15 February 2018

The Manager

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

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Financial results for the half-year ended 31 December 2017

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 2017.

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 2017 and any public disclosures made by Telstra in accordance with the continuous disclosure requirements of the Listing Rules and the Corporations Act 2001.

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

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

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

Yours faithfully

Sue Laver
Company Secretary

APPENDIX 4D (ASX LISTING RULE 4.2A.3)
HALF-YEAR REPORT
31 December 2017
Telstra Corporation Limited ABN 33 051 775 556

1. Results for announcement to the market

Telstra Group	Half-year ended 31 Dec			
	2017	2016	Movement	
	$m	$m	$m	%
Revenue (excluding finance income) from ordinary activities	12,907	12,806	101	0.8
Other income	1,603	897	706	78.7
Total income	**14,510**	**13,703**	**807**	**5.9**
Finance income	48	77	(29)	(37.7)
Profit for the period attributable to equity holders of Telstra Entity before impairment of Ooyala	1,976	1,791	185	10.3
Impairment of Ooyala	(273)	-	(273)	n/m
Profit for the period attributable to equity holders of Telstra Entity	**1,703**	**1,791**	**(88)**	**(4.9)**
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	1,703	1,791	(88)	(4.9)

n/m = not meaningful

2. Dividend information

Telstra Entity	Amount per share	Franked amount per share
	cents	cents
Interim ordinary dividend per share	7.5	7.5
Interim special dividend per share	3.5	3.5
Total interim dividend per share	**11.0**	**11.0**
Interim dividend dates		
Record date	1 March 2018	
Payment date	29 March 2018	

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	
	2017	2016
	cents	cents
Net tangible assets per security	43.5	45.4

Net tangible assets are defined as the net assets of the Telstra Group less intangible assets and non-controlling interests. The number of Telstra shares on issue as at 31 December 2017 was 11,893 million shares (2016: 11,893 million).

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

Telstra Group			% of equity held by ultimate parent	
			As at	
			31 Dec 2017	30 Jun 2017
Name of entity	Country of incorporation	Date of control obtained or lost	%	%
Control obtained				
Medication Knowledge Pty Ltd[1]	Australia	27 October 2017	40.0	-
MTData Holdings Pty Ltd [2]	Australia	31 October 2017	100.0	-
Virtual Machine Technology Pty Ltd [2]	Australia	13 December 2017	100.0	-
Control lost				
1300 Australia Pty Ltd [3]	Australia	17 November2017	-	85.0
Inteligen Communication Limited [4]	United Kingdom	07 November 2017	-	100.0
NSC NZ Limited [4]	New Zealand	07 December 2017	-	100.0

1 During the period, the entity was incorporated.

2 During the period, we acquired these entities and its controlled entities.

3 During the period, the entity and its controlled entity was disposed of.

4 During the period, these entities were liquidated.

A complete list of our controlled entities as at 30 June 2017 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 2017	30 Jun 2017
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
Customer Services Pty Ltd	Customer services	Australia	50.0	50.0
Foxtel Cable Television Pty Ltd	Pay television	Australia	80.0	80.0
Foxtel Management Pty Ltd	Management services	Australia	50.0	50.0
Foxtel Partnership	Pay television	Australia	50.0	50.0
Foxtel Television Partnership	Pay television	Australia	50.0	50.0
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	50.0	50.0
Reach Limited [1]	International connectivity services	Bermuda	50.0	50.0

1 Balance date is 31 December.

6. Details of investments in associated entities

Telstra Group			Ownership interest As at 31 Dec 2017	Ownership interest As at 30 Jun 2017
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
Associated entities				
Asia Netcom Philippines Corporation [1]	Ownership of physical property	Philippines	40.0	40.0
Australia-Japan Cable Holdings Limited [1]	Network cable provider	Bermuda	46.9	46.9
Dacom Crossing Corporation [1]	Network cable provider	Korea	49.0	49.0
Digitel Crossing Inc. [1]	Telecommunication services	Philippines	40.0	40.0
enepath (Group Holdings) Pte Ltd [2]	Trading turret and calling software provider	Singapore	24.8	24.8
Gorilla Technology Group Inc. [1]	Video analytics software provider	Taiwan/Cayman Islands	8.9	8.9
IP Health Pty Ltd	Health work flow software development	Australia	-	32.9
IPScape Pty Ltd	Cloud based contact centre solution	Australia	21.4	24.9
Near Pte Ltd [2]	Location intelligence and analytics	Singapore	12.7	12.5
Panviva Pty Ltd	Cloud based business process guidance software	Australia	22.2	22.2
PharmX Pty Ltd	Internet based ordering gateway	Australia	30.0	30.0
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
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0
Whispir Limited	Cloud communication software provider	Australia	21.2	24.5

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

7. Dividend Reinvestment Plan

The Board suspended the Dividend Reinvestment Plan (DRP) on 17 August 2017 with an intent to recommence when circumstances allow. On 15 February 2018, the Board resolved that the DRP would be recommenced and will operate for the interim dividend. The election date for participation in the DRP is 2 March 2018.

Additional Appendix 4D disclosure requirements can be found in the notes in our half-year financial report, the half-year Directors' Report and the Half-year results and operations review lodged with this document.

Directors' Report

In accordance with a resolution of the Board of Directors (the Board), the Directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited (Telstra) and the entities it controlled at the end of or during the half-year ended 31 December 2017. Financial comparisons used in this report are of results for the half-year ended 31 December 2017 compared with the half-year ended 31 December 2016 for income statement analysis, and 31 December 2017 compared with 30 June 2017 for statement of financial position analysis.

Review and results of operations

Information on the operations and the results of those operations for the Telstra Group during the half-year is set out on pages 1 to 10 of the Half-Year results and operations review accompanying this Directors' Report.

Dividends

On 17 August 2017, we announced a change to our dividend policy commencing after the payment of the final dividend for financial year 2017. From financial year 2018:

- we will pay a fully-franked ordinary dividend of 70 to 90 per cent of our underlying earnings, which is calculated as net profit after tax excluding net one-off nbn receipts; and
- we intend to return in the order of 75 percent of net one-off nbn receipts to shareholders over time via fully-franked special dividends.

"Net one-off nbn receipts" is defined as the net nbn one-off Definitive Agreement receipts (consisting of Per Subscriber Address Amount, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax. The return is subject to no unexpected material events, assumes the nbn™ network rollout is broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid fibre co-axial technology for six to nine months from 11 December 2017 and receipt of associated one-offs, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with our capital management framework.

On 15 February 2018, the Directors of Telstra Corporation Limited resolved to pay an interim dividend for the financial year 2018 of 11 cents per ordinary share, comprising an interim ordinary dividend of 7.5 cents and an interim special dividend of 3.5 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 1 March 2018, with payment being made on 29 March 2018. From 28 February 2018, shares will trade excluding entitlement to the dividend.

Our final dividend for the financial year ended 30 June 2017 of 15.5 cents per ordinary share ($1,842 million) was paid during the half-year ended 31 December 2017. This dividend was fully-franked at a tax rate of 30 per cent. The final dividend had a record date of 31 August 2017 and payment was made on 28 September 2017.

The Board suspended the Dividend Reinvestment Plan (DRP) on 17 August 2017 with an intent to recommence when circumstances allow. On 15 February 2018, the Board resolved that the DRP would be recommenced and will operate for the interim dividend. The election date for participation in the DRP is Friday 2 March 2018.

Directors

Directors who held office during the half-year ended 31 December 2017 and until the date of this report were:

Director	Period of directorships
John P Mullen	Chairman since 2016, Director since 2008
Andrew R Penn	Chief Executive Officer and Managing Director since 2015
Craig W Dunn	Director since 2016
Peter R Hearl	Director since 2014
Jane S Hemstritch	Director since 2016
Russell A Higgins	Director since 2009
Nora L Scheinkestel	Director since 2010
Margaret L Seale	Director since 2012
Steven M Vamos	Director since 2009
Trae A N Vassallo	Director since 2015

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 15 February 2018 in accordance with a resolution of the Directors.

John P Mullen
Chairman
15 February 2018

Andrew R Penn
Chief Executive Officer and Managing Director
15 February 2018

Building a better working world

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

As lead auditor for the review of Telstra Corporation Limited for the half-year ended 31 December 2017, 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 period.

Ernst & Young

Ernst & Young

A Price
Partner
Melbourne
15 February 2018

Half year results and operations review

Summary financial results	1H18 $m	1H17 $m	Change %
Total revenue	**12,907**	12,806	0.8
Total income (excluding finance income)	**14,510**	13,703	5.9
Operating expenses	**9,418**	8,512	10.6
Share of net (loss) from joint ventures and associated entities	**(31)**	(2)	n/m
EBITDA	**5,061**	5,189	(2.5)
Depreciation and amortisation	**2,219**	2,248	(1.3)
EBIT	**2,842**	2,941	(3.4)
Net finance costs	**274**	283	(3.2)
Income tax expense	**886**	873	1.5
Profit for the period	**1,682**	1,785	(5.8)
Profit attributable to equity holders of Telstra	**1,703**	1,791	(4.9)
Capex[1]	**2,299**	2,050	12.1
Free cashflow	**1,716**	1,378	24.5
Earnings per share (cents)	**14.3**	14.8	(3.4)

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

Reported results

Telstra increased subscriber numbers on mobile and fixed, reduced underlying core fixed costs and made progress under the strategic investment program.

On a reported basis, including the Ooyala impairment, total income was up 5.9 per cent, EBITDA was down 2.5 per cent, NPAT was down 5.8 per cent and basic EPS was down 3.4 per cent. On a guidance basis total income was up 5.4 per cent and EBITDA was up 2.4 per cent. As announced on 2 February 2018, we made a non-cash impairment of $273 million and wrote down the carrying value of Ooyala to zero. Excluding this impairment, NPAT was up 9.5 per cent and basic EPS was up 12.2 per cent.

We have been operating within a significant period of change, including migration to the nbn, competitive challenges, accelerating pace of technological change and preparation for the transition to 5G. Within this environment, we have delivered a solid result in line with guidance for this half. We are in one of the most dynamic periods the company has faced and need to increase our level of intensity, and we are stepping up how we aggressively compete in the market, particularly leveraging our multi-brand strategy including Telstra, Belong, Boost and Telstra Wholesale.

Our productivity program has delivered a 7.2 per cent or $249 million reduction in underlying core fixed costs, more than offsetting inflation, higher power costs and reinvestment. While we announced increased targets in August 2017, we will look to do even more, again increasing our focus on reducing costs.

This is critical against the background of the acceleration in the rollout of the nbn, which is having a material economic impact on Telstra. Of the estimated $3 billion annual impact, to date we have cumulatively absorbed approximately $870 million of the negative EBITDA impact from the nbn, including $370 million in the period.

The impact of the nbn, along with increased competition, highlights the importance of the up to $3 billion strategic investment program, and we are on track to deliver economic benefits from this of more than $500 million of EBITDA by FY21. We will accelerate these investments to lay the foundation of future success, scrutinising every aspect of our capital spending to ensure our investments are driving the greatest results.

The numbers and commentary in the product, expense and segment performance sections have been prepared on a continuing operations basis and align with the statutory financial statements.

