16 August 2018

Office of the Company Secretary

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The Manager

Market Announcements Office
Australian Securities Exchange
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SYDNEY NSW 2000

Dear Sir or Madam

ELECTRONIC LODGEMENT

Telstra Corporation Limited - Financial results for the full year ended 30 June 2018

In accordance with the Listing Rules, I enclose the following for immediate release to the market:

1. Appendix 4E – Full Year Report
2. Operating and Financial Review for the full year ended 30 June 2018, which accompanies the Directors Report
3. Directors Report (including the Remuneration Report)
4. Financial Report

Telstra will conduct an analyst briefing on the full year results from 9.15am AEST and a media briefing from 11.00am AEST. 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.

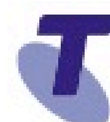
This announcement has been released simultaneously to the New Zealand Stock Exchange.

Yours faithfully

Sue Laver
Company Secretary

Telstra Corporation Limited

Financial results for the year ended 30 June 2018



Financial results for the year ended 30 June 2018

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All amounts are expressed in Australian dollars ($A) unless otherwise stated.

Telstra Corporation Ltd, ABN 33 051 775 556

APPENDIX 4E (ASX LISTING RULE 4.3A)
FINAL REPORT
30 June 2018
Telstra Corporation Limited ABN 33 051 775 556

1. Results for announcement to the market

Telstra Group	Year ended 30 June			
	2018	2017	Movement	
	$m	$m	$m	%
Revenue (excluding finance income) from ordinary activities	26,011	26,013	(2)	-
Other income	3,031	2,192	839	38.3
Total income	**29,042**	**28,205**	**837**	**3.0**
Finance income	82	138	(56)	(40.6)
Profit for the year	3,529	3,874	(345)	(8.9)
Profit for the year attributable to equity holders of Telstra Entity	3,563	3,891	(328)	(8.4)
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	3,563	3,891	(328)	(8.4)

2. Dividend information

Telstra Group	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 for the year	**11.0**	**11.0**
Final ordinary dividend per share	7.5	7.5
Final special dividend per share	3.5	3.5
Total final dividend per share for the year	**11.0**	**11.0**
Total dividend per share for the year	**22.0**	**22.0**
Final dividend dates		
Record date	30 August 2018	
Payment date	27 September 2018	

The above information is based on the consolidated financial statements and notes which have been audited by Ernst & Young (EY).

3. Net Tangible Assets per security information

Telstra Group	Year ended 30 June	
	2018	2017
	cents	cents
Net tangible assets per security	49.2	41.9

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 30 June 2018 was 11,893 million (2017: 11,893 million).

4. Dividend Reinvestment Plan

The Board has determined that the Dividend Reinvestment Plan (DRP) will continue to operate for the final dividend for financial year 2018. The election date for participation in the DRP is 31 August 2018.

Additional Appendix 4E disclosure requirements and “Guidance versus Reported Results” reconciliation can be found in the 2018 Full-year Financial Report and Directors’ Report (including the Operating and Financial Review (OFR) and the Remuneration Report) lodged with this document.

Chairman and CEO message

Dear Shareholders,

Companies are defined by how they respond in challenging times and there is no doubt Telstra, and the telecommunications industry globally, is operating in times of enormous challenge and change.

On one hand demand for our core products and services continues to grow. Telecommunications networks have become some of the most important pieces of infrastructure in the world today. On the other hand, competition has never been more intense, our market dynamics are shifting rapidly, and customer expectations are changing.

These challenges are not unique to Australia or to Telstra. However, a unique challenge we do have is the nbn™ network. This is having an enormous impact on our business – wholesale prices have risen, meaning we and other industry participants are facing a fixed-line market where reseller margins are rapidly reducing. At the same time, competition in the mobile market is increasing with the expected entrance of a fourth mobile network operator.

These factors have influenced our performance this year and underpinned our decision to take bolder steps to transform the business through our new Telstra2022 (T22) strategy. We are determined to meet the challenges we face, and to continue to lead in the market, just as we have always done.

Our financial results

Despite the challenges in the market in FY18 our results are in line with guidance and show strong subscriber growth in both fixed and mobile.

The Board announced a fully franked final dividend of 11 cents per share bringing the total dividend for the financial year to 22 cents per share, comprising an ordinary dividend of 15 cents and a special dividend of 7 cents, in accordance with the dividend policy announced in August 2017.

On a reported basis our Total Income grew by 3.0 per cent, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) reduced by 5.2 per cent, and Net Profit after Tax (NPAT) reduced by 8.9 per cent.

We saw strong customer growth for the year and good progress on our productivity program, but the continued downward pressure on EBITDA and NPAT caused by the further rollout of the nbn and lower Average Revenue Per User (ARPU) reinforced the importance of our T22 strategy.

During the year we added 342,000 retail mobile customers, 88,000 retail fixed broadband customers and 135,000 retail bundles. However, challenging trading conditions are expected to continue in FY19, including ongoing pressure on ARPU and further negative impact of the nbn network rollout on our underlying earnings.

Choosing to lead – T22

On 20 June 2018 we announced our new T22 strategy to lead the Australian market by simplifying our operations and product set, improving customer experience and reducing our cost base. T22 will deliver six key outcomes covering customer experience, simplification, network superiority, employees, cost reduction and strengthening the balance sheet.

We have already made strong early progress on the new strategy, launching new mobile plans with no excess data charges, announcing a new organisational structure, leadership team and operating model. Telstra InfraCo has also been established as a standalone business unit with pro-forma financials provided as part of the financial results. For more information on T22, please refer to the Strategy and performance section of our Annual Report.

Progressing our strategic investments

The new strategy builds on the foundation provided by our up to $3 billion strategic investment in creating the Networks for the Future and digitising the business.

We remain on track to realise the benefits of the investment program, with $1.8 billion invested to date, including $1.5 billion in Networks for the Future as we prepare for the launch of 5G, and $300 million on digitisation. This had enabled us to grow the competitive differentiation provided by our network superiority and reliability.

Our ongoing strategic investment in the performance of our mobile and fixed networks for our customers has been recognised by a number of key industry awards. We were ranked number one on the Netflix Speed Index in July and this year also became the first Australian provider to win both the fixed and mobile Ookla fastest networks for Q1-Q2 2018.

More than 500 new and 1,100 upgraded mobile sites have been switched on and around 400 small cells activated. We continued to make significant progress in preparing for the commercial launch of 5G, which is central to Telstra's network investment strategy, through a number of major milestones, including switching on 5G technology across selected areas of the Gold Coast, making Australia's largest and fastest mobile network the first in the country to be 5G ready. We have demonstrated a number of world firsts at our 5G Innovation Centre on Queensland Gold Coast, which we opened in FY18,and significantly boosted Telstra's IoT capability by activating Cat M1 across the 4GX coverage footprint and adding Narrowband IoT coverage in major Australian cities and many regional towns.

We are building new digital platforms for our Consumer & Small Business and Enterprise customers covering the full customer lifecycle that will underpin Telstra's ability to move to a new, simplified product suite and improve customer experience.

You can read more about our network investments and the progress we are making on digitisation in the Strategy and performance section of our Annual Report.

Delivering for our customers

Our Strategic Net Promoter Score (NPS) was flat during FY18, though we saw positive movement in the second half. Episode NPS, which measures customers' assessments of individual interactions improved significantly.

As well as the improvements delivered through the Digitisation program, we introduced a number of customer experience improvements and made a number of enterprise acquisitions to boost our NAS and IoT solutions during FY18.

This included significantly improving consumer customers' experience when they connect to the nbn. The NPS score for nbn Consumer orders has seen a 13-point improvement year-on-year at a time when more customers are connecting to the nbn than ever before. Almost four million customers are now active users of our 24x7 App, which is a 22 per cent year-on-year increase. This app enables consumer customers to self-manage their account and services from their smartphone or tablet and has recently been redesigned to make it even easier and more intuitive for customers to use.

We also introduced robotics across six processes which has significantly improved the speed of customer service. Billing activation for mobile handsets, which used to take three days, now takes less than a minute.

We opened Telstra's Security Operation Centres in Sydney and Melbourne from which Telstra offers a broad range of services to help government and enterprise customers manage their organisations' cyber security.

During FY18 two of our key acquisitions include MTData, a leading provider of GPS and telematics fleet management solutions to help drive IoT growth in Australia and internationally. MTData delivers solutions that assist customers with compliance and safety, improving productivity and reducing operating costs. We also acquired VMtech, a leading professional and managed services provider with expertise in the delivery and management of enterprise-grade hybrid cloud, connectivity and security solutions.

Improving our productivity

In June 2018, we announced we would target a further $1 billion annual reduction in underlying core fixed costs by FY22 in addition to the previous target of $1.5 billion, meaning underlying core fixed costs will be $2.5 billion per annum lower in FY22 compared with FY16. We have delivered against these cost ambitions for the year and are ahead of the run rate required to meet our net productivity target with underlying core fixed costs declining by 7.0 per cent or $480 million.

Network disruptions

Our network investment has seen a marked improvement in resiliency, with a reduction in mobile customer outage hours of more than 80 per cent since June 2016. Despite every effort, networks are complex and not immune to disruption. Disappointingly, we did experience a number of network disruptions during May 2018 which impacted on our customers and the broader community for which we sincerely apologise.

The most significant of these was a disruption to the 000 emergency service - a critical public service that receives our highest network prioritisation. During this incident, the network redundancy built to reduce the risk of isolated incidents causing widespread impacts did not function as designed. We have conducted a detailed investigation to understand why this happened, are putting in place additional network monitoring and protections, and are leading the development of a collective response management plan for the 000 service with all relevant stakeholders.

Portfolio management

In April, we reached an agreement with News Corp to combine Foxtel and FOX SPORTS Australia. This agreement will deliver premium and innovative content to Australians with ever greater quality, variety and efficiency. Telstra's 35 per cent holding in the new entity resulted in a one-off accounting gain of $261 million.

In July Telstra Ventures formed a new fund with capital investment firm HarbourVest. This initiative has enabled us to continue to leverage the benefits of our successful Telstra Ventures activation while enhancing our capability and reducing capital commitments in the future. We will realise approximately $75 million from the initial HarbourVest investment.

During the year we also recognised an impairment charge for the Ooyala Holdings Group, which resulted in an A$273 million write down.

Executive and Board renewal

On 30 July 2018, we announced a new organisational structure and leadership team. The structural changes, effective from 1 October 2018, are an important step in delivering our T22 strategy and will help ensure we deliver rapidly and effectively on all the commitments we made to our customers, the market and our people.

