



13 February 2020

Office of the Company Secretary

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Financial results for the half-year ended 31 December 2019

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 2019.

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 2019 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 audio webcast live 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.

Authorised for lodgement by:

Sue Laver
Company Secretary

APPENDIX 4D (ASX LISTING RULE 4.2A.3)
HALF-YEAR REPORT
31 December 2019
Telstra Corporation Limited ABN 33 051 775 556

1. Results for announcement to the market

Telstra Group	Half-year ended 31 Dec			
	2019	2018	Movement	
	\$m	\$m	\$m	%
Revenue (excluding finance income) from ordinary activities	12,164	12,586	(422)	(3.4)
Other income	1,249	1,212	37	3.1
Total income	13,413	13,798	(385)	(2.8)
Finance income	108	99	9	9.1
Profit for the period	1,150	1,228	(78)	(6.4)
Profit for the period attributable to equity holders of Telstra Entity	1,139	1,233	(94)	(7.6)
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	1,139	1,233	(94)	(7.6)

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	27 February 2020	
Payment date	27 March 2020	

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	
	2019	2018
	cents	Restated cents
Net tangible assets per security	63.2	52.0

Net tangible assets are defined as the net assets of the Telstra Group less intangible assets and non-controlling interests. Following the adoption of AASB 16: 'Leases' on 1 July 2019 the net assets as at 31 December 2019 include both right-of-use assets and corresponding lease liabilities accounted for under the new requirements. For further details on the adoption of AASB 16 refer to note 1.4.1 to the half-year financial statements.

The number of Telstra shares on issue as at 31 December 2019 was 11,893 million shares (2018: 11,893 million).

The net tangible assets per security information as at 31 December 2018 has been restated to reflect the reclassification of long-term network capacity assets from property, plant and equipment to intangible assets. For further details on changes in presentation between tangible and intangible assets refer to note 1.4.3 to the half-year financial statements.

APPENDIX 4D (ASX LISTING RULE 4.2A.3)

HALF-YEAR REPORT

31 December 2019

Telstra Corporation Limited ABN 33 051 775 556

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 2019	30 Jun 2019
Name of entity	Country of incorporation	Date of control obtained or lost	%	%
Control lost				
Chief Entertainment Pty Limited ¹	Australia	30 August 2019	-	100.0
Eagletrack Pty Ltd ²	Australia	26 November 2019	-	100.0
Kloud Managed Services Pty Limited ²	Australia	26 November 2019	-	100.0
Mogo GPS Tracking Pty Ltd ²	Australia	26 November 2019	-	100.0
MTData Development Pty Ltd ²	Australia	26 November 2019	-	100.0
Mercury Development Group Pty Limited ²	Australia	26 November 2019	-	100.0

¹ During the period, the entity was disposed of.

² During the period, these entities were deregistered.

A complete list of our controlled entities as at 30 June 2019 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 2019	30 Jun 2019
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	45.0
Reach Limited ¹	International connectivity services	Bermuda	50.0	50.0

¹ Balance date is 31 December.

APPENDIX 4D (ASX LISTING RULE 4.2A.3)

HALF-YEAR REPORT

31 December 2019

Telstra Corporation Limited ABN 33 051 775 556

6. Details of investments in associated entities

Telstra Group			Ownership interest	
			As at	
			31 Dec 2019	30 Jun 2019
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	48.0	48.0
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
Pacific Carriage Holdings Limited ¹	Network cable provider	Bermuda	25.0	-
Pacific Carriage Holdings Limited Inc. ¹	Network cable provider	United States	25.0	-
Southern Cross Cables Holdings Limited ¹	Network cable provider	Bermuda	25.0	-
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 2020. The election date for participation in the DRP is 28 February 2020.

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 Entity) and the entities it controlled at the end of or during the half-year ended 31 December 2019. Financial comparisons used in this report are of results for the half-year ended 31 December 2019 compared with the half-year ended 31 December 2018 for income statement analysis, and 31 December 2019 compared with 30 June 2019 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 12 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 2020 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 27 February 2020, with payment being made on 27 March 2020. From 26 February 2020, shares will trade excluding entitlement to the dividend.

Our final dividend for the financial year ended 30 June 2019 of 8 cents per ordinary share (\$951 million), comprising a final ordinary dividend of 5 cents and a final special dividend of 3 cents, was paid during the half-year ended 31 December 2019. This dividend was fully franked at a tax rate of 30 per cent. The final dividend had a record date of 29 August 2019 and payment was made on 26 September 2019.

The Dividend Reinvestment Plan (DRP) continues to operate for the interim dividend for the financial year 2020. The election date for participation in the DRP is 28 February 2020.

Directors

Directors who held office during the half-year ended 31 December 2019 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
Eelco Block	Director since 15 February 2019
Roy H Chestnutt	Director since 2018
Niek Jan van Damme	Director since 2018
Craig W Dunn	Director since 2016
Peter R Hearl	Director since 2014
Nora L Scheinkestel	Director since 2010
Margaret L Seale	Director since 2012

On 12 February 2020 the Board announced the appointment of Elana Rubin as a non-executive Director, with effect from 14 February 2020. She will stand for election at our 2020 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 13 February 2020 in accordance with a resolution of the Directors.



John P Mullen
Chairman
13 February 2020



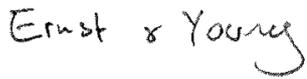
Andrew R Penn
Chief Executive Officer and Managing Director
13 February 2020

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

As lead auditor for the review of the half-year financial report of Telstra Corporation Limited for the half-year ended 31 December 2019, 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



Andrew Price
Partner
Melbourne
13 February 2020

Half year results and operations review

Summary financial results	1H20	1H19	Change
	\$m	\$m	%
Revenue (excluding finance income)	12,164	12,586	(3.4)
Total income (excluding finance income)	13,413	13,798	(2.8)
Operating expenses	8,638	9,541	(9.5)
Share of net profit/(loss) from equity accounted entities	(2)	1	n/m
EBITDA	4,773	4,258	12.1
Depreciation and amortisation	2,722	2,141	27.1
EBIT	2,051	2,117	(3.1)
Net finance costs	375	320	17.2
Income tax expense	526	569	(7.6)
Profit for the period	1,150	1,228	(6.4)
Profit attributable to equity holders of Telstra	1,139	1,233	(7.6)
Capex ¹	1,366	2,340	(41.6)
Free cashflow	1,520	627	142.4
Earnings per share (cents)	9.6	10.4	(7.7)

1. Capex is defined as additions to property, plant and 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 1H20 results in line with guidance and expectations showing strong progress against our T22 strategy and cost reduction, and continued customer growth thanks to our multi-brand strategy and 5G leadership.

On a reported basis, total income declined 2.8 per cent and NPAT declined 6.4 per cent.

Underlying EBITDA¹ declined 6.6 per cent. Underlying EBITDA excluding the in-year nbn headwind² increased by approximately \$90 million, the first time this figure has grown since FY16.

The results show that the T22 strategy is building value and delivering positive financial momentum. We have 2.4 million services on our new, radically simplified plans and more than 1.2 million customers are now able to enjoy the benefits of being a Telstra Plus member. More customers are choosing to interact with us online with digital service interactions rising to 57 per cent and the volume of calls to our call centres continuing to fall.

Progress on T22, combined with ongoing efforts to simplify the business, helped reduce underlying fixed costs by \$422 million or 12.1 per cent. This brought the total underlying fixed cost reductions to around \$1.6 billion since FY16.

Our multi-brand strategy continued to deliver growth in customer numbers, particularly in mobile. During the half the business added 137,000 retail postpaid mobile services, including 91,000 from Belong, 135,000 retail prepaid mobile services, and 151,000 pre and postpaid Wholesale services. Customers are also enjoying access to Telstra's world-leading 5G mobile network and a growing range of 5G-enabled devices. We now have 5G coverage in selected areas in 32 cities and regional areas and are on track for our target of 35 by the end of FY20.

The Telstra Board resolved to pay a fully franked interim dividend of 8 cents per share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. Guidance for FY20 is reconfirmed.

Other information

The new accounting standard AASB16 Leases ("AASB16") was adopted from 1 July 2019.

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution which differs from our statutory EBITDA. Refer to Note 2.1.1 in the Financial Report for further detail.

First half performance against our FY20 Executive Variable Remuneration Plan (EVP) metrics is included on page 12. For additional detail on these EVP metrics and targets, refer to pages 66-68 of our 2019 Annual Report available at <https://www.telstra.com.au/aboutus/investors/financial-information/reports>

¹ Underlying EBITDA excludes net one-off nbn DA receipts less nbn net cost to connect, guidance adjustments including one-off restructuring costs, but includes depreciation of mobile lease right-of-use assets.

² In-year nbn headwind defined as the net negative recurring EBITDA impact on our business based on management best estimates including key input of the nbn Corporate Plan 2020. As at 31 December 2019, the in-year nbn headwind was ~\$360 million.

Responsible business

Telstra recognises the fundamental importance of doing business responsibly. A critical aspect of this is recognising the importance of continuously striving to improve outcomes for our customers and taking action if we don't meet the standards we set for ourselves. This reflects the business environment in which we operate, and the heightened expectations of the community, of regulators, and of our shareholders, as well as the expectation that regulators will investigate and take action if they believe that misconduct has occurred.

Telstra is subject to a range of laws and regulations in Australia and overseas, including in the areas of telecommunications, corporate law, consumer and competition law and occupational health and safety. Telstra is also subject to investigations and reviews from time to time by regulators. In Australia, the principal regulators that Telstra interacts with are the Australian Competition and Consumer Commission (**ACCC**), the Australian Communications and Media Authority (**ACMA**), the Australian Securities and Investments Commission and the Australian Securities Exchange. Any regulatory investigations and reviews may result in enforcement action, litigation (including class action proceedings) or civil or criminal penalties. Telstra assesses each investigation and review that it is subject to for the purposes of preparing its financial statements in accordance with the accounting standards.

The ACCC is undertaking an investigation, launched in March 2019, into our sales, complaint handling and debt collection practices, to determine whether Telstra has engaged in misleading or deceptive conduct, unconscionable conduct, or made false or misleading representations, in breach of the *Competition and Consumer Act 2010 (Act)*. The investigation has a specific focus on conduct towards Indigenous Australians, including in particular locations in the NT, WA, QLD, NSW and SA. It is also examining our conduct more broadly, including our sales, complaints handling and debt collection procedures, as they have been applied to our customers generally, and particularly vulnerable customers. We are cooperating with the ACCC's investigation, which involves extensive information and document requests. The investigation is ongoing, and its scope may change and broaden.

The ACCC's investigation follows investigations by both the Telecommunications Industry Ombudsman, one commencing in December 2016 and one in October 2018, and the ACMA, which commenced in June 2018, during which issues were raised and concerns were expressed about our sales practices, including in relation to Indigenous Australians. These investigations concluded in 2018 and did not result in enforcement action by these bodies.

Any enforcement action arising from the ACCC investigation may involve significant financial penalties, which are set out in the Act and are applicable to each act or omission found to have breached the Act. Maximum penalties set out in the Act are not automatically applied and are assessed by a court on a case by case basis.

Given that the ultimate scope and outcome of the investigation is uncertain, including the extent of any court proceedings or the scope and extent of any penalties or other remedies sought as part of those proceedings, arriving at an estimate of any financial impact would involve significant assumptions. Accordingly, we cannot estimate this with sufficient reliability. As required by accounting standards, no provision has been made to cover liabilities that may arise from this investigation as at 31 December 2019.

In the ordinary course of our business, we identify, and may continue to identify, issues that have the potential to impact our customers and reputation, or which do not meet our standards. There have been instances, which are among those the ACCC is investigating, where we have failed to meet the standards we set for ourselves. These include instances where our sales processes were not followed, and where our complaint and debt recovery procedures were applied in a way that did not deliver good customer outcomes. While we have taken steps to respond to these issues, and will continue to do so, contingent liabilities may exist in respect of actual or potential claims, compensation payments and/or refunds arising from issues which we identify and instances such as these. Where we identify these issues, we make disclosures in accordance with accounting standards, or our other legal disclosure obligations, or provide for such liabilities as required.

Results on a guidance basis ¹	1H20	FY20 Guidance ²
Total income ³	\$13.4b	\$25.3b to \$27.3b
Underlying EBITDA ⁴	\$3.9b	\$7.4b to \$7.9b
Net one-off nbn DA receipts less nbn net cost to connect	\$0.8b	\$1.3b to \$1.7b
Restructuring costs	\$0.2b	-\$0.3b
Capex	\$1.4b	\$2.9b to \$3.3b
Free cashflow after operating lease payments	\$1.0b	\$3.3b to \$3.8b

Guidance versus reported results ¹	1H20	1H20	1H20	1H19
	Reported results \$m	Adjustments \$m	Guidance basis \$m	Guidance basis \$m
Total income	13,413	1	13,414	13,797
Underlying EBITDA ⁴	4,773	(898)	3,875	4,149
Free cashflow	1,520	(515)	1,005	739

- This guidance assumes wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible 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 FY20 is broadly in accordance with the nbn Corporate Plan 2020. Guidance is provided on the basis of AASB16 Leases and assumes impacts consistent with management estimates and current interpretation of the standard. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases. Refer to the *Guidance versus reported results* schedule. The adjustments within the tables in this schedule have been reviewed by our auditors.
- FY20 guidance revised on 2 September 2019 after nbn co released the nbn Corporate Plan 2020.
- Total income excludes finance income.
- Underlying EBITDA excludes net one-off nbn DA receipts less nbn net cost to connect, guidance adjustments including one-off restructuring costs, but includes depreciation of mobile lease right-of-use assets.

On 13 February 2020, the Directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 8 cents per share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. Shares will trade excluding entitlement to the dividends from 26 February 2020 with payment on 27 March 2020.

The interim ordinary dividend represents an 83 per cent payout ratio on 1H20 underlying earnings¹ while the interim special dividend represents a 65 per cent payout ratio of 1H20 net one-off nbn receipts². Our 1H20 underlying earnings were \$727 million while net one-off nbn receipts were \$552 million.

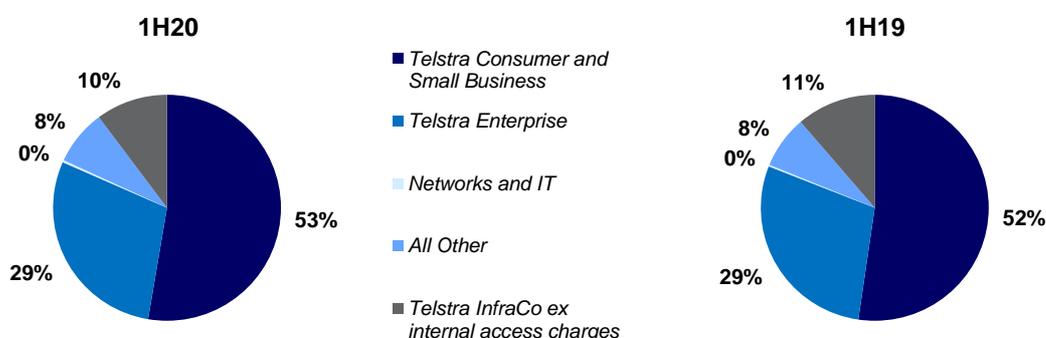
- "underlying earnings" is defined as net profit after tax from continuing operations excluding net one-off nbn receipts (as defined in footnote 2) and guidance adjustments (as defined in footnote 3).
- "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
- Guidance adjustments include one-off restructuring costs, impairments in and to investments or property, plant and equipment and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.

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 Definitive Agreement (nbn DA) and ISA amounts are included in All Other, and non-nbn commercial works are included in Telstra Enterprise.