Results on a guidance basis[1]	1H18	FY18 Guidance
Total income[2]	**$14.4b**	$27.6b to $29.5b
EBITDA	**$5.3b**	$10.1b to $10.6b
Net one-off nbn DA receipts less nbn net Cost to Connect (C2C)	**$1.0b**	$1.4b to $1.9b
Capex	**$2.3b**	$4.4b to $4.8b
Free cashflow	**$1.8b**	$4.2b to $4.7b

Guidance versus reported results[1]	1H18 Reported results $m	1H18 Adjustments $m	1H18 Guidance basis $m
Total income[2]	**14,510**	(69)	**14,441**
EBITDA[3]	**5,061**	254	**5,315**
Free cashflow	**1,716**	47	**1,763**

1. This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017. Capex excludes externally funded capex. Please refer to the guidance versus reported results reconciliation on page 10. This reconciliation has been reviewed by our auditors.
2. Total income excludes finance income.
3. EBITDA guidance adjustments include a $273m impairment loss for the Ooyala Holdings Group.

On 15 February 2018, the Directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 11.0 cents per ordinary share, comprising an interim ordinary dividend of 7.5 cents and an interim special dividend of 3.5 cents. The interim ordinary dividend represents a 71 per cent payout ratio on underlying earnings excluding the impairment of the Ooyala Holdings Group, while the interim special dividend represents a 58 per cent payout ratio of 1H18 net one-off nbn receipts. Our underlying earnings were $1,240 million excluding impairment or $967 million including impairment, while net one-off nbn receipts were $715 million.

Shares will trade excluding entitlement to the dividends from 28 February 2018 with payment on 29 March 2018.

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 nbn Definitive Agreements (nbn DAs) and commercial works is reported in the All Other segment with the exception of Infrastructure Service Agreement (ISA) amounts included in Telstra Wholesale and nbn commercial works included in Telstra Operations.

Segment total income

Total external income	1H18 $m	1H17 $m	Change %
Telstra Consumer and Small Business	**7,418**	7,395	0.3
Telstra Enterprise	**3,938**	3,845	2.4
Telstra Wholesale	**1,412**	1,336	5.7
Telstra Operations	**637**	525	21.3
All Other	**1,105**	602	83.6
Total Telstra segments	**14,510**	13,703	5.9

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 increased by 0.3 per cent to $7,418 million.

Telstra Consumer income increased by 1.0 per cent with mobile services revenue increasing by 0.3 per cent and fixed data increasing by 2.3 per cent. Fixed voice continued its ongoing decline, falling by 11.4 per cent.

Telstra Small Business income declined by 4.3 per cent, negatively impacted by lower mobile services revenue which declined by 4.8 per cent due to ARPU reductions which offset customer net adds. Ongoing fixed voice decline also contributed to the fall. Network Applications and Services (NAS) business revenue continued to grow, increasing by 13.4 per cent, driven primarily by growth in cloud services.

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

Income for Telstra Enterprise increased by 2.4 per cent to $3,938 million. Telstra Enterprise domestic income increased by 1.8 per cent due to continued double digit growth in NAS, which grew by 11.7 per cent. This was largely offset by ongoing fixed voice decline and ARPU declines across mobility and Data & IP.

Telstra Enterprise international income increased by 5.2 per cent, mainly due to NAS from additional customer premise equipment sales and the newly acquired Company85, and growth in fixed products from FY17 initiatives.

Telstra Wholesale
Telstra Wholesale is responsible for the provision of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers.

Wholesale income grew by 5.7 per cent to $1,412 million, largely due to an increase in ISA ownership receipts which have increased in line with the nbn™ network rollout.

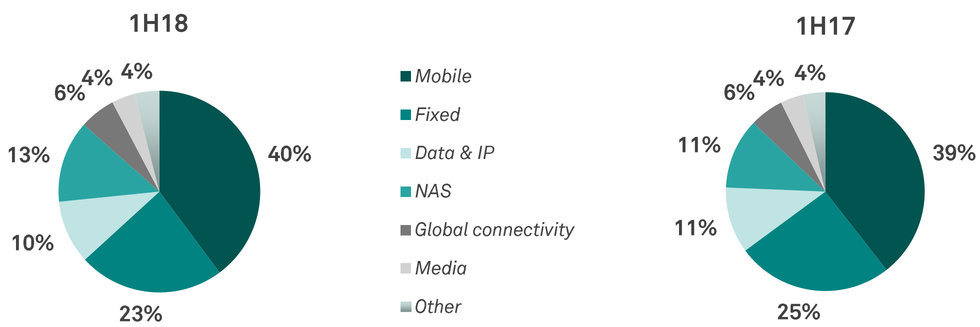
Telstra Operations
Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of other segments.

It is also a provider of network services to nbn co under the nbn DAs and commercial contracts. Income grew to $637 million, primarily due to an increase in nbn commercial works.

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 Technology, Innovation and Strategy (including Telstra Ventures and Ooyala), New Businesses (including Telstra Health), and Media & Marketing. Income growth in this category was largely due to increased nbn disconnection fees (Per Subscriber Address Amount (PSAA)) in line with the nbn™ network rollout.

Product performance

Product sales revenue breakdown



Key product revenue	1H18 $m	1H17 $m	Change %
Mobile	**5,082**	5,043	0.8
Fixed	**2,986**	3,255	(8.3)
Data & IP	**1,300**	1,376	(5.5)
NAS	**1,677**	1,470	14.1
Global connectivity	**735**	704	4.4

EBITDA margins[1]	1H18 (%)	2H17 (%)	1H17 (%)	FY17 (%)
Mobile	**40**	45	41	43
Fixed voice[2]	**38**	45	50	48
Fixed data[2]	**17**	28	34	31
Data & IP	**59**	58	59	59
NAS	**6**	9	8	9
Global connectivity	**15**	17	18	18

1. The data in this table includes minor adjustments to historic numbers to reflect changes in product hierarchy.
2. Margins include nbn voice and data products.

Mobile

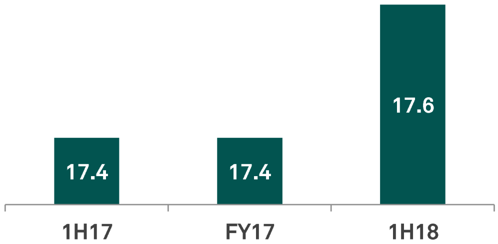
Mobile sales revenue increased by 0.8 per cent to $5,082 million, mostly due to net add momentum and associated growth in hardware revenue and wholesale resale.

Retail customer services increased by 235,000 in the half, bringing the total to 17.6 million. We now have 7.7 million postpaid handheld retail customer services, an increase of 130,000. There was improved momentum in 2Q18 from iPhone X, while Belong® mobile was launched successfully with 21,000 net adds in 1H18.

Postpaid handheld revenue declined by 1.1 per cent to $2,682 million as ARPU declined by 2.9 per cent from $67.88 to $65.92 (excluding the impact of mobile repayment options) due to higher data inclusions. Continued growth in monthly minimum commitments was offset by lower out of bundle revenue.

Prepaid handheld revenue declined by 1.8 per cent to $493 million, with ARPU growth of 5.6 per cent from $21.50 to $22.70 offset by a 184,000 decline in unique users over the year (66,000 decline in the half).

Domestic mobile retail customer services (millions)



Mobile broadband revenue declined by 8.6 per cent to $470 million despite customer services increasing by 34,000 in the half, however there was ongoing improvement in the rate of revenue decline. Mobile broadband revenue decreased by 1.7 per cent in the sequential period between 2H17 and 1H18 as the mix shift slows from old dongle plans to newer tablet plans at a lower ARPU.

Mobile hardware revenue grew by 8.2 per cent to $1,160 million including stronger demand for iPhone 8 and iPhone X devices compared with iPhone 7S which was launched in the prior corresponding period.

Mobile EBITDA margin declined by 1 percentage point to 40 per cent due to postpaid handheld ARPU reduction and some one-offs. 2H17 EBITDA margins benefited from services revenue growth, mobile handset leasing and some seasonality.

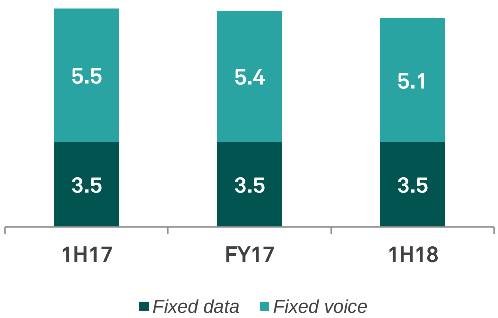
Fixed

Fixed revenue declined by 8.3 per cent to $2,986 million, impacted by an increased rate of nbn migration and competition.

Fixed voice revenue decreased by 12.7 per cent to $1,401 million due to lower retail and wholesale customer services. Retail fixed voice line loss was 243,000 in the half, taking total retail fixed voice customers to 5.1 million. Fixed voice ARPU decline was lower than that of the prior corresponding period, decreasing by 3.8 per cent to $37.17. There continues to be a focus on retention activity and momentum from bundling.

Fixed data revenue declined by 1.5 per cent to $1,257 million, as retail fixed data revenue growth of 1.9 per cent was offset by lower wholesale revenue due to nbn migration. There were 21,000 retail fixed data net subscriber additions including Belong®, bringing the total retail fixed data customers to 3.5 million. Fixed data ARPU increased by 0.8 per cent to $50.62 compared with a 2.7 per cent decline in the prior corresponding period.

Domestic fixed retail customer services (millions)



Retail bundles, including the recently launched 'Unlimited Data Bundles', continued to perform well. The total number of customers taking up a bundle increased by 57,000 in the half, with 90 per cent of our retail fixed data customer base now on a bundled plan. We continue to lead the nbn market with a total of 1,630,000 nbn connections, an increase of 454,000 in the half. Our nbn market share is now 51 per cent (excluding satellite).

Other fixed revenue, which includes intercarrier services, platinum services, payphones, and customer premises equipment, decreased by 12.5 per cent to $328 million. Intercarrier access services revenue declined by 12.5 per cent.

Fixed voice and fixed data EBITDA margins declined to 38 and 17 per cent respectively, negatively affected by upfront costs of connecting customers to the nbn™ network, and rising network payments to nbn co.

Data & IP

Data & IP revenue decreased by 5.5 per cent to $1,300 million reflecting legacy product declines across ISDN, IP WAN and calling products, which offset IP customer growth.

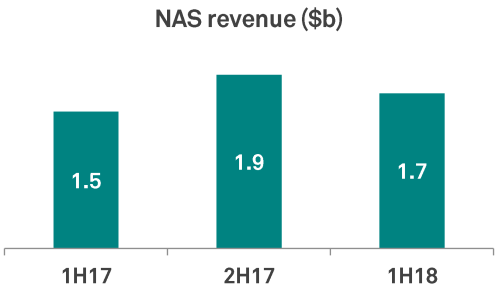
IP access revenue declined by 1.6 per cent as competitive yield pressures and legacy product declines offset customer growth in IP VPN and IP MAN. The accelerated decline in ISDN revenue, down 12.9 per cent, represents legacy migration to growth IP products, and NAS collaboration and calling solutions.

Other data and calling products revenue, which includes wholesale internet and data, inbound calling products, and other global products and solutions, decreased by 6.0 per cent to $489 million.

Data & IP EBITDA margin remained stable at 59 per cent.

Network Applications and Services (NAS)

NAS revenue grew by 14.1 per cent to $1,677 million with continued double digit growth across Business and Enterprise customer segments.