Chief Financial Officer, Warwick Bray, Group Executive Media and Marketing, Joe Pollard, and Group Executive Wholesale, Will Irving, will be leaving Telstra in the first half of FY19. Group Executive Technology, Innovation and Strategy, Stephen Elop, left the business on 31 July 2018. We would like to recognise the significant contributions each Executive has made and thank them for their dedication over the years.

Experienced American telecommunications executive Roy H. Chestnutt joined the Board in May 2018, further enhancing the Board's collective set of skills and experience. The Telstra Board is always cognisant of the rapidly changing environment in which the company operates and seeks to appoint directors with relevant skills and experience. Mr Chestnutt is a timely and impactful addition to the Board, bringing with him more than 30 years of direct telecommunications experience and significant perspective from the US and global markets. We would like to acknowledge Director Steve Vamos who has announced his intention to retire from the Telstra Board at our Annual General Meeting on 16 October 2018. Mr Vamos has been a director since September 2009 and we thank him for his valued contribution over the past nine years. An announcement about the appointment of a new non-executive director will be made in due course.

Delivering on sustainability

We are acutely aware of the important role we continue to play in connecting and supporting communities, including in regional areas, and to serving the needs of our vulnerable customers. Progress this year includes helping around one million vulnerable people to stay connected, and the launch of our refreshed Environment Strategy.

We are planning and investing in a digital future that champions the needs of regional and remote communities. In FY18 we have switched on more than 300 new mobile base stations across Australia through the Federal Government's Mobile Black Spot Program, and our newly launched co-investment program will fund regional infrastructure in areas that have high community value but would otherwise be uneconomical to build. To help us identify and address local challenges and opportunities we have established three state-based Regional Advisory Councils and a number of partnerships.

We also remain committed to making progress on gender equality. In March 2017 we introduced a Recruitment Equality Procedure that mandates a minimum female representation on shortlists and interview lists for all roles at Telstra. After 15 months in operation, the proportion of female applicants has remained stable, however female representation on shortlists and in interviews, offers, and commencements has increased.

Our Bigger Picture 2018 Sustainability Report provides more information on these and other initiatives. You can read more at telstra.com/sustainability/report.[1]

Outlook

Our FY19 guidance has not changed from that provided on 20 June 2018 at Telstra's T22 announcement, except to adjust for the impact of the new Australian Accounting Standards Board accounting standard (AASB15). The result of the adjustment is that FY19 income guidance has decreased by $100 million and EBITDA guidance has increased by $100 million.

In FY19 we expect income in the range of $26.5 to $28.4 billion and EBITDA (excluding restructuring costs) of $8.8 to $9.5 billion. FY19 additional restructuring costs are expected to be around $600 million. FY19 net one off nbn DA receipts less nbn cost to connect are expected to be between $1.8 and $1.9 billion. Capital expenditure is expected to be between $3.9 to $4.4 billion or approximately 16 to 18 per cent of sales, and free cashflow is expected to be in the range of $3.1 to $3.6 billion.

FY19 is a very material year in the migration to the nbn and its impact on our business. This guidance is based on management's best estimates and may need to be adjusted when nbn co releases its Corporate Plan, which is expected on 31 August 2018.

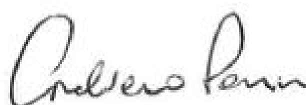
A year of challenge and change

This year, through our commitment to the new T22 strategy, we took a bolder stance to lead the market by simplifying our operations and product set, improving the customer experience and reducing our cost base.

T22 is about recognising what telecommunications looks like in the future and building the best possible capability to get there. It is bold, but we very much believe it is the right step and it will put us in a strong position in the future.

Thank you to our shareholders, our employees and our customers for their ongoing support.

John P Mullen
Chairman



Andrew R Penn
CEO and Managing Director

[1] This report will be available online from 31 August 2018.

Strategy and performance

For more than 100 years, Telstra has been at the forefront of connecting Australians. During our history, we have confronted many challenges and we are now at another important turning point where we must deliver on our bold new strategy if we are to continue to be the nation's leading telecommunications company.

Throughout FY18, the Australian telecommunications market continued to experience dynamic and challenging conditions, driven by factors including the nbn™ network rollout, technological innovation and increased mobile competition.

At the same time, we continue to see new opportunities to grow our business and deliver new products and services to customers, particularly as 5G mobile technology develops and the Internet of Things (IoT) becomes a standard part of our homes, our businesses and our communities.

In this context, Telstra's decision in August 2016 to invest up to an additional $3 billion in strategic capital has never been more important. The Telstra2022 (T22) strategy will be underpinned by the benefits this investment is delivering.

Progress on strategic investments

Since 2016 we have invested $1.8 billion across Networks for the Future, new digital platforms and delivering customer improvements that lay the foundations of our future success.

Networks for the Future

With the explosive growth that is underway in video streaming, as well as the expanding number and variety of smart devices and digital applications, we expect five times the traffic and four times the number of devices across our networks from 2016-2020.

To handle the ever-growing volumes of traffic at higher levels of reliability and drastically lower cost per bit of data, we are deploying new technologies in line with our ambition to provide our customers with Australia's largest, fastest, safest, smartest and most reliable set of networks. For example, in FY18 we completed the next phase of the upgrade to our transmission network by deploying high-capacity, next-generation optical transport technology between five Australian cities – Melbourne, Sydney, Brisbane, Adelaide and Perth. These upgrades increased capacity, flexibility, and improved resiliency, delivering better outcomes for customers and setting the foundations that will support the development of 5G.

During FY18 we also activated one of the largest IoT enabled networks in the world. In our mobile network we have turned on both Cat M1 and Narrowband IoT technologies, which support devices with low bandwidth and long battery lives, such as location trackers and temperature and moisture sensors. Regional and rural Australia is likely to be one of the main beneficiaries of these technologies and our extensive regional coverage, as Cat M1 and Narrowband IoT are ideally suited for use cases like agriculture, transportation and mining. Telstra is the only carrier in Australia and one of the first carriers in the world to offer both these IoT technologies.

We have continued to reinforce our mobile network superiority, expanding our 4GX coverage to reach 99.2 per cent of the Australian population. In FY18 we switched on more than 300 new mobile base stations as part of the Federal Government's Mobile Black Spot Program, bringing new coverage to regional and rural communities. Telstra delivers around one million square kilometres more mobile coverage than our competitors.

In addition to coverage, we also increased the speed and capacity of our network. Continued upgrades of our network with 4GX in selected areas and gigabit-capable 4G means that 93.6 per cent of the Australian population now has access to double the speed of original 4G.

During FY18 we experienced some network disruptions that impacted customers. We are acutely aware of the problems network disruptions can cause our customers and we are taking action to improve performance and reliability. By adding more capacity and redundancy to our network, as well as monitoring more data and real-time analytics about network performance, we have reduced mobile customer outage hours by more than 80 per cent since June 2016.

While we continue to push the boundaries of what 4G can deliver for customers, we are building the foundations to lead on 5G - as we have done with each generation of mobile technology. During FY18 we opened our 5G Innovation Centre on Queensland's Gold Coast to progress the development of this next generation of wireless technology and to ensure Australians are among the first people in the world to gain access to 5G. Working with technology partners we successfully completed a number of world firsts at the Innovation Centre including a 5G trial data call over 26GHz radiofrequency spectrum using our production core network in November 2017, turning on a precinct of 5G enabled Wi-Fi hotspots in March 2018, and an end-to-end 5G non-standalone data call on a commercial mobile network in July 2018.

New digital platforms

We are building new digital platforms that are enabling the simplification of our business, which in turn will lead to improved customer experience and cost savings. We have invested in building foundational capabilities, mobilising resources, fixing customer pain points and adopting new ways of working.

We are building new technology platforms for our customers that will cover the full customer lifecycle and underpin our ability to move to a new, simplified product suite and improve customer experience.

We have made significant progress in the development of our new core digital platforms. Enterprise has already moved some of its customers to this environment and are designing products in it, while Consumer and Small Business will begin building products in FY19 and commence migration of customers in FY20.

As we shift to new digital platforms, we will aggressively close down legacy systems to remove complexity from our business.

Digital continues to grow as the way many customers prefer to be served and offers great opportunities to deliver a better customer experience. Currently, our enterprise customers navigate more than 50 platforms to manage their services for specific activities. To improve this experience, we developed Telstra Connect, which brings together multiple platforms into a single digital interface. It is already being used by 100 early adopter customers and we are seeing about a one-third reduction in calls to our call centres from these customers.

Almost 4 million customers are now active users of our 24/7 app, which is a 22 per cent year-on-year increase. Our 24/7 app enables consumer customers to self-manage their account and services from their smartphone or tablet and has recently been redesigned to make it even easier and more intuitive for customers to use.

As millions of Australians transition to the nbn™ network, we recognise that moving to the new network can be a challenging process at times. We have made significant improvements to enhance the experience for customers moving to the nbn and as part of our commitment to addressing customer pain points, we are improving the end-to-end nbn ordering process using a new digital platform. As we increase the scale of this platform in FY19, we expect to see a further improvement in customer experience, both in the order process itself and the time taken to activate an order.

Improving customer experiences

Delivering brilliant customer experiences remained our highest priority throughout FY18.

Telstra's Strategic Net Promoter Score remained flat during FY18 with positive movement in the second half. Episode NPS, which measures customer's assessment of individual interactions, improved by five points on last year.

Telstra introduced a number of customer experience improvements during FY18 including upgrading nbn speeds for more than 850,000 Telstra home and small business customers on selected plans at no additional cost. We also launched the Telstra Smart Modem, which connects a home to the internet within minutes via the mobile network without having to wait for the fixed service to be connected. If there's an interruption to their broadband service, the gateway will automatically switch over to a mobile connection within minutes. Customers using Samsung Galaxy S8 and Galaxy S9 devices are also now benefitting from more reliable High Definition streaming using the AFL Live Official app, since we became the only operator in Australia and one of the first in the world to turn on LTE-Broadcast (LTE-B) technology nationally in our mobile network.

We have also made progress simplifying our business processes, which have flow on benefits for customers. In FY18 we made a number of automation improvements to our nbn Order to Activate processes. We made it easier for our people to serve our customers by reducing the number of screens our contact centre agents use in order to resolve customer issues from nine to one, reducing call times by 15 per cent and technician tasks by 60 per cent. Across Telstra we have replaced more than 100 different platforms and systems for sending messages to our customers with just one platform, Notify. This means customers receive more consistent and personalised communications from Telstra.