Segment total income



Total external income	1H20	1H19	Change
	\$m	\$m	%
Telstra Consumer and Small Business	7,063	7,217	(2.1)
Telstra Enterprise	3,882	3,955	(1.8)
Networks and IT	44	34	29.4
All Other	1,055	1,036	1.8
Telstra InfraCo including internal access charges	2,214	2,502	(11.5)
Internal access charges	(845)	(946)	10.7
Total	13,413	13,798	(2.8)

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 2.1 per cent to \$7,063 million, impacted by a 7.4 per cent decline in fixed as a result of ongoing standalone fixed voice decline and a 5.7 per cent decline in mobile services revenue as declining Average Revenue Per User (ARPU) more than offset customer net additions. Network Applications and Services (NAS) revenue continued to grow, increasing by 18.4 per cent, primarily due to growth in unified communications.

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 network, unified communications, cloud, industry solutions and integrated services.

Income for Telstra Enterprise decreased by 1.8 per cent to \$3,882 million as growth in international was more than offset by a decline in domestic. Telstra Enterprise domestic income decreased by 5.1 per cent due to declines in Data & IP including IP based Virtual Private Network (IPVPN) and Integrated Services Digital Network (ISDN). Telstra Enterprise international income grew by 9.0 per cent mainly due to growth in higher margin Data & IP and a positive impact from the depreciation of the Australian dollar (AUD).

Networks and IT

Networks and IT 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. Networks and IT income increased by 29.4 per cent to \$44 million.

Telstra InfraCo

Telstra InfraCo is now fully operational as a standalone infrastructure business unit within Telstra. It is responsible for key network assets including data centres and exchanges, most of our fibre network, the copper and hybrid fibre coaxial networks, international subsea cables, poles, ducts and pipes.

From 1 July 2020, Telstra InfraCo's asset accountabilities will also include our whole fibre network (including mobile backhaul) and mobile towers, but exclude PSTN and legacy fixed, and satellites.

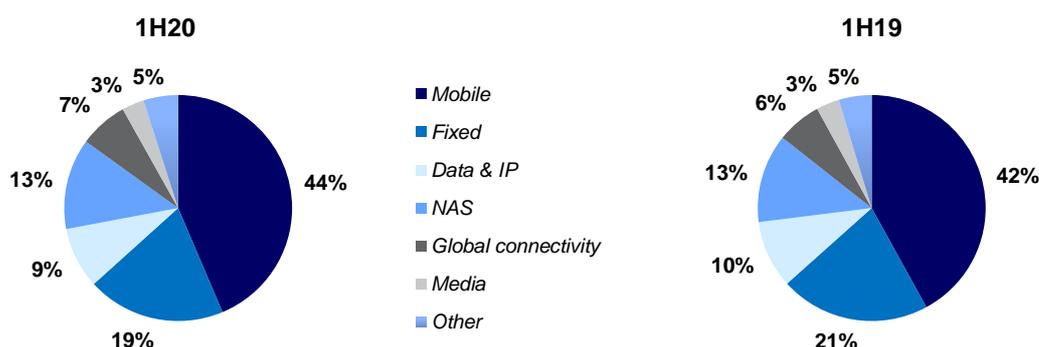
Telstra InfraCo income excluding internal access charges decreased by 12.0 per cent to \$1,369 million due to expected declines from Telstra Wholesale fixed legacy and nbn commercial works, partly offset by increased recurring nbn DA receipts. Including internal access charges, income decreased by 11.5 per cent to \$2,214 million.

All Other

Certain items of income and expense relating to multiple reportable segments are recorded by our corporate areas and included in the All Other category. This category also includes Product and Technology Group, Global Business Services (GBS) and New Business (including Telstra Health). Income increased by 1.8 per cent mainly due to an increase in Per Subscriber Address Amount (PSAA) receipts in line with the nbn™ network rollout.

Product performance

Product revenue breakdown



Key product revenue	1H20	1H19	Change
	\$m	\$m	%
Mobile	5,308	5,291	0.3
Fixed	2,388	2,681	(10.9)
Data & IP	1,064	1,217	(12.6)
NAS	1,580	1,596	(1.0)
Global connectivity	842	801	5.1

EBITDA contribution margins ¹	1H20 %	2H19 %	1H19 %	FY19 %
Mobile	35.6	34.6	36.6	35.6
Retail Fixed (including nbn cost to connect)	5.0	14.0	20.7	17.4
Data & IP	60.8	64.8	66.4	65.6
NAS	15.7	16.4	3.3	10.4
Global connectivity	27.3	21.3	21.4	21.3

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

On a reported basis, total income (excluding finance income) declined by 2.8 per cent to \$13,413 million. On a guidance basis, total income (excluding finance income) was \$13,414 million, in line with guidance. Competitive pressure, declines in legacy products and services, and the nbn™ network rollout continue to negatively impact income. The decline has been partly offset by growth in mobile and fixed customer services.

More details on each of the products are outlined below.

Mobile

Mobile revenue increased by 0.3 per cent to \$5,308 million with growth in hardware partly offset by postpaid handheld, prepaid handheld and mobile broadband declines.

Retail customer services increased by 159,000 in the half, bringing the total to 18.5 million. We now have 8.4 million postpaid handheld retail customer services, an increase of 137,000 in the half including 91,000 from Belong.

Postpaid handheld revenue decreased by 3.6 per cent to \$2,569 million as net adds were offset by 7.4 per cent ARPU decline from \$55.62 to \$51.52 due to FY19 competition washing through the base, lower out of bundle revenue, modest dilution due to an increase in Belong customer mix, and accounting of new plans.

Prepaid handheld revenue declined by 13.4 per cent to \$388 million as a 146,000 increase in unique users over the past 12 months (135,000 increase in the half) was more than offset by lower ARPU.

Mobile broadband revenue decreased by 7.1 per cent to \$325 million as an increase in ARPU was offset by a 543,000 reduction in customer services over the past 12 months (447,000 decline in the half). Customer services decline includes deactivation of 365,000 \$0 services in the half.

Internet of Things (IoT) revenue grew by 3.0 per cent to \$102 million increasing customer services by 350,000 in the half. We launched our consumer Telstra Locator Cat-M1 Tag which uses our LTE network, continued to invest in IoT solutions for water utilities, and won recognition for our Track and Monitor and water management solutions.

Wholesale services revenue increased 5.1 per cent to \$104 million. Wholesale customer services including IoT increased by 173,000 in the half, bringing the total to 1.4 million.

Mobile hardware revenue increased by 13.4 per cent to \$1,713 million largely due to devices sold at a higher price per unit.

Mobile EBITDA contribution margin declined by 1.0 percentage point to 35.6 per cent due to lower services revenue, partly offset by productivity and improved hardware margins.

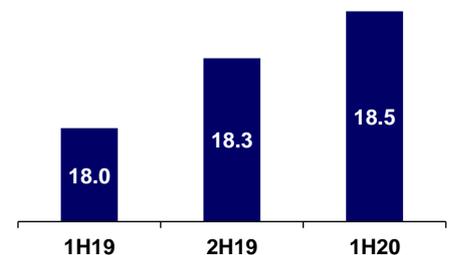
Fixed

Fixed revenue declined by 10.9 per cent to \$2,388 million, impacted by nbn migration, competition and ongoing legacy decline.

Retail bundles and standalone data revenue declined by 1.8 per cent to \$1,623 million due to a 4.2 per cent ARPU decline from \$75.90 to \$72.72 caused by competition and migration to in-market plans. Bundle and standalone data revenue now comprise 99 per cent Minimum Monthly Commitment (MMC). There were 27,000 retail bundles and standalone data net subscriber additions including 44,000 additions from Belong in the half, bringing total bundles and standalone data customers to 3.7 million.

Retail standalone voice revenue decreased by 28.3 per cent to \$342 million with lower customer services due to standalone voice line abandonment and migration to bundles. ARPU increased by 1.3 per cent from \$43.70 to \$44.26. There were 524,000 retail standalone voice net subscriber losses over the past 12 months taking total standalone voice customers to 1.2 million.

Domestic mobile retail customer services (millions)



We continue to lead the nbn market with a total of 2,964,000 nbn connections, an increase of 359,000 in the half. Our nbn market share is now 47 per cent (excluding satellite). The Telstra Smart Modem is now being utilised by 62 per cent of our fixed data consumer base, providing a better experience on the nbn and improved churn outcomes.

Other retail fixed revenue, which includes hardware, once off revenue (activation fees), Platinum, and fixed interconnect net of Telstra Plus Loyalty, decreased by 14.5 per cent to \$106 million.

Retail Fixed (including nbn cost to connect) EBITDA contribution margin declined by 15.7 percentage points to 5.0 per cent due to high margin revenue reduction, growing network payments to nbn co and nbn migration costs, partly offset by fixed cost reduction.

Data & IP

Data & IP revenue decreased by 12.6 per cent to \$1,064 million reflecting legacy product declines especially within ISDN, competitive pricing pressures and technology shifts.

IPVPN revenue, which includes IPMAN/Ethernet MAN, IPWAN and nbn, declined by 7.4 per cent to \$473 million as growth in fibre and nbn access customer services was broadly flat, outweighed by declines in legacy copper services and competitive pricing pressures.

ISDN revenue decline accelerated, down 32.5 per cent to \$139 million including due to service rationalisation including copper switch-off and customer migration to equivalent voice products within the NAS portfolio.

Other data and calling products revenue decreased by 9.6 per cent to \$452 million including an 8.0 per cent decline in wholesale. Enterprise internet revenue growth of 3.4 per cent was more than offset by declines in legacy inbound calling and other data products revenue.

Data & IP EBITDA contribution margin declined by 5.6 percentage points to 60.8 per cent reflecting declining revenue on high margin legacy products including ISDN, and pricing pressure in IPVPN. Margins will be impacted by these trends and increasingly by the resale of nbn access at lower margins.

Network Applications and Services (NAS)

NAS revenue declined by 1.0 per cent to \$1,580 million impacted by lower nbn commercial works. Excluding nbn commercial works, revenue increased by 2.0 per cent. NAS had 18.4 per cent revenue growth in Small Business and 0.6 per cent growth in domestic Enterprise due to a higher mix of annuity revenue including higher access and usage revenue.

Managed network services revenue decreased by 6.9 per cent to \$271 million reflecting a decline in non-recurring revenue within managed data networks, partly offset by growth in security services.

Unified communications revenue increased by 13.3 per cent to \$501 million due to increased calling and collaboration annuity revenue reflecting new service growth and fixed migration.

Cloud services revenue growth of 7.4 per cent to \$217 million includes increased annuity revenue from public cloud services partly offset by lower professional services.

Industry solutions revenue declined by 11.3 per cent to \$508 million largely due to a reduction in nbn commercial works.

Integrated services revenue declined by 5.7 per cent to \$83 million mainly from a decline in managed IT services and other service management, partly offset by increased consulting and project management.

NAS EBITDA contribution margin increased by 12.4 percentage points to 15.7 per cent due to cost productivity, improved revenue mix, and PSTN and ISDN migration to unified communications.

Global connectivity

Global connectivity represents the international business of Telstra Enterprise. Revenue grew by 0.4 per cent in constant currency (CC) terms with growth in more profitable Data & IP products offset by declining legacy voice revenues.

Fixed revenue decreased by 8.5 per cent (CC) as fixed legacy products declined due to market decline and strategic focus on profitable revenue. Data & IP revenue grew by 3.8 per cent (CC) from existing and new capacity due to capacity investment, increased data usage and one-off benefits from early customer contract terminations. NAS and other revenue decreased by 2.7 per cent (CC) but with improved profitability due to reduction in lower margin equipment sales.

Global connectivity EBITDA contribution margin increased by 5.9 percentage points to 27.3 per cent reflecting continued profitable revenue growth, cost productivity and one-off benefits.

Media

Media revenue excluding cable decreased by 7.1 per cent to \$382 million mainly due to the performance of Foxtel from Telstra. Foxtel from Telstra declined by 5.0 per cent to \$323 million and had 94,000 subscriber exits over the past 12 months (52,000 decline in the half), reflecting a broader industry transition from Broadcast to IPTV. There are now 1,625,000 Telstra TV devices in the market, an increase of 213,000 over the past 12 months (79,000 increase in the half). Sports Live Pass users increased by 602,000 over the past 12 months (136,000 increase in the half) to 3,194,000 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.

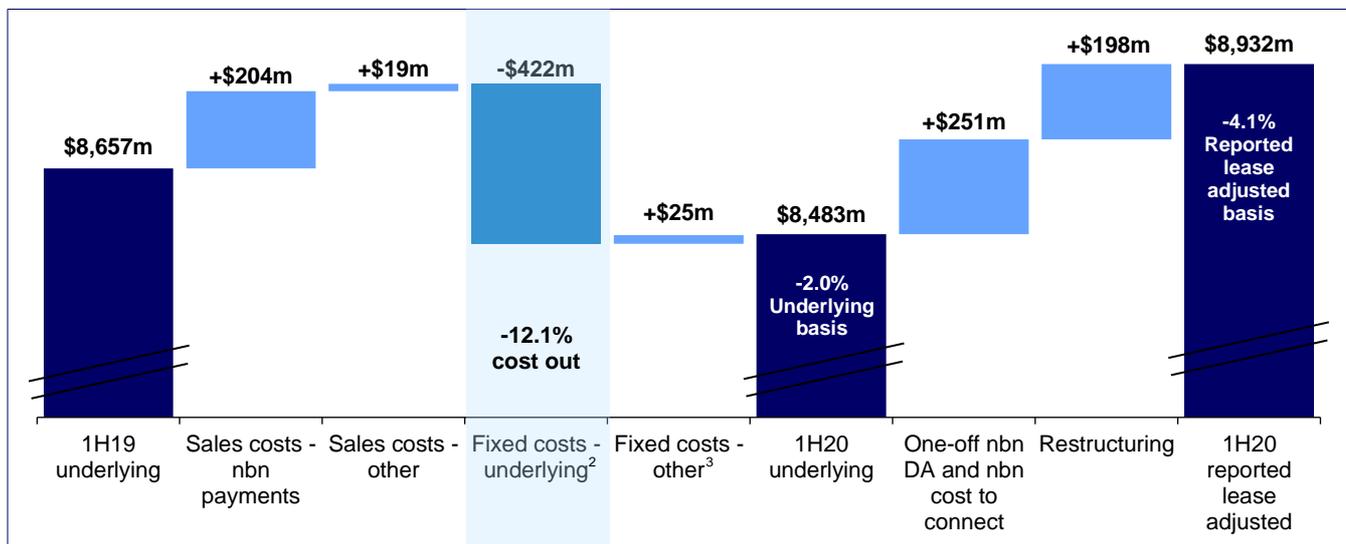
Other income includes gains and losses on asset and investment sales (including assets transferred under the nbn DAs), income from government grants under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), income from nbn™ network disconnection fees (PSAA), subsidies and other miscellaneous items. The increase in other income of 3.1 per cent is largely due to an increase in one-off PSAA which grew by 34.8 per cent to \$942 million. The increase in PSAA receipts from the nbn reflects nbn migrations in the period.

Expense performance

In June 2018, we announced we would target a \$2.5 billion annual reduction in underlying fixed costs by FY22. This compared with restated underlying fixed costs of ~\$7.9 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 12.1 per cent or \$422 million. We have now achieved around \$1.6 billion of annual cost out since FY16 and are on track to achieve our \$2.5 billion target by FY22.

In FY20, we expect total operating expenses to decline with reductions in underlying fixed costs to offset increased nbn access payments.