Managed network services revenue increased by 7.7 per cent, reflecting a 15.9 per cent growth in security services revenue and other one-off revenue in managed data networks. Managed data networks revenue grew by 6.2 per cent. Unified communications increased by 4.3 per cent due to collaboration and calling solutions as well as growth in professional services from timing of milestones.

Cloud services revenue growth of 14.6 per cent was facilitated by annuity growth in public cloud, with further growth coming from consulting services and cloud applications.

Industry solutions revenue growth of 22.2 per cent was driven by nbn and other commercial works.

NAS EBITDA margin declined by 2 percentage points to 6 per cent due to the timing of major contract milestones.

Global connectivity

Global connectivity represents the international business of Telstra Enterprise. Revenue grew by 6.7 per cent in local currency (LC) terms due to continued NAS and fixed product growth as customers continued to respond positively to the increased scale and reach of the Telstra product portfolio.

Fixed revenue increased by 9.8 per cent (LC) as a result of wholesale voice customer growth, while NAS revenue grew by 36.3 per cent (LC) due to uptake in managed network services and customer premise equipment. Our global services footprint was expanded with the acquisition of Company85 in June 2017. The decline of 0.6 per cent (LC) in Data & IP revenue was mostly due to yield pressure.

On a reported AUD basis, global connectivity revenue increased by 4.4 per cent to $735 million.

Global connectivity EBITDA margin declined by 3 percentage points to 15 per cent due to revenue mix changes, yield pressure and some one-off costs.

Media

Media revenue excluding cable increased by 0.8 per cent to $475 million due to the performance of Foxtel from Telstra, which grew by 0.8 per cent to $393 million and had 51,000 subscriber additions over the past year. Foxtel from Telstra revenue and subscribers grew despite a broader industry transition from Broadcast to IPTV.

There are now 1,112,000 Telstra TV devices in the market, with growth expected to continue following the launch of the new Telstra TV in October 2017.

Sports Live Pass users increased significantly to 1,586,000 across AFL, NRL and Netball on the back of improved customer experience. Almost all users receive the service as part of their mobile subscription.

Other

Other sales revenue includes revenue related to nbn co access to our infrastructure, and revenue from Telstra Health (currently focused on consolidating operations) and Ooyala.

Other revenue primarily consists of Go Mobile Swap lease income and rental income.

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 disconnection fees (PSAA), subsidies and other miscellaneous items. The increase in other income of 78.7 per cent during the period is largely due to an increase in one-off PSAA and ISA receipts in line with the progress of the nbn™ network rollout.

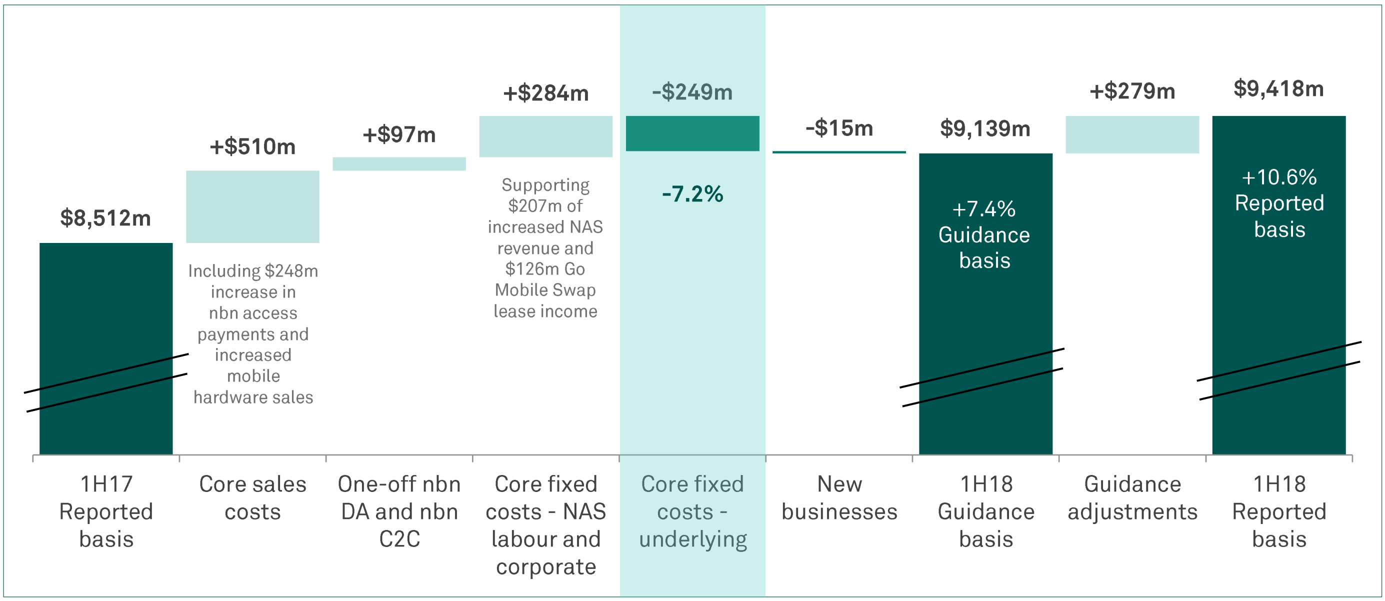
Expense performance

In August 2017, we announced we would deliver more than a $1 billion reduction in underlying core fixed costs by FY20 and an additional $500 million annual reduction by FY22. This means we will deliver more than $1.5 billion net productivity by FY22.

We have delivered against our cost ambitions for the half and are ahead of the run rate required for our more than $1.5 billion net productivity target with underlying core fixed costs declining by 7.2 per cent or $249 million. Our total reported costs grew due to increased nbn access payments, nbn C2C, nbn commercial works and other large NAS projects, and restructuring costs.

Operating expenses	1H18 $m	1H17 $m	Change	
			$m	%
Core sales costs[1]	**4,108**	3,598	510	14.2
Core fixed costs	**4,571**	4,536	35	0.8
- Underlying	**3,211**	3,460	(249)	(7.2)
- NAS labour and corporate[2]	**1,360**	1,076	284	26.4
New businesses costs[3]	**151**	166	(15)	(9.0)
One-off nbn DA and nbn C2C	**309**	212	97	45.8
Total Guidance	**9,139**	**8,512**	**627**	**7.4**
Guidance adjustments[4]	**279**	-	279	n/m
Total Reported	**9,418**	**8,512**	**906**	**10.6**

1. Core sales costs excludes goods and services purchased associated with new businesses and nbn C2C.
2. NAS labour and corporate costs include significant transactions and events associated with NAS commercial works and labour, global connectivity costs including FX, Go Mobile Swap lease costs and bond rate impacts. 1H17 restated to include $165m (1H18 $134m) additional restructuring costs represented as a guidance adjustment in prior year.
3. New businesses includes Telstra Health, Ooyala and Telstra Ventures.
4. Guidance adjustments include a $273m impairment loss for the Ooyala Holdings Group.



Total operating expenses increased by 10.6 per cent to $9,418 million. Core sales costs, which are direct costs associated with revenue and customer growth, increased by $510 million or 14.2 per cent due to increased nbn access payments and increased variable costs supporting revenue growth across mobile hardware, NAS and global connectivity. NAS labour and corporate costs increased by $284 million or 26.4 per cent, which supported the $207 million of increased NAS revenue and the $126 million Go Mobile Swap lease income. One-off nbn DA and nbn C2C grew by $97 million or 45.8 per cent as the nbn™ network rollout continues to accelerate.

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	1H18 $m	1H17 $m	Change %
Labour[1]	**2,663**	2,684	(0.8)
Goods and services purchased[2]	**4,238**	3,693	14.8
Other expenses[1]	**2,517**	2,135	17.9
Total operating expenses	**9,418**	8,512	10.6

1. Labour and other expenses consists of core fixed costs, and the non-core sales components of new businesses costs, and one-off nbn DA and nbn C2C.
2. Goods and services purchased includes core sales costs and sales costs relating to new businesses, and one-off nbn DA and nbn C2C.

Labour

Total labour expenses decreased by 0.8 per cent or $21 million to $2,663 million. Redundancy costs decreased by 30.1 per cent or $44 million resulting from higher restructuring related costs in 1H17. This was partially offset by a 1.5 per cent or $29 million increase in salary and associated costs due to annual pay increases.

Total full time staff and equivalents decreased by 1.7 per cent or 569 to 31,982.

Goods and services purchased

Goods and services purchased increased by 14.8 per cent or $545 million to $4,238 million.

Cost of goods sold, which includes mobile handsets, tablets, dongles, broadband modems and NAS hardware, increased by 7.1 per cent or $114 million to $1,711 million on the back of higher iPhone volumes throughout November and December 2017 and growth in our NAS business.

Service fees, which are primarily for Foxtel, Stay Connected, mobile content and NAS related costs, increased by 14.5 per cent or $120 million.

Network payments increased by 37.6 per cent or $297 million to $1,086 million, including a $247 million increase in nbn access payments as customers migrate across to nbn services. Offshore network payments were $55 million higher mainly due to higher voice outpayments.

Other expenses

Total other expenses increased by 17.9 per cent or $382 million to $2,517 million. This was largely due to the recognition of a $273 million impairment loss for the Ooyala Holdings Group.

Service contract and other agreement costs decreased by $77 million to $797 million due to a reduction in consultancy fees.

Depreciation and amortisation

Depreciation and amortisation decreased by 1.3 per cent to $2,219 million primarily due to the net effect of our annual assessment of useful lives performed so far resulting in a $93 million decrease in depreciation expense and a $13 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 Australian dollars decreased our expenses by $24 million across labour, goods and services purchased, and other expenses. This foreign exchange impact has been offset by a loss to sales revenue, resulting in a favourable EBITDA contribution of $1 million.

Net finance costs

Net borrowing costs reduced by $6 million from $348 million to $342 million. The movement comprised a reduction in borrowing costs of $36 million offset by a decrease in interest income of $30 million.

The movement in borrowing costs reflects a $2 million reduction in interest on finance leases and a $34 million decrease in interest expense on borrowings. The reduction in interest expense on borrowings was driven by a significant reduction in our average gross interest cost from 5.4 per cent to 4.8 per cent, offset by an increase in average gross debt from $15.9 billion to $16.4 billion. This reflects a combination of issuing term debt at lower interest rates as well as greater use of short term debt, including revolving bank facilities, to manage liquidity.

The reduction in borrowing costs was offset by a $30 million decrease in interest income on financial instruments. This included an $18 million decrease in interest on cash and cash equivalents, driven by lower average cash balances period on period, and a $12 million reduction in interest income from joint venture entities, which was a result of the capitalisation of the Foxtel shareholder loan on 28 September 2017.

Total net finance costs decreased by 3.2 per cent or $9 million to $274 million. This includes the $6 million reduction in net borrowings costs, with defined benefit plan and capitalised interest reducing total net finance costs by a further $2 million and $7 million respectively. The favourable movement in capitalised interest was driven by higher capital expenditure offset by a lower capitalisation rate due to lower cost of borrowing.

The reduction in total net finance costs was offset by a $6 million unfavourable movement in remeasurements. Remeasurements represent (non-cash) unrealised gains and losses associated with our derivative financial instruments.

