	428	-	-	-	41	**469**
Revenue from other sources	(1)	-	-	-	-	**(1)**
Global connectivity	**-**	**868**	**-**	**-**	**(104)**	**764**
Revenue from contracts with customers	-	868	-	-	(104)	**764**
Other products and services	**98**	**(4)**	**-**	**301**	**94**	**489**
Revenue from contracts with customers	9	(4)	-	301	80	**386**
Revenue from other sources	89	-	-	-	14	**103**
Total revenue from contracts with customers	**7,080**	**3,742**	**-**	**1,540**	**27**	**12,389**
Total revenue from other sources	**233**	**146**	**27**	**-**	**14**	**420**
	7,313	**3,888**	**27**	**1,540**	**41**	**12,809**

Other products and services relate to nbn co accessing our infrastructure and miscellaneous revenue. It also includes revenue from Telstra Health and Telstra Software business units.

For further details regarding inter-segment eliminations refer to under Table A in note 2.1.2.

Section 2. Our performance (continued)

2.2 Income

Telstra Group	Half-year ended 31 Dec	
	2018	2017
		Restated
	$m	$m
Revenue from contracts with customers		
Sale of services	10,366	10,805
Sale of goods	1,707	1,550
Other revenue from contracts with customers	22	34
	12,095	**12,389**
Revenue from other sources	491	420
Total revenue (excluding finance income)	**12,586**	**12,809**
Other income		
Net gain on disposal of property, plant and equipment and intangibles	400	355
Government grants	99	99
nbn disconnection fees	699	1,047
Other miscellaneous income	14	81
	1,212	**1,582**
Total income (excluding finance income)	**13,798**	**14,391**
Finance income	99	117
Total income	**13,897**	**14,508**

Other revenue from contracts with customers includes licensing revenue (recognised either at a point in time or over time) and agency revenue.

Revenue from other sources includes income from:
- operating leases of mobile handsets offered to our retail customers. For further information about these lease arrangements, refer to note 7.4.2 of the financial statements in our 2018 Annual Report
- embedded sales type finance leases where Telstra is a dealer - lessor of customer premise equipment
- customer contributions to extend, relocate or amend our network assets, where the counterparty does not purchase any ongoing services under the same (or linked) contract(s).

Government grants include income under TUSOPA, Mobile Blackspot Government program and other individually immaterial contracts accounted for as government grants. There are no unfulfilled conditions or other contingencies attached to these grants.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement

In the financial year 2019, we have adopted new accounting policies for revenue recognition.

(a) Revenue from contracts with customers

Revenue from contracts with customers arises from arrangements where the counterparty is a customer that transacts with us to obtain goods or services which are an output of our ordinary activities in exchange for consideration. We apply the five-step approach to our customer arrangements to identify the contract for accounting purposes, i.e. the accounting contract and to determine the amount and timing of revenue to be recognised. The five steps are applied at inception of the accounting contract in order to provide an overview of the contract as a whole. This in turn allows us to determine the accounting for relevant costs to obtain and/or fulfil a contract. The five steps are:

(i) Step 1: Identify the contract with customer

In order to identify an accounting contract, the contract must be legally enforceable. Any components of the contract which are accounted for under other accounting standards are then identified and separated out as they cannot be considered for revenue recognition.

The accounting contract may not align with the legal contract and in some cases multiple legal contracts may need to be combined to form one accounting contract. In other instances, a legal contract may only provide a framework agreement (i.e. an offer) and an accounting contract only exists when the customer commits to purchase goods or services. This is because an accounting contract must have commercial substance. Each party's rights regarding the goods or services and specified payment terms must also exist. In addition, it has to be probable that the customer is able and intends to pay Telstra. The contract term impacts the identification of performance obligations and the transaction price.

(ii) Step 2: Identify the performance obligations in the contract

After the accounting contract and its term have been established, we determine the performance obligations within the contract. Performance obligations include promised distinct goods or services for which control is transferred from Telstra to the customer and material rights but exclude fulfilment activities (other activities that are necessary under the contract but that do not result in a transfer of goods or services).

Performance obligations can be explicitly stated in a contract or can be implied when the customer has a valid expectation that an additional good or service will be delivered.

A material right is accounted for as a separate performance obligation if we give the customer a beneficial option to purchase additional distinct goods or services, i.e. the customer receives an incremental discount of at least 5% of the transaction price compared to other customers.

We account for a series of goods or services which are substantially the same and have the same pattern of transfer to the customer as a single performance obligation.

A good or service is distinct if it is capable of being distinct, i.e. has standalone value, and it is distinct within the context of the contract, i.e. no transformative relationship exists with other promised goods or services.

(iii) Step 3: Determine the transaction price

After all performance obligations have been identified, we determine the transaction price, which represents the total amount of revenue to be recognised under the accounting contract. In doing so, we assume that the contract will not be cancelled, renewed or modified.

The transaction price may include fixed and/or variable, cash and/or non-cash consideration. It may also need to be adjusted for:
- a significant financing component (if the period between when we would transfer the good or service to the customer and when the customer would pay for the good or service is expected to be greater than one year)
- consideration accounted for under other accounting standards (such as lease repayments)
- amounts collected on behalf of third parties (such government taxes).

Fixed cash consideration is not dependent on future events and is based on the minimum amount of cash we expect to receive in exchange for delivering the minimum level of goods or services the customer has legally committed to purchase at contract inception over the accounting contract term.

Variable consideration receivable and payable is an amount that is variable or contingent on an uncertain future event before the exact amount is known. Examples of variable cash consideration include discounts, rebates, refunds, credits and price concessions. To estimate an amount of variable consideration, we use either the most likely amount or the expected value method depending on which better predicts the variable amount. After estimating it, we constrain the variable consideration to the amount that is highly probable of not resulting in a significant cumulative revenue reversal.

(iv) Step 4: Allocate the transaction price to the performance obligations in the contract

After the transaction price has been determined, we allocate it to the performance obligations generally based on their relative standalone selling price (SSP). SSP is the price for which we would sell the goods or services underlying the performance obligations on a standalone basis, i.e. not in a bundle. We determine SSPs at contract inception using an observable price for a standalone sale of substantially the same good or service under similar circumstances and to a similar class of customers. If no observable price is available, we estimate the SSP using an appropriate method, e.g. adjusted market assessment approach, expected cost plus a margin approach or a residual approach.

Using relative SSPs for allocating the transaction price to performance obligations generally reflects the proportional amount of consideration we expect to receive in exchange for delivering the underlying distinct goods and/or services under the contract. However, in some instances, in order to correctly reflect the amount of revenue, we apply allocation exceptions for variable consideration, discounts or a significant financing component in order to correctly allocate these elements to some but not all performance obligations.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement (continued)

(a) Revenue from contracts with customers (continued)

Assessment of a significant financing component in our contracts with customers	We have applied management judgement to assess if a financing component is significant in the context of a contract as a whole and determine appropriate discount rates, where relevant. We account for a significant financing component for our domestic and international bespoke network capacity agreements, i.e. Indefeasible Right of Use, where customers make an upfront prepayment in advance of receiving services. These contracts have an average legal contract term between 10 and 33 years. We do not separately account for the financing component of our nbn DAs and related arrangements because it is not significant in these agreements.

Determination of standalone selling prices	We have applied management judgement to estimate standalone selling prices in order to allocate the transaction price to multiple performance obligations under the same customer contract. In the absence of observable prices, we use various estimation methods, including an adjustment market assessment, cost plus margin or residual approach to arrive at a standalone selling price.

(v) Step 5: Recognise revenue when or as a performance obligation is satisfied

After the transaction price has been allocated to the performance obligations, we determine when revenue should be recognised, i.e. when a performance obligation is satisfied by us which is when control of the distinct good or service is transferred to the customer.

Customers obtain control over a good or service when they benefit from the good or service and decide how to use the good or service.

If any of the following three criteria are met, we recognise revenue over time:
- the customer simultaneously receives and consumes all benefits as we perform (this applies to routine or recurring services)
- our performance creates or enhances an asset controlled by the customer (this is relevant when the asset is built on a customer's site)
- the asset has no alternative use to us and we have an enforceable right to payment (for example, an asset is being built to order).