Telstra2022

While many of the factors playing out in the market today were predictable, the intensity and depth of impact is accelerating and continues to have a financial impact on our business. In this context, continuing with 'business as usual' is not a sufficient response, so Telstra will take a bolder stance and use the disruption in the telecommunications industry to lead the market for the benefit of our customers, employees and shareholders.

On 20 June 2018, we unveiled a new strategy, called Telstra2022 (T22), which will empower us to respond to a rapidly changing environment and lead the Australian market by simplifying our operations and product set, improving customer experience and reducing our cost base.

The progress we have made with our strategic investments has enabled us to deliver our new T22 strategy, which aims to fundamentally change the nature of telecommunication products and services in Australia by eliminating many pain points for customers.

T22 Strategic pillars

- Radically simplify our product offerings, eliminate customer pain points and create all digital experiences
- Establish a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout
- Greatly simplify our structure and ways of working to empower our people and serve our customers
- Industry leading cost reduction program and portfolio management

Enabled by our $3b investment program

- New digital platforms
- Australia's largest, fastest, safest, smartest and most reliable next generation network

Delivering

- Market leading customer experience
- Simplified products, business and operating model
- Extended network superiority and 5G leadership
- Achieve Global High Performance Norm in employee engagement
- Net cost productivity of $2.5b by FY22
- Post-nbn ROIC > 10%

The four pillars of the program are:

Pillar 1: Radically simplify our product offerings, eliminate customer pain points and create all digital experiences

We are creating simple, flexible ways for customers to choose the best value connectivity, devices and services for them. We will fundamentally change the way Telstra designs products, sells services, and provides customers with support. We have made early progress on this simplified approach with the launch of Peace of Mind data across a range of new post-paid plans on 24 July, making excess data charges a thing of the past.

Leveraging our investment in digitisation, we will simplify our products by retiring all of our more than 1,800 Consumer and Small Business plans and introducing 20 core plans backed up by an effortless digital service. For Enterprise customers, Telstra will continue to be the best one-stop shop for all Business-to-Business technology needs, offering a modular, curated, self-service and simplified product portfolio. Over the past year, Telstra has built completely new technology for our mid-market and Enterprise customers and will use the natural momentum in the business to migrate customers to a new suite of products.

Pillar 2: Establish a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout

To better recognise the value of our infrastructure assets, on 1 July 2018 we established a standalone infrastructure business unit called Telstra InfraCo. The business unit comprises Telstra's high-quality fixed network infrastructure including data centres, non-mobiles related domestic fibre, copper, HFC, international subsea cables, exchanges, poles, ducts and pipes. Its services will be sold to Telstra, wholesale customers and nbn co. Telstra InfraCo also comprises Telstra's nbn co. commercial works activities and Telstra Wholesale, and controls assets with a book value of about $11 billion.

The new business unit does not include the mobile network assets including spectrum, radio access equipment, towers and some elements of backhaul fibre, which will remain integrated with Telstra's core customer segment focused business to support the company's network differentiation. This is particularly important for Telstra's mobiles business as we execute our 5G strategy.

Pillar 3: Greatly simplify our structure and ways of working to empower our people and serve our customers

Telstra is fundamentally re-engineering how we operate. On 30 July we announced a new topline organisational structure and leadership team designed to remove complexity and management layers, decrease the focus on hierarchical decision-making and increase the focus on empowered teams making decisions closer to the customer.

New organisational structure and leadership team, effective from 1 October 2018:

Ways of working are being simplified and re-aligned to increase the focus on best serving customers, on product leadership, breaking down silos, as well as enabling the sizeable transformation we have committed to. We will also elevate our focus and capabilities in product development and management across the company increasing the leverage and sharing of technical efforts across all customer segments.

Our strategy to simplify our business will have an impact on our workforce. While we plan to create 1,500 new roles, we expect a net reduction of 8,000 jobs over the next three years. It is our priority to support individuals and teams through these changes. Recognising the very significant impact these changes have on our people, Telstra has made available initial funding of up to $50 million to out-placement support for roles that are no longer required, as well as programs to support upskilling and transitioning to new ways of working.

Pillar 4: Deliver industry-leading cost reduction programs and portfolio management

We intend to monetise assets of up to $2 billion over the next two years to strengthen our balance sheet.

We are also increasing the target for our productivity program by a further $1 billion to reduce underlying core fixed costs by $2.5 billion by FY22, meaning these costs will be $2.5 billion per annum lower in FY22 compared with FY16. We expect our total costs will remain flat or reduce despite absorbing more than $1.5 billion of increased AVC/CVC costs that will be incurred as we migrate to the nbn™ network.

The key drivers of the increased productivity targets include simplifying the product set, phasing out legacy products and systems and migrating customers to new products. Other drivers include further digitising sales and service channels and continuing to improve procurement practices.

Benefits

The T22 strategy will deliver benefits for all stakeholders - customers, shareholders and employees and will ensure that Telstra remains Australia's premium and most trusted brand in telecommunications.

It has six specific goals with tangible and clear milestones covering customer experience, simplifying the business, network superiority, people, cost improvements and strengthening the balance sheet. Details include:

- Reducing the number of consumer and small business plans from 1,800 to 20.
- Migrating all consumer and small business products and plans and 50 per cent of enterprise customers to completely new technology stacks within three years and leave the legacy behind.
- Establishing a standalone infrastructure business unit to drive improved performance and create optionality for the future including a potential demerger or the entry of a strategic investor post the rollout of the nbn.
- Reducing 2-4 layers of management across the organisation.
- Eliminating the need for one third of customer service calls within two years and two thirds by FY22.
- Leading in all key industry surveys for network performance.
- Increasing our productivity program by a further $1 billion to $2.5 billion by FY22.
- Monetising up to $2 billion in assets over the next 24 months to strengthen the balance sheet.

Our material risks

Managing our risks and opportunities is a critical element of our governance, and we continuously seek to identify, measure and monitor the most material risks across our organisation. The following describes the material risks and opportunities that could affect our business, including any material exposure to economic, environmental and social sustainability risks, and how we seek to manage them.

These risks are not listed in any order of significance, nor are they all encompassing. Rather, they reflect the most significant risks identified at a whole-of-entity level through our risk management process.

Disruption, competition and transformation

As the speed and scale of technological innovation and competition increases, so do the challenges facing telecommunications providers in Australia and around the world. Beyond the rapidly changing technology environment, a significant challenge for Telstra continues to be the impact of the nbn™ network rollout. The nbn rollout will result in Telstra no longer being the predominant wholesale fixed line provider in Australia, and will lead to a significant loss of revenue as consumers and businesses transition to nbn broadband services. Additionally, the rollout of the nbn network is driving a significant increase to the cost base for providing fixed broadband services, meaning Telstra and other industry participants are facing a fixed line market where reseller margins continue to come under pressure. This has resulted in intensified competition in the mobile market and the impending entrance of a fourth operator in the Australian mobile market is likely to see this trend increase.

In response to these competitive challenges, our new strategy, Telstra2022 (T22), will enable us to take a bolder step, leave the past behind and be more ambitious to meet our challenges head-on. For more information about T22, please refer to the Strategy & Performance section.

As we transform our business through our T22 strategy, it is critical that we manage this period of change effectively. Failure to do so could result in further complexity and cost in our business, as well as the potential for poor customer and employee experiences. We have formal structures and governance in place to ensure the risks of transformation and change are adequately identified and managed. It is also important that we have the right tools and technology to enable our workforce to deliver the transformation. To ensure this we will accelerate the implementation of our new ways of working into our business, building on the progress we have already made. Finally, transforming the organisation requires a team that can lead through the change and disruption, and we have maintained the focus on our people, particularly the importance of good leadership, during this transition.

People and culture

In transforming our organisation, we will significantly shift how we operate and serve our customers. As we transform, it is fundamental that we continue to attract, retain and develop the right capabilities, and to create the right culture and organisational structure to enable new and existing talent to be engaged and perform. Our Culture and Capability program is focused on building an agile and enabled culture, centred on simplicity and accountability and driven by strong leadership.

In the future, our workforce will be smaller, with a structure and way of working that is agile enough to deal with rapid change. This will result in a significant reduction in our workforce and number of roles over the next three years. We recognise this transformation represents a significant change for our people and we will be consulting with them throughout the process. We will also have two new programs in place to support all of our employees. One is a transition program for those leaving Telstra which will provide enhanced outplacement support. The second program is for those remaining at Telstra and will provide support to upskill and transition to new ways of working in our leaner, more agile organisation. To support the programs we intend to make available initial funding of up to $50 million.

Health, safety, wellbeing and environment

We carry a level of inherent Health, Safety, Wellbeing and Environmental (HSWE) risk considering the nature of the infrastructure we maintain and the activities we undertake on a daily basis. This includes risks to employees, members of the public and environmental hazards associated with our work, our products and services and the facilities in which we operate. In addition, failure to manage these risks effectively could also impact our reputation with stakeholders and customers and expose us to regulatory action or litigation. We have a comprehensive system and processes in place to responsibly manage our risks and to actively monitor safety outcomes and build employee awareness. Our approach to managing HSWE risk incorporates broader considerations of our safety culture including managing workplace aggression and drug and alcohol use, how we manage environmental hazards and those that may arise from use of our products such as electromagnetic energy.

Network and business resilience

The speed, scale and reliability of our network remains a key source of competitive differentiation. We recognise the criticality of the services we provide our customers, and the fact that the dependency on connectivity is greater than it has ever been. When we do not meet customer expectations, for example during periods of network congestion or prolonged network disruptions, we understand the impacts are both frustrating and wide-reaching. We are also cognisant of the responsibilities we have in providing critical

infrastructure and important products and services to our customers. When we get this wrong it can have severe ramifications for our customers, and may undermine their trust in us and impact our brand and reputation.

The threats to our ability to ensure resilience and continuity of key processes and systems include equipment failure, natural disasters, malicious attacks, loss of third party key service providers, and human errors. Given the breadth and complexity of our underlying infrastructure, we expect our exposure to climate change-related risk will increase over time in line with the frequency and intensity of extreme weather events. To manage these risks, we have a number of capabilities, strategies, and plans that seek to prevent, respond to and recover from network or critical service disruptions.