Operating expenses ¹	1H20	1H19	Change	
	\$m	\$m	\$m	%
Sales costs	4,461	4,238	223	5.3
- nbn payments	824	620	204	32.9
- other	3,637	3,618	19	0.5
Fixed costs	4,022	4,419	(397)	(9.0)
- underlying ²	3,052	3,474	(422)	(12.1)
- other ³	970	945	25	2.6
Underlying	8,483	8,657	(174)	(2.0)
One-off nbn DA and nbn cost to connect	251	240	11	4.6
Restructuring	198	328	(130)	n/m
Other guidance adjustments	-	91	(91)	n/m
Reported lease adjusted⁴	8,932	9,316	(384)	(4.1)
Lease adjustments ⁵	(294)	225	(519)	n/m
Reported	8,638	9,541	(903)	(9.5)



- Sales and fixed costs exclude costs associated with one-off nbn DA and nbn cost to connect.
- Fixed costs - underlying was ~\$7.9b in FY16 on a restated basis and targeted to decline by our net cost productivity target of \$2.5b by FY22. Underlying fixed costs are costs excluding other fixed costs (as defined in footnote 3).
- Fixed costs - other includes items supporting revenue growth including relevant NAS costs, mobile lease, and product impairment.
- 'Reported lease adjusted' includes all mobile swap leases as operating expenses, and all rent/other leases below EBITDA.
- Refer to note 3 of the *Guidance versus reported results* schedule.

Total operating expenses (reported lease adjusted) decreased by 4.1 per cent to \$8,932 million largely due to the \$422 million reduction in underlying fixed costs from our productivity program and a \$130 million decrease in restructuring costs associated with T22 initiatives. Sales costs, which are direct costs associated with revenue and customer growth, increased by 5.3 per cent to \$4,461 million due to a \$204 million increase in nbn access payments and a \$19 million increase in other sales costs. Other fixed costs increased by 2.6 per cent while one-off nbn DA and nbn cost to connect grew 4.6 per cent in line with the progress of the nbnTM network rollout. On an underlying basis, total operating expenses declined by 2.0 per cent.

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 on a reported basis	1H20	1H19	Change
	\$m	\$m	%
Labour	2,170	2,722	(20.3)
Goods and services purchased	4,622	4,382	5.5
Net impairment losses on financial assets	80	88	(9.1)
Other expenses	1,766	2,349	(24.8)
Total	8,638	9,541	(9.5)

Labour

Total labour expenses decreased by 20.3 per cent or \$552 million to \$2,170 million. Salary and associated costs declined by \$300 million due to lower headcount and reduced labour substitution while redundancy costs decreased by \$140 million due to the level of redundancies in 1H19.

Total full time staff and equivalents (FTE) decreased by 10.0 per cent or 3,149 to 28,270.

Goods and services purchased

Total goods and services purchased increased by 5.5 per cent or \$240 million to \$4,622 million.

Cost of goods sold, which includes mobile handsets and accessories, tablets, cellular Wi-Fi, broadband modems and other fixed hardware, increased by 5.1 per cent or \$90 million to \$1,868 million due to higher postpaid handset prices and higher volume of accessories sold.

Network payments increased by 16.6 per cent or \$217 million to \$1,527 million, including a \$204 million increase in nbn access payments as customers migrate across to nbn services. Offshore network payments were \$18 million higher mainly due to higher offshore network traffic.

Other goods and services purchased declined by 5.2 per cent or \$67 million to \$1,227 million.

Other expenses

Total other expenses decreased by 24.8 per cent or \$583 million to \$1,766 million. Service contracts and other agreements expenses declined by 8.4 per cent or \$63 million due to productivity and cost reduction programs, while other expenses decreased by 34.1 per cent or \$529 million primarily due to a decline in leasing costs following changes in lease accounting under AASB16.

Depreciation and amortisation

Depreciation and amortisation increased by 27.1 per cent or \$581 million to \$2,722 million largely due to a \$549 million increase in depreciation of right-of-use assets following the adoption of AASB16. Review of asset service lives during 1H20 resulted in an \$18 million decrease in depreciation expense and a \$42 million decrease in amortisation expense.

Foreign currency impacts

For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to AUD increased our expenses by \$47 million across labour, goods and services purchased, and other expenses. This foreign exchange impact was offset by a \$52 million sales revenue increase resulting in a favourable EBITDA contribution of \$5 million.

Net finance costs

Net finance costs increased by 17.2 per cent or \$55 million to \$375 million mainly due to a \$49 million increase including lease interest expense from the adoption of AASB16 from 1 July 2019 which required interest cost previously classified within operating lease payments to be recognised as a finance cost in the income statement, and a \$23 million reduction in interest capitalised due to a decrease in capital expenditure. Non-cash impacts and a decline in interest revenue also contributed to the increase in net finance costs. This was partly offset by a \$30 million decrease in interest on borrowings due to a reduction in our gross borrowing cost from 4.9% to 4.8% and lower debt on issue.

Summary statement of cash flows	1H20	1H19	Change
	\$m	\$m	%
Net cash provided by operating activities	2,733	2,817	(3.0)
Net cash used in investing activities	(1,213)	(2,190)	44.6
- Capital expenditure (before investments)	(1,507)	(2,457)	38.7
- Other investing cash flows	294	267	10.1
Free cashflow	1,520	627	142.4
Net cash used in financing activities	(1,389)	(709)	(95.9)
Net increase/(decrease) in cash and cash equivalents	131	(82)	n/m

Cash and cash equivalents at the beginning of the period	604	620	(2.6)
Effects of exchange rate changes on cash and cash equivalents	2	3	n/m
Cash and cash equivalents at the end of the period	737	541	36.2

Financial position

Capital expenditure and cash flow

Free cashflow generated from operating and investing activities was \$1,520 million representing an increase of \$893 million or 142.4 per cent, positively impacted by a \$956 million decline in capital expenditure and a \$548 million benefit from operating leases being reclassified as financing cashflow following the adoption of AASB16. This was partly offset by an \$825 million increase in working capital investment largely due to the exit of mobile lease plans, inventory and restructuring.

Net cash provided by operating activities decreased by 3.0 per cent or \$84 million to \$2,733 million mainly due to an increase in payments to suppliers and employees. This was partly offset by an increase in one-off nbn receipts in line with the progress of the nbn™ network rollout and a reduction in income taxes paid.

Net cash used in investing activities decreased by 44.6 per cent or \$977 million to \$1,213 million primarily reflecting lower capital expenditure for the period.

Net cash used in financing activities increased by 95.9 per cent or \$680 million to \$1,389 million. This was largely due to a \$1,883 million decline in proceeds from borrowings and a \$538 million increase in payments for the principal portion of lease liabilities following the adoption of AASB16, partly offset by a \$698 million increase in proceeds from the sale of exchanges in a controlled trust, a \$689 million decrease in repayment of borrowings, and a \$357 million decline in dividends paid.

Our accrued capital expenditure for the year on a guidance basis was \$1,366 million or 11.7 per cent of sales revenue.

On a guidance basis free cashflow after operating lease payments was \$1,005 million. Performance against guidance has been adjusted for free cashflow associated with operating lease payments (-\$548 million) and spectrum (\$33 million).

Financial settings	1H20 Actual	FY20 Comfort zone
Debt servicing ¹	1.9x	1.5x to 2.0x
Gearing ²	53.7%	50% to 70%
Interest cover ³	11.8x	>7x

1. Debt servicing ratio is calculated as net debt/EBITDA (comfort zone recalibrated in 1H20 to reflect adoption of AASB16).

2. Gearing ratio is calculated as net debt/total net debt plus equity.

3. Interest cover is calculated as EBITDA/net interest on borrowings.

Debt position

Our gross debt position was \$18,635 million comprising borrowings of \$16,724 million, lease liabilities of \$3,592 million less net derivative assets of \$1,681 million. Gross debt increased by 21.6 per cent or \$3,304 million since 30 June 2019 due to the adoption of AASB16 from 1 July 2019 which resulted in our leases previously classified as operating leases (Telstra as a lessee) being included in gross debt. The net increase in debt from lease liabilities was \$3,301 million comprising \$3,644 million on transition to AASB16 and \$195 million non-cash additions offset by \$538 million lease payments shown as a financing cash outflow. Gross debt excluding all lease liabilities was relatively flat, increasing by \$3 million.

Financing cash flows resulted in a net reduction in borrowings of \$159 million comprising repayment of term debt of \$510 million offset by short term debt issuance of \$348 million and \$3 million in other loans. This cash reduction in debt was offset by a \$145 million non-cash increase in other loans and revaluation impacts on our borrowings and derivatives and a \$17 million bank overdraft.

Debt issuance	\$m
Short term commercial paper and revolving bank facilities (net)	348
Other loans	3
Total	351

Debt repayments	\$m
1 year AUD floating rate note	(300)
Bilateral loan facility	(200)
AUD private placements	(10)
Total	(510)

Net debt increased by 21.4 per cent or \$3,154 million to \$17,881 million, comprising the increase in gross debt and a \$150 million increase in cash and cash equivalents.

Financial settings reflect the implementation of AASB16. The comfort zone for debt servicing has been recalibrated to reflect the capitalisation of operating leases onto the statement of financial position and the increase in EBITDA under this new reporting framework. We remain within our comfort zones for our credit metrics on a post AASB16 basis. Our debt servicing is 1.9 times (30 June 2019: 1.8 times), gearing ratio is at 53.7 per cent (30 June 2019: 50.3 per cent) and interest cover is 11.8 times (30 June 2019: 10.5 times).

Summary statement of financial position	31 Dec 2019	30 Jun 2019	Change
	\$m	\$m	%
Current assets	7,474	7,303	2.3
Non-current assets	38,082	35,286	7.9
Total assets	45,556	42,589	7.0
Current liabilities	10,060	9,553	5.3
Non-current liabilities	20,103	18,506	8.6
Total liabilities	30,163	28,059	7.5
Net assets	15,393	14,530	5.9
Total equity	15,393	14,530	5.9
Return on average assets (%)	9.1	8.8	0.3pp
Return on average equity (%)	15.6	14.8	0.8pp

Statement of financial position

Our balance sheet remains in a strong position with net assets of \$15,393 million.

Current assets increased by 2.3 per cent to \$7,474 million. Inventories increased by \$297 million primarily due to a seasonal increase in mobility inventories to meet higher demand and higher mobility unit costs, while cash and cash equivalents increased by \$150 million. This was partly offset by a \$144 million reduction in prepayments, of which \$161 million was due to the adoption of AASB16, and a \$103 million decline in trade and other receivables and contract assets.

Non-current assets increased by 7.9 per cent to \$38,082 million. Right-of-use assets increased by \$3,387 million due to the adoption of AASB16 while trade and other receivables and contract assets increased by \$420 million. This was partly offset by a \$509 million decline in intangible assets mainly due to lower software additions, and a \$321 million decrease in property, plant and equipment.

Current liabilities increased by 5.3 per cent to \$10,060 million. Lease liabilities increased by \$847 million due to the adoption of AASB16 which resulted in the recognition of operating leases onto the statement of financial position. Borrowings increased by \$607 million primarily from an increase in term debt maturing within 12 months and an increase in short term borrowings. This was partly offset by a \$771 million decline in trade and other payables.

Non-current liabilities increased by 8.6 per cent to \$20,103 million. Lease liabilities increased by \$2,745 million due to the adoption of AASB16. This was partly offset by a \$1,136 million decline in borrowings largely from reclassification to current liabilities of debt maturing within the next 12 months, reclassification of lease liabilities under previous lease accounting, foreign currency and other valuation impacts.

Guidance versus reported results

This schedule details adjustments made to the reported results for the current and comparative periods to reflect the performance of the business on the basis on which we provided guidance to the market, which is EBITDA on an underlying basis and assuming wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible 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 FY20 is broadly in accordance with the nbn Corporate Plan 2020. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, guidance adjustments including one-off restructuring costs, and includes amortisation of mobile operating lease costs.

The following adjustments provide a detailed reconciliation from reported to guidance results for each guidance measure:

	Total Income			Underlying EBITDA			Free Cashflow	
	1H19	1H20		1H19	1H20		1H19	1H20
	\$m	\$m		\$m	\$m		\$m	\$m
Reported¹ Total Income	13,798	13,413	Reported¹ EBITDA	4,258	4,773	Reported¹ Free Cashflow	627	1,520
<i>Adjustments</i>								
M&A adjustment ²	(1)	1	M&A adjustment ²	90	1	M&A adjustment ²	85	0
Lease adjustment ³	n/a	n/a	Lease adjustment ³	225	(294)	Lease adjustment ³	n/a	(548)
Restructuring costs ⁴	n/a	n/a	Restructuring costs ⁴	328	183	Restructuring costs ⁴	n/a	n/a
Net one-off NBN receipts ⁵	n/a	n/a	Net one-off NBN receipts ⁵	(752)	(788)	Net one-off NBN receipts ⁵	n/a	n/a
Spectrum payments ⁶	n/a	n/a	Spectrum payments ⁶	n/a	n/a	Spectrum payments ⁶	27	33
Guidance Total Income	13,797	13,414	Guidance Underlying EBITDA	4,149	3,875	Guidance Free Cashflow	739	1,005

The adjustments set out in the above tables have been reviewed by our auditor for consistency with the guidance basis as set out on this page.

Note:

- From 1 July 2019 we have adopted AASB 16: 'Leases' on a prospective basis, i.e. no restatement of the comparative period. As a result, Reported EBITDA and Reported Free Cashflow for 1H20 exclude impact of leases classified as operating leases in 1H19 where Telstra was a lessee. The operating lease expense recognised in 'other expenses' (part of EBITDA) and the operating lease payments included in cash outflows from operating activities for 1H19 have been 'replaced' by depreciation of right-of-use assets (below EBITDA) and payments of lease liabilities in cash outflows from financing activities for 1H20 respectively. Refer to note 1.4.1 to the half-year financial statements for further details regarding AASB16 adoption impacts.
- 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. During 1H20 we disposed of our investment in Chief Entertainment Pty Ltd. 1H19 includes additional investments in our interest in the Telstra Ventures Fund II, L.P., the disposal of our investment in Ooyala Inc, Ooyala AB and their controlled entities and Orion Health Group Ltd, and deferred consideration we received from our disposal of 1300 Australia Pty Ltd and from the sell down of our interest in the Telstra Ventures Fund II L.P.
- Given different accounting treatment of leases in 1H20 compared to 1H19 (refer footnote 1) 'Lease adjustment' provides a like-for-like view of our mobile handset leases (Telstra as a lessee) which for management reporting purposes continue to be treated as part of operating performance results. In particular 1H20 has been adjusted to include the reported depreciation of mobile handsets right-of-use assets in EBITDA and for illustrative purposes 1H19 has been adjusted to exclude proforma operating lease expense of all but mobile handset leases from EBITDA. 1H20 Free Cashflow has been adjusted to include total operating lease payments (principal and interest), which are accounted for as a financing cashflow in 1H20 under AASB16.
- Adjustments for the strategic focus (T22 program) to improve customer experience, simplify structure and cut costs, in addition to our normal business as usual redundancies for the period.
- Adjustments for net one-off nbn receipts which is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
- Adjustment relating to the impact on free cashflow associated with our spectrum purchases and renewals for the period including:
 - \$28m for renewal of spectrum licences in the 900 MHz band, and
 - payments for spectrum and apparatus licences in various spectrum bands.

n/a Adjustment is not relevant to the respective guidance measure

Executive Variable Remuneration Plan (EVP) Metric Additional Detail

First half performance against FY20 EVP Performance Measures and Targets:

Performance Measure		Metric	Weighting	FY19 Baseline [^]	FY20			1H20 Actual	
					Gateway	Target	Max		
Financial ⁺ 60% of total weighting	 Total Income	Telstra External Income (excluding finance income)	15%	\$27,807m	Above bottom end of Market Guidance*	Approx. Midpoint of Market Guidance*	At or above top end of Market Guidance*	On track for Market Guidance	
	 Underlying EBITDA	Underlying EBITDA is Earnings Before Interest, Tax, Depreciation & Amortisation, excludes net one-off nbn DA receipts less nbn net C2C, guidance adjustments and includes amortisation of mobile operating lease costs	15%	\$8,203m				On track for Market Guidance	
	 Free Cash Flow (FCF)	Free Cashflow excluding spectrum plus operating lease payments (reported in financing cash flow under AASB 16)	15%	\$3,068m				On track for Market Guidance	
	 Net Opex Reduction	Reduction in operating non-Direct Variable Cost (DVC) expenses [#]	15%	\$456m				\$595m [#]	\$630m [#]
Strategic, Customer & Transformation 40% of total weighting	 Episode NPS	Improvement in our Episode NPS	10%	+25	+27	+29	+32	+27	
	 Product Portfolio Simplification	TE Plans	TE Number of Active Plans, the target provides progress toward our T22 reduction of 50% by FY21	5%	517	461	441	400	499
		Services on in market plans	Services on in-market plans	5%	0.4m	2.5m	3m	4m	2.4m
	 Digital Engagement	Digital Delivery	Requires the build of digital first capability. The 24% target of the average of Q4 FY20 not an average measure for the year	5%	16.8%	22.5%	24.0%	29.0%	26%
		Telstra Connect	Active Telstra Enterprise customers on Telstra Connect in the last 3 months of FY20	5%	1,269	3,500	4,000	5,000	1,572
	 People Capability & Engagement	Increase employee engagement outcome by 9 points (from FY19 baseline)	10%	67	72	76	78	72	

[^] For FY20 targets, the baseline refers to FY19 results calculated on the same basis as the metric definition and includes restatement for AASB 16: Leases where applicable.