If none of the criteria are met, we recognise revenue at a point in time.

We use either input or output methods to measure progress when satisfying the performance obligations over time. Output methods use direct measurements of the value to the customer, i.e. they are based on the goods or services that control has transferred to date relative to the remaining goods or services promised under the contract (for example, milestones reached). It is applied when the value of the goods or services transferred to the customer can be measured directly. Input methods use our efforts or inputs in the satisfaction of the performance obligation relative to the total expected efforts or inputs in satisfying that performance obligation (for example, our labour hours used). It is applied when the value of the underlying goods or services transferred to the customer cannot be measured.

When a performance obligation is satisfied at a point in time, the allocated transaction price is recognised when control is transferred to the customer. In determining whether the control over the good has transferred to the customer, we consider the customer's obligation to pay, transfer of legal title to the good, physical possession of the good, the customer's acceptance and risks and rewards of ownership.

(vi) Accounting after contract inception

The five-step approach provides an accounting contract overview at its inception. However, some judgements and estimates may change over the accounting contract term. Where relevant, we account for the following events after contract inception:
- exercised or forfeited customer options (both material rights and marketing offers, i.e. non beneficial options)
- changes in estimates of variable consideration
- changes in how the customer exercises its contractual rights
- special arrangements, e.g. bill and hold or consignment arrangements.

(vii) Contract modifications

From time to time, our contracts are renegotiated after contract inception and their scope and/or price change. We account for a contract modifications either as:
- a separate contract which will not require any reallocation to performance obligations in the original contract
- a retrospective cumulative change to revenue (creating either a catch up or deferral of past revenues for all performance obligations in the original contract)
- a prospective change to revenue with a reallocation of revenues amongst remaining performance obligations in the original contract, or
- both a cumulative change and prospective change to revenue in the original contract.

(b) Revenue from other sources

Revenue from other sources includes income arising from arrangements other than those accounted for using the five-step approach. This is because in some cases income generated in the course of our ordinary activities does not relate to our performance under contracts with customers or it is explicitly accounted for under other accounting standards.

Contract terminations generally trigger different rights and obligations under the legal contract. These rights and obligations are not related to our performance and were not considered at inception of the accounting contract when applying the five-step approach. Therefore, where relevant, any income over and above the recovery of the consideration due for the delivered goods or services is not classified as revenue from customer contracts. Instead, we classify it as revenue from other sources.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement (continued)

(b) Revenue from other sources (continued)

We earn revenue from operating subleases of mobile handsets offered to our retail customers (Telstra as a lessor), which we lease from a third party in a back-to-back arrangement (Telstra as a lessee). We also earn revenue from property operating leases. Operating lease income is recognised on a straight- line basis over the lease term.

We earn revenue from embedded sales type finance leases where Telstra is a dealer-lessor of customer premise equipment. We recognise revenue from sale of these goods at point in time when the control transfers to the customer.

We receive contributions to extend, relocate or amend our network assets. Where the counterparty makes a contribution for network construction activities that is not considered a government grant, and does not purchase any ongoing services under the same (or linked) contract(s), we recognise revenue over the period of the network construction activities.

Other items we classify as revenue from other sources include late payment fees, which are recognised when charged and their collectability is reasonably assured.

Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income

nbn co makes decisions about the access technologies (e.g. fibre to the premises 'FTTP', fibre to the basement 'FTTB', fibre to the node 'FTTN', fibre to the curb 'FTTC' or Hybrid Fibre Coaxial 'HFC') which it intends to use to serve premises in each of its rollout regions. In any given rollout region, these decisions trigger its election to acquire the relevant Telstra assets, the ownership of which we are progressively transferring to nbn co under the nbn Infrastructure Services Agreement (ISA). These assets include lead-in conduits (LICs), certain copper and HFC assets and associated passive infrastructure (being infrastructure that supports the relevant copper and HFC assets). In addition to the progressive transfer of these assets, we also provide nbn co with long-term access to certain other components of our infrastructure.

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

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

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

IAP are also indexed to CPI, will grow in line with the nbn™ network rollout until its completion and subsequently continue for the remaining average contracted period of 30 years.

IOP and IAP are classified in the income statement as other income and sale of services, respectively, and are recognised on a percentage rollout basis of the nbn™ network footprint. Variable components of the consideration are constrained to the amount that is highly probably not to result in a significant cumulative revenue reversal.

For any given period, the IOP and IAP amounts ultimately received from nbn co may vary from the amounts recognised in the income statement depending on progress of the nbn™ network rollout and the final number of our existing fixed line premises as defined and determined under the ISA. A change in the nbn™ network rollout progress and/or the final number of these premises could result in a material change to the amount of IOP and IAP recognised in the income statement.

We have applied management judgement in determining our best estimate of the amounts of IOP and IAP recognised for the half-year ended 31 December 2018. Should evidence exist in future reporting periods that changes these best estimates, other income and revenue from sale of services will be adjusted in future reporting periods.

Section 2. Our performance (continued)

2.3 Notes to the statement of cash flows

2.3.1 Cash and cash equivalents

Telstra Group	As at 31 Dec	
	2018	2017
	$m	$m
Cash at bank and on hand	122	125
Bank deposits and negotiable certificates of deposit	419	462
	541	**587**
Bank overdraft	-	(3)
Cash and cash equivalents in the statement of cash flows	**541**	**584**

(a) Impairment of financial assets

In accordance with Telstra policies, the counterparty we transact with must have a credit rating of investment grade or better. Therefore, our cash and cash equivalents are held with counterparties that have a credit rating of A or better.

Based on the external credit ratings of the counterparties, we consider cash and cash equivalents to have low credit risk, and therefore, the loss assessment was performed based on the 12-month expected credit loss basis and reflects the short maturities of the exposures. A deterioration in the counterparty's credit rating below an investment grade would be considered an indicator of a significant increase in credit risk.

Section 3. Our core assets and working capital

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

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

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

Goodwill and intangible assets with indefinite useful lives are not subject to amortisation and are assessed for impairment at least on an annual basis, or whenever an indicator of impairment exists. All other non-current tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

For our impairment testing, we identify CGUs, i.e. the smallest groups of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets.

3.1.1 Cash generating units with allocated goodwill

During the half-year ended 31 December 2018, there have been no changes to our CGUs with allocated goodwill. Goodwill has been impacted by foreign currency movements.

Determination of cash generating units (CGUs) and their recoverable amount for impairment assessment

We apply management judgement to identify our CGUs and determine their recoverable value.

We assess whether there are any impairment indicators based on qualitative and quantitative factors at each reporting period. A detailed impairment test is performed on an annual basis or when there is any indication of impairment.

We have assessed our CGUs to identify indicators of impairment, using both external and internal sources of information, and have concluded that no impairment charge is required as no impairment indicators were identified.

3.1.2 Our telecommunications network

Consistent with 30 June 2018 Annual Report, we have determined that under the nbn Infrastructure Services Agreement (ISA) our ubiquitous telecommunication network also includes the Hybrid Fibre Coaxial (HFC) cable network. This resulted mainly from the fact that under the nbn ISA cash inflows generated by both networks cannot be separated. No one item of telecommunications equipment is of any value without the other asset to which it is connected to deliver our products and services.

During the period, we have assessed our telecommunications network to identify indicators of impairment, using both external and internal sources of information and concluded that no impairment charge is required.

3.1.3 Depreciation and amortisation

Useful lives and residual values of fixed assets

We apply management judgement to estimate useful lives and residual values of our assets and review them each year. If useful lives or residual values need to be modified, the depreciation expense changes from the date of reassessment until the end of the revised useful life (for both the current and future years).

This assessment includes a comparison with international trends for telecommunication companies and, in relation to communications assets, includes a determination of when the asset may be superseded technologically or made obsolete.

For the half-year ended 31 December 2018, the net effect of our annual assessment of useful lives performed so far was a $122 million (2017: $93 million) decrease in depreciation expense and a $53 million (2017: $13 million) decrease in amortisation expense. The adjustments are not impacted by our T22 strategy.