Looking forward, we need to continue to meet the exponential growth of data consumption. The transition to 5G will open up new opportunities that will allow us to satisfy our customers' demands by delivering faster mobile data speeds and more capacity at a reduced cost, however it will also require that we make the right decisions in terms of architecture, vendors and technology to ensure we are set up to succeed. We are building the foundations to lead on 5G – as we have with each generation of mobile technology.

Major regulatory change and stakeholder engagement

Regulatory or policy changes may directly impact our strategy and business model, as well as increase complexity and the cost of doing business. As the leading provider in a heavily-regulated industry, our products and services and the ways we deliver them, are subject to ongoing scrutiny from a range of regulators and agencies. We proactively maintain relationships with relevant regulatory stakeholders and policy makers, community groups and industry in an effort to ensure fair and balanced policy and regulatory decisions.

It is important that we maintain clear, transparent and timely communications with our stakeholders (including customers, shareholders, investors, government and regulators) to ensure we understand their views and maintain good relationships with them. We recognise if we are not successful in doing so, it may adversely affect our ability to execute our strategy. We also understand the relationship between business and society is changing. Increasing stakeholder expectations, coupled with a decline in trust in business means it is critical we continue to conduct ourselves in a manner consistent with our stakeholders' expectations.

The key regulatory matters currently relevant to Telstra relate to nbn™ network customer experience, 5G spectrum, USO reform and data security legislation. As with any regulatory or policy changes, these matters may directly impact our strategy and business model as well as raise the risk of additional regulatory cost and complexity being imposed on our business.

Privacy and cyber security

Ensuring the privacy and security of our customers' data and our corporate data is paramount for our business. At Telstra, we all have a responsibility to protect customer and corporate information from misuse, loss, unauthorised disclosure or damage. The privacy and security of customer and corporate information may be breached in a variety of ways including as a result of compromises to our IT systems and vendor systems, unauthorised or inadvertent release of information, or human error. Failing to maintain the privacy and security of our customer and corporate information has a number of potential consequences. These include an erosion of customer confidence and the trust they place in us, which may damage our brand and reputation, as well as create the potential for financial penalties and further regulatory action.

In relation to privacy, we face changing expectations from government and industry groups on issues including data availability and use, compliance with international frameworks such as the General Data Protection Regulation (GDPR) and data breach reporting. We have a number of strategies to manage our privacy and cyber security risks, including mandatory training on data security and privacy awareness for all employees, regular cyber security and privacy drills across the organisation to test the level of staff compliance and vigilance, and the ongoing maintenance and development of policies and procedures. We regularly update our privacy statement and privacy procedures in consideration of how societal expectations and technological changes affect the way we collect, store and use personal information.

Further detail about our risk management framework and how we manage our risks is provided in our 2018 Corporate Governance Statement available at www.telstra.com/governance.[1] Further information about our sustainability related risks is provided in our Bigger Picture 2018 Sustainability Report, available at www.telstra.com/sustainability/report.[2]

[1] This report will be available online from 31 August 2018
[2] This report will be available online from 31 August 2018

Outlook

The current competitive environment is expected to continue to intensify in the year ahead, just as it has done over the past 12 months. The accelerating impact of the transition to the nbn™ network and increased competition in Australia's mobile market is driving a challenging period for the Australian telecommunications market.

These competitive pressures are playing out in our financial performance and we expect the challenging trading conditions experienced in FY18 to continue in FY19.

Our recently announced Telstra2022 (T22) strategy details how we will lead the Australian market through simplified operations and products, and improved customer experiences. We have increased our net cost productivity target to $2.5 billion by the end of FY22, and we expect to achieve more than $1.5 billion of our cost productivity target by the end of FY20. We also intend to monetise up to $2 billion in assets over the next two years to strengthen the balance sheet.

The organisation we are becoming will look vastly different to the one we are today. Our workforce will be a smaller, knowledge-based one with a structure and way of working that is agile enough to deal with rapid change. While we plan to create 1,500 new roles, we expect a net reduction of 8,000 jobs over the next three years, including reducing two to four levels of management. Due to these changes, we expect to incur additional restructuring costs of approximately $600 million in FY19.

In the year ahead, we will dramatically simplify our products, remove customer pain points and give Australians the flexibility to truly personalise their home and mobile packages based on what is important to them. This experience will be backed up by easier and more intuitive digital tools for our customers and our employees. This will also help drive cost savings.

We achieved the first milestone in our plan to simplify our products for Consumer and Small Business by launching Peace of Mind Data on selected new mobile plans in July 2018. Four more major product and service experiences will be progressively announced in the lead up to June 2019.

By choosing to lead the market and simplifying the charging model for our customers, we are likely to eliminate up to $500 million in revenues over the next three years, with excess data charges being the first example. However, over the longer term these changes are in the best interests of customers and will drive long-term value. They are expected to be more than offset by more services per customer and lower costs from simplicity and leadership shown by Telstra translating into new sources of growth.

Our efforts within Enterprise to remove complexity will be accelerated to reduce the existing product portfolio by more than half over the next three years. Our approach to simplifying our product portfolio will have greater emphasis on a digital-first model, supported by software-based platforms and the Internet of Things. It is expected this will bolster our historical strength with large customers and enable us to push firmly into the mid-market and increase market share.

Demand for core products and services delivered over our networks has never been greater, and we expect this trend to continue. The volume of data moving across our fixed and mobile networks is expected to increase by 50 per cent per annum and the range of services supported by our networks is also increasing dramatically.

We will continue to invest in high-quality content experiences for our customers. In Q2 FY19 we will be making new choices available to mobile customers that build on Telstra’s superior offerings in entertainment, music and sport, which we enhanced in FY18 by adding Foxtel Now and Football Federation Australia content to our offering.

Our ongoing network investments have been critical as we prepare to lead the market and win in 5G, ensuring Australians are among the first to benefit from this new technology. Our network will be ready for 5G use in the first half of FY19, with services in limited areas and pending the availability of 5G compatible devices. Subject to the acquisition of required spectrum, we anticipate full rollout to capital cities, regional centres and other high-demand areas by FY20.

The technological innovation we are seeing today relies on high-quality, highly reliable, safe and secure telecommunications networks. Our strategic investment announced in August 2016 of up to $3 billion enables us to provide world-leading networks and digital platforms, and we are also on track to achieve more than $500 million of additional EBITDA benefits by FY21 as an outcome of this investment.

We recognise that we have not always provided customers with the experience they expect from us. Addressing our customers’ pain points is a cornerstone of our new strategy, which puts customers at the centre of everything we do to deliver simpler, more flexible products with a great digital service experience.

Further information in relation to our Outlook is provided in the Chairman and CEO message.

Full year results and operations review

Summary financial results	FY18 $m	FY17 $m	Change %
Total revenue	**26,011**	26,013	(0.0)
Total income (excluding finance income)	**29,042**	28,205	3.0
Operating expenses	**18,899**	17,558	7.6
Share of net profit/(loss) from joint ventures and associated entities	**(22)**	32	n/m
EBITDA	**10,121**	10,679	(5.2)
Depreciation and amortisation	**4,470**	4,441	0.7
EBIT	**5,651**	6,238	(9.4)
Net finance costs	**549**	591	(7.1)
Income tax expense	**1,573**	1,773	(11.3)
Profit for the period	**3,529**	3,874	(8.9)
Profit attributable to equity holders of Telstra	**3,563**	3,891	(8.4)
Capex[1]	**4,717**	4,606	2.4
Free cashflow	**4,695**	3,496	34.3
Earnings per share (cents)	**30.0**	32.5	(7.7)

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. Excludes externally funded capex.

Reported results

For commentary on our key results and market context, please refer to the *Chairman and CEO message* section. Detail on our FY18 highlights and early progress against our T22 strategy can be found in the *Strategy and performance* section.

Results on a guidance basis[1]	FY18	FY18 Guidance[3]
Total income[2]	**$28.6b**	Middle of $27.6b to $29.5b
EBITDA	**$10.1b**	Bottom end of $10.1b to $10.6b
Net one-off nbn DA receipts less nbn net Cost to Connect (C2C)	**$1.8b**	Middle to upper end of $1.4b to $1.9b
Capex	**$4.7b**	Middle to upper end of $4.4b to $4.8b
Free cashflow	**$4.9b**	Top end or moderately above $4.2b to $4.7b

1. This guidance assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout was 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 excluded externally funded capex. Refer to the guidance versus reported results reconciliation section.
2. Total income excludes finance income.
3. FY18 guidance as provided on 14 May 2018 trading update. FY18 guidance initially revised on 1 December 2017 as a result of nbn co's HFC cease sale.

Guidance versus reported results[1]	FY18	FY18	FY18	FY17
	Reported results $m	Adjustments $m	Guidance basis $m	Guidance basis $m
Total income[2]	**29,042**	(397)	**28,645**	**28,205**
EBITDA	**10,121**	4	**10,125**	**10,756**
Free cashflow	**4,695**	178	**4,873**	**3,981**

1. This guidance assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout was 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 excluded externally funded capex. Refer to the guidance versus reported results reconciliation section.
2. Total income excludes finance income.

On 16 August 2018, the Directors of Telstra Corporation Limited resolved to pay a fully franked final dividend of 11 cents per ordinary share, comprising a final ordinary dividend of 7.5 cents and a final special dividend of 3.5 cents. Shares will trade excluding entitlement to the dividends from 29 August 2018 with payment on 27 September 2018.

The total dividend for FY18 is 22 cents per share, fully franked, including 15 cents ordinary and 7 cents special, in accordance with our dividend policy announced in August 2017. This represents a 78 per cent payout ratio on FY18 underlying earnings (net profit after tax excluding net one-off nbn receipts) and a 65 per cent payout ratio of FY18 net one-off nbn receipts (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).

Segment performance

We report segment information on the same basis as our internal management reporting structure as at the 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	FY18 $m	FY17 $m	Change %
Telstra Consumer and Small Business	**14,683**	14,722	(0.3)
Telstra Enterprise	**8,249**	8,108	1.7
Telstra Wholesale	**2,737**	2,837	(3.5)
Telstra Operations	**1,217**	1,151	5.7
All Other	**2,156**	1,387	55.4
Total Telstra segments	**29,042**	28,205	3.0

Telstra Consumer and Small Business
Telstra Consumer and Small Business income was largely flat, down 0.3 per cent to $14,683 million.

Telstra Consumer income increased by 0.6 per cent with growth in postpaid handheld, mobile hardware and fixed bundle revenue partly offset by declines in prepaid handheld, mobile broadband and ongoing fixed voice decline. Fixed data grew by 4.7 per cent while mobile services revenue declined by 1.6 per cent and fixed voice was down 14.4 per cent.