⁺ The gateway, target and maximum for each financial performance measure has been revised consistently with the updates to Telstra's FY20 guidance as set out in Telstra's ASX announcement dated 2 September 2019.

^{*} Market Guidance means guidance for FY20 as set out in Telstra's ASX announcement dated 2 September 2019.

[#] Referred to as underlying fixed costs in the *Half year results and operations review*. The 1H20 Actual result has not been adjusted for the purposes of the EVP.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial report

for the half-year ended 31 December 2019



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 2019 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.

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Income Statement

For the half-year ended 31 December 2019

Telstra Group	Note	Half-year ended 31 Dec	
		2019	2018
		\$m	\$m
Income			
Revenue (excluding finance income)	2.2	12,164	12,586
Other income	2.2	1,249	1,212
		13,413	13,798
Expenses			
Labour		2,170	2,722
Goods and services purchased		4,622	4,382
Net impairment losses on financial assets		80	88
Other expenses		1,766	2,349
		8,638	9,541
Share of net (loss)/profit from equity accounted entities		(2)	1
		8,640	9,540
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		4,773	4,258
Depreciation and amortisation		2,722	2,141
Earnings before interest and income tax expense (EBIT)		2,051	2,117
Finance income	2.2	108	99
Finance costs		483	419
Net finance costs	4.2	375	320
Profit before income tax expense		1,676	1,797
Income tax expense		526	569
Profit for the period		1,150	1,228
Profit/(loss) attributable to:			
Equity holders of Telstra Entity		1,139	1,233
Non-controlling interests		11	(5)
		1,150	1,228
Earnings per share (cents per share)		cents	cents
Basic		9.6	10.4
Diluted		9.6	10.4

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 2019

Telstra Group	Half-year ended 31 Dec	
	2019	2018
	\$m	\$m
Profit/(loss) for the period attributable to:		
Equity holders of Telstra Entity	1,139	1,233
Non-controlling interests	11	(5)
	1,150	1,228
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	(37)	(63)
Income tax on actuarial loss on defined benefit plans	11	19
Fair value of equity instruments reserve		
Gain/(loss) on investments in equity instruments designated at fair value through other comprehensive income	1	(2)
Share of other comprehensive income of equity accounted entities	31	22
Income tax on fair value movements for investments in equity instruments	(5)	(5)
Foreign currency translation reserve		
Translation differences of foreign operations attributable to non-controlling interests	-	(4)
	1	(33)
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	3	27
Cash flow hedging reserve		
Changes in cash flow hedging reserve	(11)	33
Income tax on changes in the cash flow hedging reserve	3	(10)
Foreign currency basis spread reserve		
Changes in the value of the foreign currency basis spread	(19)	1
Income tax on movements in the foreign currency translation reserve	6	-
	(18)	51
Total other comprehensive income	(17)	18
Total comprehensive income for the period	1,133	1,246
Total comprehensive income attributable to:		
Equity holders of Telstra Entity	1,122	1,255
Non-controlling interests	11	(9)

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

Statement of Financial Position

As at 31 December 2019

Telstra Group	Note	As at	
		31 Dec 2019	30 Jun 2019
		\$m	\$m
Current assets			
Cash and cash equivalents	2.3	754	604
Trade and other receivables and contract assets	3.3	5,289	5,392
Deferred contract costs		75	95
Inventories		745	448
Derivative financial assets	4.2	131	179
Current tax receivables		15	7
Prepayments		313	457
Assets classified as held for sale		152	121
Total current assets		7,474	7,303
Non-current assets			
Trade and other receivables and contract assets	3.3	1,200	780
Deferred contract costs		1,292	1,232
Inventories		45	35
Investments – accounted for using the equity method		1,306	1,298
Investments – other		26	25
Property, plant and equipment		21,515	21,836
Right-of-use assets		3,387	-
Intangible assets		7,197	7,706
Derivative financial assets	4.2	1,874	2,083
Deferred tax assets		56	59
Defined benefit asset		184	232
Total non-current assets		38,082	35,286
Total assets		45,556	42,589
Current liabilities			
Trade and other payables	3.4	3,757	4,528
Employee benefits		720	804
Other provisions		70	103
Lease liabilities	3.2	847	-
Borrowings	4.2	2,829	2,222
Derivative financial liabilities	4.2	38	57
Current tax payables		22	103
Contract liabilities and other revenue received in advance		1,663	1,657
Liabilities classified as held for sale		114	79
Total current liabilities		10,060	9,553
Non-current liabilities			
Other payables	3.4	4	68
Employee benefits		150	158
Other provisions		140	158
Lease liabilities	3.2	2,745	-
Borrowings	4.2	13,895	15,031
Derivative financial liabilities	4.2	286	283
Deferred tax liabilities		1,681	1,529
Defined benefit liabilities		7	8
Contract liabilities and other revenue received in advance		1,195	1,271
Total non-current liabilities		20,103	18,506
Total liabilities		30,163	28,059
Net assets		15,393	14,530

Statement of Financial Position (continued)

As at 31 December 2019

Telstra Group	Note	As at	
		31 Dec 2019	30 Jun 2019
		\$m	\$m
Equity			
Share capital		4,439	4,447
Reserves		(49)	(58)
Retained profits		10,320	10,160
Equity available to Telstra Entity shareholders		14,710	14,549
Non-controlling interests		683	(19)
Total equity		15,393	14,530

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 2019

Telstra Group	Note	Half-year ended 31 Dec	
		2019	2018
		\$m	\$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		15,101	14,975
Payments to suppliers and employees (inclusive of GST)		(12,067)	(11,797)
Government grants received for operating activities		143	144
Net cash generated by operations		3,177	3,322
Income taxes paid		(444)	(505)
Net cash provided by operating activities		2,733	2,817
Cash flows from investing activities			
Payments for property, plant and equipment		(1,178)	(1,822)
Payments for intangible assets		(329)	(635)
Capital expenditure (before investments)		(1,507)	(2,457)
Payments for businesses and shares in controlled entities (net of cash acquired)		(1)	(114)
Payments for joint ventures and associated entities		(19)	(17)
Total capital expenditure (including investments)		(1,527)	(2,588)
Government grants received for investing activities		15	34
Proceeds from sale of property, plant and equipment		181	249
Proceeds from sale of shares in controlled entities (net of cash disposed)		-	42
Proceeds from sale of other investments		20	4
Distributions received from joint ventures and associated entities		40	1
Interest received		14	18
Receipts of the principal portion of finance lease receivables		44	50
Net cash used in investing activities		(1,213)	(2,190)
Operating cash flows less investing cash flows		1,520	627
Cash flows from financing activities			
Proceeds from borrowings		1,059	2,942
Repayment of borrowings		(1,218)	(1,907)
Payments for the principal portion of lease liabilities	3.2	(538)	-
Payments for the principal portion of finance lease liabilities		-	(39)
Purchase of shares for employee share plans		(22)	-
Finance costs paid		(413)	(397)
Proceeds from the sale of units in a controlled trust	5.1	698	-
Dividends paid to non-controlling interests		(7)	-
Dividends paid to equity holders of Telstra Entity	4.1	(951)	(1,308)
Other		3	-
Net cash used in financing activities		(1,389)	(709)
Net increase/(decrease) in cash and cash equivalents		131	(82)
Cash and cash equivalents at the beginning of the period		604	620
Effects of exchange rate changes on cash and cash equivalents		2	3
Cash and cash equivalents at the end of the period	2.3	737	541

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 2019

Telstra Group		Share capital	Reserves	Retained profits	Total	Non-controlling interests	Total equity
	Note	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 30 June 2019		4,447	(58)	10,160	14,549	(19)	14,530
Change in accounting policy arising from AASB 16: 'Leases'	1.4	-	-	(2)	(2)	-	(2)
Restated balance at 1 July 2019		4,447	(58)	10,158	14,547	(19)	14,528
Profit/(loss) for the period		-	-	1,139	1,139	11	1,150
Other comprehensive income		-	9	(26)	(17)	-	(17)
Total comprehensive income for the period		-	9	1,113	1,122	11	1,133
Dividends		-	-	(951)	(951)	(7)	(958)
Non-controlling interests from the sale of units in a controlled trust	5.1	-	-	-	-	698	698
Amounts repaid on share loans provided to employees		3	-	-	3	-	3
Additional shares purchased		(22)	-	-	(22)	-	(22)
Share-based payments		11	-	-	11	-	11
Balance at 31 December 2019		4,439	(49)	10,320	14,710	683	15,393
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'		-	(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'		-	-	(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

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 2019 Annual Report with the exception of new accounting policies adopted as disclosed in note 1.4.

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 2019 Annual Report. Furthermore, adoption of new accounting policies have resulted in new management judgements.

The key judgements and estimates used by management in applying the Group's accounting policies for the period ended 31 December 2019 have been updated to reflect the latest information available. They can be located in the following notes:

Key accounting estimates and judgements	Note	Page
Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income	2.2	22
Determination of cash generating units (CGUs) and their recoverable amount for impairment assessment	3.1	24
Useful lives and residual values of fixed assets	3.1	24
Impact of nbn Infrastructure Services Agreement (ISA) on our fixed assets base	3.1	25
Determining lease term	3.2	26
Determining incremental borrowing rates for our property leases	3.2	27

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. We believe EBITDA is useful to our shareholders, analysts and other members of the investment community who view EBITDA as a widely recognised measure of operating performance. Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account depreciation and amortisation.

Our management primarily uses EBITDA contribution and EBIT, in combination with other financial measures, to evaluate the Company's operating performance. EBITDA contribution differs from the statutory EBITDA as described in note 2.1.1.

1.4 Changes in accounting policies

A number of new or amended accounting standards became mandatory in the current reporting period, with the key changes to our accounting policies resulting from AASB 16: 'Leases'.

The impact of the first time adoption of the lease accounting standard has been disclosed in note 1.4.1 below and the new accounting policies in notes 2.2.2 and 3.2.3. Other accounting standards and amendments mandatory in the current reporting period did not have any material impacts on our accounting policies.

1.4.1 First time adoption of the new lease accounting standard

(a) Adoption approach and transition impacts

In February 2016, the AASB issued AASB 16: 'Leases', which replaced AASB 117: 'Leases', Interpretation 4 'Determining whether an Arrangement contains a Lease', Interpretation 115 'Operating Leases - Incentives' and Interpretation 127 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

We have adopted AASB 16 from 1 July 2019 using the modified retrospective adoption approach. Applying this method, the comparative information for the 2019 financial year has not been restated in our 31 December 2019 half-year financial report. Instead, the cumulative effect of initially applying this standard was adjusted as at 1 July 2019 to amend the opening balance of retained earnings and the respective line items in the statement of financial position.

The new standard introduced new requirements for lease identification and determination of a lease term, which apply to both lessee and lessor. However, on transition we have applied the relief provisions and we have not reassessed whether a contract is, or contains, a lease at the date of initial application of 1 July 2019. As such, this standard has been applied to all open contracts that have already been identified as leases under AASB 117 and Interpretation 4 before or as at 30 June 2019 (referred to as 'transitioning contracts').

Section 1. Basis of preparation (continued)

1.4 Changes in accounting policies (continued)

1.4.1 First time adoption of the new lease accounting standard (continued)

(a) Adoption approach and transition impacts (continued)

The new standard introduced significant accounting changes for our lease arrangements where Telstra Group is a lessee as it requires the lessee to recognise all its leases in the statement of financial position as an asset (representing the right to use the leased asset) and a liability (reflecting future lease payments). Depreciation of the right-of-use asset and interest on the lease liability are recognised over the determined lease term.

When estimating the right-of-use asset and the lease liability as at 1 July 2019 for our transitioning operating leases where Telstra Group is a lessee, we have used the following practical expedients as allowed by the standard for all similar leases on a consistent basis (as opposed to on a lease-by-lease basis):

- we have applied a single discount rate to portfolios of leases with characteristics which we have assessed to be reasonably similar
- we have elected to rely on our assessment of whether leases are onerous under AASB 137: 'Provisions, Contingent Liabilities and Contingent Assets' as at 30 June 2019 instead of conducting an impairment review
- for leases of personal computers, printers and other related equipment, for which the underlying assets are of low value, we have not made any adjustments on transition and as a result the lease payments under these contracts will continue to be recognised on a straight-line basis over the lease term as other operating expenses
- we have excluded initial direct costs from the measurement of the right-of-use assets upon initial application of the standard
- we have elected to utilise hindsight in determining the lease term for contracts that contain options for extension or termination of the lease.

AASB 16 substantially carried forward the lessor accounting requirements of AASB 117. Accordingly, as a lessor we continue to classify our leases and account for them as operating or finance leases.

The transition impacts on our key lease arrangements were as follows.

As a lessee, we have a significant number of long-term non-cancellable property leases for our office buildings, warehouses, retail stores and network sites which used to be accounted for as operating leases. On transition to AASB 16 recognition of these leases had the most significant impact on the statement of financial position. A small number of our office and data centre buildings, or parts of these, are subject to sub-leases for which on transition we have recognised finance lease receivables and recorded a net loss in opening retained earnings.

We also have a large volume of low value operating leases for mobile handsets which are sub-leased to our consumer and small business customers under our mobile bundles. This customer offer has been removed from the market in the financial year 2020. However, the adjustments related to our existing leases resulted in considerable transition impacts reflecting the recognition of right-of-use assets and lease liabilities under our new lessee accounting policies. Our customer mobile bundles offering handset leases are in substance back-to-back sub-leases of the newly recognised right-of-use assets. However, there were no changes to our lessor accounting for the customer contracts and they continue to be accounted for as operating leases due to the nature of these transactions.

Other operating leases included motor vehicles and video conferencing equipment, for which we have recognised right-of-use assets and lease liabilities, and personal computers, printers and other related equipment, which continue to be expensed under the exemption for leases of low value assets.

As a lessee, we also have leases of renewable energy plants with fully variable lease payments, which continue to be expensed when the trigger events for the variable lease payments occur.

Our finance leases (Telstra Group as a lessee) mainly related to sale and leaseback of communication assets dedicated to solution management, which were sub-leased to our enterprise customers under sales type finance leases (Telstra Group as a dealer-lessor). There were no measurement adjustments to these leases on transition to AASB 16. However, going forward any similar new arrangements where Telstra as a seller-lessee enters into a legal sale and leaseback transaction will be assessed under AASB 16 requirements. In particular, where the legal sale transaction does not meet revenue recognition criteria, sale and leaseback transactions will be accounted for as a financial liability rather than a lease.

As at 30 June 2019, certain finance and operating leases related to selected data centres were classified as part of assets and liabilities held for sale and separately presented in the statement of financial position. On 1 July 2019, the operating leases classified as held for sale have been remeasured under AASB 16 requirements and the right-of-use assets and lease liabilities have been recognised as an adjustment to the assets and liabilities classified as held for sale.