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

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

3.1.3 Depreciation and amortisation (continued)

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

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

As at 31 December 2018, the net book value of assets that are in scope to be potentially transferred to nbn co under the ISA amounted to $498 million (2017: $714 million). This represents 2.2 per cent of the net book value of our total property, plant and equipment. We have applied management judgement in assessing the useful lives of the in-scope assets based on the anticipated nbn™ network rollout period.

The nbn™ network rollout will also to a lesser extent impact useful lives of other assets, e.g. transmission and switching technologies, which will not be transferred to nbn co. The full impact on our useful lives is not yet known and will depend on nbn co's selection of access technologies in each rollout region and the sequence in which the nbn™ network rollout progresses. For the half-year ended 31 December 2018, we have applied management judgement in assessing the useful lives of these assets based on our best estimate of the expected consequential impacts of the nbn™ network rollout. The result of our assessment is included in the net effect of our useful lives assessment.

Should evidence exist in future reporting periods that changes these best estimates, depreciation expense will be adjusted as a change in estimate in future reporting periods.

3.2 Deferred contract costs

Deferred contract costs comprise of deferred costs to obtain or fulfil an accounting customer contract.

3.2.1 Recognition and measurement

We capitalise costs to obtain an accounting contract when the costs are incremental, i.e. would not have been incurred if the contract was not obtained and are recoverable either directly via reimbursement by the customer or indirectly through the contract margin. We elect to recognise the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that we would have otherwise recognised would have been one year or less.

Costs to fulfil a contract are costs incurred in satisfying the performance obligations under a customer contract. These costs relate directly to an identified performance obligation or indirectly to other activities that are necessary under the contract but that do not result in a transfer of goods or services, i.e. they are fulfilment activities. Costs to fulfil a contract can arise from the use of our existing assets, the development or purchase of new assets and from internal workforce or third-party contractors. We capitalise costs to fulfil a contract if all of the following apply:

- the costs are not in the scope of another accounting standard
- the costs relate directly to a contract or a specifically identified anticipated contract (for example, costs relating to services to be provided under renewal of an existing contract)
- the costs generate or enhance resources that we control and will be used to satisfy future performance obligations in the contract
- we expect to recover the costs.

We amortise deferred contract costs over the term that reflects the expected period of benefit of the expense. This period may extend beyond the initial contract term to the estimated customer life or average customer life of the class of customers. We use the amortisation pattern consistent with the method used to measure progress and recognise revenue for the related goods or services. We assess whether deferred contract costs are impaired whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Amortisation period of deferred contract costs

We have applied management judgement to estimate the amortisation period of deferred contract costs to obtain a contract.

For sales commissions paid on acquisition of the initial contract which are not commensurate with recontracting commissions, the amortisation period reflects the average estimated customer life.

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

3.3 Trade and other receivables and contract assets

3.3.1 Current and non-current trade and other receivables and contract assets

Where relevant, the amounts in the table below are presented net of impairment allowances.

Table A Telstra Group	As at	
	31 Dec 2018	30 Jun 2018
		Restated
	$m	$m
Current		
Trade receivables from contracts with customers	3,342	3,209
Finance lease receivables	102	108
Accrued revenue	614	668
Other receivables	212	157
	4,270	**4,142**
Contract assets	1,201	1,446
	5,471	**5,588**
Non-current		
Trade receivables from contracts with customers	408	394
Finance lease receivables	182	193
Other receivables	37	30
	627	**617**
Contract assets	243	113
	870	**730**

Trade receivables from contracts with customers include receivables measured at amortised cost and at fair value. Refer to note 4.2.4 for further details on trade receivables from contracts with customers measured at fair value.

3.3.2 Recognition and measurement

(a) Impairment of financial assets

An allowance for doubtful debts is raised to reduce the carrying amount of trade and other receivables and contract assets based on a review of outstanding amounts at a reporting date.

For our trade and other receivables measured at amortised cost, contract assets, accrued revenue and finance lease receivables, the estimated expected credit loss is calculated using one of the following approaches:

- a portfolio approach based on historical credit loss experience
- a probability of default and expected loss from any outstanding balance
- an individual account by account assessment based on past credit history, knowledge of debtor financial situation or other credit risk.

The calculation is then adjusted for forward looking factors. For Telstra Consumer and Small Business trade receivables and contract assets and Telstra Enterprise Australian customers, we have implemented a scenario based approach incorporating both good and bad economic scenarios. The scenarios are adjusted as required for current and forecast economic conditions, such as employment and interest rates, gross domestic product and exchange rates.

When using the portfolio approach, receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Contract assets relate to the transferred goods and services yet to be invoiced to the customer and have substantially the same risk characteristics as the trade receivables for the same types of contracts. Therefore, the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Any customer account with debt more than 90 days past due is considered to be in default. Trade receivables and contract assets are written off against the allowance for doubtful debts (where relevant) or directly against the carrying amount and expensed in the income statement when there is no reasonable expectation of their recovery.

Section 4. Our capital and risk management

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

4.1 Dividends

This note includes dividend paid for the previous year final dividend and the current year interim dividend to be paid. From financial year 2018, our dividend comprises both ordinary and special dividends.

As the current year interim dividend resolution was passed on 14 February 2019, no provision had been raised as at 31 December 2018.

We currently pay dividends twice a year, an interim and a final dividend. The table below provides details about the previous year final dividend paid during the financial year 2019.

Telstra Entity	Half-year ended 31 Dec			
	2018	2017	2018	2017
	$m	$m	cents	cents
Dividends paid				
Previous year final dividend paid	1,308	1,842	11.0	15.5

The Dividend Reinvestment Plan (DRP) will continue to operate for the interim dividend in the financial year 2019. The election date for participation in the DRP is 1 March 2019.

On 14 February 2019, the Directors of Telstra Corporation Limited resolved to pay an interim dividend for the financial year 2019 of 8 cents per ordinary share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. The interim dividend will be fully-franked at a tax rate of 30 per cent. The record date for the interim dividend will be 28 February 2019, with payment being made on 29 March 2019. From 27 February 2019, shares will trade excluding entitlement to the dividend.

As at 31 December 2018, the interim dividend was not determined or publicly recommended by the Board, therefore no provision for the dividend has been raised in the statement of financial position. However, a provision for the interim dividend payable amounting to $951 million has been raised as at the date of the resolution.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the interim dividend, except for $408 million of franking debits arising from the payment of this interim dividend that will be adjusted in our franking account balance.

Our franking account as at 31 December 2018 was a $128 million credit. We believe that our current franking account balance, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our 2019 interim dividend.

4.2 Capital management and financial instruments

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

We aim to provide returns for shareholders and benefits for other stakeholders, while:

- safeguarding our ability to continue as a going concern
- maintaining an optimal capital structure and cost of capital that provides flexibility for strategic investments.

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

4.2.1 Net debt

As part of capital management, net debt and resulting gearing ratio are monitored. Gearing ratio equals net debt divided by total capital, where:

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

Net debt at 31 December 2018 was $15,814 million (June 2018: $14,739 million).

We undertake the following transactions when managing our net debt portfolio and associated financial risks:

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

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.1 Net Debt (continued)

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

Table A Telstra Group	As at	
	31 Dec 2018	30 Jun 2018
	$m	$m
Current borrowings	(1,155)	(1,635)
Non-current borrowings	(17,128)	(15,316)
	(18,283)	**(16,951)**
Current derivative financial assets	33	75
Non-current derivative financial assets	2,201	1,897
Current derivative financial liabilities	(2)	(1)
Non-current derivative financial liabilities	(304)	(388)
	1,928	**1,583**
Gross debt	**(16,355)**	**(15,368)**
Cash and cash equivalents	541	629
Net debt	**(15,814)**	**(14,739)**

No significant components of net debt are subject to any externally imposed capital requirements. With the exception of a minor ($13 million) breach in our subsidiary that was subsequently waived, we did not have any defaults or breaches under any of our agreements with our lenders during the half-year ended 31 December 2018.