Summary Statement of Cash Flows	1H18	1H17	Change
	$m	$m	%
Net cash provided by operating activities	**3,773**	3,162	19.3
Total capital expenditure	**(2,648)**	(2,258)	(17.3)
Other investing cash flows	**591**	474	24.7
Net cash used in investing activities	**(2,057)**	(1,784)	(15.3)
Free cashflow	**1,716**	1,378	24.5
Net cash used in financing activities	**(2,068)**	(3,741)	44.7
Net (decrease) in cash and cash equivalents	**(352)**	(2,363)	85.1
Cash and cash equivalents at the beginning of the period	**936**	3,550	(73.6)
Effects of exchange rate changes on cash and cash equivalents	**-**	1	n/m
Cash and cash equivalents at the end of the period	**584**	1,188	(50.8)

Financial Position

Capital expenditure and cash flow

Net cash provided by operating activities increased by 19.3 per cent to $3,773 million mainly due to an increase in one-off nbn receipts as the nbn™ network rollout continues to accelerate, and improvements in working capital initiatives including Go Mobile Swap leasing. The increase in net cash used in investing activities primarily reflects the increase in capital expenditure for the period.

Our operating capital expenditure for the half was 18.0 per cent of sales revenue or $2,299 million. Capital expenditure will remain approximately 18.0 per cent of sales revenue during the FY18-19 period as the up to $3 billion of strategic investment announced in August 2016 continues to be invested across the business. We have invested approximately $1.4 billion or approximately half of the additional capital expenditure, including $1.3 billion on networks and $100 million on digitisation.

During the half we upgraded our core backbone infrastructure to meet future customer demand and improve resilience, switched on our Cat M1 Internet of Things (IoT) capability (the largest IoT coverage in Australia), deployed our next generation optical transport network, and are well advanced in our planning for 5G. Our investments continue to support industry leading mobile differentiation, coverage, speed and resiliency.

Free cashflow generated from operating and investing activities was $1,716 million, representing an increase of $338 million or 24.5 per cent. This was due to an increase in net cash provided by operating activities. The decrease in net cash used in financing activities principally reflects the $1.5 billion share buyback program that was completed in the prior corresponding period.

On a guidance basis free cashflow was $1,763 million, which is consistent with historical first half cashflow trends. Performance against guidance has been adjusted for free cashflow associated with M&A activity ($20 million) and spectrum ($27 million).

Debt position

Our gross debt position was $16,415 million, comprising borrowings of $17,619 million and net derivative assets of $1,204 million. Gross debt increased by $197 million from $16,218 million at 30 June 2017 as a result of a $1,101 million increase in debt during the year being offset by $922 million debt maturities, as detailed in the tables below. Debt issuance includes a 10 year $500 million United States dollar bond ($648 million Australian dollar equivalent) transacted in November 2017 and maturing November 2027.

Debt issuance	$m
Drawn bank loans and facilities	350
Debt capital markets	648
Short term commercial paper (net)	43
Other loans	60
Total	**1,101**

Debt repayments	$m
Debt capital markets	(853)
Finance leases	(60)
Other loans	(9)
Total	**(922)**

The remainder of the movement in gross debt comprises non-cash finance lease additions of $32 million and bank overdraft of $1 million, offset by revaluation impacts of $15 million including unrealised movements on our derivatives.

Net debt has increased by $548 million to $15,828 million. This increase comprised a net free cash inflow of $1,716 million offset by dividend and finance costs paid of approximately $2.2 billion. Cash and cash equivalents at the end of the period were $587 million, excluding $3 million bank overdraft.

Financial settings	1H18 Actual	FY18 Comfort zone
Debt servicing[1]	1.6x	1.3 to 1.8x
Gearing[2]	52.5%	50% to 70%
Interest cover[3]	14.6x	>7x

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

We remain within our comfort ranges for all our credit metrics. Our gearing ratio is 52.5 per cent (51.2 per cent at 30 June 2017), debt servicing is 1.6 times (1.4 times) and interest cover is 14.6 times (15.4 times).

Summary Statement of Financial Position	1H18 $m	1H17 $m	Change %
Current assets	**7,704**	7,862	(2.0)
Non-current assets	**34,478**	34,271	0.6
Total assets	**42,182**	42,133	0.1
Current liabilities	**9,369**	9,159	2.3
Non-current liabilities	**18,466**	18,414	0.3
Total liabilities	**27,835**	27,573	1.0
Net assets	**14,347**	14,560	(1.5)
Total equity	**14,347**	14,560	(1.5)
Return on average assets (%)	**13.8%**	15.6%	(1.8)pp
Return on average equity (%)	**23.6%**	25.6%	(2.0)pp

Statement of Financial Position
Our balance sheet remains in a strong position with net assets of $14,347 million.

Current assets decreased by 2.0 per cent to $7,704 million largely as a result of the reduction in cash and cash equivalents of $351 million. Cash and cash equivalents continue to be used to fund our strategic investment program. Trade and other receivables decreased by $53 million. Inventories increased by $209 million primarily due to mobility inventories and demand for Apple products.

Non-current assets increased by 0.6 per cent to $34,478 million. Investments accounted for using the equity method increased by $454 million primarily as a result of the capitalisation of the Foxtel shareholder loan on 28 September 2017. Property, plant and equipment increased by $318 million, largely driven by mobile and Networks 2020 project investments. This was offset by a reduction in intangible assets of $384 million, which includes a $242 million impairment loss against goodwill for the Ooyala Holdings Group. Trade and other receivables reduced by $164 million following the reclassification of the Foxtel shareholder loan to Investments, partially offset by an increase in trade debtors (relating to customer deferred debt) and other receivables.

Current liabilities increased by 2.3 per cent to $9,369 million. Current borrowings increased by $324 million resulting from an increase in term debt due to mature within 12 months. This was offset by a reduction in other provisions of $73 million.

Non-current liabilities remained largely flat, increasing by 0.3 per cent to $18,466 million. Derivative financial liabilities reduced by $84 million due to foreign currency movements and other valuation impacts arising from measuring to fair value. As our derivatives are used to hedge foreign currency and interest rate exposures, the movement in total derivative position is largely offset by corresponding movements in borrowings and reserves (equity). This was offset by an increase in deferred tax liabilities of $97 million, while other provisions increased by $30 million.

Guidance versus reported results

This schedule details the adjustments made to the reported results for the current period to reflect the performance of the business on the basis on which we provided guidance to the market. This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid fibre co-axial (HFC) technology for six to nine months from 11 December 2017. Capex excludes externally funded capex.

	Reported			Adjustments Dec-17							Dec-16			Guidance Basis		
	Half-year ended 31 Dec			M&A Controlled Entities[1]	M&A JVs / Associates[1]	M&A Other Investments[1]	M&A Disposals[1]	Foxtel[2]	Spectrum[3]	Impairment[4]	Restructuring[5]	Spectrum[6]	M&A[7]	Half-year ended 31 Dec		
	2017	2016	Growth											2017	2016	Growth
	$m	$m	%	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	%
Sales revenue	**12,764**	12,787	**(0.2%)**	(6)	0	0	0	0	0	0	0	0	0	**12,758**	12,787	**(0.2%)**
Total revenue	**12,907**	12,806	**0.8%**	(6)	0	0	(25)	(38)	0	0	0	0	0	**12,838**	12,806	**0.3%**
Total income (excl. finance income)	**14,510**	13,703	**5.9%**	**(6)**	**0**	**0**	**(25)**	**(38)**	**0**	**0**	**0**	**0**	**0**	**14,441**	13,703	**5.4%**
Labour	**2,663**	2,684	**(0.8%)**	(3)	0	0	0	0	0	0	0	0	0	**2,660**	2,684	**(0.9%)**
Goods and services purchased	**4,238**	3,693	**14.8%**	(2)	0	0	0	0	0	0	0	0	0	**4,236**	3,693	**14.7%**
Other expenses	**2,517**	2,135	**17.9%**	(1)	0	0	0	0	0	(273)	0	0	0	**2,243**	2,135	**5.0%**
Operating expenses	**9,418**	8,512	**10.6%**	**(6)**	**0**	**0**	**0**	**0**	**0**	**(273)**	**0**	**0**	**0**	**9,139**	8,512	**7.4%**
Share of net profit/(loss) from joint ventures and associated entities	**(31)**	(2)	**nm**	0	0	0	0	44	0	0	0	0	0	**13**	(2)	**nm**
EBITDA	**5,061**	5,189	**(2.5%)**	**0**	**0**	**0**	**(25)**	**6**	**0**	**273**	**0**	**0**	**0**	**5,315**	5,189	**2.4%**
Depreciation and amortisation	**2,219**	2,248	**(1.3%)**	0	0	0	0	0	0	0	0	0	0	**2,219**	2,248	**(1.3%)**
EBIT	**2,842**	2,941	**(3.4%)**	**0**	**0**	**0**	**(25)**	**6**	**0**	**273**	**0**	**0**	**0**	**3,096**	2,941	**5.3%**
Net finance costs	**274**	283	**(3.2%)**	0	0	0	0	0	0		0	0	0	**274**	283	**(3.2%)**
Profit before income tax expense	**2,568**	2,658	**(3.4%)**	**0**	**0**	**0**	**(25)**	**6**	**0**	**273**	**0**	**0**	**0**	**2,822**	2,658	**6.2%**
Income tax expense	**886**	873	**1.5%**	0	0	0	0	(11)	0	0	0	0	0	**875**	873	**0.2%**
Profit for the period	**1,682**	1,785	**(5.8%)**	**0**	**0**	**0**	**(25)**	**17**	**0**	**273**	**0**	**0**	**0**	**1,947**	1,785	**9.1%**
Attributable to:																
Equity holders of Telstra Entity	**1,703**	1,791	**(4.9%)**	0	0	0	(25)	17	0	264	0	0	0	**1,959**	1,791	**9.4%**
Non-controlling interests	**(21)**	(6)	**nm**	0	0	0	0	0	0	9	0	0	0	**(12)**	(6)	**100.0%**
Free cashflow	**1,716**	1,378	**24.5%**	**53**	**2**	**31**	**(66)**	**0**	**27**	**0**	**129**	**27**	**87**	**1,763**	1,621	

This table has been reviewed by our auditors.

Note:

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

(1) Mergers & Acquisitions (M&A adjustments):

Adjustments relating to acquisition of controlled entities and contingent consideration. This includes the acquisition of MTData Holdings Pty Ltd and its controlled entities, the acquisition of Virtual Machine Technology Pty Ltd and its controlled entity, and acquisition adjustment for Company85 Limited.

Joint Ventures/Associates includes additional investments in Whispir Limited, Near Pte Ltd and IPScape Pty Ltd.

Other investments includes acquisitions or additional investments in ASAPP Inc, Cape Productions Inc, RipCord Digital Inc, Cumulus Networks Inc, vArmour Networks Inc, Monk's Hill Ventures Fund I, L.P., NSOne Inc, Boomtown Inc and Muru-D Pty Ltd.

During this period we disposed of our investment in 1300 Australia Pty Ltd, Tele Sign Holdings Inc, IP Health Pty Ltd and Velocloud Networks Inc.

(2) Foxtel adjustments:

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

(3) Spectrum adjustments:

Adjustment relating to the impact on Free cashflow associated with our Spectrum purchases and renewals for the period including:

$27m for renewal of spectrum licences in the 900 MHz band.

(4) Impairment adjustments:

Adjustments relating to an impairment of $273m for the remaining goodwill, intangibles and property, plant and equipment in Ooyala.

(5) Restructuring adjustments:

Adjustments for the strategic focus on accelerating restructure activity including Fitter and Faster programs in addition to our normal business as usual redundancies for the period.