Section 1. Basis of preparation (continued)

1.4 Changes in accounting policies (continued)

1.4.1 First time adoption of the new lease accounting standard (continued)

(b) Summary of adjustments

Key changes in the accounting policies resulted in the following adjustments to our transitioning contracts on adoption of AASB 16 on 1 July 2019:

AASB 117 lease classification as at 30 June 2019	Adjustment on transition on 1 July 2019
Telstra as a lessee in a finance lease	Reclassification of the existing assets under finance leases and finance lease liabilities recognised as at 30 June 2019 to right-of-use assets and lease liabilities, respectively.
Telstra as a lessee in an operating lease	Recognition of lease liabilities (measured as present value of the remaining lease payments over the determined lease term, discounted using our incremental borrowing rate as at 1 July 2019) and an equal amount of the right-of-use assets. Where relevant, the right-of-use assets were adjusted by the amount of any prepaid or accrued lease payments or lease incentives recognised as at 30 June 2019.
Telstra as an intermediate lessor in an operating sub-lease	Change in classification from operating to finance sub-leases based on reassessment by reference to head leases recognised on 1 July 2019, resulting in derecognition of the newly created right-of-use assets and recognition of finance lease receivables with any corresponding net gain or loss adjustment to the opening retained earnings.
Telstra as an intermediate lessor in a finance sub-lease, or Telstra as a head lessor (including dealer-lessor) in a finance or an operating lease	No adjustments have been identified.

For our operating and finance leases where Telstra Group is a lessee and based on our transition approach and the practical expedients used, the initial application of AASB 16 as at 1 July 2019 resulted in recognition of \$3,751 million right-of-use assets and \$3,935 million lease liabilities in the statement of financial position, including reclassification of \$291 million lease liabilities for existing finance lease balances recognised under the previous lease accounting requirements and previously presented as part of the borrowings line in the statement of financial position. The difference between the right-of-use assets and lease liabilities reflected adjustments to the right-of-use assets for any prepaid and/or accrued lease payments or lease incentives and a net loss recognised in the opening retained earnings on derecognition of the newly recognised right-of-use assets for sub-leases classified as finance sub-leases. No adjustments have been identified for our finance leases where Telstra Group was a lessee. Refer to Table A for further details on line items adjusted on 1 July 2019 in the statement of financial position.

Section 1. Basis of preparation (continued)

1.4 Changes in accounting policies (continued)

1.4.1 First time adoption of the new lease accounting standard (continued)

(b) Summary of adjustments (continued)

Table A summarises adjustments made on 1 July 2019 to each line item in the statement of financial position affected by the first time application of AASB 16. The reported balances of 30 June 2019 incorporate adjustments described in note 1.4.3.

Table A Telstra Group	As at	AASB 16	As at
	30 Jun 2019		1 Jul 2019
	Reported	Adjustments	Restated
	\$m	\$m	\$m
Current assets			
Cash and cash equivalents	604	-	604
Trade and other receivables and contract assets	5,392	7	5,399
Deferred contract costs	95	-	95
Inventories	448	-	448
Derivative financial assets	179	-	179
Current tax receivables	7	-	7
Prepayments	457	(161)	296
Assets classified as held for sale	121	43	164
Total current assets	7,303	(111)	7,192
Non-current assets			
Trade and other receivables and contract assets	780	18	798
Deferred contract costs	1,232	-	1,232
Inventories	35	-	35
Investments – accounted for using the equity method	1,298	-	1,298
Investments – other	25	-	25
Property, plant and equipment	21,836	(69)	21,767
Right-of-use assets	-	3,751	3,751
Intangible assets	7,706	-	7,706
Derivative financial assets	2,083	-	2,083
Deferred tax assets	59	-	59
Defined benefit asset	232	-	232
Total non-current assets	35,286	3,700	38,986
Total assets	42,589	3,589	46,178

Section 1. Basis of preparation (continued)

1.4 Changes in accounting policies (continued)

1.4.1 First time adoption of the new lease accounting standard (continued)

(b) Summary of adjustments (continued)

Table A (continued) Telstra Group	As at	AASB 16	As at
	30 Jun 2019		1 Jul 2019
	Reported	Adjustments	Restated
	\$m	\$m	\$m
Current liabilities			
Trade and other payables	4,528	(8)	4,520
Employee benefits	804	-	804
Other provisions	103	(6)	97
Lease liabilities	-	978	978
Borrowings	2,222	(78)	2,144
Derivative financial liabilities	57	-	57
Current tax payables	103	-	103
Contract liabilities and other revenue received in advance	1,657	-	1,657
Liabilities classified as held for sale	79	44	123
Total current liabilities	9,553	930	10,483
Non-current liabilities			
Other payables	68	(64)	4
Employee benefits	158	-	158
Other provisions	158	(18)	140
Lease liabilities	-	2,957	2,957
Borrowings	15,031	(213)	14,818
Derivative financial liabilities	283	-	283
Deferred tax liabilities	1,529	(1)	1,528
Defined benefit liabilities	8	-	8
Contract liabilities and other revenue received in advance	1,271	-	1,271
Total non-current liabilities	18,506	2,661	21,167
Total liabilities	28,059	3,591	31,650
Net assets	14,530	(2)	14,528
Equity			
Share capital	4,447	-	4,447
Reserves	(58)	-	(58)
Retained profits	10,160	(2)	10,158
Equity available to Telstra Entity shareholders	14,549	(2)	14,547
Non-controlling interests	(19)	-	(19)
Total equity	14,530	(2)	14,528

The following paragraphs provide further details on the nature of adjustments to each of the impacted line items in the statement of financial position:

- right-of-use assets and lease liabilities were recognised as new line items for transitioning leases
- trade and other receivables and contract assets increased due to recognition of finance lease receivables for finance sub-leases of right-of-use assets
- prepayments, trade and other payables and other provisions decreased due to prepaid or accrued rent and lease incentives adjusting the right-of-use assets
- assets and liabilities held for sale increased to reflect the transition to AASB 16 of operating leases classified as held for sale in the prior reporting period
- property, plant and equipment decreased due to reclassification of the existing assets under finance leases to right-of-use assets
- borrowings reduced due to reclassification of the existing finance lease liabilities to lease liabilities
- deferred tax liabilities decreased to reflect tax impacts of the net loss recognised in the opening retained earning on the derecognition of the right-of-use assets under finance sub-leases
- retained profits decreased to recognise a net loss on finance sub-leases of right-of-use assets.

Section 1. Basis of preparation (continued)

1.4 Changes in accounting policies (continued)

1.4.1 First time adoption of the new lease accounting standard (continued)

(c) Reconciliation of operating lease commitments and the lease liability

On adoption of AASB 16 and for Telstra as a lessee, we recognised lease liabilities in relation to leases previously classified as operating leases under AASB 117 and as detailed in the section above. The recognised lease liabilities were measured at the present value of the remaining lease payments over the determined lease term, discounted using our incremental borrowing rates as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9 per cent.

Our operating lease commitments at 30 June 2019 also included commitments for leases legally commencing after the transition date of 1 July 2019, all of which have been included in the lease liability as at the transition date as under the new requirements they represented modifications of transitioning lease contracts. Lease liabilities recognised on adoption of AASB 16 differed from our operating lease commitments disclosed in note 7.4.2 to the financial statements in our 2019 Annual Report. The differences mostly arose from the effects of discounting the future lease payments and the reassessment of lease term (including lease modifications) as summarised in Table B.

Table B: Reconciliation of operating lease commitments (Telstra as a lessee) previously reported as at 30 June 2019 in our 2019 Annual Report (applying AASB 117) to lease liabilities recognised on transition to AASB 16 on 1 July 2019.

Table B Telstra Group	Reconciliation of operating lease commitments to opening balance of lease liability
	\$m
Operating lease commitments as at 30 June 2019 (as reported in the 2019 Financial Report)	3,796
Add: reassessment of lease term (including lease modifications)	324
Add: finance lease liabilities as at 30 June 2019 (as reported in the 2019 Financial Report and excluding finance lease liabilities transferred to liabilities held for sale)	291
(Less): discounting impact using the incremental borrowing rate as at 1 July 2019	(408)
(Less): operating lease commitments related to leases expensed as leases of low value assets	(25)
(Less): lease liabilities related to the disposal group classified as held for sale as at 30 June 2019 (as reported in the 2019 Financial Report)	(43)
Lease liabilities recognised on transition to AASB 16 on 1 July 2019	3,935

Changes from the AASB 16 adoption impacting retained profits are presented as restatements directly in the statement of changes in equity.

(d) Summary of new accounting policies

On adoption of the new lease accounting standard, our existing accounting policies have been amended to reflect the changes described in the sections above. The new accounting policies describing revenue recognition from our lease arrangements and accounting for our lease arrangements are disclosed in notes 2.2.2 and 3.2.3, respectively.

1.4.2 First time adoption of the amendments relating to the interest rate benchmark reform

We have elected to early adopt AASB 2019-3: 'Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform', issued by the AASB in October 2019. The standard includes a number of reliefs, that apply to all hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate. The reliefs cease to apply once certain conditions are met. Telstra's borrowing and hedging derivatives portfolio is exposed to a number of benchmark rates, predominately Euribor, US Dollar LIBOR and BBSW. We have commenced a project to monitor the developments of international regulators and to assess the impact of the introduction of alternative risk-free rates.

The adoption of the new standard had no impact on Telstra's financial results for the half-year ended 31 December 2019.

1.4.3 Change in presentation of long-term network capacity assets

Our communication assets include long-term network capacity assets arising from Infeasible Right of Use (IRU) arrangements which represent resources generating future economic benefits. These assets used to be presented as part of our communication assets in property, plant and equipment. In the absence of any specific guidance, we assessed that such presentation best reflected their nature and was not inconsistent with industry practices.

However, new guidance in regard to accounting for different types of IRU arrangements emerged following the adoption of AASB 16 and recent International Financial Reporting Interpretations Committee decisions. As a result, we have made a decision to change the presentation of our existing long-term network capacity assets and reclassify them retrospectively from property, plant and equipment to intangible assets.

The presentation changes do not impact our reported results other than restatement of the presentation of line items in our financial statements (as described in Table A) recognised as at the beginning of the comparative period, i.e. as at 1 July 2018 and subsequent reporting periods.

Section 1. Basis of preparation (continued)

1.4 Changes in accounting policies (continued)

1.4.3 Change in presentation of long-term network capacity assets (continued)

Table A: Summary of retrospective changes in presentation of our long-term network capacity assets in respective financial statements.

Table A Telstra Group	As at 30 Jun 2019	Year ended 30 Jun 2019	Half-year ended 31 Dec 2018	As at 30 Jun 2018
	\$m	\$m	\$m	\$m
Statement of financial position				
Reclassification from property, plant and equipment to intangible assets	496	n/a	n/a	535
Income statement				
Reclassification from depreciation to amortisation expense	n/a	68	33	n/a
Statement of cash flows				
Reclassification from payments for property, plant and equipment to payments for intangible assets	n/a	28	13	n/a

The presentation changes are retrospective. However, they do not impact the recognition or measurement of the results reported in the prior periods, and the presentation adjustments impact the same nature of line items, i.e. there is no change in total amortisation and depreciation expense or total cash flows from investing activities. None of the presentation changes impact earnings per share.

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.

The presentation of revenue is disaggregated by category and segment based on the timing of transfer of goods and services, major products and our geographical markets.

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.

During this period, there have been no changes to our operating segments. However, following the adoption of the new leasing accounting standard, we have adjusted the measure of segment profit or loss as detailed below the description of our reportable segments.

In our segment results, 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. These are New Business (which includes Telstra Health), Global Business Services (GBS) and Product and Technology Group.

We have four reportable segments as follows:

Segment	Operation
Telstra Consumer and Small Business (TC&SB)	<ul style="list-style-type: none"> 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 buying to billing and service requests
Telstra Enterprise (TE)	<ul style="list-style-type: none"> sales and 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, and Telstra InfraCo segments product management and delivery of advanced technology solutions and services, including Data and Internet Protocol (IP) networks, mobility 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 delivery of outcome-based, transformative technology solutions through Telstra Purple, Telstra's technology services business
Networks and IT (N&IT)	<ul style="list-style-type: none"> overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions delivering network technologies delivering digital platforms and capabilities to enable digital experiences build and management of the shared platforms, infrastructure, cloud services, software and technologies for all internal functions

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.1 Operating segments (continued)

Segment	Operation
Telstra InfraCo	<ul style="list-style-type: none"> wholesale 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 holding fixed network infrastructure including data centres, non-mobiles related domestic fibre, copper, HFC cable, international subsea cables, exchanges, poles, ducts and pipes. Effective from 1 July 2020, Telstra InfraCo's asset accountabilities will also include our whole fibre network (including mobile backhaul) and mobile towers, but exclude PSTN and legacy fixed, and satellites 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 (ISA) and commercial contracts, respectively.

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution, which is determined as described below.

EBITDA contribution excludes the effects of inter-segment balances and transactions, with the exception of transactions listed below Table A in note 2.1.2 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 presented on a standalone 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 in their segment results. The transactions in Telstra InfraCo that are excluded in other business units are included in note 2.1.1 to the financial statements in our 2019 Annual Report. These transactions are eliminated at the Group level.

Certain items of income and expense related to multiple reportable segments are recorded by our corporate areas (included in the 'All Other' category) or fully allocated to one of our segments. A detailed description of those items, with the exception of low value leases rental costs reported in GBS (included in the 'All other' category), is included in note 2.1.1 to the financial statements in our 2019 Annual Report.

EBITDA contribution differs from our statutory EBITDA. In particular, following the adoption of the new leasing accounting standard on 1 July 2019, for the half-year ended 31 December 2019 we have adjusted the measure of segment result to include the depreciation expense related to the right-of-use assets for mobile handsets arising from leases (Telstra as a lessee) which we sublease to our TC&SB customers in back-to-back arrangements. This is because given the nature of these leases, for management purposes we continue to treat the depreciation of the mobile handsets right-of-use assets as an operating expense in order to provide a transparent view of our operating performance. To ensure comparability, we have restated the segment results for the half-year ended 31 December 2018 by removing the rental expenses arising from all but mobile handset leases, as reported in our management reports, previously classified as operating leases (Telstra as a lessee) and included in the 'All Other' category.

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. 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	Elimina- tions	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Half-year ended 31 Dec 2019								
Revenue from contracts with customers								
Sale of services	5,116	3,396	-	(52)	8,460	1,291	-	9,751
Sale of goods	1,569	284	-	3	1,856	-	-	1,856
Other revenue from contracts with customers	5	18	-	2	25	-	-	25
	6,690	3,698	-	(47)	10,341	1,291	-	11,632
Revenue from other sources	364	155	9	4	532	-	-	532
Revenue from external customers	7,054	3,853	9	(43)	10,873	1,291	-	12,164
Revenue from transactions between Telstra InfraCo and other segments	n/a	n/a	n/a	n/a	n/a	845	(845)	-
Total revenue from external customers and Telstra InfraCo	7,054	3,853	9	(43)	10,873	2,136	(845)	12,164
Other income	9	29	35	1,098	1,171	78	-	1,249
Total income	7,063	3,882	44	1,055	12,044	2,214	(845)	13,413
Share of net profit/(loss) from equity accounted entities	-	-	-	(2)	(2)	-	-	(2)
EBITDA contribution	2,563	1,617	(845)	107	3,442	1,406	(369)	4,479
Depreciation of mobile handsets right-of-use assets								294
Telstra Group EBITDA								4,773
Depreciation and amortisation								(2,722)
Telstra Group EBIT								2,051
Net finance costs								(375)
Telstra Group profit before income tax expense								1,676

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 2018 (restated)							
Revenue from contracts with customers								
Sale of services	5,496	3,467	-	6	8,969	1,396	-	10,365
Sale of goods	1,384	322	-	1	1,707	1	-	1,708
Other revenue from contracts with customers	5	15	-	2	22	-	-	22
	6,885	3,804	-	9	10,698	1,397	-	12,095
Revenue from other sources	325	138	23	5	491	-	-	491
Revenue from external customers	7,210	3,942	23	14	11,189	1,397	-	12,586
Revenue from transactions between Telstra InfraCo and other segments	n/a	n/a	n/a	n/a	n/a	946	(946)	-
Total revenue from external customers and Telstra InfraCo	7,210	3,942	23	14	11,189	2,343	(946)	12,586
Other income	7	13	11	1,022	1,053	159	-	1,212
Total income	7,217	3,955	34	1,036	12,242	2,502	(946)	13,798
Share of net profit/(loss) from equity accounted entities	-	-	-	1	1	-	-	1
EBITDA contribution	2,974	1,613	(867)	(424)	3,296	1,623	(436)	4,483
Operating lease expenses for all but mobile handset leases								(225)
Telstra Group EBITDA								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

We recognise revenue from contracts with customers when the control of goods or services has been transferred to the customer. Revenue from sale of services is recognised over time, whereas revenue from sale of goods is recognised at a point in time. Other revenue from contracts with customers includes licensing revenue (recognised either at a point in time or over time) and agency revenue (recognised over time).