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

Table B Telstra Group	Half-year ended 31 Dec	
	2018	2017
		Restated
	$m	$m
Net debt at 1 July	**(14,739)**	**(15,280)**
Debt issuance	(308)	(708)
Commercial paper (net)	(67)	(43)
Revolving bank facilities (net)	(1,450)	(350)
Debt repayments	790	862
Finance lease repayments	39	60
Net cash inflow	**(996)**	**(179)**
Fair value gains/(losses) impacting		
Equity	26	2
Other expenses	1	(7)
Finance costs	6	20
Other non-cash movements		
Finance lease additions	(33)	(32)
Total non-cash movements	**-**	**(17)**
Total increase in gross debt	**(996)**	**(196)**
Net decrease in cash and cash equivalents net of bank overdraft (includes foreign exchange differences)	(79)	(352)
Total increase in net debt	**(1,075)**	**(548)**
Net debt at 31 December	**(15,814)**	**(15,828)**
Total equity	(14,505)	(13,953)
Total capital	**(30,319)**	**(29,781)**
	%	%
Gearing ratio	52.2	53.1

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.2 Borrowings and repayment of debt

(a) Funding activities

During the half-year ended 31 December 2018, we repaid $790 million of term debt (Australian dollar equivalent). This included:

- $500 million Australian dollar bond
- $252 million Swiss franc bond
- $10 million Australian dollar private placements.

We also repaid other loans of $28 million.

The above also includes the cash settlement of derivative financial instruments, where applicable.

Debt issuance for the period included:

- $300 million one-year Australian dollar floating rate note
- $8 million loans held by controlled entities.

At 31 December 2018, we have $1,650 million (30 June 2018: $200 million) drawn under our revolving bank facilities. Drawings under our bank facilities and commercial paper issues are shown on a gross basis in the statement of cash flows.

Table C shows our undrawn facilities at balance dates.

Table C	As at	
Telstra Group	31 Dec 2018	30 Jun 2018
	$m	$m
Facilities available	3,200	3,200
Facilities used	(1,650)	(200)
Facilities unused	**1,550**	**3,000**

(b) Commercial paper

Our commercial paper is used principally to support working capital and short term liquidity. As at 31 December 2018, we held $746 million (June 2018: $677 million) of commercial paper at carrying value.

4.2.3 Finance costs

Table D presents our net finance costs for the half-year ended 31 December 2018.

Table D	Half-year ended 31 Dec	
Telstra Group	2018	2017
		Restated
	$m	$m
Interest income	(17)	(32)
Finance income from contracts with customers	(78)	(83)
Net interest income on defined benefit plan	(4)	(2)
Total finance income	**(99)**	**(117)**
Interest expense on borrowings	399	391
Finance costs from contracts with customers	84	94
Less: interest capitalised	(48)	(44)
	435	**441**
Net gains on derivative financial instruments included in remeasurements	(16)	(28)
Total finance costs	**419**	**413**
Net finance costs	**320**	**296**

Net gains on derivative financial instruments included in remeasurements comprise unrealised valuation impacts on our borrowings and derivatives which are recorded in the income statement. These include net unrealised gains or losses which arise from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.4 Fair value measurement

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

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

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: the lowest level input that is significant to the fair value measurement is directly (as prices) or indirectly (derived from prices) observable
- Level 3: one or more key inputs for the instrument are not based on observable market data (unobservable inputs).

For further details as to how valuation methodologies are applied in determining fair value refer to note 4.4.5 to the financial statements in our 2018 Annual Report.

During the half-year ended 31 December 2018, there were no changes in valuation techniques for recurring fair value measurements of our financial instruments. There were also no transfers between fair value hierarchy levels.

Trade receivables from contracts with customers measured at fair value are such where due to the variability of the contractual cash flows the instrument does not meet the classification requirements of financial assets at amortised cost.

For our trade receivables from contracts with customers presented in the below table, a valuation technique is used where the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Expected cash inflows are estimated based on the terms of the customer contract taking into account possible variations in the amount and timing of cash flows. Discount rate is determined using a risk free rate plus a risk adjustment reflecting the credit risk associated with the cash flow.

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

Table E Telstra Group	As at 31 Dec 2018				As at 30 Jun 2018 Restated			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets								
Derivative financial instruments	-	2,234	-	**2,234**	-	1,972	-	**1,972**
Investments in listed securities	3	-	-	**3**	11	-	-	**11**
Investments in unlisted securities	-	-	15	**15**	-	-	25	**25**
Trade receivables from contracts with customers	-	-	1,491	**1,491**	-	-	1,502	**1,502**
	3	**2,234**	**1,506**	**3,743**	**11**	**1,972**	**1,527**	**3,510**
Liabilities								
Derivative financial instruments	-	(306)	-	**(306)**	-	(389)	-	**(389)**
Contingent consideration	-	-	(4)	**(4)**	-	-	(4)	**(4)**
	-	**(306)**	**(4)**	**(310)**	**-**	**(389)**	**(4)**	**(393)**
Total	**3**	**1,928**	**1,502**	**3,433**	**11**	**1,583**	**1,523**	**3,117**

(c) Level 3 financial instruments

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

Table FTelstra Group	Level 3 Unlisted securities $m
Opening balance 1 July 2018	**25**
Purchases	-
Remeasurement recognised in other comprehensive income (net of tax)	1
Contribution to Telstra Ventures Fund II, L.P.	(11)
Gains/(losses) recognised in the income statement	-
Closing balance 31 December 2018	**15**

During the half-year ended 31 December 2018, we have not received any dividends from our investments in these equity instruments and there have been no transfers to or from equity in relation to these investments.

4.2.5 Financial risk factors

Our underlying business activities result in exposure to operational risks and a number of financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. We enter into derivative transactions in accordance with policies approved by the Board to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. We do not speculatively trade in derivative financial instruments.

The half-year financial report does not include all financial risk management information and disclosures required in the annual financial statements. For further details on our financial risk management refer to note 4.4 to the financial statements in our 2018 Annual Report. There have been no material changes to our risk management policies since 30 June 2018.

Section 5. Other information

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

5.1 Other accounting policies

5.1.1 Changes in accounting policies

We note the following new standards and amendments to the accounting standards which are applicable to us from 1 July 2018:

- AASB 9 (2014): 'Financial Instruments'
- AASB 15 'Revenue from Contracts with Customers'
- AASB 2016-5 'Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions'

Significant impacts arising from the adoption of AASB 9 (2014) and AASB 15 have been explained in note 1.4. New accounting policies have been disclosed in notes 2.2, 3.2 and 3.3. There was no significant impact on our financial results from AASB 2016-5.

5.1.2 New accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the half-year ended 31 December 2018 but will be applicable to the Telstra Group in future reporting periods are detailed below.

(a) New leasing standard

In February 2016, the AASB issued AASB 16: 'Leases', which replaces the current guidance in AASB 117: 'Leases', Interpretation 4 'Determining whether an Arrangement contains a Lease', Interpretation 115 'Operating Leases - Incentives' and Interpretation 127 'Evaluation the Substance of Transactions Involving the Legal Form of a Lease'. The new standard will apply to us from 1 July 2019.

The new standard requires the lessee to recognise its leases in the statement of financial position as an asset (the right to use the leased item) and a liability reflecting future lease payments. Depreciation of the right-of-use asset and interest on the lease liability will be recognised over the lease term. The lessee can utilise the practical expedients related to short-term and low-value leases, however, assets that are subject to subleases or are expected to be subleased do not qualify for the low-value exception.

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

We have a significant number of long-term non-cancellable property leases for our office buildings and network sites which are expected to have a material impact when recognised in the statement of financial position. Lease liabilities recognised on adoption of AASB 16 will differ from our operating lease commitments currently disclosed in the notes to the annual financial statements. The differences will mostly arise from the effects of discounting the future lease commitments/payments and judgements regarding whether options to continue leasing the assets are reasonably certain.

We continue to assess the impact of the new leasing standard on our financial results. This includes identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and controls.