Adjustments for the strategic focus on the incremental capex spend announced at the 2016 full year results to promote sustainable network differentiation, support digitisation, productivity and boost customer experience.

(6) Spectrum adjustments:

Adjustments relating to the impact on Free cashflow associated with our Spectrum purchases and renewals for the period ($27m for Spectrum licences in the PTS 900 MHz/PMTS Class B (935-960 MHz)).

(7) M&A adjustments:

Adjustments relating to acquisition of controlled entities and businesses. This includes the acquisition of Mercury Holdings Corporation Pty Ltd and its controlled entities, Fusion Payments Pty Ltd and the acquisition of the Cognevo business from the Wynyard Group. Joint Ventures/Associates includes additional investments in Near Pte Ltd, ProQuo Pty Ltd and enepath (Group Holdings) Pte Ltd. Other Investments include purchase of shares/additional shares in NSOne Inc, Attack IQ Inc, Headspin Inc and Monk's Hill Ventures Fund. During this period we disposed of our investment in Vonage Holdings Corporation.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial report

for the half-year ended 31 December 2017

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 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 2017 Annual Report and together with any public announcements made by us in accordance with the continuous disclosure obligations arising under the ASX listing rules and the Corporations Act 2001, up to the date of the Directors' Declaration.

Reading the financials

Section introduction

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

Note and topic summary

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

Narrative table

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

Information panel

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

Contents

Income Statement

For the half-year ended 31 December 2017

Telstra Group	Note	Half-year ended 31 Dec 2017 $m	Half-year ended 31 Dec 2016 $m
Income			
Revenue (excluding finance income)	2.2	12,907	12,806
Other income	2.2	1,603	897
		14,510	**13,703**
Expenses			
Labour		2,663	2,684
Goods and services purchased		4,238	3,693
Other expenses		2,517	2,135
		9,418	**8,512**
Share of net loss from joint ventures and associated entities		**(31)**	**(2)**
		9,449	**8,514**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**5,061**	**5,189**
Depreciation and amortisation		2,219	2,248
Earnings before interest and income tax expense (EBIT)		**2,842**	**2,941**
Finance income	2.2	48	77
Finance costs		322	360
Net finance costs	4.2	**274**	**283**
Profit before income tax expense		**2,568**	**2,658**
Income tax expense		886	873
Profit for the period		**1,682**	**1,785**
Profit/(loss) attributable to:			
Equity holders of Telstra Entity		1,703	1,791
Non-controlling interests		(21)	(6)
		1,682	**1,785**
Earnings per share (cents per share)		cents	cents
Basic		14.3	14.8
Diluted		14.3	14.8

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 2017

Telstra Group	Half-year ended 31 Dec	
	2017	2016
	$m	$m
Profit/(loss) for the period attributable to:		
Equity holders of Telstra Entity	1,703	1,791
Non-controlling interests	(21)	(6)
	1,682	**1,785**
Items that will not be reclassified to the income statement		
Retained profits		
Actuarial (loss)/gain on defined benefit plans attributable to equity holders of Telstra Entity	(29)	190
Income tax on actuarial (loss)/gain on defined benefit plans	9	(57)
Fair value of equity instruments reserve		
(Loss)/gain on investments in equity instruments designated at fair value through other comprehensive income	(22)	64
Income tax gain on investments in equity instruments	2	-
Foreign currency translation reserve		
Translation differences of foreign operations attributable to non-controlling interests	-	(3)
	(40)	**194**
Items that may be subsequently reclassified to the income statement		
Foreign currency translation reserve		
Translation differences of foreign operations attributable to equity holders of Telstra Entity	(20)	25
Share of foreign currency translation reserve of equity accounted entities	3	1
Cash flow hedging reserve		
Movements in cash flow hedging reserve	2	50
Income tax on movements in the cash flow hedging reserve	-	(15)
Foreign currency basis spread reserve		
Changes in the value of the foreign currency basis spread	-	26
Income tax on movements in the foreign currency basis spread reserve	-	(9)
	(15)	**78**
Total other comprehensive income	**(55)**	**272**
Total comprehensive income for the period	**1,627**	**2,057**
Total comprehensive income attributable to:		
Equity holders of Telstra Entity	1,648	2,066
Non-controlling interests	(21)	(9)

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

Statement of Financial Position

As at 31 December 2017

Telstra Group		As at	
		31 Dec 2017	30 Jun 2017
	Note	$m	$m
Current assets			
Cash and cash equivalents	2.3	587	938
Trade and other receivables		5,415	5,468
Inventories		1,102	893
Derivative financial assets		53	21
Current tax receivables		11	11
Prepayments		536	531
Total current assets		**7,704**	**7,862**
Non-current assets			
Trade and other receivables		875	1,039
Inventories		29	29
Investments – accounted for using the equity method	5.1	648	194
Investments – other		275	292
Property, plant and equipment		21,668	21,350
Intangible assets		9,174	9,558
Derivative financial assets		1,644	1,623
Deferred tax assets		53	44
Defined benefit assets		112	142
Total non-current assets		**34,478**	**34,271**
Total assets		**42,182**	**42,133**
Current liabilities			
Trade and other payables		4,208	4,189
Employee benefits		860	865
Other provisions		117	190
Borrowings		2,800	2,476
Derivative financial liabilities		41	42
Current tax payables		146	161
Revenue received in advance		1,197	1,236
Total current liabilities		**9,369**	**9,159**
Non-current liabilities			
Other payables		66	70
Employee benefits		159	160
Other provisions		164	134
Borrowings		14,819	14,808
Derivative financial liabilities		452	536
Deferred tax liabilities		1,636	1,539
Defined benefit liabilities		6	6
Revenue received in advance		1,164	1,161
Total non-current liabilities		**18,466**	**18,414**
Total liabilities		**27,835**	**27,573**
Net assets		**14,347**	**14,560**
Equity			
Share capital		4,422	4,421
Reserves		(142)	(105)
Retained profits		10,066	10,225
Equity available to Telstra Entity shareholders		**14,346**	**14,541**
Non-controlling interests		1	19
Total equity		**14,347**	**14,560**

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 2017

Telstra Group	Note	Half-year ended 31 Dec	
		2017	2016
	Note	$m	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		15,679	15,039
Payments to suppliers and employees (inclusive of GST)		(11,256)	(11,173)
Government grants received		156	178
Net cash generated by operations		**4,579**	**4,044**
Income taxes paid		(806)	(882)
Net cash provided by operating activities		**3,773**	**3,162**
Cash flows from investing activities			
Payments for property, plant and equipment		(1,928)	(1,672)
Payments for intangible assets		(634)	(528)
Capital expenditure (before investments)		**(2,562)**	**(2,200)**
Payments for businesses and shares in controlled entities (net of cash acquired)		(53)	(44)
Payments for joint ventures and associated entities		(2)	(5)
Payments for other investments		(31)	(9)
Total capital expenditure (including investments)		**(2,648)**	**(2,258)**
Proceeds from sale of property, plant and equipment		413	365
Proceeds from sale of shares in controlled entities (net of cash disposed)		42	-
Proceeds from sale of other investments		24	1
Distributions received from associated entities		9	10
Interest received		34	55
Other		69	43
Net cash used in investing activities		**(2,057)**	**(1,784)**
Operating cash flows less investing cash flows		**1,716**	**1,378**
Cash flows from financing activities			
Proceeds from borrowings		4,366	1,392
Repayment of borrowings		(4,127)	(1,226)
Repayment of finance lease principal amounts		(60)	(62)
Share buy-back		-	(1,502)
Purchase of shares for employee share plans		(18)	(22)
Finance costs paid		(387)	(429)
Dividends paid to equity holders of Telstra Entity	4.1	(1,842)	(1,894)
Other		-	2
Net cash used in financing activities		**(2,068)**	**(3,741)**
Net (decrease) in cash and cash equivalents		**(352)**	**(2,363)**
Cash and cash equivalents at the beginning of the period		936	3,550
Effects of exchange rate changes on cash and cash equivalents		-	1
Cash and cash equivalents at the end of the period	2.3	**584**	**1,188**

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 2017

Telstra Group	Share capital	Reserves	Retained profits	Total	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m
Balance at 1 July 2017	**4,421**	**(105)**	**10,225**	**14,541**	**19**	**14,560**
Profit/(loss) for the period	-	-	1,703	**1,703**	(21)	**1,682**
Other comprehensive income	-	(35)	(20)	**(55)**	-	**(55)**
Total comprehensive income for the period	**-**	**(35)**	**1,683**	**1,648**	**(21)**	**1,627**
Dividends	-	-	(1,842)	**(1,842)**	(1)	**(1,843)**
Transactions with non-controlling interests	-	(2)	-	**(2)**	1	**(1)**
Amounts repaid on share loans provided to employees	1	-	-	**1**	-	**1**
Additional shares purchased	(18)	-	-	**(18)**	-	**(18)**
Share-based payments	18	-	-	**18**	3	**21**
Balance at 31 December 2017	**4,422**	**(142)**	**10,066**	**14,346**	**1**	**14,347**
Balance at 1 July 2016	**5,167**	**62**	**10,642**	**15,871**	**36**	**15,907**
Profit/(loss) for the period	-	-	1,791	**1,791**	(6)	**1,785**
Other comprehensive income	-	142	133	**275**	(3)	**272**
Total comprehensive income for the period	**-**	**142**	**1,924**	**2,066**	**(9)**	**2,057**
Dividends	-	-	(1,894)	**(1,894)**	(1)	**(1,895)**
Share buy-back (net of income tax)	(754)	-	(748)	**(1,502)**	-	**(1,502)**
Transactions with non-controlling interests	-	-	-	**-**	1	**1**
Amounts repaid on share loans provided to employees	1	-	-	**1**	-	**1**
Additional shares purchased	(22)	-	-	**(22)**	-	**(22)**
Share-based payments	21	-	-	**21**	1	**22**
Balance at 31 December 2016	**4,413**	**204**	**9,924**	**14,541**	**28**	**14,569**

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.

As disclosed in note 6.1, 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 2017 Annual Report.

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 2017 Annual Report.

The key judgements and estimates used by management in applying the Group's accounting policies for the period ended 31 December 2017 have been updated to reflect 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 sales revenue and other income	2.2	11
Determining cash generating units (CGUs) and their recoverable amount for impairment assessment	3.1	12
Useful lives and residual values	3.1	13
Impact of nbn Infrastructure Services Agreement (ISA) on our fixed assets base	3.1	13

1.3 Terminology used in our income statement

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

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

Section 2. Our performance

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

2.1 Segment information

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

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

2.1.1 Operating segments

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

On 23 May 2017 and 14 June 2017, we announced organisational changes effective from 1 July 2017. As a result, our operating segments were amended as follows:

- Telstra Retail (TR) and Global Enterprise and Services (GES) changed their names to Telstra Consumer & Small Business (TC&SB) and Telstra Enterprise (TE), respectively. At the same time, Telstra Business results, previously included in TR, were split between TC&SB and TE with small business customers remaining in TC&SB and medium business customers moving to TE
- Telstra Ventures moved from New Business (NB) to Technology, Innovation and Strategy (TI&S) with no impact on reportable segment as the results of these operating segments are reported under the 'All Other' category.

The 'All Other' category includes business units that do not qualify as operating segments in their own right as well as the operating segments which do not meet the disclosure requirements of a reportable segment, including NB (which includes Telstra Health), Media & Marketing and TI&S.