Telstra Small Business income decreased by 4.0 per cent, impacted by lower mobile services revenue and ongoing declines in fixed voice. Mobile services revenue declined by 2.5 per cent with net subscriber additions offset by ARPU reductions. Network Applications and Services (NAS) revenue continued to grow, increasing by 14.5 per cent, primarily driven by growth in unified communications.

Telstra Enterprise
Telstra Enterprise income increased by 1.7 per cent to $8,249 million. Telstra Enterprise domestic income increased by 0.8 per cent, including an 8.0 per cent growth in NAS. This was partly offset by industry ARPU declines across mobility and Data & IP, and ongoing fixed voice decline. Telstra Enterprise international income grew by 5.4 per cent mainly due to growth across NAS with the acquisition of Company85 in June 2017, and growth in fixed voice products.

Telstra Wholesale
Telstra Wholesale income decreased by 3.5 per cent to $2,737 million largely due to a decline across fixed products, but was partly offset by increased mobile and ISA ownership receipts in line with the nbn™ network rollout.

Telstra Operations
Telstra Operations income grew by 5.7 per cent to $1,217 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 PSAA in line with the nbn™ network rollout.

Telstra InfraCo
Effective from 1 July 2018, we established a standalone infrastructure business unit, Telstra InfraCo, as part of our new T22 strategy announced on 20 June 2018.

Our 1H19 financial statements will contain detailed segment reporting for Telstra InfraCo, the results of which will be regularly reviewed by management. The new segment will comprise:

- Infrastructure assets reported in FY18 in our corporate areas.
- Telstra Wholesale results disclosed in FY18 in note 2.1 to the financial statements as a separate reportable segment but excluding one-off nbn Infrastructure Ownership Payments.
- nbn commercial works activities included in FY18 in note 2.1 to the financial statements as part of the Telstra Operations reportable segment.

Telstra InfraCo engages in the following activities:

- Holds our fixed network infrastructure including data centres, non-mobiles related domestic fibre, copper, HFC, international subsea cables, exchanges, poles, ducts and pipes.
- Provides access to our fixed network infrastructure assets to other Telstra business units, wholesale customers and nbn co.
- Provides 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.
- Provides nbn co with long term access to certain components of our infrastructure and certain network services under the ISA and commercial contracts.

The table below includes pro forma segment results as if the Telstra InfraCo segment existed at the end of FY18. The table is for information purposes only and provides an example of what the FY19 segment reporting will look like in principle. However, it does not reflect any other organisational changes resulting from the T22 announcement as those changes are yet to be finalised. Our 1H19 financial statements will provide a restatement of FY18 comparatives reflecting segments as at 31 December 2018.

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

Our approach to Telstra InfraCo segment reporting is to present its profitability as if it was a standalone business unit with no offsetting impact to the other segments to reflect how performance is managed internally.

Telstra Group	Telstra Consumer and Small Business	Telstra Enterprise	Telstra Operations	All Other	Subtotal	Telstra InfraCo	Eliminations	Total
	$m	$m	$m	$m	$m	$m	$m	$m
	Year ended 30 June 2018							
Revenue from external customers	14,629	8,217	89	(20)	22,915	3,096	-	26,011
Revenue from transactions between Telstra InfraCo and other segments	-	-	-	-	-	2,178	(2,178)	-
Total revenue from external customers and Telstra InfraCo	**14,629**	**8,217**	**89**	**(20)**	**22,915**	**5,274**	**(2,178)**	**26,011**
Other income	54	32	162	2,572	2,820	211	-	3,031
Total income	**14,683**	**8,249**	**251**	**2,552**	**25,735**	**5,485**	**(2,178)**	**29,042**
Share of net profit/(loss) from joint ventures and associated entities	-	2	-	(24)	(22)	-	-	(22)
EBITDA contribution	**6,970**	**3,216**	**(3,066)**	**501**	**7,621**	**3,407**	**(907)**	**10,121**
Depreciation and amortisation	-	-	-	-	-	-	-	(4,470)
Telstra Group EBIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,651**
Net finance costs	-	-	-	-	-	-	-	(549)
Telstra Group profit before income tax expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,102**

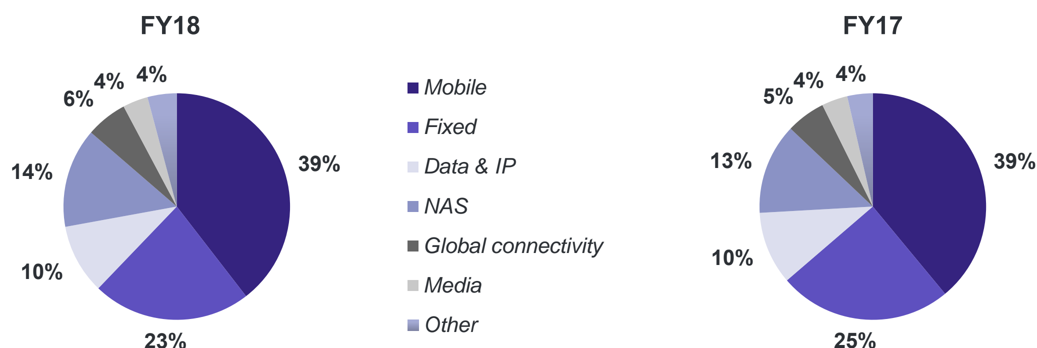
Total restated FY18 segment results reconcile to note 2.1 to the financial statements. However, the following items have been adjusted:

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

Full details about our FY18 reported segment results are included in note 2.1 to the financial statements.

Product performance

Product sales revenue breakdown

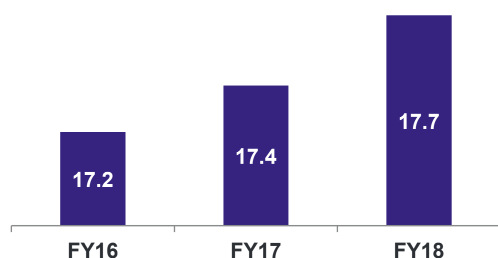


Key product revenue	FY18 $m	FY17 $m	Change %
Mobile	**10,145**	10,102	0.4
Fixed	**5,812**	6,402	(9.2)
Data & IP	**2,557**	2,698	(5.2)
NAS	**3,646**	3,358	8.6
Global connectivity	**1,513**	1,449	4.4

EBITDA margins[1]	FY18 %	2H18 %	1H18 %	FY17 %
Mobile	**40**	39	40	**43**
Fixed data[2]	**16**	15	17	**31**
Fixed voice[2]	**35**	31	38	**48**
Data & IP	**59**	59	59	**59**
NAS	**10**	13	6	**9**
Global connectivity	**16**	17	15	**17**

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 revenue increased by 0.4 per cent to $10,145 million. Retail customer services increased by 342,000 bringing the total to 17.7 million. We now have 7.9 million postpaid handheld retail customer services, an increase of 304,000 (including 67,000 from Belong). Postpaid handheld churn of 10.9 per cent is industry leading.

Postpaid handheld revenue declined by 1.4 per cent to $5,374 million, however it was 0.4 per cent higher in 2H18 compared with 1H18. Postpaid handheld ARPU declined by 3.4 per cent from $67.70 in FY17 to $65.41 in FY18 (excluding the impact of mobile repayment option) due to lower out of bundle revenue and increased competition. Postpaid handheld ARPU declines are expected to continue into 1H19.

Prepaid handheld revenue declined by 5.4 per cent to $958 million, with ARPU growth of 2.1 per cent from $22.29 to $22.75 offset by a reduction in unique users, increased competition, and migration to wholesale and Belong.

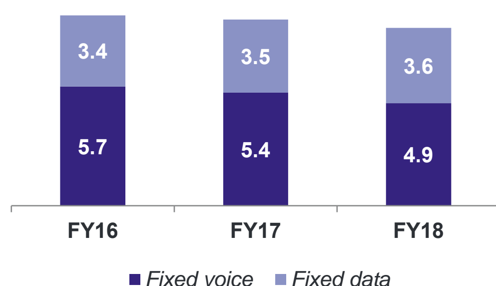
Mobile broadband revenue fell 10.3 per cent to $890 million after a decline in ARPU and reduction of 37,000 customer services. The decline accelerated in 2H18 compared to 1H18 due to shared data impacts and a decline in prepaid unique users.

Machine to Machine revenue grew by 13.0 per cent to $165 million, increasing customer services by 383,000. We continue to see growth with the acquisitions of MTData and VMtech, and new solutions being implemented in verticals such as logistics, utilities, health and financial services.

Mobile hardware revenue increased by 9.0 per cent to $2,338 million largely due to a higher volume of devices sold at a higher price per unit.

Mobile EBITDA margin declined by 3 percentage points to 40 per cent due to a reduction in mobile services revenue and a smaller EBITDA benefit from Go Mobile Swap relative to FY17.

Fixed



Fixed revenue declined by 9.2 per cent to $5,812 million, impacted by an increased rate of nbn migration and competition, partly offset by improved 2H18 retail bundle momentum.

Fixed voice revenue decreased by 15.4 per cent to $2,642 million due to lower out of bundle usage and a decline in customer services. Retail fixed voice subscriber numbers fell in line with the nbn rollout, declining 472,000, taking total retail fixed voice customers to 4.9 million. We continue to focus on retention activity promoting the customer benefits from bundling.

Fixed data revenue decreased by 0.2 per cent to $2,544 million, as retail fixed data revenue growth of 4.1 per cent was offset by lower wholesale revenue due to nbn migration. There were 88,000 retail fixed data net subscriber additions including 48,000 from Belong, bringing total retail fixed data customers to 3.6 million.

Retail bundles continued to perform well with 3.1 million customers now on a bundled plan. Net subscriber additions of 135,000 were boosted by data and speed bestowals, and the launch of 'Unlimited Data Bundles' and the new Telstra TV® in October 2017. There was improved momentum in 2H18 with 78,000 net subscriber additions compared with 57,000 in 1H18.

We continue to lead the nbn market with a total of 1,946,000 nbn connections, an increase of 770,000. Our nbn market share is now 51 per cent (excluding satellite). The Telstra Smart Modem™ is now being utilised by 12 per cent of our fixed data consumer base, providing a better experience on the nbn and improved churn outcomes.

Other fixed revenue, which includes intercarrier services, platinum services, payphones and customer premises equipment, decreased by 14.1 per cent to $626 million. Intercarrier access services revenue declined by 13.8 per cent.