We expect to apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

Various practical expedients are available on adoption to account for leases previously classified by a lessee as operating leases under AASB 117. The election is made on a lease-by-lease basis. We are still assessing the potential impact of using these practical expedients but in general we expect to apply the elections to all similar leases on a consistent basis (as opposed to on a lease-by-lease basis) and to recognise a right-of-use asset in the amounts equal to the lease liability as at 1 July 2019. Based on our transition approach, the impact on our financial year 2020 will depend on our lease portfolio and terms existing on 1 July 2019.

(b) Other

In March 2018, the International Accounting Standards Board (the IASB) issued a revised Conceptual Framework for Financial Reporting ('Framework') to be used immediately by the IASB but effective for Telstra from 1 July 2020. We do not expect the practical consequences of the new Framework to be significant in the short term. However, our assessment of the impact arising from the amendments is ongoing.

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

5.2 Commitments and contingencies

During the period, our capital commitments increased by $315 million mostly due to Telstra's commitment to invest $386 million to support its national 5G rollout.

Since 30 June 2018, there have been no significant changes to:
- contingent liabilities arising from common law claims
- indemnities, performance guarantees and financial support.

We have no significant contingent assets as at 31 December 2018.

5.3 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 31 December 2018 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than the interim dividend. The details of our interim dividend for the half-year ended 31 December 2018 are disclosed in note 4.1.

Directors' Declaration

This Directors' Declaration is required by the Corporations Act 2001 of Australia. 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 2018, as set out on pages 1 to 39 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 2018.

For and on behalf of the board

John P Mullen Chairman	Andrew R Penn Chief Executive Officer and Managing Director

14 February 2019

Melbourne,
Australia

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2018, 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial 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*.

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 control as the directors determine is 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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial 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 the Group, 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*.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne
14 February 2019

Results of operations

	Half-year ended 31 December			
	2018	2017 Restated [i]	Change	Change
	$M	$M	$M	**%**
Revenue (excluding finance income)	**12,586**	12,809	(223)	(1.7)
Other income [ii]	**1,212**	1,582	(370)	(23.4)
Total income (excluding finance income)	**13,798**	14,391	(593)	(4.1)
Labour	**2,722**	2,699	23	0.9
Goods and services purchased	**4,382**	3,989	393	9.9
Net impairment losses on financial assets	**88**	103	(15)	(14.6)
Other expenses	**2,349**	2,473	(124)	(5.0)
Operating expenses	**9,541**	9,264	277	3.0
Share of net profit/(loss) from joint ventures and associated entities	**1**	(31)	32	n/m
	9,540	9,295	245	2.6
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**4,258**	5,096	(838)	(16.4)
Depreciation and amortisation	**2,141**	2,219	(78)	(3.5)
Earnings before interest and income tax expense (EBIT)	**2,117**	2,877	(760)	(26.4)
Finance income	**99**	117	(18)	(15.4)
Finance costs	**419**	413	6	1.5
Net finance costs	**320**	296	24	8.1
Profit before income tax expense	**1,797**	2,581	(784)	(30.4)
Income tax expense	**569**	889	(320)	(36.0)
Profit for the period	**1,228**	1,692	(464)	(27.4)
Attributable to:				
Equity holders of Telstra Entity	**1,233**	1,713	(480)	(28.0)
Non-controlling interests	**(5)**	(21)	16	76.2
	1,228	1,692	(464)	(27.4)
Effective tax rate on operations	**31.7%**	34.4%		(2.7) pp
EBITDA margin on revenue	**33.8%**	39.8%		(6.0) pp
EBIT margin on revenue	**16.8%**	22.5%		(5.7) pp
	cents	cents	Change cents	Change %
Earnings per share (cents per share)				
Basic [iii]	10.4	14.4	(4.0)	(27.8)
Diluted [iii]	10.4	14.4	(4.0)	(27.8)

(i) Restated due to adoption of AASB15: Revenue from Contracts with Customers.

(ii) Other income includes gains and losses on asset and investment sales (including assets transferred under the nbn Definitive Agreements), income from government grants under the Telstra Universal Service Obligation Performance Agreement, Mobile Blackspot Government program and other individually immaterial contracts, income from nbn™ network disconnection fees, subsidies and other miscellaneous items.

(iii) Basic and diluted earnings per share are impacted by the effect of shares held in trust by Telstra Growthshare Trust (Growthshare) and by the Telstra Employee Share Ownership Plan Trust II (TESOP99).

n/m = not meaningful

Total income

	Half-year ended 31 December			
	2018	2017 Restated (i)	Change	Change
	$M	$M	$M	%
Fixed products				
Retail bundles and standalone data	**1,653**	1,660	(7)	(0.4)
Retail standalone voice	**477**	633	(156)	(24.6)
Other retail fixed (ii)	**127**	136	(9)	(6.6)
Total retail fixed revenue	**2,257**	2,429	(172)	(7.1)
Wholesale fixed	**424**	528	(104)	(19.7)
Total fixed revenue	**2,681**	2,957	(276)	(9.3)
Mobiles				
Postpaid handheld	**2,665**	2,609	56	2.1
Prepaid handheld	**448**	493	(45)	(9.1)
Mobile broadband	**350**	416	(66)	(15.9)
Internet of Things (IoT)	**99**	73	26	35.6
Satellite	**7**	6	1	16.7
Mobile interconnection	**112**	106	6	5.7
Mobile services revenue - wholesale resale	**99**	90	9	10.0
Total mobile services revenue	**3,780**	3,793	(13)	(0.3)
Mobiles hardware	**1,511**	1,376	135	9.8
Total mobile revenue	**5,291**	5,169	122	2.4
Data & IP				
IPVPN products (iii)	**511**	539	(28)	(5.2)
ISDN products	**206**	245	(39)	(15.9)
Other data and calling products (iv)	**500**	514	(14)	(2.7)
Total data & IP revenue	**1,217**	1,298	(81)	(6.2)
Network applications & services				
Managed network services	**291**	306	(15)	(4.9)
Unified communciations	**442**	403	39	9.7
Cloud services	**202**	180	22	12.2
Industry solutions	**573**	681	(108)	(15.9)
Integrated services	**88**	94	(6)	(6.4)
Total network applications & services revenue	**1,596**	1,664	(68)	(4.1)
Media				
Foxtel from Telstra	**340**	357	(17)	(4.8)
IPTV	**26**	31	(5)	(16.1)
Mobility and other	**45**	50	(5)	(10.0)
Cable	**30**	30	-	n/m
Total media revenue	**441**	468	(27)	(5.8)
Global connectivity revenue	**801**	764	37	4.8
Recurring nbn DA	**374**	304	70	23.0
Other products (v)	**185**	185	-	n/m
Total external revenue	**12,586**	12,809	(223)	(1.7)
Other income (vi)	**1,212**	1,582	(370)	(23.4)
Total income (excluding finance income)	**13,798**	14,391	(593)	(4.1)

(i) Restated due to adoption of AASB15: Revenue from Contracts with Customers.

(ii) Other retail fixed revenue includes platinum, once off revenue (hardware and professional installation fees) payphones, directory assistance, fixed interconnect.

(iii) IP based Virtual Private Network (IPVPN) includes IPMAN/Ethernet MAN, IPWAN, and nbn.

(iv) Other data & calling products includes wholesale, inbound calling (1300/1800), internet, media solutions, and legacy data (e.g. frame relay).

(v) Other products revenue primarily includes late payment fees, revenue from Telstra Health and Telstra Software.