We have four reportable segments as follows:

Segment	Operation
Telstra Consumer and Small Business (TC&SB)	• provider of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small business customers in Australia • the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network • online self-service capabilities for customers, from browsing to buying, billing and service requests
Telstra Enterprise (TE)	• sales and contract management for medium and large business and government customers in Australia and globally • management of Telstra's networks outside Australia • product management for advanced technology solutions and services, including Data and Internet Protocol (IP) networks and Network Applications and Services (NAS) products such as managed network, unified communications, cloud, industry solutions and integrated services in Australia and globally • development of industry vertical solutions based on Telstra's networks and technology
Telstra Operations (TOps)	• overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions • service delivery centre supporting the revenue-generating activities of TC&SB, TE and TW segments, including operational and risk management services • provider of certain network services to nbn co under the nbn Definitive Agreements (nbn DAs) and commercial contracts • provider of various telecommunication services to meet Telstra Universal Service Obligation Performance Agreement (TUSOPA)
Telstra Wholesale (TW)	• 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 • provider of certain network assets and services to nbn co under the nbn DAs

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.1 Operating segments (continued)

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution. EBITDA contribution excludes the effects of all inter-segment balances and transactions, with the exception of transactions referred to under the segment results and reconciliation of EBITDA table. As such, only transactions external to the Telstra Group are reported.

Furthermore, certain items of income and expense related to multiple reportable segments are recorded by our corporate areas (included in the 'All Other' category) or fully allocated to one of our segments. A detailed description of these items with the exception for the changes described below, is included in note 2.1.1 to the financial statements in our 2017 Annual Report.

In addition to the organisational changes described above, during the period, we have also changed the allocation and management of the following items:

- late payment fees previously recorded in our corporate areas have been reclassified to TC&SB to align our product reporting with consumer and small business customer view
- following changes in the way we work and utilise our offices, we have now centralised the rental costs, with the exception of costs related to our retail shops and international operations, in Telstra Operations. Previously these expenses were recorded in their respective business units.

2.1.2 Segment results

The following table details our segment results and a reconciliation of EBITDA contribution to the Telstra Group's reported EBIT and profit before income tax expense, based on the reporting structure as at 31 December 2017.

Telstra Group	TC&SB	TE	TOps	TW	All Other	Total
	$m	$m	$m	$m	$m	$m
	Half-year ended 31 Dec 2017					
Revenue from external customers	7,391	3,923	438	1,175	(20)	**12,907**
Other income	27	15	199	237	1,125	**1,603**
Total income	**7,418**	**3,938**	**637**	**1,412**	**1,105**	**14,510**
Share of net profit/(loss) from joint ventures and associated entities	-	-	-	1	(32)	**(31)**
EBITDA contribution	**3,592**	**1,556**	**(1,390)**	**1,317**	**(14)**	**5,061**
Depreciation and amortisation						(2,219)
Telstra Group EBIT						**2,842**
Net finance costs						(274)
Telstra Group profit before income tax expense						**2,568**
	Half-year ended 31 Dec 2016					
Revenue from external customers	7,356	3,835	369	1,195	51	**12,806**
Other income	39	10	156	141	551	**897**
Total income	**7,395**	**3,845**	**525**	**1,336**	**602**	**13,703**
Share of net (loss) from joint ventures and associated entities	-	-	-	(1)	(1)	**(2)**
EBITDA contribution	**3,923**	**1,753**	**(1,414)**	**1,226**	**(299)**	**5,189**
Depreciation and amortisation						(2,248)
Telstra Group EBIT						**2,941**
Net finance costs						(283)
Telstra Group profit before income tax expense						**2,658**

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 $104 million (2016: $98 million) of inter-segment revenue treated as external expenses in the TC&SB and TW segments, which is eliminated in the 'All Other' category
- external expenses in the TE segment also include $7 million (2016: $7 million) of inter-segment expenses treated as external revenue in TW and eliminated in the 'All Other' category.

During the period, Ooyala Holdings Group was assessed for impairment. As a result, an impairment loss of $273 million was recognised in "All Other" category. Refer to note 3.1.1 for further details.

Section 2. Our performance (continued)

2.2 Income

Telstra Group	Half-year ended 31 Dec	
	2017	2016
	$m	$m
Sales revenue		
Rendering of services	10,797	11,030
Sale of goods	1,407	1,291
Construction contracts	560	466
	12,764	**12,787**
Other revenue (excluding finance income)	143	19
Total revenue (excluding finance income)	**12,907**	**12,806**
Other income		
Net gain on disposal of property, plant and equipment and intangibles	361	235
Net gain on disposal of investments	26	-
Government grants	99	97
nbn disconnection fees	1,047	535
Other miscellaneous income	70	30
	1,603	**897**
Total income (excluding finance income)	**14,510**	**13,703**
Finance income	48	77
Total income	**14,558**	**13,780**

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

Other revenue includes income from operating leases of mobile handsets offered to our retail customers. For further information about these lease arrangements, refer to note 7.4.2 to the financial statements in our 2017 Annual Report.

Other miscellaneous income includes a $38 million fair value gain from conversion of the loan to our Foxtel joint venture (Foxtel) into additional investment. Refer to note 5.1 for further details.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement

Impact of nbn Infrastructure Services Agreement (ISA) on sales revenue and other income

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

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

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

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

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

IOP and IAP are classified in the income statement as other income and sales 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 progress of the nbn™ network rollout and the final number of our existing fixed line premises as defined and determined under the ISA. A change in the nbn™ network rollout progress and/or the final number of these premises could result in a material change to the amount of IOP and IAP recognised in the income statement.

We have applied management judgement in determining our best estimate of the amounts of IOP and IAP recognised for the half-year ended 31 December 2017. Should evidence exist in future reporting periods that changes these best estimates, other income and sales revenue will be adjusted in future reporting periods.

2.3 Notes to the statement of cash flows

2.3.1 Cash and cash equivalents

Telstra Group	As at 31 Dec	
	2017	2016
	$m	$m
Cash at bank and on hand	125	242
Bank deposits and negotiable certificates of deposit	462	946
	587	**1,188**
Bank overdraft	(3)	-
Cash and cash equivalents in the statement of cash flows	**584**	**1,188**

Section 3. Our core assets and working capital

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

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

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

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

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

3.1.1 Cash generating units with allocated goodwill

During the half-year ended 31 December 2017, there have been no changes to our CGUs with allocated goodwill except for:

- the operations of O2 Networks Group and MSC Mobility which were integrated into Telstra Enterprise to generate combined cash inflows for the Group. Prior to the integration, these two CGUs were treated and assessed individually
- changes in other individually immaterial CGUs due to acquisitions and disposals.

Determining CGUs and their recoverable amount for impairment assessment

Consistent with 30 June 2017, we have used the value in use method to perform our impairment testing and estimate the recoverable amount of each CGU. These judgements include cash flow forecasts, as well as the selection of growth rates, terminal rates and discount rates based on past experience and our expectations for the future.

Our cash flow projections are based on a maximum five-year management-approved forecast, unless a longer period is justified. The forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

During the period, we recognised a $273 million impairment loss for the Ooyala Holdings Group CGU.

The value in use calculations are sensitive to changes in discount rates and terminal growth rates. Since 30 June 2017, there have been no material changes to these two assumptions as applied to each of the tested CGUs.

We have assessed our CGUs to identify indicators of impairment, using both external and internal sources of information, and have concluded that no impairment charge is required other than the below.

As at 31 December 2017, the carrying value of our assets in the Ooyala Holdings Group CGU was assessed for impairment. The recoverable amount of the CGU was determined using a value in use calculation, and it was lower than the carrying value. The pre-tax discount rate and terminal growth rate used in determining the recoverable amount of this CGU is 24 per cent and 3 per cent respectively.

As a result, we recognised a $273 million impairment charge, writing down the remaining goodwill and other non-current assets to zero. The impairment was recorded in other expenses within the income statement and was reported in the 'All Other' category in our segment note 2.1. The impairment reflects evolving market dynamics and challenges in the intelligent video business.

3.1.2 Our telecommunications network

Consistent with 30 June 2017, 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 can no longer 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 CGU to identify indicators of impairment, using both external and internal sources of information and have concluded that no impairment charge is required.

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

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

3.1.3 Depreciation and amortisation

Useful lives and residual values

We apply management judgement to estimate useful lives and residual values of our property, plant and equipment and identifiable intangible assets and review them each year. If useful lives or residual values need to be modified, the depreciation and amortisation expense changes from the date of the 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 2017, the net effect of our annual assessment of useful lives performed so far was a $93 million decrease (2016: $15 million decrease) in depreciation expense and a $13 million decrease (2016: $37 million increase) in amortisation expense.

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

Under the nbn Infrastructure Services Agreement (ISA), we need 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 2017, the net book value of assets that are in scope to be potentially transferred to nbn co under the ISA amounted to $714 million (2016: $893 million). This represented three 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 2017, 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.

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's final dividend paid and current year interim dividend to be paid. On 17 August 2017, we announced a change to our dividend policy. Our 2018 interim dividend to be paid will comprise both ordinary and special dividends.

As the current year interim dividend resolution was passed on 15 February 2018, no provision had been raised as at 31 December 2017.

We currently pay dividends twice a year, an interim and a final dividend. The table below provides details about the previous year final dividend paid during the financial year 2017.

Telstra Entity	Half-year ended 31 Dec			
	2017	2016	2017	2016
	$m	$m	cents	cents
Dividends paid				
Previous year final dividend paid	1,842	1,894	15.5	15.5

On 17 August 2017, we announced a change to our dividend policy commencing after the payment of the final dividend for financial year 2017. From financial year 2018:

- we will pay a fully-franked ordinary dividend of 70 to 90 per cent of our underlying earnings, which is calculated as net profit after tax from continuing operations excluding net one-off nbn receipts
- we intend to return in the order of 75 per cent of net one-off nbn receipts to shareholders over time via fully-franked special dividends.

'Net one-off nbn receipts' are defined as the net nbn one-off Definitive Agreement receipts, (consisting of Per Subscriber Address Amount (PSAA), Infrastructure Ownership and Retraining), less nbn net cost to connect less tax. The return is subject to no unexpected material events and assumes the nbn™ network rollout is broadly in accordance with the nbn Corporate Plan 2018 adjusted for a cease sale on hybrid co-axial (HFC) technology for six to nine months from 11 December 2017 and the receipt of associated one-offs, and is also subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with our capital management framework.

On 15 February 2018, the Directors of Telstra Corporation Limited resolved to pay an interim dividend for the financial year 2018 of 11 cents per ordinary share, comprising an interim ordinary dividend of 7.5 cents and an interim special dividend of 3.5 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 1 March 2018, with payment being made on 29 March 2018. From 28 February 2018, shares will trade excluding entitlement to the dividend.

The Board suspended the Dividend Reinvestment Plan (DRP) on 17 August 2017 with an intent to recommence when circumstances allow. On 15 February 2018, the Board resolved that the DRP would be recommenced and will operate for the interim dividend. The election date for participation in the DRP is 2 March 2018.

As at 31 December 2017, the interim dividend was not determined or publicly recommended by the Board. Therefore, no provision for the interim dividend was raised in the statement of financial position. However, a provision for the interim dividend payable amounting to $1,308 million has been raised as at the date of the Board resolution.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the interim dividend, except for $561 million of franking debits arising from the payment of this interim dividend that will be adjusted in our franking account balance.