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 \$149 million (2018: \$121 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 (2018: \$6 million) of inter-segment expenses treated as external revenue in Telstra InfraCo and eliminated in the 'All Other' category.

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 major products and geographical market is presented in Table B.

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.

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

Table B Telstra Group	TC&SB	TE	N&IT	All Other	Telstra InfraCo	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Half-year ended 31 Dec 2019						
Total revenue from external customers						
Fixed	1,953	112	-	6	317	2,388
Revenue from contracts with customers	1,951	112	-	6	317	2,386
Revenue from other sources	2	-	-	-	-	2
Mobile	4,410	793	-	(3)	108	5,308
Revenue from contracts with customers	4,120	789	-	(3)	108	5,014
Revenue from other sources	290	4	-	-	-	294
Data & IP	60	800	-	-	204	1,064
Revenue from contracts with customers	60	800	-	-	204	1,064
Network applications and services	174	1,158	9	7	232	1,580
Revenue from contracts with customers	174	1,017	-	7	232	1,430
Revenue from other sources	-	141	9	-	-	150
Media	381	-	-	25	-	406
Revenue from contracts with customers	381	-	-	25	-	406
Global connectivity	-	991	-	(149)	-	842
Revenue from contracts with customers	-	982	-	(149)	-	833
Revenue from other sources	-	9	-	-	-	9
Other products and services	76	(1)	-	71	430	576
Revenue from contracts with customers	4	(2)	-	67	430	499
Revenue from other sources	72	1	-	4	-	77
Total revenue from contracts with customers	6,690	3,698	-	(47)	1,291	11,632
Total revenue from other sources	364	155	9	4	-	532
	7,054	3,853	9	(43)	1,291	12,164
Total revenue from external customers by geographical market						
Australian customers	7,054	2,999	9	108	1,291	11,461
Revenue from contracts with customers	6,690	2,847	-	104	1,291	10,932
Revenue from other sources	364	152	9	4	-	529
Offshore customers	-	854	-	(151)	-	703
Revenue from contracts with customers	-	851	-	(151)	-	700
Revenue from other sources	-	3	-	-	-	3
	7,054	3,853	9	(43)	1,291	12,164

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table B (continued) Telstra Group	TC&SB	TE	N&IT	All Other	Telstra InfraCo	Total
	\$m	\$m	\$m	\$m	\$m	\$m
	Half-year ended 31 Dec 2018 (restated)					
Total revenue from external customers						
Fixed	2,108	139	-	7	427	2,681
Revenue from contracts with customers	2,106	139	-	7	427	2,679
Revenue from other sources	2	-	-	-	-	2
Mobile	4,373	819	-	(4)	103	5,291
Revenue from contracts with customers	4,127	814	-	(4)	103	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	6	274	1,596
Revenue from contracts with customers	147	1,019	-	6	274	1,446
Revenue from other sources	-	132	18	-	-	150
Media	408	-	-	33	-	441
Revenue from contracts with customers	409	-	-	33	-	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	93	369	559
Revenue from contracts with customers	10	3	-	88	369	470
Revenue from other sources	78	1	5	5	-	89
Total revenue from contracts with customers	6,885	3,804	-	9	1,397	12,095
Total revenue from other sources	325	138	23	5	-	491
	7,210	3,942	23	14	1,397	12,586
Total revenue from external customers by geographical market						
Australian customers	7,210	3,142	23	118	1,397	11,890
Revenue from contracts with customers	6,885	3,004	-	113	1,397	11,399
Revenue from other sources	325	138	23	5	-	491
Offshore customers	-	800	-	(104)	-	696
Revenue from contracts with customers	-	800	-	(104)	-	696
	7,210	3,942	23	14	1,397	12,586

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

All Other category by product and by geographical market includes eliminations of the inter-segment transactions described in the segment results following Table A in note 2.1.2. Amounts disclosed in geographical markets were partly offset by revenue from operating segments which do not meet the disclosure requirements of a reportable segment. Other negative product revenue amounts relate to certain corporate level adjustments.

Section 2. Our performance (continued)

2.2 Income

Telstra Group	Half-year ended 31 Dec	
	2019	2018
	\$m	\$m
Revenue from contracts with customers	11,632	12,095
Revenue from other sources	532	491
Total revenue (excluding finance income)	12,164	12,586
Other income		
Net gain on disposal of property, plant and equipment and intangibles	147	400
Government grants	97	99
nbn disconnection fees	942	699
Other miscellaneous income	63	14
	1,249	1,212
Total income (excluding finance income)	13,413	13,798
Finance income		
Finance income (excluding income from finance leases)	101	90
Finance income on the net investment in the lease (Telstra as a lessor)	7	9
	108	99
Total income	13,521	13,897

Disaggregation of revenue from contracts with customers based on the nature and the timing of transfer of goods and services and by major products and geographical markets is presented in note 2.1.2 in Table A and in Table B respectively.

Revenue from other sources includes income from:

- our lease arrangements, including sales type finance leases where Telstra is a dealer, operating leases and operating sub-leases, as described in note 3.2
- 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.

Finance income on net investment in the lease (Telstra as a lessor) for the financial year 2020 relates to all finance leases accounted for under the new leasing standard from 1 July 2019, whereas the comparative period only includes finance income for finance leases accounted for under the previous lease accounting requirements.

2.2.1 Our contracts with customers

We continued to generate revenue from customer contracts described in detail in note 2.2 to the financial statements in our 2019 Annual Report with the exception of the changes and updates described below.

(a) Telstra Consumer and Small Business (TC&SB) contracts

In May 2019, Telstra launched the Telstra Plus loyalty program, under which our consumer customers can earn points redeemable for certain goods and services in the future. Membership of the program also gives customers access to tier benefits in the form of free or discounted services like entertainment or technical support. Points awarded for purchases of Telstra goods and services, i.e. arising from accounting contracts, are accounted for as material rights with any allocated revenue received in advance for these performance obligations recognised as a contract liability in the statement of financial position until such rights are either exercised or forfeited. On the other hand, discretionary bonus points that reward behaviour and do not relate to accounting contracts are classified as a marketing offer and expensed at the time of awarding the points. Tier benefits are treated as a discount arising from a framework arrangement and reduce revenue of the related accounting contracts.

During the half-year ended 31 December 2019, we have introduced no-lock-in fixed and mobile service plans which will ultimately replace our fixed term contracts described in note 2.2.1 to the financial statements in our 2019 Annual Report. In those arrangements, our customers can also purchase hardware together with the no-lock-in service plans and pay one monthly fee for both, i.e. pay for hardware on deferred payment terms. However, if customers stop renewing their no-lock-in services, any outstanding hardware balance becomes payable immediately. Separate legal contracts for hardware and services with the same customer are not combined for accounting purposes unless discounts are offered, in which case both legal contracts constitute a combined accounting contract with a term of one month. Hardware revenue is recognised at a point in time on its delivery, whereas services revenue is recognised over time as services are consumed.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers (continued)

(a) Telstra Consumer and Small Business (TC&SB) contracts (continued)

From 25 June 2019, we ceased to offer mobile plans where the customer could lease a handset and purchase a bundle of services under a term accounting contract. However, all such contracts represented transitioning contracts on adoption of the new lease accounting standard and we continue to account for them until the earlier of the end of the lease term or customer termination.

(b) Agreements with nbn co

We deliver a number of different services under nbn Definitive Agreements and the transaction price includes a number of fixed and variable components, which require significant judgements as described in the table 'Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income'.

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 and will grow in line with the nbn™ network rollout until its completion and subsequently continue for the remaining average contracted period of 28 years.

IOP and IAP are classified in the income statement as other income and revenue, respectively, and are recognised on a percentage rollout basis of the nbn™ network footprint.

For any given period, the IOP and IAP amounts ultimately received from nbn co may vary from the amounts recognised in the income statement depending on the 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 the amounts of IOP and IAP recognised for the half-year ended 31 December 2019. Should evidence exist in future reporting periods that changes these amounts, other income and revenue will be adjusted in the future reporting periods.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.2 Recognition and measurement

Our accounting policies for revenue recognition have been consistent with those disclosed in note 2.2 to the financial statements in our 2019 Annual Report with the exception of the impact of adopting the new leasing standard as updated below.

(a) 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.

We earn revenue from some of our lease arrangements described in note 3.2, in particular from:

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

Where a (combined) accounting contract includes lease and non-lease components and Telstra is a lessor, we allocate the consideration to lease and non-lease components applying the relative standalone selling prices requirements for revenue from contracts with customers. Refer to note 3.2 for our updated lease accounting policies following the adoption of the new leasing standard.

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.

2.3 Notes to the statement of cash flows

2.3.1 Cash and cash equivalents

Telstra Group	As at 31 Dec	
	2019	2018
	\$m	\$m
Cash at bank and on hand	239	122
Bank deposits	515	419
	754	541
Bank overdraft	(17)	-
Cash and cash equivalents in the statement of cash flows	737	541

Section 3. Our core assets, lease arrangements and working capital

This section describes our core long-term tangible (owned and leased) and intangible assets underpinning the Group's performance and provides a summary of our asset impairment assessment. This section also describes our short-term assets and liabilities, i.e. our working capital supporting the operating liquidity of our business.

3.1 Property, plant and equipment (owned and leased), 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. Following adoption of the new lease accounting standard, we have adjusted our CGUs for impairment testing to include right-of-use assets arising from our lease arrangements where Telstra is a lessee. Refer to note 3.2 for further details on our lease arrangements.

3.1.1 Cash generating units with allocated goodwill

During the half-year ended 31 December 2019, there have been no changes to our CGUs with allocated goodwill as disclosed in note 3.2.1 to the financial statements in our 2019 Annual Report except for:

- three entities that were previously disclosed within 'Other' are integrated into Telstra Enterprise Australia Group. Prior to integration, these three entities were assessed individually.

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 was required as no impairment indicators were identified.

3.1.2 Our telecommunications network

Consistent with 2019 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 as no impairment indicators were identified.

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 2019, the net effect of our annual assessment of useful lives performed so far was a \$18 million (2018: \$122 million) decrease in depreciation expense and a \$42 million (2018: \$53 million) decrease in amortisation expense.

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

3.1 Property, plant and equipment (owned and leased), 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 2019, the net book value of assets that are in scope to be potentially transferred to nbn co under the ISA amounted to \$269 million (June 2019: \$375 million). This represents 1.3 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 2019, 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 Lease arrangements

This note provides details about our lease arrangements, where Telstra is either a lessee or a lessor, including arrangements where Telstra is an intermediate lessor (i.e. sub-leases).

We have adopted the new lease accounting standard from 1 July 2019. Note 1.4.1 details changes in our accounting policies and a summary of impacts on the first time adoption. This note provides disclosures required under the new accounting standard and relates to all our lease arrangements in place during the financial year 2020.

3.2.1 Telstra as a lessee

Our lease arrangements where Telstra is a lessee include the following lease categories:

- properties, including office buildings, retail space, warehouses and network sites (mainly land and data centre buildings)
- spaces on mobile towers
- mobile handsets leased under transitioning contracts, which are sub-leased to our consumer and small business customers
- communication assets dedicated to solution management that we provide to our customers largely in a back-to-back finance lease arrangements and which arise from our transitioning contracts with the financier
- renewable energy plants
- motor vehicles
- audio visual communications equipment
- personal computers, laptops, printers and other related equipment, which are accounted for as leases of low value assets.

Amounts recognised in relation to our leases of mobile handsets relate to contracts entered into in the prior reporting periods which will continue to be accounted for until the earlier of the end of the lease or its termination. No new mobile handset leases have been executed during the financial year 2020 as we ceased to offer such arrangements to retail customers. The maximum lease end date for these contracts is December 2021, with majority of the arrangements expected to conclude before July 2021.

None of our leases include residual value guarantees. Other features of our leases are described below.

(a) Leases with extension, termination and purchase options

Leases for communication assets dedicated to solution management, which arise from our transitioning finance leases, include purchase options. These assets are largely provided to our enterprise customers in a back-to-back sales type finance lease arrangements (refer for further details about Telstra as a lessor to note 3.2.2) and purchase options allow us to transfer the legal title to the relevant equipment to the end customer at the end of the lease.

Our mobile handset leases, which arise from our transitioning operating leases, include purchase options if certain conditions are met to allow flexibility we provide to the end retail customer in these back-to-back arrangements.

We do not have any significant purchase options in our property leases.

Extension options are included in a number of our commercial and network property leases and are taken up to maximise the operational flexibility in terms of managing the assets used in our core business operations.

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

3.2 Lease arrangements (continued)

3.2.1 Telstra as a lessee (continued)

(a) Leases with extension, termination and purchase options (continued)

Our mobile handset leases and motor vehicle leases include both extension and termination options to allow flexibility in managing our customer sub-leases for mobile handsets and our business needs for motor vehicles.

The majority of extension and termination options in our lease contracts are exercisable only by us and not by the respective lessor, with the exception of 'holdover periods' in our property leases. Holdover periods relate to periods when, for a variety of reasons, we continue to occupy the property beyond the legally agreed lease term and generally either party can terminate the lease during the holdover period by giving a notice.

The extension, termination and purchase options are considered when determining lease term.

Determining lease term

We apply management judgement to determine a lease term for leases with extension, termination or purchase options. We also consider lease modifications where we continue to use the same underlying asset for an extended term.

Our property lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions, with typical fixed term periods of 5 to 15 years. Where Telstra is a lessee of mobile handsets, our communication assets dedicated to solution management and motor vehicles, i.e. the leased assets are more generic and of lower values, generally master lease agreements are in place with a range of fixed lease terms between 2 to 5 years.

In determining the lease term, we consider all facts and circumstances that create an economic incentive to exercise an extension, termination or purchase option, including holdover periods where relevant. These factors differ depending on the contractual arrangements and the nature of the underlying assets.

In particular, we consider contractual terms on which the lease term can be extended or terminated, the price value at which a purchase option (if relevant) can be exercised, potential relocation costs, asset specific factors and any relevant leasehold improvements, our wider strategy and policy decisions and any other relevant facts.

Extension options are only included in the lease term if the lease is reasonably certain to be extended. Periods beyond termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated.

The level of certainty required to make the judgements about the lease term is high. The longer the fixed lease term, the less certain a lessee is to exercise an option to extend the lease.

When determining lease term for our office buildings, the extension options have generally not been included in the lease liabilities due to a competitive market place and our commercial ability to either substantially renegotiate or replace these assets instead of exercising the extension options.

For our back-to-back leases of mobile handsets offered to mass market customers, the determined lease term generally matches the legal contract term because it is not reasonably certain at each contract level that these leases will be either extended or terminated or that the purchase option will be exercised.

None of our termination options have been considered to be reasonably certain to be exercised; therefore, the lease terms have not been shortened and all future cash flows have been included in the lease liability.

The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within our control as a lessee.