(vi) Other income includes gains and losses on asset and investment sales (including assets transferred under the nbn Definitive Agreements), income from government grants under the Telstra Universal Service Obligation Performance Agreement, Mobile Blackspot Government program and other individually immaterial contracts, income from nbn™ network disconnection fees, subsidies and other miscellaneous items.

n/m = not meaningful

Total Expenses

	Half-year ended 31 December			
	2018	2017 Restated [i]	Change	Change
	$M	$M	$M	%
Salary and associated costs	**1,890**	1,946	(56)	(2.9)
Other labour expenses	**144**	177	(33)	(18.6)
Labour substitution	**417**	474	(57)	(12.0)
Redundancy	**271**	102	169	165.7
Total labour	**2,722**	2,699	23	0.9
Cost of goods sold	**1,778**	1,711	67	3.9
Network payments	**1,310**	1,086	224	20.6
Other	**1,294**	1,192	102	8.6
Total goods and services purchased	**4,382**	3,989	393	9.9
Net impairment losses on financial assets	**88**	103	(15)	(14.6)
Service contracts and other agreements	**751**	807	(56)	(6.9)
Other impairment expenses	**46**	341	(295)	(86.5)
Other	**1,552**	1,325	227	17.1
Total other expenses	**2,349**	2,473	(124)	(5.0)
Total operating expenses	**9,541**	9,264	277	3.0
Depreciation	**1,387**	1,496	(109)	(7.3)
Amortisation	**754**	723	31	4.3
Total depreciation and amortisation	**2,141**	2,219	(78)	(3.5)

Statement of Cash Flows

	Half-year ended 31 December			
	2018	2017	Change	Change
	$M	$M	$M	%
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax (GST))	**14,975**	15,679	(704)	(4.5)
Payments to suppliers and employees (inclusive of GST)	**(11,797)**	(11,256)	(541)	(4.8)
Government grants received	**144**	156	(12)	(7.7)
Net cash generated by operations	**3,322**	4,579	(1,257)	(27.5)
Income taxes paid	**(505)**	(806)	301	37.3
Net cash provided by operating activities	**2,817**	3,773	(956)	(25.3)
Cash flows from investing activities				
Payments for property, plant and equipment	**(1,835)**	(1,928)	93	4.8
Payments for intangible assets	**(622)**	(634)	12	1.9
Capital expenditure (before investments)	**(2,457)**	(2,562)	105	4.1
Payments for businesses and shares in controlled entities (net of cash acquired)	**(114)**	(53)	(61)	(115.1)
Payments for joint ventures and associated entities	**(17)**	(2)	(15)	n/m
Payments for other investments	**-**	(31)	31	n/m
Total capital expenditure (including investments)	**(2,588)**	(2,648)	60	2.3
Government grants received	**34**	-	34	n/m
Proceeds from sale of property, plant and equipment	**249**	413	(164)	(39.7)
Proceeds from sale of shares in controlled entities (net of cash disposed)	**42**	42	-	n/m
Proceeds from sale of other investments	**4**	24	(20)	(83.3)
Distributions received from associated entities	**1**	9	(8)	(88.9)
Interest received	**18**	34	(16)	(47.1)
Proceeds from finance lease principal amounts	**50**	69	(19)	(27.5)
Net cash used in investing activities	**(2,190)**	(2,057)	(133)	(6.5)
Operating cash flows less investing cash flows	**627**	1,716	(1,089)	(63.5)
Cash flows from financing activities				
Proceeds from borrowings	**2,942**	4,366	(1,424)	(32.6)
Repayment of borrowings	**(1,907)**	(4,127)	2,220	53.8
Repayment of finance lease principal amounts	**(39)**	(60)	21	35.0
Purchase of shares for employee share plans	**-**	(18)	18	n/m
Finance costs paid	**(397)**	(387)	(10)	(2.6)
Dividends paid to equity holders of Telstra Entity	**(1,308)**	(1,842)	534	29.0
Net cash used in financing activities	**(709)**	(2,068)	1,359	65.7
Net (decrease) in cash and cash equivalents	**(82)**	(352)	270	76.7
Cash and cash equivalents at the beginning of the period	**620**	936	(316)	(33.8)
Effects of exchange rate changes on cash and cash equivalents	**3**	-	3	n/m
Cash and cash equivalents at the end of the period	**541**	584	(43)	(7.4)

n/m = not meaningful

Statement of Financial Position

	As at 31 Dec 18 $M	1 Jul 18 (i) Restated (ii) $M	31 Dec 17 Restated (ii) $M	Change 31 Dec 18 v 1 Jul 18 $M	%
Current assets					
Cash and cash equivalents	**541**	629	587	(88)	(14.0)
Trade and other receivables and contract assets	**5,471**	5,500	6,097	(29)	(0.5)
Inventories	**869**	492	670	377	76.6
Deferred contract costs	**89**	69	115	20	29.0
Derivative financial assets	**33**	75	53	(42)	(56.0)
Current tax receivables	**7**	6	11	1	16.7
Prepayments	**431**	431	409	-	n/m
Total current assets	**7,441**	7,202	7,942	239	3.3
Non-current assets					
Trade and other receivables and contract assets	**870**	729	698	141	19.3
Inventories	**20**	19	30	1	5.3
Investments - accounted for using the equity method	**1,274**	1,237	648	37	3.0
Investments - other	**18**	36	275	(18)	(50.0)
Property, plant and equipment	**22,579**	22,108	21,668	471	2.1
Intangible assets	**7,823**	7,922	7,907	(99)	(1.2)
Deferred contract costs	**1,254**	1,180	1,101	74	6.3
Derivative financial assets	**2,201**	1,897	1,644	304	16.0
Deferred tax assets	**58**	54	53	4	7.4
Defined benefit asset	**185**	250	112	(65)	(26.0)
Total non-current assets	**36,282**	35,432	34,136	850	2.4
Total assets	**43,723**	42,634	42,078	1,089	2.6
Current liabilities					
Trade and other payables	**4,430**	4,528	3,870	(98)	(2.2)
Employee benefits	**822**	868	860	(46)	(5.3)
Other provisions	**79**	89	101	(10)	(11.2)
Borrowings and derivative financial liabilities	**1,157**	1,636	2,841	(479)	(29.3)
Current tax payables	**52**	132	146	(80)	(60.6)
Contract liabilities and other revenue received in advance	**1,519**	1,532	1,493	(13)	(0.8)
Total current liabilities	**8,059**	8,785	9,311	(726)	(8.3)
Non-current liabilities					
Other payables	**68**	65	66	3	4.6
Employee benefits	**151**	157	159	(6)	(3.8)
Other provisions	**160**	168	163	(8)	(4.8)
Borrowings and derivative financial liabilities	**17,432**	15,704	15,271	1,728	11.0
Deferred tax liabilities	**1,658**	1,511	1,543	147	9.7
Defined benefit liabilities	**7**	7	6	-	n/m
Contract liabilities and other revenue received in advance	**1,683**	1,681	1,606	2	0.1
Total non-current liabilities	**21,159**	19,293	18,814	1,866	9.7
Total liabilities	**29,218**	28,078	28,125	1,140	4.1
Net assets	**14,505**	14,556	13,953	(51)	(0.4)
Equity					
Share capital	**4,436**	4,428	4,422	8	0.2
Reserves	**(65)**	(131)	(137)	66	50.4
Retained profits	**10,153**	10,272	9,667	(119)	(1.2)
Equity available to Telstra Entity shareholders	**14,524**	14,569	13,952	(45)	(0.3)
Non-controlling interests	**(19)**	(13)	1	(6)	(46.2)
Total equity	**14,505**	14,556	13,953	(51)	(0.4)

	31 Dec 18	1 Jul 18	31 Dec 17	Change $M	%
Gross debt	**16,355**	15,368	16,413	987	6.4
Net debt	**15,814**	14,739	15,828	1,075	7.3
EBITDA interest cover (times) (iii)	**11.2**	14.0	14.2	(2.8)	(20.1)
Net debt to EBITDA	**1.7**	1.5	1.6	0.2	13.3
ROA - Return on average assets	**9.9%**	13.8%	14.0%		(3.9) pp
ROE - Return on average equity	**17.0%**	25.0%	24.4%		(8.0) pp
ROI - Return on average investment	**14.2%**	19.5%	19.4%		(5.3) pp
ROIC - Return on invested capital	**9.7%**	13.5%	12.7%		(3.8) pp
Gearing ratio (net debt to capitalisation)	**52.2%**	50.3%	53.1%		1.9 pp

(i) Opening balance of 1 July 2018 used versus 30 June 2018 due to AASB 9 restatements going through opening balances only.