Our franking account as at 31 December 2017 was a $42 million credit. We believe that our current franking account balance, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our 2018 interim dividend.

Section 4. Our capital and risk management (continued)

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

A parameter used to monitor capital management is the gearing ratio. Our comfort zone for the gearing ratio is currently 50 to 70 per cent (June 2017: 50 to 70 per cent). 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.

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.

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

Table A	As at	
Telstra Group	31 Dec 2017	30 Jun 2017
	$m	$m
Borrowings	(17,619)	(17,284)
Derivative financial instruments	1,204	1,066
Cash and cash equivalents	587	938
Net debt	**(15,828)**	**(15,280)**

No components of net debt are subject to any externally imposed capital requirements and we did not have any defaults or breaches under any of our agreements with our lenders during the half-year ended 31 December 2017.

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

Table B	Half-year ended 31 Dec	
Telstra Group	2017	2016
	$m	$m
Net debt at 1 July	**(15,280)**	**(12,459)**
Debt issuance	(1,058)	-
Net commercial paper	(43)	(550)
Debt repayments	862	384
Finance lease repayments	60	62
Net cash inflow	**(179)**	**(104)**
Fair value gains/(losses) impacting		
Equity	2	90
Other expenses	(7)	14
Finance costs	20	22
Other non-cash movements		
Finance lease additions	(32)	(24)
Total non-cash movements	**(17)**	**102**
Total increase in gross debt	**(196)**	**(2)**
Net decrease in cash and cash equivalents (includes foreign exchange differences)	(351)	(2,362)
Net movement in bank overdraft	(1)	-
Total increase in net debt	**(548)**	**(2,364)**
Net debt at 31 December	**(15,828)**	**(14,823)**
Total equity	(14,347)	(14,569)
Total capital	**(30,175)**	**(29,392)**
	%	%
Gearing ratio	52.5	50.4

4.2.2 Borrowings and repayment of debt

(a) Funding activities

During the half-year ended 31 December 2017, we repaid $853 million of capital markets debt (Australian dollar equivalent). This included:

- $79 million New Zealand dollar bond
- $24 million Australian dollar private placements
- $750 million Australian dollar bond.

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

We also repaid $9 million loans from associated entities.

Debt issuance for the period primarily included:

- 10-year $500 million United States dollar bond ($648 million Australian dollar equivalent)
- $56 million loans from associated entities.

In addition, $350 million remains drawn under our revolving bank facilities as at 31 December 2017. All other tranches drawn during the period have been repaid. Drawings under our bank facilities and commercial paper issues are shown on a gross basis in the statement of cash flows.

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.2 Borrowings and repayment of debt (continued)

(a) Funding activities (continued)

Table C shows our undrawn facilities at balance dates.

Table C Telstra Group	As at 31 Dec 2017 $m	As at 30 Jun 2017 $m
Facilities available	3,200	3,200
Facilities used	(550)	(200)
Facilities unused	**2,650**	**3,000**

(b) Commercial paper

Our commercial paper is used principally to support working capital and short term liquidity. As at 31 December 2017, we held $1,507 million (June 2017: $1,457 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 2017.

Table D Telstra Group	Half-year ended 31 Dec 2017 $m	Half-year ended 31 Dec 2016 $m
Interest expense on borrowings	380	414
Interest on finance leases	9	11
Interest income on financial instruments	(47)	(77)
Net borrowing costs	**342**	**348**
Net interest (income)/expense on defined benefit plan	(1)	1
Other	5	5
Less: interest capitalised	(44)	(37)
Net finance costs before remeasurements	**302**	**317**
Net gains on derivative financial instruments included in remeasurements	(28)	(34)
Net finance costs	**274**	**283**

'Other' primarily includes rating agency and bank facility expenditure not attributable to a particular borrowing.

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

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.4 Fair value measurement

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

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

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (as prices) or indirectly (derived from prices) observable
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For further details as to how valuation methodologies are applied in determining fair value refer to note 4.4.5 to the financial statements in our 2017 Annual Report.

During the half-year ended 31 December 2017, 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.

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

Table E	As at 31 Dec 2017				As at 30 Jun 2017			
Telstra Group	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Derivative financial instruments	-	1,697	-	**1,697**	-	1,644	-	**1,644**
Investments in listed securities	11	-	-	**11**	15	-	-	**15**
Investments in unlisted securities	-	-	264	**264**	-	-	277	**277**
	11	**1,697**	**264**	**1,972**	**15**	**1,644**	**277**	**1,936**
Liabilities								
Derivative financial instruments	-	(493)	-	**(493)**	-	(578)	-	**(578)**
Contingent consideration	-	-	(5)	**(5)**	-	-	(8)	**(8)**
	-	**(493)**	**(5)**	**(498)**	**-**	**(578)**	**(8)**	**(586)**
Total	**11**	**1,204**	**259**	**1,474**	**15**	**1,066**	**269**	**1,350**

(a) Level 3 financial instruments

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

Table F	Unlisted securities
Telstra Group	Level 3
	$m
Opening balance 1 July 2017	**277**
Purchases	31
Remeasurement recognised in other comprehensive income (net of tax)	(20)
Disposals	(24)
Closing balance 31 December 2017	**264**

During the half-year ended 31 December 2017, we have not received any dividends from our investments in these equity instruments and there have been no transfers to or from equity in relation to these investments.

4.2.5 Financial risk factors

We use derivative financial instruments to manage our exposure to financial risks, including market risks (interest rate risk and foreign currency risk), credit risk and liquidity risk. 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 2017 Annual Report. There have been no material changes to our risk management policies since 30 June 2017.

Section 5. Our investments

This section provides details of significant changes to our investments and their effect on our financial position and performance during the period.

5.1 Investments accounted for using the equity method

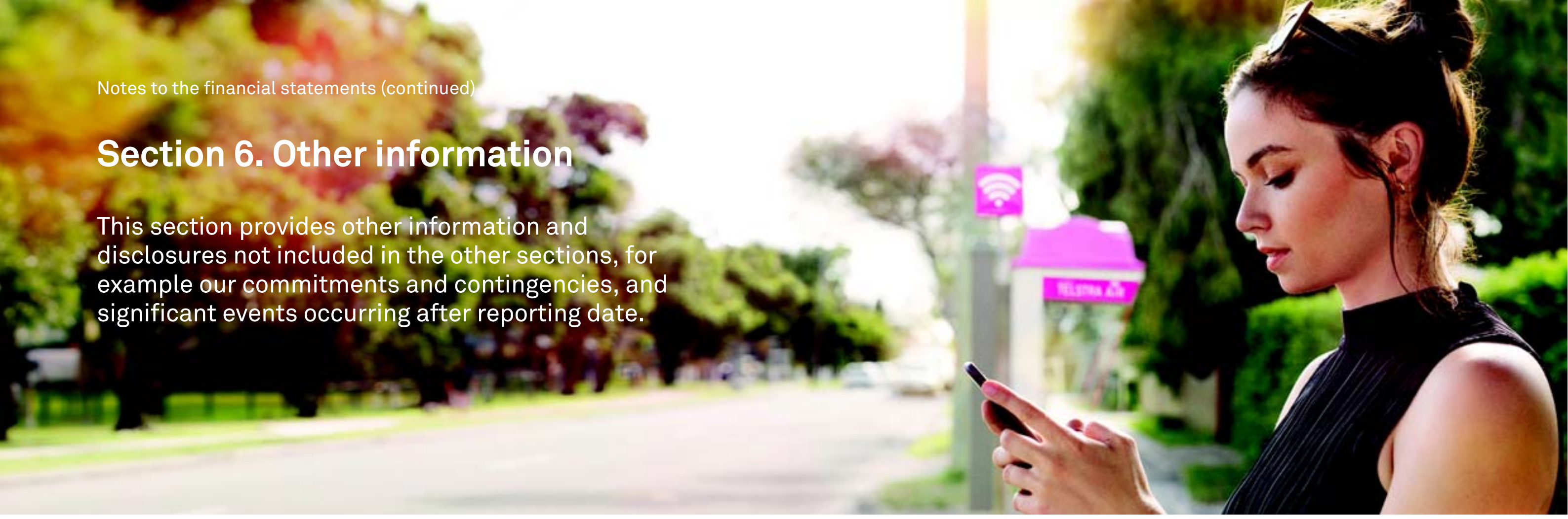
5.1.1 Foxtel joint venture

As at 30 June 2017, our investment in the Foxtel joint venture (Foxtel) was recorded at zero due to our share of equity accounted losses exceeding the carrying amount. On 28 September 2017, the face value of the shareholder loan was converted into additional investment in Foxtel resulting in a $38 million fair value gain recognised in other income.

This resulted in the $44 million cumulative unrecognised share of equity accounted losses up until 28 September 2017 being recognised in the income statement as our share of loss from joint ventures and associated entities.

We continue to hold a 50 per cent interest in Foxtel following the additional investment and we have now resumed recording our 50 per cent share of Foxtel's results in our income statement.

Table C	As at	
Telstra Group	31 Dec 2017	30 Jun 2017
	$m	$m
Foxtel	474	-
Other equity accounted investments	174	194
Investments - accounted for using the equity method	**648**	**194**



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 Changes in accounting policies

We note the following amendments to the accounting standards which are applicable to us from 1 July 2017:

- AASB 2016-1 'Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses'
- AASB 2016-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'
- AASB 2017-2 'Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle'

These amendments do not have any material impact on our financial results.

6.1.2 New accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the half-year ended 31 December 2017 but will be applicable to the Telstra Group in future reporting periods are detailed below.

(a) Financial instruments - impairment of financial assets

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

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

We have early adopted the previous version of the standard, AASB 9 (2013), from 1 July 2014. This version excluded the impairment section, which replaces the incurred loss impairment model used today with an expected credit losses (ECL) model for impairment of financial assets. We have not early adopted these impairment requirements.

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

- 12-month ECL which result from all possible default events within the 12 months after the reporting date
- lifetime ECL which result from all possible default events over the expected life of a financial instrument (simplified approach).

The financial assets in scope of the new impairment requirements also include contract assets arising under AASB15: 'Revenue from Contracts with Customers'.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. Otherwise 12-month ECL measurement applies. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component. An accounting policy choice between using 12-month ECL or lifetime ECL as basis for impairment assessment is available for trade receivables and contract assets with a significant financing component. We expect to apply the simplified approach and recognise lifetime ECL on all of our trade receivables, including trade receivables with significant financing component.

While we are still in the process of completing our detailed assessment, we expect a reduction in our opening retained earnings at the transition date due to earlier recognition of credit losses. However, any final AASB 9 impacts may be subject to change as the opening retained earnings adjustments also have to incorporate the impacts from the first time adoption of AASB 15 which are yet to be finalised.

(b) Revenue from contracts with customers

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

AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers and requires application of a five-step process to:

- identify the contract with the customer
- identify performance obligations
- determine transaction price
- allocate the transaction price to the performance obligations based on standalone selling prices
- recognise revenue when performance obligations are satisfied.

Section 6. Other information (continued)

6.1 Other accounting policies (continued)

6.1.2 New accounting standards to be applied in future reporting periods (continued)

(b) Revenue from contracts with customers (continued)

We are continuing our analysis and assessment of the impact of the new revenue standard on our financial results. This includes updating our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls with the objective of quantifying the first time adoption impacts as well as supporting ongoing compliance with the new accounting requirements. The outcome of these activities will ultimately determine our adoption approach and application of the transition provisions of the new standard; however, our current intent is to apply the standard retrospectively to prior reporting periods, subject to permitted and elected practical expedients.