Fixed voice and fixed data EBITDA margins declined to 35 and 16 per cent respectively, negatively affected by a reduction in revenue, upfront costs of connecting customers to the nbn™ network, and rising network payments to nbn co.

Data & IP

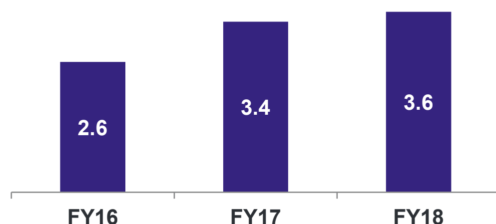
Data & IP revenue decreased by 5.2 per cent to $2,557 million reflecting customer growth in IP Virtual Private Network (IPVPN), offset by legacy product declines including ISDN and calling products.

IPVPN revenue declined by 0.4 per cent to $1,066 million as subscriber growth in higher ARPU fibre products, including IP Metropolitan Area Network (IPMAN), was offset by competitive yield pressures and legacy IP Wide Area Network (IPWAN) declines. The accelerated decline in ISDN revenue, down 13.5 per cent to $467 million, represents legacy migration to IPVPN growth products, and NAS collaboration and calling solutions.

Other data and calling products revenue, which includes wholesale, inbound calling products, internet, media solutions and legacy data, decreased by 5.9 per cent to $1,024 million. Internet growth of 7.2 per cent was more than offset by declines in legacy inbound calling and data products, and media solutions.

Data & IP EBITDA margin remained stable at 59 per cent. EBITDA dollars declined, largely due to legacy migration from products including ISDN to NAS collaboration and calling solutions.

Network Applications and Services (NAS)



NAS revenue increased by 8.6 per cent to $3,646 million with double digit growth in Small Business and high single digit growth in Enterprise. There was strong growth in professional services across NAS offerings.

Managed network services revenue increased by 1.8 per cent, reflecting a 3.8 per cent growth in security services and other one-off revenue in managed data networks. Managed data networks revenue grew by 1.4 per cent.

Unified communications revenue increased by 1.1 per cent due to collaboration and calling solutions, offset by lower revenue from professional services and customer premises equipment.

Cloud services revenue growth of 14.4 per cent was facilitated by annuity growth in public cloud, consulting services and customer premises equipment.

Industry solutions revenue growth of 11.0 per cent largely came from nbn network and other commercial works.

Integrated service revenue grew by 39.5 per cent resulting from growth in professional services and timing of key customer milestones.

NAS EBITDA margin increased by 1 percentage point to 10 per cent due to ongoing operational leverage, scalable standardised offerings and cost productivity.

Global connectivity
Global connectivity represents the international business of Telstra Enterprise. Revenue grew by 5.1 per cent in local currency (LC) terms due to ongoing NAS and fixed product growth.

Fixed revenue increased by 5.0 per cent (LC) as a result of wholesale voice customer growth, while NAS revenue grew by 31.9 per cent (LC) due to an uptake in managed network services and customer premise equipment. Data & IP revenue increased 0.6 per cent (LC).

On a reported Australian dollar basis, global connectivity revenue increased by 4.4 per cent to $1,513 million.

Global connectivity EBITDA margin declined by 1 percentage point to 16 per cent due to revenue mix shift towards lower margin products and yield pressure particularly in 1H18. EBITDA in 2H18 improved by 3 per cent compared with the prior corresponding period from revenue growth and cost productivity.

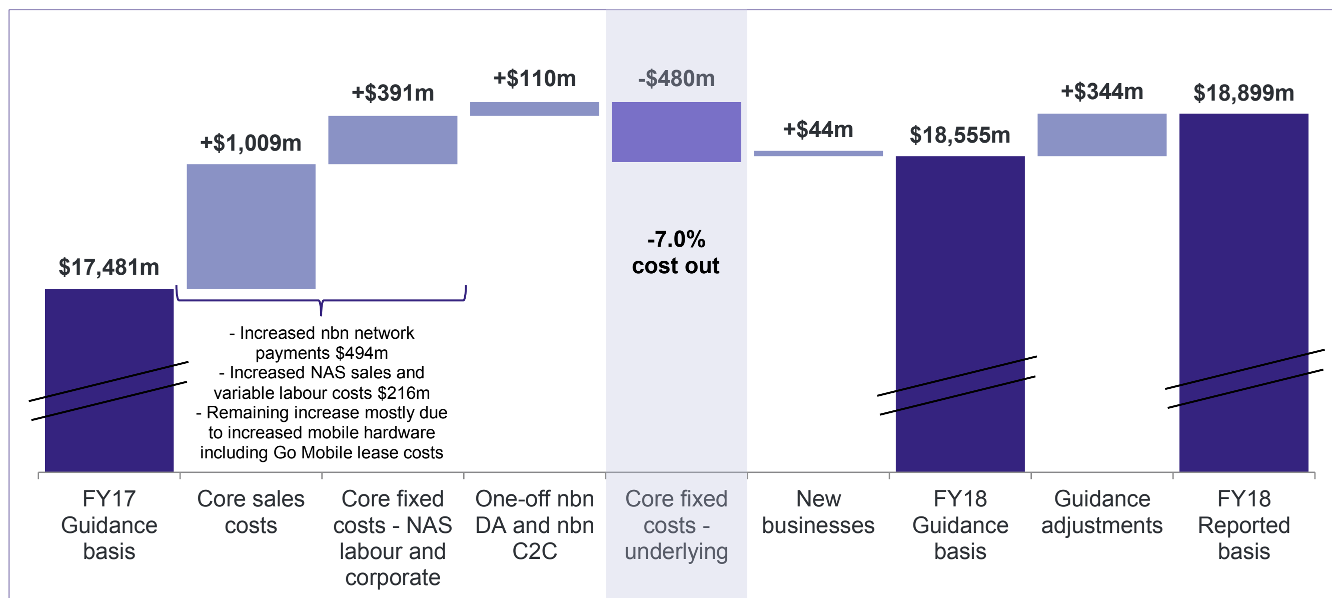
Media
Media revenue excluding cable decreased by 1.2 per cent to $924 million mainly due to the performance of Foxtel from Telstra, which declined by 1.2 per cent to $768 million and had 18,000 subscriber exits due to a broader industry transition from Broadcast to IPTV. There are now 1,290,000 Telstra TV® devices in the market, an increase of 463,000. Sports Live Pass users increased by nearly 1 million to 2,301,000 across AFL, NRL and Netball, with most users receiving 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 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 38.3 per cent is largely due to an increase in one-off PSAA, which increased by 42.5 per cent to $1,779 million, and ISA receipts in line with the progress of the nbn™ network rollout.

Expense performance

In June 2018, we announced we would target a further $1 billion annual reduction in underlying core fixed costs by FY22 in addition to the previous stated target of $1.5 billion, meaning underlying core fixed costs will be $2.5 billion per annum lower in FY22 compared with FY16. We expect total costs will be flat or decline in each year from FY18 excluding restructuring costs.

We have delivered against our cost ambitions for the year and are ahead of the run rate required for our net productivity target with underlying core fixed costs declining by 7.0 per cent or $480 million. We have now achieved around $700 million of annual cost out since FY16.



Operating expenses	FY18 $m	FY17 $m	Change $m	Change %
Core sales costs[1]	**8,427**	7,418	1,009	13.6
Core fixed costs	**9,240**	9,329	(89)	(1.0)
- Underlying	**6,365**	6,845	(480)	(7.0)
- NAS labour and corporate[2]	**2,875**	2,484	391	15.7
New businesses costs[3]	**370**	326	44	13.5
One-off nbn DA and nbn C2C[4]	**518**	408	110	27.0
Guidance basis	**18,555**	**17,481**	**1,074**	**6.1**
Guidance adjustments[5]	**344**	77	267	n/m
Reported basis	**18,899**	**17,558**	**1,341**	**7.6**

1. Core sales costs excludes goods and services purchased associated with new businesses and one-off 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. FY17 restated to include $439m (FY18 $286m) additional restructuring costs represented as a guidance adjustment in prior year.
3. New businesses includes Telstra Health, Ooyala and Telstra Ventures. New businesses costs restated to exclude international product costs, now global connectivity.
4. FY17 one-off nbn C2C restated to exclude business as usual (BAU) connections. Costs associated with BAU connections included in core sales and underlying fixed costs.
5. Refer to the guidance versus reported results reconciliation section.

Total operating expenses increased by 7.6 per cent to $18,899 million due to increased nbn access payments, nbn cost to connect (C2C), NAS growth and mobile hardware. Core sales costs, which are direct costs associated with revenue and customer growth, increased by $1,009 million or 13.6 per cent. NAS labour and corporate costs, and one-off nbn DA and nbn C2C increased by 15.7 per cent and 27.0 per cent respectively as the nbn rollout continues.

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	FY18	FY17	Change
	$m	$m	%
Labour	**5,157**	5,381	(4.2)
Goods and services purchased	**8,758**	7,671	14.2
Other expenses	**4,984**	4,506	10.6
Total operating expenses	**18,899**	17,558	7.6

Labour
Total labour expenses decreased by 4.2 per cent or $224 million to $5,157 million. Redundancy costs decreased by 47.9 per cent or $150 million resulting from higher restructuring related costs in FY17, while labour substitution costs decreased by 6.1 per cent or $59 million due to a reduction in labour outsourcing. Salary and associated costs decreased by $9 million or 0.2 per cent.

Total full time staff and equivalents (FTE) remained steady at 32,293, with an increase in domestic FTE offset by an offshore reduction.

Goods and services purchased
Total goods and services purchased increased by 14.2 per cent or $1,087 million to $8,758 million.

Cost of goods sold, which includes mobile handsets, tablets, cellular Wi-Fi, broadband modems and NAS hardware, increased by 8.0 per cent or $264 million to $3,551 million. Mobile hardware costs increased driven by more expensive handsets being sold while fixed hardware costs increased due to the launch of more expensive smart modems.

Network payments increased by 34.0 per cent or $575 million to $2,267 million, including a $494 million increase in nbn access payments as customers migrate across to nbn services. Offshore network payments were $79 million higher mainly due to higher voice outpayments.

Other goods and services purchased costs increased by 9.2 per cent or $248 million mainly due to a $192 million increase in service fees, which are primarily for mobile content and NAS related costs.