(ii) Restated due to adoption of AASB15: Revenue from Contracts with Customers.

(iii) EBITDA interest cover equals EBITDA to net interest.

n/m = not meaningful

Segment information from operations

	Total external income Half-year ended 31 December 2018 $M	2017 Restated (i) $M	Change %	EBITDA contribution Half-year ended 31 December 2018 $M	2017 Restated (i) $M	Change %
Telstra Consumer and Small Business	**7,212**	7,320	(1.5)	**2,948**	3,457	(14.7)
Telstra Enterprise	**3,955**	3,903	1.3	**1,635**	1,698	(3.7)
Networks and IT	**34**	40	(15.0)	**(692)**	(651)	(6.3)
Other Segments	**1,041**	1,463	(28.8)	**(815)**	(633)	(28.8)
Telstra excluding Telstra InfraCo	**12,242**	12,726	(3.8)	**3,076**	3,871	(20.5)
Telstra InfraCo	**2,502**	1,665	50.3	**1,618**	1,225	32.1
Internal access charges	**(946)**	-	n/m	**(436)**	-	n/m
Total Telstra segments	**13,798**	14,391	(4.1)	**4,258**	5,096	(16.4)

Revenue by Business Segment

	Half-year ended 31 December 2018 $M	2017 Restated (i) $M	Change %
Telstra Consumer & Small Business			
Fixed	**2,108**	2,256	(6.6)
Mobile services revenue	**2,971**	3,016	(1.5)
Network applications & services (NAS)	**147**	131	12.2
Telstra Enterprise Australia			
Mobile services revenue	**709**	685	3.5
Data & IP	**907**	975	(7.0)
Network applications & services (NAS)	**1,151**	1,110	3.7

Product profitability - EBITDA margins %

	Half-year ended Dec 2018	Jun 2018 Restated (i)	Dec 2017 Restated (i)
Mobile	**36%**	38%	39%
Fixed	**25%**	29%	35%
Data & IP	**64%**	65%	64%
NAS	**2%**	13%	7%
Global Connectivity	**19%**	19%	18%

Note: Product margins represent management's best estimates.

Product profitability - EBITDA ($M)

	Half-year ended Dec 2018	Jun 2018 Restated (i)	Dec 2017 Restated (i)
Mobile	**1,905**	1,968	2,028
Fixed	**688**	835	1,061
Data & IP	**782**	814	828
NAS	**39**	251	114
Global Connectivity	**155**	158	135

Note: Product margins represent management's best estimates.
(i) Restated due to adoption of AASB15: Revenue from Contracts with Customers.

ARPU ($)

	Half-year ended Dec 2018	Jun 2018 Restated [i]	Dec 2017 Restated [i]	Dec 18 vs Dec 17 Change	Change	Dec 18 vs Jun 18 Change	Change
	$	$	$	$	%	$	%
Fixed retail bundle & standalone data	**75.90**	76.69	78.56	(2.66)	(3.4)	(0.79)	(1.0)
Fixed retail standalone voice	**43.70**	44.07	44.40	(0.70)	(1.6)	(0.37)	(0.8)
Postpaid handheld	**55.62**	56.22	57.00	(1.38)	(2.4)	(0.60)	(1.1)
Prepaid handheld	**22.54**	22.36	22.70	(0.16)	(0.7)	0.18	0.8
Mobile broadband	**15.32**	15.58	17.58	(2.26)	(12.9)	(0.26)	(1.7)

(i) Restated due to adoption of AASB15: Revenue from Contracts with Customers.

Services in operation (000s)

	Half-year ended Dec 2018	Jun 2018	Dec 2017	Dec 18 vs Dec 17 Change	Change	Dec 18 vs Jun 18 Change	Change
	000s	000s	000s	000s	%	000s	%
Fixed services in operation (SIOs)							
Retail bundles and standalone data [i]	**3,663**	3,599	3,532	131	3.7	64	1.8
Retail standalone voice	**1,685**	1,954	2,230	(545)	(24.4)	(269)	(13.8)
Wholesale basic access [ii]	**662**	805	955	(293)	(30.7)	(143)	(17.8)
Wholesale data [iii]	**400**	486	579	(179)	(30.9)	(86)	(17.7)
ISDN access (basic line equivalents)	**804**	859	918	(114)	(12.4)	(55)	(6.4)
Unconditioned local loop (ULL)	**987**	1,118	1,234	(247)	(20.0)	(131)	(11.7)
Line spectrum sharing services (LSS)	**229**	277	326	(97)	(29.8)	(48)	(17.3)
Mobiles services in operation (SIOs)							
Postpaid handheld retail [iv]	**8,105**	7,866	7,692	413	5.4	239	3.0
Prepaid handheld retail	**3,264**	3,354	3,575	(311)	(8.7)	(90)	(2.7)
Mobile broadband (data card)	**3,723**	3,893	3,964	(241)	(6.1)	(170)	(4.4)
Internet of Things (IoT)	**2,832**	2,571	2,346	486	20.7	261	10.2
Satellite	**32**	32	32	0	0.0	0	0.0
Total retail mobile	**17,956**	17,716	17,609	347	2.0	240	1.4
Total wholesale mobile	**1,098**	973	862	236	27.4	125	12.8
Prepaid handheld retail unique users [v]	**2,234**	2,294	2,432	(198)	(8.1)	(60)	(2.6)
Foxtel from Telstra	**772**	790	799	(27)	(3.4)	(18)	(2.3)

(i) Includes Belong fixed data SIOs.
(ii) Excludes nbn SIOs.
(iii) Includes nbn SIOs.
(iv) Includes Belong mobile SIOs.
(v) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.
Note: Statistical data represents management's best estimates.

Workforce

	Half-year ended Dec 2018	Jun 2018	Dec 2017	Dec 18 vs Dec 17 Change	Change %	Dec 18 vs Jun 18 Change	Change %
Employee data							
Full time staff equivalents incl. contractor/agency labour	**31,419**	34,624	34,115	(2,696)	(7.9)	(3,205)	(9.3)
Full time staff equivalents excl. contractor/agency labour	**29,297**	32,293	31,973	(2,676)	(8.4)	(2,996)	(9.3)

Note: Statistical data represents management's best estimates.

Telstra Corporation Limited
Half-year comparison
Half-year ended 31 December 2018