(i) Our contracts with customers

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

- homogenous retail consumer contracts (mass market prepaid and post-paid mobile, fixed and media offerings)
- retail small to medium business contracts (mass market and off-the shelf technology solutions)
- retail enterprise and government contracts (carriage, standardised and bespoke technology solutions and their management)
- network capacity contracts (mainly Indefeasible Right of Use)
- wholesale contracts for telecommunication services
- nbn Definitive Agreements (nbn DAs)
- network design, build and maintenance contracts (mainly with nbn co)
- other contracts (including software and health products sold by our subsidiaries).

Based on the work done to date, and like many other telecommunications companies, for some of our contracts we expect to be materially affected by the application of the new standard, primarily in respect of the timing of revenue recognition, the classification of revenue, the capitalisation of costs of obtaining a contract with a customer and expensing some of currently deferred costs to fulfil a contract. However, the magnitude of the aggregate impact on the Group financial results will only be determined once all amounts have been quantified and we have considered any offsetting impacts.

We continue to analyse all types of our contracts as we progress our impact assessment. To date, we have focused on contracts which constitute a significant portion of our total revenue, i.e. homogeneous retail consumer contracts with a large number of low value contracts, and the nbn DAs, being a high value contract of a bespoke nature. The expected changes to our accounting policies for these types of contracts have been summarised below.

(ii) Identifying customer contracts, their combinations and modifications

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

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

AASB 15 gives far greater detail on how to account for contract modifications than the current revenue accounting principles. Changes must be accounted for either as a retrospective cumulative change to revenue (creating either a catch up or deferral of past revenues for all performance obligations in the original contract), a prospective change to revenue with a reallocation of revenues amongst remaining performance obligations in the original contract, as a separate contract which will not require any reallocation to performance obligations in the original contract, or both a cumulative change and prospective change to revenue in the original contract. Currently, we account for any changes in our consumer retail contracts prospectively as there is no clear guidance for contract modification accounting. Upon transition to AASB 15, we do not expect material impacts from modifications of these contracts because the standard terms and conditions of our homogenous consumer mass market contracts are normally not re-negotiated and the customer rights to move up and down within the plan family are included in each contract from its inception.

Section 6. Other information (continued)

6.1 Other accounting policies (continued)

6.1.2 New accounting standards to be applied in future reporting periods (continued)

(b) Revenue from contracts with customers (continued)

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

(iii) Identifying performance obligations

AASB 15 provides guidance on determining if goods or services are distinct and therefore if revenue should be allocated and recognised when these goods have been delivered or the services performed (i.e. when the customer controls them). The new guidance will result in some changes to our current accounting policy of identifying deliverables which have value to the customer on standalone basis. Furthermore, in the arrangement with multiple deliverables the limitation of revenue recognition to the non-contingent amount for goods and services the delivery of which is contingent upon delivery of additional items or meeting other specified performance condition has been removed. Our mobile long-term contracts which offer a bundle of hardware and services comprise of two legal contracts and under the terms of these contracts the allocated hardware amount is not contingent on delivery of future services and we currently recognise the hardware revenue on delivery of the handset. Therefore, on adoption of AASB 15, and unlike many other telecommunication companies, we do not expect an acceleration of hardware revenue in our mobiles business due to the removal of the contingent consideration rules.

AASB 15 also defines a material right which constitutes a separate performance obligation in a customer contract and gives the customer an option to acquire additional goods or services at a discount or for free i.e. it is beneficial. In principle this concept is largely consistent with our current accounting policy for non-cash sales incentives which are treated as separate deliverables. However, determination and measurement of material rights (including accounting for their breakage) will differ from our current practice. As a result revenue will be allocated to some of the goods and services we currently offer for free in our consumer mass market plans.

In our nbn DAs, the build of nbn related infrastructure under the ICM Deed will not be considered a distinct performance obligation because the constructed infrastructure is an asset owned and controlled by us. As a result, on transition to AASB 15 the payment received, for which revenue had already been recognised between the financial years 2012 and 2014, will be allocated to and recognised as additional transaction price for performance obligations transferred over the ISA average contracted period of 30 years, leading to a material opening retained earnings adjustment on transition of our nbn DAs.

(iv) Determining and allocating the transaction price

In some of our consumer mass market contracts the amount of consideration can vary because of early upgrade options, which constitute variable consideration under AASB 15. AASB 15 defines variable consideration wider than our current accounting policy and provides guidance on estimating and constraining it, limiting revenue recognition to the amounts which are highly probable not be reversed when the uncertainty related to the variable consideration is resolved. However, on adoption of AASB 15 we do not expect material impacts related to accounting for variable consideration in those contracts.

If a customer receives any discounts when purchasing a bundle of goods or services under one accounting contract, AASB 15 requires a proportional allocation of the discounts to all performance obligations, unless the exception allocation criteria are met, in which case the discounts can be allocated to only one or some but not all performance obligations. This differs from our current accounting policy which allocates cash sales incentives to goods or services contributing towards the earning of the incentives. Meeting the allocation exemption criteria is expected to be rare; therefore adoption of AASB 15 will result in changes to both timing of revenue recognition and revenue allocation between the products in a bundle.

AASB 15 also provides new guidance on how to determine standalone selling prices, by reference to which total transaction price gets allocated to goods and services. Despite the fact that our current accounting policy uses a concept similar to standalone selling prices for allocation, this will now require consideration of similar customer circumstances, including for example assessment of volumes they are expected to purchase. As a result we expect changes to revenue allocation between the products in a bundle and to the extent the delivery timing of these products differs, changes in timing of revenue recognition.

Under some of our consumer mass market contracts customers obtain a handset on a device repayment plan, i.e. under deferred payment terms, and under AASB 15 Telstra is considered to provide financing to the customer. AASB 15 requires us to separately account for a significant financing component and measure it at contract inception using a discount rate that would be used in a separate financing transaction between Telstra and the customer. This rate would reflect the credit characteristics of the party receiving financing in the contract, i.e. the customer. For our mass market customers this rate is likely to be higher than our current practice of using Telstra's incremental borrowing rate, which will result in a reduction of revenue and a higher interest income being recognised over the contract term.

AASB 15 requires accounting for financing component only if it is assessed as significant in the context of a contract as a whole. As a result, we will cease to account for the financing component in our nbn DAs because financing is not material in these agreements.

Section 6. Other information (continued)

6.1 Other accounting policies (continued)

6.1.2 New accounting standards to be applied in future reporting periods (continued)

(b) Revenue from contracts with customers (continued)

(v) Contract costs

We continue to assess impact on contract costs to obtain the contract, such as sales commissions. However, we have identified impacts in relation to costs to fulfil a contract. On adoption of AASB 15 we will expense two major classes of deferred expenses, which are currently included in our intangible assets. These are costs associated with connection and activation activities related to our fixed mass market contracts and remediation costs related to our nbn DAs. These costs arise from work performed on Telstra owned assets and under AASB 15 these costs will not meet deferral criteria for costs to fulfil a contract as they should now be assessed under AASB 116: ‘Property, plant and equipment’.

(vi) Expected financial impact

A reliable estimate of the overall financial impacts arising from our consumer mass market contracts and nbn DAs on adoption of AASB15 is yet to be determined.

Our operations and associated systems are complex and the new standard requires analysis and assessment of millions of multi-year contracts with our customers. This includes incremental compilation of historical data for the millions of existing multi-year contracts with our customers that are expected to be in-scope for purposes of transitioning to the new standard in order to determine the accounting estimates of opening retained earnings adjustments as at 1 July 2017 i.e. the first comparative period presented in our 30 June 2019 financial statements. Our current estimate of the time and effort necessary to develop and implement the accounting policies, estimates, judgments and processes (including critical incremental requirements of our information technology systems) we will need to have in place in order to comply with the new standard extends into late financial year 2018.

Once we have developed the necessary accounting policies, estimates, judgments and processes, we will commence the incremental compilation of historical data, as well as the application of the new policies to that data, which is necessary to transition to, and to make reasonable quantitative estimates of the effects of the new standard. As a result, at this time, it is not possible to make reliable quantitative estimates of the effects of the new standard, and we may not be able to do so prior to the year of the initial adoption of AASB 15. Should reliable estimates become available earlier we will provide an estimate of opening retained earnings adjustment and the expected impacts on the comparative period in our annual consolidated financial statements for the financial year 2018.

(c) New leasing standard

In February 2016, AASB issued AASB 16: ‘Leases’, which replaces the current guidance in AASB 117: ‘Leases’, Interpretation 4 ‘Determining whether an Arrangement Contains a Lease’, Interpretation 115 ‘Operating Leases - incentives’ and Interpretation 127 ‘Evaluation the Substance of Transactions Involving the Legal Form of a Lease’.

The new standard will apply to us from 1 July 2019. Early adoption is permitted, but only in conjunction with AASB 15: 'Revenue from Contracts with Customers'.

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

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

We have a significant number of long-term non-cancellable property leases for our office buildings and network sites which are expected to have a material impact when recognised in the statement of financial position. Lease liabilities recognised on adoption of AASB 16 will differ from our operating lease commitments currently disclosed in the notes to the annual financial statements. This is because the measurement of lease liabilities will depend on the chosen adoption method and reflect the effect of discounting and judgments regarding reasonably certain options to continue leasing the assets.

We continue to assess the impact of the new leasing standard on our financial results. This includes identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and controls. Our adoption approach and application of the transition provisions allowed under the new standard will depend on the outcome of this assessment.

(d) Other

We do not expect any of the other new standards or amendments to have a material impact on our financial results upon adoption.

6.2 Commitments and contingencies

During the period, our capital commitments increased by $132 million as we entered into a number of agreements, including the purchase of equipment to build a submarine cable system and the provision of network function virtualisation software and services.

Since 30 June 2017, our future minimum commitments under non-cancellable operating leases (Telstra as a lessee) have increased by $199 million mostly due to additional lease agreements entered into with the lessor for sub-leasing handsets to our retail customers.

Our joint venture Foxtel has other commitments amounting to approximately $2,774 million at 31 December 2017 (June 2017: $3,080 million), with our share equal to 50 per cent. The majority of these commitments relate to the committed satellite expenditure payments for transponder services and broadcasting expenditure payments for sports broadcasting rights. The agreements are for the periods of between one and five years. The amounts are based on current prices and costs under agreements entered into between the Foxtel Partnership and various other parties. The decrease in commitments resulted mainly from the payments for the first six months of the year.

Since 30 June 2017, there have been no significant changes to:

- contingent liabilities arising from common law claims
- indemnities, performance guarantees and financial support.

We have no significant contingent assets as at 31 December 2017.

Section 6. Other information (continued)

6.3 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 31 December 2017 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than the interim dividend. The details of our interim dividend for the half-year ended 31 December 2017 are disclosed in note 4.1.

Directors' Declaration

The Directors of Telstra Corporation Limited have made a resolution that declared:

(a) in the Directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable

(b) in the Directors' opinion, the financial statements and notes of the Telstra Group for the half-year ended 31 December 2017, as set out on pages 1 to 23 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 2017.

For and on behalf of the board

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

15 February 2018
Melbourne,
Australia

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2017, 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, we have not become aware of any matter that makes us believe that the half-year financial report of Telstra Corporation Limited is not in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Ernst & Young

Ernst & Young

A Price
Partner
Melbourne
15 February 2018