Other expenses
Total other expenses increased by 10.6 per cent or $478 million to $4,984 million. Impairment expenses increased by $262 million largely due to a $273 million impairment charge recognised for the Ooyala Holdings Group, while other expenses increased by 14.9 per cent or $357 million mainly due to the higher uptake of Go Mobile Swap lease plans. This was partially offset by a 7.8 per cent or $141 million decrease in service contract and other agreement costs, driven by the productivity and cost reduction programs.

Depreciation and Amortisation
Depreciation and Amortisation increased by 0.7 per cent to $4,470 million due to ongoing investment in business software assets with shorter useful lives. Review of useful lives during the year resulted in a $216 million decrease in depreciation and a $26 million decrease in amortisation.

Foreign currency impacts
For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to AUD decreased our expenses by approximately $41 million across labour, goods and services purchased, and other expenses. This foreign exchange impact has been offset by a reduction in sales revenue resulting in a favourable EBITDA contribution of approximately $7 million.

Net finance costs
Net finance costs decreased by 7.1 per cent or $42 million to $549 million. On an accounting basis, net finance costs were $157 million lower than our net borrowing costs of $706 million, due to capitalised interest of $101 million, non-cash gains of $52 million comprising valuation impacts on our borrowings and derivatives and $4 million interest revenue recognised on our defined benefit plan.

Capitalised interest increased by $20 million to $101 million due to higher capital expenditure. Non-cash gains increased by $30 million mainly due to market valuation adjustments on our financial instruments.

Gross borrowing costs declined by $48 million which reflects a reduction in our average gross interest cost from 5.1 per cent to 4.9 per cent. Gross debt decreased by $850 million, however average debt levels were marginally higher. We reduced our borrowing costs by taking advantage of lower interest rates when refinancing and by effectively using short term debt, including commercial paper and bank facilities, to manage liquidity.

Finance income decreased by $56 million primarily from targeted lower average cash balances and a reduction in interest revenue from our joint venture loan asset to Foxtel Management Pty Ltd, which was converted to an equity investment during the year.

Summary statement of cash flows	FY18	FY17	Change
	$m	$m	%
Net cash provided by operating activities	**8,606**	7,775	10.7
Capital expenditure (before investments)	**(4,932)**	(5,321)	7.3
Other investing cash flows	**1,021**	1,042	(2.0)
Net cash used in investing activities	**(3,911)**	(4,279)	8.6
Free cashflow	**4,695**	3,496	34.3
Net cash used in financing activities	**(5,015)**	(6,104)	17.8
Net (decrease) in cash and cash equivalents	**(320)**	(2,608)	87.7
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	**4**	(6)	n/m
Cash and cash equivalents at the end of the period	**620**	936	(33.8)

Financial position

Capital expenditure and cash flow

Net cash provided by operating activities increased by 10.7 per cent to $8,606 million mainly due to an increase in one-off nbn receipts as the nbn™ network rollout continues and improvements in working capital initiatives including Go Mobile Swap leasing. The decrease in net cash used in investing activities primarily reflects lower capital expenditure for the period due to higher spectrum costs in FY17.

Our operating capital expenditure for the year was 18.4 per cent of sales revenue or $4,717 million (18.1 per cent excluding around $60 million of non-cash capital expenditure relating to our data centres in China that we won't fund until 2023). For FY19, our plan is to expend approximately 16 to 18 per cent of sales revenue, inclusive of the continuation of our up to $3 billion of strategic investment announced in August 2016. We have invested approximately $1.8 billion of the additional capital expenditure to date.

This strategic investment program to date has enabled us to maintain our network leadership, strengthen our network resiliency, and build the foundations of the new generation network and digital capabilities. We accelerated our readiness for the 5G era as demonstrated by our showcase of the world's first non-standalone data call on 5G New Radio (NR) and we have made significant progress in the development of the new core digital platforms in our digital transformation which will enable strategic market propositions and growth. In FY18, our mobile network was upgraded so that 93.6 per cent of the Australian population now has access to double the speed of our original 4G, 93 per cent of ADSL customers now have access to ADSL speeds that support a quality video experience, and our high level of Connectivity Virtual Circuit (CVC) provisioning is giving our nbn customers more than 90 per cent of maximum line speed during busy hours.

We added more than 500 new mobile sites, including over 300 black spots, added around 400 small cells, and upgraded more than 1,100 mobile sites, providing greater in building coverage and increased speed and capacity for mobile customers, while more than half of our mobile voice traffic has been moved to Voice over LTE (VoLTE), improving call quality. We have also launched world leading technology to more efficiently use our network capacity including LTE Broadcast and next generation video codecs (HVEC). These investments position us to deliver significant customer benefits and reinforce our market leadership over the longer term, while delivering financial benefits such as capital efficiency, reduced operating costs, and increased revenue.

Free cashflow generated from operating and investing activities was $4,695 million, representing an increase of $1,199 million or 34.3 per cent. This was largely due to an increase in net cash provided by operating activities resulting from a $613 million increase in receipts from customers and a $230 million reduction in income taxes paid. The $1,089 million 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 $4,873 million. Performance against guidance has been adjusted for free cashflow associated with M&A activity ($14 million), Foxtel ($51 million) and spectrum ($113 million).

Financial settings	FY18 Actual	FY18 Comfort zone
Debt servicing[1]	1.5x	1.3 to 1.8x
Gearing[2]	49.5%	50% to 70%
Interest cover[3]	14.3x	>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.

Debt position

Our gross debt position was $15,368 million, comprising borrowings of $16,951 million and $1,583 million in net derivative assets.

Gross debt declined by 5.2 per cent or $850 million primarily from the repayment of $1,791 million in debt, partly offset by debt issuances of $718 million. This resulted in a $1,073 million decrease in gross debt which was offset by finance lease additions of $143 million, unrealised revaluation impacts on our borrowings and derivatives of $73 million, and bank overdraft of $7 million.

During the year we issued a United States dollar denominated bond with a 10 year maturity in the amount of US$500 million ($648 million Australian dollar equivalent).

Debt issuance	$m
Bonds	648
Loans	70
Total	**718**

Debt repayments	$m
Bonds	(853)
Loans	(9)
Short term commercial paper (net)	(809)
Finance leases	(120)
Total	**(1,791)**

Net debt decreased by 3.5 per cent or $541 million to $14,739 million. This movement comprises the decrease in gross debt and a $309 million reduction in cash and cash equivalents. Excluding the effect of exchange rate changes on our cash balances and net of bank overdraft, our cash decreased by $320 million. Reported free cashflow of $4,695 million and available cash was utilised during the year to reduce debt and to fund outflows from interest, dividends, and other financing flows totalling $5,015 million. Closing cash and cash equivalents was $629 million ($620 million net of bank overdraft).

We remain within our comfort ranges for all our credit metrics. Our gearing ratio is 49.5 per cent (30 June 2017: 51.2 per cent), debt servicing is 1.5 times (30 June 2017: 1.4 times) and interest cover is 14.3 times (30 June 2017: 15.4 times).

Summary statement of financial position	FY18	FY17	Change
	$m	$m	%
Current assets	**7,077**	7,862	(10.0)
Non-current assets	**35,793**	34,271	4.4
Total assets	**42,870**	42,133	1.7
Current liabilities	**8,816**	9,159	(3.7)
Non-current liabilities	**19,040**	18,414	3.4
Total liabilities	**27,856**	27,573	1.0
Net assets	**15,014**	14,560	3.1
Total equity	**15,014**	14,560	3.1
Return on average assets (%)	**13.6**	15.6	(2.0)pp
Return on average equity (%)	**24.1**	25.6	(1.5)pp

Statement of financial position
Our balance sheet remains in a strong position with net assets of $15,014 million.

Current assets decreased by 10.0 per cent to $7,077 million largely due to a $450 million reduction in trade and other receivables. Cash and cash equivalents declined by $309 million, which continues to fund our strategic investment program. Inventories decreased by $92 million primarily due to an increase in progress billings for nbn and Telstra Enterprise domestic commercial works.

Non-current assets increased by 4.4 per cent to $35,793 million. Investments accounted for using the equity method increased by $1,043 million primarily due to the capitalisation of the Foxtel shareholder loan on 28 September 2017, and Telstra's investment in the new combined company resulting from the merger of Foxtel and Fox Sports Australia. Property, plant and equipment increased by $758 million, largely driven by mobile and Networks 2020 investments. This was partially offset by a decrease of $378 million in intangible assets which was mainly due to the $273 million impairment of the Ooyala Holdings Group. Derivative financial assets increased by $274 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).

Current liabilities decreased by 3.7 per cent to $8,816 million. Trade and other payables increased by $646 million but was offset by a decrease in current borrowings of $841 million driven mainly by a $780 million decrease in commercial paper and a reduction in term debt due to mature within 12 months. Derivative financial liabilities decreased by $41 million primarily as a result of foreign currency valuation impacts.

Non-current liabilities increased by 3.4 per cent to $19,040 million mainly due to non-current borrowings, which increased by $508 million. The increase results from debt issuance of $718 million and foreign currency exchange movements, offset by reclassification of debt to mature within 12 months to current borrowings. Deferred tax liabilities increased by $85 million due to the tax effect of timing differences between accounting and tax.

Telstra Corporation Limited

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 assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout was 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 excluded externally funded capex.