Summary reported half-yearly data ($ Millions)	Half 1 Dec-17 Restated (vi)	Half 2 Jun-18 Restated (vi)	Full year Jun-18 Restated (vi)	Half 1 Dec-18	PCP Growth
Total income					
Fixed products					
Retail bundles and standalone data	1,660	1,640	3,300	1,653	(0.4%)
Retail standalone voice	633	553	1,186	477	(24.6%)
Other retail fixed (i)	136	132	268	127	(6.6%)
Total retail fixed revenue	**2,429**	**2,325**	**4,754**	**2,257**	**(7.1%)**
Wholesale fixed	528	483	1,011	424	(19.7%)
Total fixed revenue	**2,957**	**2,808**	**5,765**	**2,681**	**(9.3%)**
Mobiles					
Postpaid handheld	2,609	2,624	5,233	2,665	2.1%
Prepaid handheld	493	465	958	448	(9.1%)
Mobile broadband	416	367	783	350	(15.9%)
Internet of Things (IoT)	73	97	170	99	35.6%
Satellite	6	6	12	7	16.7%
Mobiles interconnection	106	106	212	112	5.7%
Mobile services revenue - wholesale resale	90	99	189	99	10.0%
Total mobile services revenue	3,793	3,764	7,557	3,780	(0.3%)
Mobiles hardware	1,376	1,447	2,823	1,511	9.8%
Total mobile revenue	**5,169**	**5,211**	**10,380**	**5,291**	**2.4%**
Data & IP					
IPVPN products (ii)	539	525	1,064	511	(5.2%)
ISDN products	245	226	471	206	(15.9%)
Other data and calling products (iii)	514	507	1,021	500	(2.7%)
Total data & IP revenue	**1,298**	**1,258**	**2,556**	**1,217**	**(6.2%)**
Network applications & services revenue					
Managed network services	306	369	675	291	(4.9%)
Unified communications	403	482	885	442	9.7%
Cloud services	180	248	428	202	12.2%
Industry solutions	681	693	1,374	573	(15.9%)
Integrated services	94	171	265	88	(6.4%)
Total network applications & services revenue	**1,664**	**1,963**	**3,627**	**1,596**	**(4.1%)**
Media					
Foxtel from Telstra	357	345	702	340	(4.8%)
IPTV	31	31	62	26	(16.1%)
Mobility and other	50	45	95	45	(10.0%)
Cable	30	30	60	30	n/m
Total media revenue	**468**	**451**	**919**	**441**	**(5.8%)**
Global connectivity					
Global connectivity - fixed	151	167	318	144	(4.6%)
Global connectivity - data & IP	452	471	923	491	8.6%
Global connectivity - other	161	167	328	166	3.1%
Total global connectivity revenue	**764**	**805**	**1,569**	**801**	**4.8%**
Recurring nbn DA	304	338	642	374	23.0%
Other products (iv)	185	205	390	185	n/m
Total external revenue	**12,809**	**13,039**	**25,848**	**12,586**	**(1.7%)**
Other income (v)	1,582	1,411	2,993	1,212	(23.4%)
Total income (excluding finance income)	**14,391**	**14,450**	**28,841**	**13,798**	**(4.1%)**
Total Expenses					
Labour	2,699	2,508	5,207	2,722	0.9%
Goods and services purchased	3,989	4,349	8,338	4,382	9.9%
Net impairment on losses on financial assets	103	87	190	88	(14.6%)
Other expenses	2,473	2,414	4,887	2,349	(5.0%)
Operating expenses	9,264	9,358	18,622	9,541	3.0%
Share of net profit/(loss) from joint ventures and associated entities	(31)	9	(22)	1	n/m
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**5,096**	**5,101**	**10,197**	**4,258**	**(16.4%)**
Depreciation and amortisation	2,219	2,251	4,470	2,141	(3.5%)
Earnings before interest and income tax expense (EBIT)	**2,877**	**2,850**	**5,727**	**2,117**	**(26.4%)**
Net finance costs	296	292	588	320	8.1%
Profit before income tax expense	2,581	2,558	5,139	1,797	(30.4%)
Income tax expense	889	693	1,582	569	(36.0%)
Profit for the period	**1,692**	**1,865**	**3,557**	**1,228**	**(27.4%)**

(i) Other retail fixed revenue includes platinum, once off revenue (hardware and professional installation fees) payphones, directory assistance, fixed interconnect.

(ii) IP based Virtual Private Network (IPVPN) includes IPMAN/Ethernet MAN, IPWAN, and nbn.

(iii) Other data & calling products includes wholesale, inbound calling (1300/1800), internet, media solutions, and legacy data (e.g. frame relay).

(iv) Other products revenue primarily includes late payment fees, revenue from Telstra Health and Telstra Software.

(v) Other income includes gains and losses on asset and investment sales (including assets transferred under the nbn Definitive Agreements), income from government grants under the Telstra Universal Service Obligation Performance Agreement, Mobile Blackspot Government program and other individually immaterial contracts, income from nbn™ network disconnection fees, subsidies and other miscellaneous items.

(vi) Restated due to adoption of AASB15: Revenue from Contracts with Customers.

n/m = not meaningful

Telstra Corporation Limited
Half-year comparison
Half-year ended 31 December 2018

Summary reported half-yearly data	Half 1 Dec-17	PCP Growth	Half 2 Jun-18	PCP Growth	Full Year Jun-18	PCP Growth	Half 1 Dec-18	PCP Growth
Selected statistical data								
Fixed								
Retail bundles and standalone data SIOs (thousands) (i)	3,532	1.8%	3,599	2.5%	3,599	2.5%	3,663	3.7%
Retail standalone voice SIOs (thousands)	2,230	(20.4%)	1,954	(22.6%)	1,954	(22.6%)	1,685	(24.4%)
Wholesale basic access lines in service (thousands) (ii)	955	(23.7%)	805	(28.4%)	805	(28.4%)	662	(30.7%)
Wholesale data SIOs (thousands) (iii)	579	(26.3%)	486	(29.8%)	486	(29.8%)	400	(30.9%)
Unconditioned local loop (ULL) services in operation (thousands)	1,234	(17.5%)	1,118	(19.6%)	1,118	(19.6%)	987	(20.0%)
Wholesale line spectrum site sharing (LSS) SIOs (thousands)	326	(25.4%)	277	(27.9%)	277	(27.9%)	229	(29.8%)
Average bundle and standalone data revenue per user per month ($) (vi)	78.56	n/m	76.69	n/m	77.37	n/m	75.90	(3.4%)
Average standalone fixed voice revenue per user per month ($) (vi)	44.40	n/m	44.07	n/m	44.16	n/m	43.70	(1.6%)
Belong fixed data SIOs (thousands)	180	46.3%	203	31.0%	203	31.0%	225	25.0%
nbn™ premise connections								
Bundle Connections (thousands)	1,304	105.0%	1,573	65.2%	1,573	65.2%	1,844	41.4%
Belong (thousands)	92	76.9%	110	48.6%	110	48.6%	132	43.5%
Voice Only Connections (thousands)	234	120.8%	263	73.5%	263	73.5%	278	18.8%
Total nbn™ premise connections	1,630	105.3%	1,946	65.5%	1,946	65.5%	2,254	38.3%
Data & IP								
ISDN Access SIOs (thousands)	173	(10.4%)	164	(11.4%)	164	(11.4%)	148	(14.5%)
IPVPN Access SIOs (thousands)	114	8.5%	119	5.1%	119	5.1%	126	10.5%
Mobiles								
Total retail mobile SIOs (thousands)	17,609	1.1%	17,716	2.0%	17,716	2.0%	17,956	2.0%
Postpaid handheld mobile SIOs (thousands)	7,692	2.8%	7,866	4.0%	7,866	4.0%	8,105	5.4%
Belong postpaid handheld mobile SIOs (thousands) (iv)	21	n/m	67	n/m	67	n/m	182	n/m
Mobile broadband (data cards) SIOs (thousands)	3,964	(0.3%)	3,893	(0.9%)	3,893	(0.9%)	3,723	(6.1%)
Prepaid mobile handheld unique users (thousands) (v)	2,432	(7.0%)	2,294	(8.2%)	2,294	(8.2%)	2,234	(8.1%)
Internet of Things (IoT) SIOs (thousands)	2,346	14.3%	2,571	17.5%	2,571	17.5%	2,832	20.7%
Satellite SIOs (thousands)	32	3.2%	32	n/m	32	n/m	32	n/m
Total wholesale SIOs (thousands)	862	35.3%	973	30.8%	973	30.8%	1,098	27.4%
Average postpaid handheld revenue per user per month ($) (vi)	57.00	n/m	56.22	n/m	56.53	n/m	55.62	(2.4%)
Average prepaid handheld revenue per user per month ($) (vi)	22.70	n/m	22.36	n/m	22.75	n/m	22.54	(0.7%)
Average mobile broadband revenue per user per month ($) (vi)	17.58	n/m	15.58	n/m	16.69	n/m	15.32	(12.9%)
Premium pay TV								
Foxtel from Telstra (thousands)	799	6.8%	790	(2.2%)	790	(2.2%)	772	(3.4%)
Labour								
Full time staff equivalents incl. contractor/agency labour	34,115	(6.4%)	34,624	(1.7%)	34,624	(1.7%)	31,419	(7.9%)
Full time staff equivalents excl. contractor/agency labour	31,973	(1.8%)	32,293	(0.0%)	32,293	(0.0%)	29,297	(8.4%)

(i) Includes Belong fixed data SIOs.

(ii) Excludes nbn SIOs.

(iii) Includes nbn SIOs.

(iv) Belong mobile SIOs are included in postpaid handheld mobile SIOs.

(v) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.

(vi) Restated due to adoption of AASB15: Revenue from Contracts with Customers.

n/m = not meaningful