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

3.2 Lease arrangements (continued)

3.2.1 Telstra as a lessee (continued)

(b) Leases with lease payment increases

Under most of our lease arrangements, we pay fixed lease payments, which are included in the measurement of lease liabilities on initial recognition or at the time of reassessment. The fixed lease payments include average fixed increases of three per cent in a number of our property leases. However, some of our property leases contain other escalation clauses, including increases subject to the consumer price index, the greater of fixed increase or the consumer price index or subject to market rates. Market rent review terms are used to respond to competitive market trends for these type of properties and to minimise our fixed costs. No material adjustments to lease liabilities resulting from such escalation clauses were recognised during the half-year ended 31 December 2019.

(c) Leases with variable lease payments that do not depend on an index or a rate

Some of our leases include variable lease payments that do not depend on an index or a rate. Such leases are not included in the measurement of the lease liability and are expensed as incurred in 'other expenses' in the income statement.

In particular, lease payments for use of two renewable energy plants are fully variable and linked to the energy output generated by the plants. Variable payment terms were used in those arrangements to minimise any committed costs and due to uncertainty of power generation output, which is dependent on the environmental conditions that could result in low or no generation of output. No material lease payments arising under these lease arrangements were expensed during the half-year ended 31 December 2019.

(d) Lease liabilities

From 1 July 2019, lease liabilities are shown separately in the statement of financial position, with the exception of amounts not included in the measurement of lease liabilities. These include leases of low value assets or leases with variable payments which do not depend on an index or a rate, for which associated outstanding rental payments as at balance date continue to be included in trade and other payables. In the 2019 comparative information, finance lease balances are included in the statement of financial position within borrowings.

Lease liabilities are initially measured at the present value of the outstanding lease payments at the commencement date discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, our incremental borrowing rate. We use the incremental borrowing rate for property leases which comprise the majority of our lease portfolio.

The weighted average discount rate as at 31 December 2019 was 2.8 per cent.

Determining incremental borrowing rates for our property leases

We apply management judgement to determine incremental borrowing rates for our property leases because the interest rates implicit in the lease are not readily determinable for those arrangements.

The incremental borrowing rates are determined with reference to rates sourced from market based credit adjusted yield curves which are independently derived and that would reasonably reflect the credit risk of the lessee. The discount rates also reflect:

- the lease term (based on the weighted average repayment term)
- any guarantees which may be in place
- the impact of any security if significant to pricing.

The incremental borrowing rates applied to our leases during the half-year ended 2019 ranged from 1.4 per cent to 3.6 per cent for our domestic property leases and from 2.0 per cent to 6.9 per cent for our international property leases.

Table A presents maturity analysis of our lease liabilities.

Table A Telstra Group	As at	
	31 Dec 2019	30 Jun 2019
	\$m	\$m
Undiscounted future cash flows		
Within 1 year	880	91
Within 1 to 2 years	525	62
Within 2 to 5 years	1,129	73
After 5 years	1,494	116
Total undiscounted lease liabilities	4,028	342
Future finance charges	(436)	(51)
Present value of lease liabilities	3,592	291
Included in the financial statements as		
Current	847	78
Non-current	2,745	213
	3,592	291

Refer to note 4.4.4 to the financial statements in our 2019 Annual Report for details on managing our liquidity risk which includes financial obligations relating to lease liabilities.

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

3.2 Lease arrangements (continued)

3.2.1 Telstra as a lessee (continued)

(e) Amounts recognised in the income statement and cash outflows for leases

Table B presents amounts recognised in the income statement and the cash outflows in the half-year ended 31 December 2019 related to our lease arrangements where Telstra is a lessee. The comparative information has not been presented as we have adopted the new lease accounting standard from 1 July 2019 without restatement of the prior period.

Table B Telstra Group	Half-year ended
	31 Dec 2019
	\$m
Amounts recognised in the income statement	
Income from operating sub-leases of right-of-use assets (Telstra as an intermediate lessor) (included in revenue from other sources)	285
Depreciation of right-of-use assets (included in depreciation and amortisation)	(549)
Interest expense on lease liabilities (included in finance costs)	(59)
Net loss on termination of leases (included in other expenses)	(110)
Expense relating to leases of low value assets (included in other expenses)	(14)
Expense relating to variable lease payments (included in other expenses)	(1)
Cash outflows for leases	
Lease payments reported in cash flows from operating activities	(125)
Lease payments reported in cash flows from financing activities (principal portion)	(538)
Lease payments reported in cash flows from financing activities (interest portion)	(59)

Net loss on termination of leases mainly includes early termination charges for our mobile handset leases (Telstra as a lessee), which have been partly recovered from revenue recognised on termination of the back-to-back customer operating leases disclosed as part of the 'income from operating sub-leases of right-of-use assets (Telstra as an intermediate lessor)'.

3.2.2 Telstra as a lessor (including a dealer-lessor and an intermediate lessor)

Our lease arrangements where Telstra is a lessor, including a dealer-lessor and intermediate lessor, include the following main categories:

- leases of owned properties and sub-leases of right-of-use property assets, including office and network buildings
- sub-leases of mobile handsets to our consumer and small business customers arising from transitioning contracts as we ceased to offer this product in the half-year ended 31 December 2019
- finance leases where Telstra is a dealer-lessor of communication assets dedicated to solution management.

None of our leases include residual value guarantees. Our key finance and operating leases are described below.

(a) Finance leases

(i) Finance leases where Telstra is a dealer-lessor of communication assets dedicated to solution management

We enter into finance lease arrangements predominantly for communication assets dedicated to solutions management that we provide to our customers under our customer sales contracts. We account for these leases as dealer-lessor finance leases and recognise selling profit in accordance with our policy for outright sales at the lease commencement date. Therefore, we have no risks associated with remaining rights in the underlying assets. The weighted average remaining term of the finance lease in our customer contracts is 5 years (June 2019: 5 years).

(ii) Sub-leases of right-of-use assets

Generally, we rent office and network buildings for own use only and not with the intention to earn rental income. However, where our needs or the intended use of the rented properties change and we have assessed that exiting a lease is uneconomical, we sub-lease right-of-use property assets under finance lease arrangements and on the market terms for the remaining non-cancellable lease term of the head lease. These sub-leases are classified as finance leases and at the lease commencement date we record a selling profit or loss on the derecognised right-of-use asset and recognise a finance lease receivable. Given that these are sub-leases of the right-of-use assets, we have no risks associated with any retained rights in the underlying assets as the properties are vacated and returned to the landlords at the end of the non-cancellable lease term.

(iii) Finance lease receivable maturity analysis

Table C sets out maturity analysis of our finance lease receivables, i.e. undiscounted lease payments receivable and the unearned finance income. No unguaranteed residual values accrue under our finance leases.

Table C Telstra Group	As at	
	31 Dec 2019	30 Jun 2019
	\$m	\$m
Undiscounted lease payments receivable under finance leases		
Within 1 year	107	109
Within 1 to 2 years	76	58
Within 2 to 3 years	53	35
Within 3 to 4 years	31	20
Within 4 to 5 years	18	12
After 5 years	55	54
Total undiscounted lease payments receivables	340	288
Less: unearned finance income	(40)	(36)
Net investment in the lease	300	252
Included in the financial statements as		
Current finance lease receivables	97	99
Non-current finance lease receivables	203	153
	300	252

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

3.2 Lease arrangements (continued)

3.2.2 Telstra as a lessor (including a dealer-lessor and an intermediate lessor) (continued)

(a) Finance leases (continued)

(iii) Finance lease receivable maturity analysis (continued)

Following adoption of the new lease accounting standard from 1 July 2019, the 31 December 2019 balances include all finance lease receivables accounted for under the new requirements. The 30 June 2019 balances have been accounted for under the previous lease accounting requirements; therefore, finance lease receivables excluded any balances related to finance sub-leases of right-of-use assets recognised on transition on 1 July 2019.

The interest rate implicit in the leases is fixed at the contract date for the entire lease term. The average effective interest rate was 4.7 per cent (June 2019: 5.0 per cent) per annum.

There are no significant changes in the carrying amount of the net investment in the lease.

(b) Operating leases

(i) Sub-leases of mobile handsets

In prior financial periods, we offered our consumer and small business customers mobile plans where the customer could lease a handset and purchase a bundle of services under a term accounting contract. Leases of those handsets were in back-to-back arrangements with a third party, where Telstra was a lessee. In July 2019, we ceased to offer these mobile plans, however, all such lease arrangements represented transitioning contracts on adoption of the new lease accounting standard and we continue to account for them until the earlier of the end of the lease term or customer termination. The maximum lease end date for these contracts is December 2021, with majority of the arrangements expected to conclude before July 2021.

To provide flexibility to our mass market retail customers, the handset lease plans include options to extend the lease, terminate the lease early or to purchase the handset at the end of the lease. The lease term has not been adjusted for any of these options because none of them are considered reasonably certain at the lease contract level.

(ii) Maturity analysis of undiscounted future lease payments receivable

Table D sets out maturity analysis of undiscounted future lease payments receivable under our operating leases.

Table D Telstra Group	As at	
	31 Dec 2019	30 Jun 2019
	\$m	\$m
Within 1 year	245	388
Within 1 to 2 years	34	126
Within 2 to 3 years	5	7
Within 3 to 4 years	4	5
Within 4 to 5 years	2	1
After 5 years	-	3
	290	530

Following adoption of the new lease accounting standard from 1 July 2019, the 31 December 2019 balances include all undiscounted operating lease payments receivable accounted for under the new requirements. The 30 June 2019 balances have been accounted for under the previous lease accounting requirements.

(c) Amounts recognised in the income statement

Table E presents amounts recognised in the income statement in the half-year ended 31 December 2019 related to our lease arrangements where Telstra is a lessor, including amounts related to lease arrangements where Telstra is intermediate lessor. The comparative information has not been presented as we have adopted the new lease accounting standard from 1 July 2019 without restatement of the prior period.

Table E Telstra Group	Half-year ended
	31 Dec 2019
	\$m
Revenue from finance leases (Telstra as a dealer-lessor) (included in revenue from other sources)	41
Income from operating leases (Telstra as a direct or an intermediate lessor) (included in revenue from other sources)	289
Finance income from finance leases (Telstra as a lessor) (included in finance income)	7

Income from operating leases includes mostly income from operating sub-leases of right-of-use assets (Telstra as an intermediate lessor) as disclosed in Table B in note 3.2.1.

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

3.2 Lease arrangements (continued)

3.2.3 Recognition and measurement

(a) Lease identification and lease term

A contract (or linked contracts) is or contains a lease if it conveys the right to control the use of an identified asset, including a physically distinct portion of an asset, for a period of time in exchange for consideration. The customer has the right to control the use of an identified asset if the supplier has no substantive substitution rights, and the customer obtains substantially all of the economic benefits from use of the identified asset and has the right to direct its use.

A (combined) contract may include lease and non-lease components, which are accounted for separately. Lessee allocates the consideration to lease and non-lease components based on their relative standalone prices. Lessor allocates the consideration to lease and non-lease components applying the relative standalone selling prices requirements for revenue from customer contracts (refer to note 2.2 to the financial statements in our 2019 Annual Report for further details).

If a lease has been identified at inception of the arrangement, a lease term is determined considering a non-cancellable period and reasonably certain extension, termination or purchase options. This includes consideration of any holdover periods, where either counterparty has enforceable rights to terminate the lease with a notice. Holdover periods relate to periods when, for a variety of reasons, we continue to occupy the property or use the asset beyond the legally agreed lease term and either party can terminate the lease during the holdover period by giving a notice.

In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension, termination or purchase options must be considered. These factors differ depending on the terms of contractual arrangements, the nature of the underlying assets, leasehold improvements, industry practices and strategic planning.

Leases are accounted for from the lease commencement date, i.e. the date when the lessor makes the underlying asset available for use by the lessee.

(b) Telstra as a lessee

A lessee recognises a right-of-use asset and a lease liability at a lease commencement date. The lease liability is initially measured as the present value of the following lease payments:

- fixed payments (including any in-substance lease payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially using the index or rate as at the commencement date
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option, if the purchase option was assessed as reasonably certain to be exercised
- payments for penalties for terminating the lease, if the lease term reflects that the lessee will exercise that option.

Lease payments expected to be made under a reasonably certain extension option are also reflected in the measurement of the lease liability.

Where lease arrangements include market rent review clauses, which generally can be triggered by either counterparty within a set time frame by a notice given either during the non-cancellable lease period or when the extension option is exercised, until the outcome of a market rent review (if triggered) is concluded, the legal obligations are to pay previously agreed lease payments. Therefore, lease liabilities are measured excluding any expected impacts from market rent reviews until they are legally binding and can be reliably measured.

The lease payments are discounted using the interest rate implicit in the lease, unless that rate is not readily determinable, in which case the lessee's incremental borrowing rate is used.

Lease payments are allocated between principal portion and finance cost. The finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments that do not depend on an index or a rate are recognised in the income statement in the period in which the condition that triggers these payments is met.

Payments associated with leases of low value assets are recognised on a straight-line basis as an expense in the income statement. Low value assets comprise personal computers, laptops, printers and other related equipment.

Right-of-use assets comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. Where an obligation exists to dismantle, remove or restore a leased asset or the site it is located on, and a provision has been raised, the right-of-use asset also includes these restoration costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If it is reasonably certain that a purchase option will be exercised, the right-of-use asset is depreciated over the underlying asset's useful life. The depreciation starts at the commencement date of the lease.

Right-of-use assets are reviewed for impairment under the same policy as our property, plant and equipment assets. Refer to note 3.1.1 to the financial statements in our 2019 Annual Report for further details.

Where we lease right-of-use property assets, costs of improvements to these properties are capitalised under our property, plant and equipment policy as leasehold improvements and amortised over the shorter of the useful life of the improvements and the term of the lease.

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

3.2 Lease arrangements (continued)

3.2.3 Recognition and measurement (continued)

(b) Telstra as a lessee (continued)

We reassess the lease liability (and make a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed (reflecting reassessment of or exercise of an extension or termination options previously not included in the measurement of the lease liability) or there is a change in the assessment of exercise of a purchase options, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- the lease payments change due to changes in an index or a rate or change in the expected lease payments under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

In the statement of cash flows, cash payments for both the principal portion and the interest portion of the lease liability are classified as cash flows from financing activities. Cash payments for leases of low value assets and variable lease payments that do not depend on an index or a rate and are not included in the measurement of the lease liability are classified as cash flows from operating activities.

Proceeds from sale of leases, including proceeds from sale and leaseback transactions, are classified as cash flows from investing activities.

(c) Telstra as a lessor (including dealer-lessor and an intermediate lessor)

We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, and operating leases under which the lessor effectively retains substantially all such risks and benefits. Lease classification is made at the inception date of the lease and is only reassessed if there is a lease modification.

Where we are an intermediate lessor, we account for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Where we lease assets via a finance lease, a finance lease receivable (i.e. a net investment in the lease) is recognised at the lease commencement date and measured at the present value of the lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term and discounted using the interest rate implicit in the lease.

Finance lease receipts are allocated between finance income and a reduction of the finance lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease. In the statement of cash flows, cash receipts for the principal portion of the lease receivable are classified as cash flows from operating activities and for the interest portion of the lease receivable are classified as cash flows from investing activities.

Where we are a dealer-lessor, at the commencement of the lease, we also recognise a selling profit or loss (being the difference between revenue from other sources and the cost of sale) from the sale of the underlying asset in addition to the finance lease receivable. The sale is recognised in accordance with our policy for outright sales from contracts with customers as described in note 2.2 to the financial statements in our 2019 Annual Report.

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease and presented as revenue from other sources in the income statement.

(d) Sale and leaseback transactions

When we sell and lease back the same asset, the accounting treatment depends on whether the transfer of the asset is a sale in accordance with our policy for outright sales from contracts with customers as described in note 2.2 to the financial statements in our 2019 Annual Report.

If the transfer of the asset satisfies the revenue recognition requirements, we measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by us as a seller-lessee. Accordingly, we recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

If the transfer of an asset does not satisfy the revenue recognition requirements, as a seller-lessee we continue to recognise the transferred asset and we recognise a financial liability equal to the transferred proceeds.

3.3 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 2019	30 Jun 2019
	\$m	\$m
Current		
Trade receivables from contracts with customers	3,448	3,151
Finance lease receivables	97	99
Accrued revenue	697	795
Other receivables	63	159
	4,305	4,204
Contract assets	984	1,188
	5,289	5,392
Non-current		
Trade receivables from contracts with customers	824	473
Finance lease receivables	203	153
Other receivables	7	17
	1,034	643
Contract assets	166	137
	1,200	780

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. Refer to note 3.2 for further details on finance lease receivables.

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

3.4 Trade and other payables

Table A Telstra Group	As at	
	31 Dec 2019	30 Jun 2019
	\$m	\$m
Current		
Trade payables	1,005	849
Accrued expenses	1,635	2,163
Accrued capital expenditure	126	239
Accrued interest	287	267
Refund liabilities	14	11
Other payables	690	999
	3,757	4,528
Non-current		
Other payables	4	68
	4	68

From time to time, some of Telstra's suppliers utilise or offer supply finance arrangements at their sole discretion. When that takes place, Telstra is not a party to contracts under which the suppliers receive financing from third parties, and Telstra does not receive any fees or commissions associated with the supply finance arrangements. Under the use of supply chain finance arrangements suppliers transfer their rights to the amounts due from Telstra to third parties, i.e. the counterparty that is paid changes. We have assessed that amounts financed by our vendors under supply chain finance arrangements do not represent financing activities for Telstra. This is because payments made by Telstra continue to represent a payment for purchases of goods and services, and the payment terms do not significantly differ, if at all, from our standard contract terms.

As at 31 December 2019, the amount payable under all such arrangements was \$312 million (June 2019: \$593 million) and we have reclassified it from 'Trade payables' to 'Other payables'. Subsequent to 31 December 2019, we announced the decision to exit such arrangements and we are working through how that will occur in a way that does not disadvantage our suppliers.

Section 4. Our capital and risk management

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

4.1 Dividends

This note includes the previous year final dividend paid and the current year interim dividend to be paid. Our dividend comprises both ordinary and special dividends.

As the current year interim dividend resolution was passed on 13 February 2020, no provision had been raised as at 31 December 2019.

We currently pay dividends to equity holders of Telstra Entity twice a year, an interim and a final dividend. The table below provides details about the previous year final dividend paid during the half-year ended 31 December 2019.

Telstra Entity	Half-year ended 31 Dec			
	2019	2018	2019	2018
	\$m	\$m	cents	cents
Dividends paid				
Previous year final dividend paid	951	1,308	8.0	11.0

The Dividend Reinvestment Plan (DRP) will continue to operate for the interim dividend in the financial year 2020. The election date for participation in the DRP is 28 February 2020.

On 13 February 2020, the Directors of Telstra Corporation Limited resolved to pay an interim dividend for the financial year 2020 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 27 February 2020, with payment being made on 27 March 2020. From 26 February 2020, shares will trade excluding entitlement to the dividend.

As at 31 December 2019, 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 balance as at 31 December 2019 was a \$196 million surplus. We believe that our current franking account balance, combined with the franking credits that will arise on our expected tax instalments, will be sufficient to fully frank our 2020 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 2019 was \$17,881 million (June 2019: \$14,727 million). Net debt includes lease liabilities as presented on the statement of financial position. Following the adoption of the new lease accounting standard from 1 July 2019, lease liabilities include leases which were previously classified as operating leases.

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 2019	30 Jun 2019
	\$m	\$m
Borrowings	(16,724)	(17,253)
Lease liabilities	(3,592)	-
Derivative financial instruments	1,681	1,922
Gross debt	(18,635)	(15,331)
Cash and cash equivalents	754	604
Net debt	(17,881)	(14,727)

Following the adoption of the new lease accounting standard from 1 July 2019, the 31 December 2019 borrowings balance excludes any lease liabilities accounted for under the new requirements as these balances are now presented separately in the statement of financial position. The 30 June 2019 borrowings balance includes finance lease liabilities of \$291 million accounted for under the previous lease accounting requirements.

No significant components of net debt are subject to any externally imposed capital requirements. With the exception of a minor (\$11 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 2019.

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	
	2019	2018
	\$m	\$m
Net debt at 1 July	(14,727)	(14,739)
Debt issuance	(3)	(308)
Commercial paper (net)	(98)	(67)
Revolving bank facilities (net)	(250)	(1,450)
Debt repayments	510	790
Lease liability payments	538	-
Finance lease payments	-	39
Net cash outflow/(inflow)	697	(996)
Fair value gains/(losses) impacting		
Equity	(31)	26
Other expenses	(6)	1
Finance costs	2	6
Other non-cash movements		
Leases (Telstra as a lessee)	(3,839)	-
Finance leases	-	(33)
Other loans	(110)	-
Total non-cash movements	(3,984)	-
Total increase in gross debt excluding bank overdraft	(3,287)	(996)
Net increase/(decrease) in cash and cash equivalents net of bank overdraft (includes foreign exchange differences)	133	(79)
Total increase in net debt	(3,154)	(1,075)
Net debt at 31 December	(17,881)	(15,814)
Total equity	(15,393)	(14,505)
Total capital	(33,274)	(30,319)
	%	%
Gearing ratio	53.7	52.2

The gearing ratio for the half-year ended 31 December 2019 reflects changes from the adoption of the new lease accounting standard, namely lease liabilities arising from all leases recognised under the new requirements. Lease liabilities are presented separately in the statement of financial position and are included in gross and net debt balances as at 31 December 2019. Leases (Telstra as a lessee) included in non-cash movements during the period incorporate the lease liability recognised on transition on 1 July 2019 as disclosed in note 1.4.1.

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 2019, we repaid \$510 million of term debt. This included:

- \$300 million Australian dollar floating rate note
- \$200 million Australian dollar bilateral facility
- \$10 million Australian dollar private placements.

There was no term debt issuance during the period.

At 31 December 2019, we have \$250 million (June 2019: nil) 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 Telstra Group	As at	
	31 Dec 2019	30 Jun 2019
	\$m	\$m
Facilities available	3,200	3,200
Facilities used	(250)	-
Facilities unused	2,950	3,200

(b) Commercial paper

Our commercial paper is used principally to support working capital and short-term liquidity. As at 31 December 2019, we held \$233 million (June 2019: \$139 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 2019. Interest on borrowings are net amounts after offsetting interest income and interest expense on associated derivative instruments.

Table D Telstra Group	Half-year ended 31 Dec	
	2019	2018
	\$m	\$m
Interest income on cash	7	8
Finance income on net investment in the lease (Telstra as a lessor)	7	9
Finance income from contracts with customers	92	78
Net interest income on defined benefit plan	2	4
Total finance income	108	99
Interest expense on		
Domestic borrowings	(61)	(68)
Offshore borrowings	(282)	(281)
Bank loans	(9)	(21)
Commercial paper	(3)	(14)
Lease liabilities	(59)	-
Finance leases	-	(10)
Other	(4)	(5)
Gross interest on debt	(418)	(399)
Finance costs from contracts with customers	(102)	(84)
Net gains on financial instruments included in remeasurements	12	16
	(90)	(68)
Interest capitalised	25	48
Total finance costs	(483)	(419)
Net finance costs	(375)	(320)

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.

Fair value hierarchy:

- 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).

During the half-year ended 31 December 2019, 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.

The table below summaries the methods used to estimate the fair value of our financial instruments.

Level	Financial instrument	Fair value
Level 1	Listed investments in equity instruments	Quoted prices in active markets.
Level 2	Borrowings, cross currency and interest rate swaps	Valuation techniques maximise the use of observable market data. Present value of the estimated future cash flows using appropriate market based yield curves, which are independently derived. Yield curves are sourced from readily available market data quoted for all major currencies.
	Forward foreign exchange contracts	Quoted forward exchange rates at reporting date for contracts with similar maturity profiles.
Level 3	Trade receivables from contracts with customers	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. 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.
	Unlisted investments in equity instruments	Valuation techniques (where one or more of the significant inputs is not based on observable market data) include reference to discounted cash flows and fair values of recent orderly sell transactions between market participants involving instruments that are substantially the same.
	Contingent consideration	Initial recognition: expectations of future performance of the business. Subsequent measurement: present value of the future expected cash flows.

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.4 Fair value measurement (continued)

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 2019				As at 30 Jun 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								
Trade receivables from contracts with customers	-	-	2,078	2,078	-	-	1,506	1,506
Derivative financial instruments	-	2,005	-	2,005	-	2,262	-	2,262
Investments in listed securities	10	-	-	10	9	-	-	9
Investments in unlisted securities	-	-	16	16	-	-	16	16
	10	2,005	2,094	4,109	9	2,262	1,522	3,793
Liabilities								
Derivative financial instruments	-	(324)	-	(324)	-	(340)	-	(340)
	-	(324)	-	(324)	-	(340)	-	(340)
Total	10	1,681	2,094	3,785	9	1,922	1,522	3,453

(a) Level 3 financial instruments

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

Table F Telstra Group	Unlisted securities	
	2019	2018
	\$m	\$m
Opening balance 1 July	16	25
Remeasurement recognised in other comprehensive income (net of tax)	-	1
Contribution to Telstra Ventures Fund II, L.P.	-	(11)
Closing balance 31 December	16	15

During the half-year ended 31 December 2019, 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.

The remeasurement recognised in other comprehensive income during the prior period related to investments held by Telstra Ventures Pty Limited.

Table G details movements in the level 3 trade receivables from contracts with customers balances.

Table G Telstra Group	Trade receivables from contracts with customers	
	2019	2018
	\$m	\$m
Opening balance 1 July	1,506	1,502
Originated during the period	1,472	811
Settlements by customers	(915)	(840)
Net interest income recognised in the income statement	22	23
Remeasurements recognised in the income statement	(7)	(5)
Closing balance 31 December	2,078	1,491

We originate trade receivables from contracts with customers as part of our ordinary activities. Settlements of those receivables form part of the receipts from customers in the operating cash flows.

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 2019 Annual Report. There have been no material changes to our risk management policies since 30 June 2019.

Section 5. Our investments

This section outlines our group structure and includes information about our controlled entities, joint ventures and associated entities. It provides details of changes to these investments and their effect on our financial position and performance during the financial year. It also includes the results of our material joint ventures and associated entities.



5.1 Investments in controlled entities

5.1.1 Sale of units in a controlled trust

During the half-year ended 31 December 2019, we sold a 49 per cent minority interest in a property trust set up by Telstra holding a portfolio of 36 Telstra exchanges in Australia. Telstra retains the control over the trust and thus continues to consolidate these assets. The cash proceeds from the sale of the minority stake totalling \$698 million are presented as non-controlling interest in the statement of financial position.

5.2 Investments in joint ventures and associated entities

5.2.1 NXE Australia Pty Limited

Investments in associated entities and joint ventures are carried in the consolidated balance sheet at cost plus post-acquisition changes in our share of the investment's net assets and net of impairment loss. Goodwill relating to an investment in an associated entity or joint venture is included in the carrying value of the investment and is not amortised. When Telstra's share of losses exceeds our investment in an associated entity or joint venture, the carrying amount of the investment is reduced to nil and no further losses are recognised.

The equity accounted investment in NXE Australia Pty Limited is assessed for impairment on an annual basis or when there are impairment indicators.

During the half-year ended 31 December 2019, we had identified impairment indicators for our investment in NXE Australia Pty Limited. We apply management judgement to determine the recoverable amount of the investment using a 'value in use' calculation for our impairment assessment. These judgements include selection of terminal growth rate and discount rate based on past experience and our expectations for the future. No impairment charge was required.

Section 6. 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.



6.1 Other accounting policies

6.1.1 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 2019 but will be applicable to the Telstra Group in future reporting periods are detailed below.

In May 2019, the AASB issued AASB 2019-1: 'Amendments to Australian Accounting Standards – References to the Conceptual Framework', effective for Telstra Group 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 amendments to have a material impact on our financial results upon adoption.

6.2 Commitments and contingencies

6.2.1 Capital expenditure commitments

During the period, our capital commitments decreased by \$268 million due to reduced capital expenditure spend.

6.2.2 Contingent liabilities and contingent assets

Telstra is subject to a range of laws and regulations in Australia and overseas, including in the areas of telecommunications, corporate law, consumer and competition law and occupational health and safety. Telstra is also subject to investigations and reviews from time to time by regulators. In Australia, the principal regulators that Telstra interacts with are the Australian Competition and Consumer Commission (ACCC), the Australian Communications and Media Authority (ACMA), the Australian Securities and Investments Commission and the Australian Securities Exchange. Any regulatory investigations and reviews may result in enforcement action, litigation (including class action proceedings) or civil or criminal penalties. Telstra assesses each investigation and review that it is subject to for the purposes of preparing its financial statements in accordance with the accounting standards.

The ACCC is undertaking an investigation, launched in March 2019, into our sales, complaint handling and debt collection practices, to determine whether Telstra has engaged in misleading or deceptive conduct, unconscionable conduct, or made false or misleading representations, in breach of the Competition and Consumer Act 2010 (Act). The investigation has a specific focus on conduct towards Indigenous Australians, including in particular locations in the NT, WA, QLD, NSW and SA. It is also examining our conduct more broadly, including our sales, complaints handling and debt collection procedures, as they have been applied to our customers generally, and particularly vulnerable customers. We are cooperating with the ACCC's investigation, which involves extensive information and document requests. The investigation is ongoing, and its scope may change and broaden.

The ACCC's investigation follows investigations by both the Telecommunications Industry Ombudsman, one commencing in December 2016 and one in October 2018, and the ACMA, which commenced in June 2018, during which issues were raised and concerns were expressed about our sales practices, including in relation to Indigenous Australians. These investigations concluded in 2018 and did not result in enforcement action by these bodies.

Any enforcement action arising from the ACCC investigation may involve significant financial penalties, which are set out in the Act and are applicable to each act or omission found to have breached the Act. Maximum penalties set out in the Act are not automatically applied and are assessed by a court on a case by case basis.

Given that the ultimate scope and outcome of the investigation is uncertain, including the extent of any court proceedings or the scope and extent of any penalties or other remedies sought as part of those proceedings, arriving at an estimate of any financial impact would involve significant assumptions. Accordingly, we cannot estimate this with sufficient reliability. As required by accounting standards, no provision has been made to cover liabilities that may arise from this investigation as at 31 December 2019.

In the ordinary course of our business, we identify, and may continue to identify, issues that have the potential to impact our customers and reputation, or which do not meet our standards. There have been instances, which are among those the ACCC is investigating, where we have failed to meet the standards we set for ourselves. These include instances where our sales processes were not followed, and where our complaint and debt recovery procedures were applied in a way that did not deliver good customer outcomes. While we have taken steps to respond to these issues, and will continue to do so, contingent liabilities may exist in respect of actual or potential claims, compensation payments and/or refunds arising from issues which we identify and instances such as these. Where we identify these issues, we make disclosures in accordance with accounting standards, or our other legal disclosure obligations, or provide for such liabilities as required.

Since 30 June 2019, there have been no other 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 2019.

6.3 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 31 December 2019 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than the following:

6.3.1 Interim dividend

The details of our interim dividend for the half-year ended 31 December 2019 are disclosed in note 4.1.

Directors' Declaration

This Directors' Declaration is required by the *Corporations Act 2001*. 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 2019, 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 2019.

For and on behalf of the board



John P Mullen
Chairman



Andrew R Penn
Chief Executive Officer and
Managing Director

13 February 2020

Melbourne,
Australia



Building a better
working world

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Independent Auditor's Review 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 2019, 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 2019 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 2019 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

Andrew Price
Partner
Melbourne
13 February 2020