	Reported			Adjustments Jun-18							Jun-17			Guidance Basis		
	Year ended 30 Jun			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]	Impairment[5]	Spectrum[6]	M&A[7]	Year ended 30 Jun		
	2018	2017	Growth											2018	2017	Growth
	$m	$m	%	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	%
Sales revenue	25,667	25,910	(0.9%)	(35)	0	0	0	0	0	0	0	0	0	25,632	25,910	(1.1%)
Total revenue	26,011	26,013	(0.0%)	(45)	0	0	(53)	(299)	0	0	0	0	0	25,614	26,013	(1.5%)
Total income (excl. finance income)	29,042	28,205	3.0%	(45)	0	0	(53)	(299)	0	0	0	0	0	28,645	28,205	1.6%
Labour	5,157	5,381	(4.2%)	(16)	0	0	0	0	0	0	0	0	0	5,141	5,381	(4.5%)
Goods and services purchased	8,758	7,671	14.2%	(28)	0	0	0	0	0	0	0	0	0	8,730	7,671	13.8%
Other expenses	4,984	4,506	10.6%	(3)	0	0	0	0	0	(297)	(77)	0	0	4,684	4,429	5.8%
Operating expenses	18,899	17,558	7.6%	(47)	0	0	0	0	0	(297)	(77)	0	0	18,555	17,481	6.1%
Share of net profit/(loss) from joint ventures and associated entities	(22)	32	n/m	0	0	0	0	57	0	0	0	0	0	35	32	9.4%
EBITDA	10,121	10,679	(5.2%)	2	0	0	(53)	(242)	0	297	77	0	0	10,125	10,756	(5.9%)
Depreciation and amortisation	4,470	4,441	0.7%	0	0	0	0	0	0	0	0	0	0	4,470	4,441	0.7%
EBIT	5,651	6,238	(9.4%)	2	0	0	(53)	(242)	0	297	77	0	0	5,655	6,315	(10.5%)
Net finance costs	549	591	(7.1%)	0	0	0	0	0	0	0	0	0	0	549	591	(7.1%)
Profit before income tax expense	5,102	5,647	(9.7%)	2	0	0	(53)	(242)	0	297	77	0	0	5,106	5,724	(10.8%)
Income tax expense	1,573	1,773	(11.3%)	3	0	0	0	(11)	0	0	4	0	0	1,565	1,777	(11.9%)
Profit for the period	3,529	3,874	(8.9%)	(1)	0	0	(53)	(231)	0	297	73	0	0	3,541	3,947	(10.3%)
Attributable to:																
Equity holders of Telstra Entity	3,563	3,891	(8.4%)	(1)	0	0	(53)	(231)	0	286	73	0	0	3,564	3,964	(10.1%)
Non-controlling interests	(34)	(17)	100.0%	0	0	0	0	0	0	11	0	0	0	(23)	(17)	35.3%
Free cashflow	4,695	3,496	34.3%	56	3	67	(112)	51	113	0	0	625	(140)	4,873	3,981	

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 and disposals of controlled entities, joint ventures, associates and other investments and any associated net gains or losses.
Adjustments relating to acquisition of controlled entities and contingent consideration paid. This includes the acquisition of MTData Holdings Pty Ltd and its controlled entities and Virtual Machine Technology Pty Ltd and its controlled entity, acquisition adjustment for Company85 Limited and contingent consideration paid for Kloud Solutions (National) Pty Ltd and its controlled entities, Health IQ Pty Ltd and MSC Mobility Pty Ltd.
Joint Ventures/Associates includes additional investments purchased through our interest in the Telstra Ventures Fund II L.P.
During this period we disposed of our investment in 1300 Australia Pty Ltd and its controlled entity, TeleSign Holdings Inc, IP Health Pty Ltd and VeloCloud Networks, Inc. We also received deferred consideration from our disposal of Nexmo Inc. and received proceeds from the sell down of our interest in the Telstra Ventures Fund II L.P.

(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 (Foxtel) and recognition of our cumulative unrecognised share of equity accounted losses.
Adjustments relating to our merger of the previously shared joint venture Foxtel, with Fox Sports Australia, which is owned 100% by News Corp. As a result of the transaction, Telstra contributed its 50 per cent interest in Foxtel in exchange for a 35 per cent interest in NXE Australia Pty Limited, which is a newly formed head entity of the merged group of Foxtel and Fox Sports Australia.

(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.
$50m for spectrum licenses in the 3400 MHz band.
$19m for spectrum licenses in the 2100 MHz band.
$4m for spectrum licenses in the 1800Mhz band.
$13m for apparatus licences in various spectrum bands.

(4) Impairment adjustments:
Adjustments relating to an impairment of $273m for the remaining goodwill, intangibles and property, plant and equipment in Ooyala Holdings Group.
Adjustments relating to the impairment of $24m for goodwill, intangibles and related assets in other CGUs.

(5) Impairment adjustments:
Adjustments relating to the FY17 impairment of $77m for goodwill, intangibles and related assets in Telstra Health.

(6) Spectrum adjustments:
Adjustments relating to the impact on Free Cashflow associated with our Spectrum purchases and renewals for the period including:
$27m for renewal of Spectrum licences in the 900MHz band (2x8.4MHz national PMTS Class B licence).
$190m for new Spectrum licenses in the 1800MHz band in regional areas (2x25MHz in nine regions, 2x20MHz in two regions, and 2x10MHz in one region).
$408m for renewal of Spectrum licenses in the 2100MHz band (2x15MHz in eight capital cities and 2x10MHz in regional areas).

(7) M&A adjustments:
Adjustments relating to acquisition of controlled entities, businesses and contingent consideration.
This includes the acquisition of Mercury Holdings Corporation Pty Limited and its controlled entities, Mobile Payment Gateway Pty Limited, the acquisition of the Cognevo business from the Wynyard Group, the acquisition of Company 85 Limited and its wholly owned subsidiary DVC Channel Services Limited and the acquisition of the business of Inabox Group Limited.
Joint Ventures/Associates includes additional equity injections in Near Pte Ltd, ProQuo Pty Ltd, enepath (Group Holdings) Pte Ltd and Panviva Ptd Ltd.
Other Investments include purchase of shares/additional shares in NSOne Inc, Attack IQ, Inc., Headspin Inc., Monk's Hill Ventures Fund I, L.P, VeloCloud Networks, Inc., Matrixx Software, Inc., Crowdstrike Inc, Phantouch International Ltd, SILICON QUANTUM COMPUTING PTY LTD, Auth0, Inc., OpenGov Inc., Skillz Inc., PhishMe, Inc. and Nginx, Inc.
During this period we disposed of our remaining interest in Autohome and our investments in Vonage Holdings Corporation.

Directors' Report

In accordance with a resolution of 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 year ended, 30 June 2018. Financial comparisons used in this report are of results for the year ended 30 June 2018 compared with the year ended 30 June 2017.

The historical financial information included in this Directors' Report has been extracted from the audited Financial Report accompanying this Directors' Report.

Principal activity

Our principal activity during the financial year was to provide telecommunications and information services for domestic and international customers. There has been no significant change in the nature of this activity during the year.

Review and results of operations

Information on the operations and financial position for the Telstra Group is set out in the Operating and Financial Review (OFR), comprising the Chairman and CEO's message, Strategy and performance, Our material risks, Outlook and Full year results and operations review sections accompanying this Directors' Report.

Dividend

On 17 August 2017, we announced a change to our dividend policy which commenced 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 per cent of net one-off nbn receipts to shareholders over time via fully-franked special dividend.

"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 and migration is broadly in accordance with management's current best estimates, 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 resolved to pay an interim fully franked dividend for the financial year 2018 of 11 cents per ordinary share, comprising an interim ordinary dividend of 7.5 cents per share and an interim special dividend of 3.5 cents per share.

On 16 August 2018, the Directors resolved to pay a final fully franked dividend of 11 cents per ordinary share ($1,308 million), comprising a final ordinary dividend of 7.5 cents per share and a final special dividend of 3.5 cents per share. The record date for the final dividend will be 30 August 2018, with payment to be made on 27 September 2018. Shares will trade excluding entitlement to the final dividend on 29 August 2018.

The Dividend Reinvestment Plan (DRP) continues to operate for the final dividend for financial year 2018. The election date for participation in the DRP is 31 August 2018.

Dividend paid during the year were as follows:

Dividend	Date resolved	Date paid	Fully franked dividend per share	Total dividend ($ million)
Final dividend for the year ended 30 June 2017	17 Aug 2017	28 Sept 2017	15.5 cents	1,842
Total interim dividend for the year ended 30 June 2018	15 Feb 2018	29 Mar 2018	11.0 cents	1,308

Significant changes in the state of affairs

There were no significant changes in the state of affairs of our company during the financial year ended 30 June 2018.

Business strategies, prospects and likely developments

The OFR section sets out information on the business strategies and prospects for future financial years, and refers to likely developments in Telstra's operations and the expected results of those operations in future financial years. Information in the OFR is provided to enable shareholders to make an informed assessment of the business strategies and prospects for future financial years of the Telstra Group. Detail that could give rise to likely material detriment to Telstra (for example, information that is commercially

sensitive, is confidential or could give a third party a commercial advantage) has not been included. Other than the information set out in the OFR, information about other likely developments in Telstra's operations and the expected results of these operations in future financial years has not been included.

Events occurring after the end of the financial year

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected, or may significantly affect in future years, Telstra's operations, the results of those operations or the state of Telstra's affairs, other than the final dividend for the financial year 2018 and that the DRP will continue to operate in respect of that dividend.

Details of Directors and executives

Changes to the Directors of Telstra Corporation Limited during the financial year and up to the date of this report were:

- Roy H Chestnutt was appointed as a non-executive Director effective 11 May 2018.

Information about our Directors and Senior Executives is provided as follows:

- names of our current Directors and details of their qualifications, experience, special responsibilities, periods of service and directorships of other listed companies are set out in the Board of Directors section accompanying this Directors' Report
- details of Director and Senior Executive remuneration are set out in the Remuneration Report, which forms part of the Directors' Report.

Board and Committee meeting attendance

Details of the number of meetings held by the Board and its Committees during financial year 2018, and attendance by Board members, are set out below:

	Board		Committees[1]					
			Audit and Risk		Nomination		Remuneration	
	a	b	a	b	a	b	a	b
John P Mullen[2]	16	16	-	(2)	6	6	-	(1)
Andrew R Penn[2]	16	16	-	(6)	-	-	-	(3)
Roy H Chestnutt[3]	2	2	-	(1)	-	(1)	-	-
Craig W Dunn[2]	16	16	6	6	-	(6)	-	-
Peter R Hearl	16	16	-	-	6	6	4	4
Jane S Hemstritch	16	14	-	-	-	(6)	4	4
Russell A Higgins	16	16	6	6	-	(6)	4	4
Nora L Scheinkestel[2]	16	14	6	6	-	(6)	-	-
Margaret L Seale	16	16	6	6	-	(6)	-	-
Steven M Vamos	16	15	-	-	6	6	4	4
Trae A N Vassallo	16	14	-	-	-	(6)	-	-
Total number of meetings held	**16**		**6**		**6**		**4**	

Column a: number of meetings held while a member.

Column b: number of meetings attended.

1. Committee meetings are open to all Directors to attend. Where a Director has attended a meeting of a Committee of which he or she was not a member, this is indicated by ( ).

2. John Mullen, Andrew Penn, Craig Dunn and Nora Scheinkestel have also served on a special purpose Board committee relating to the company's capital allocation review announced in November 2016. The special purpose Board committee met four times in financial year 2018.

3. Appointed as a non-executive Director effective 11 May 2018.

Director shareholdings in Telstra

Details of Directors' shareholdings in Telstra as at 16 August 2018 are shown in the table below:

Director	Number of shares held[1]
John P Mullen	101,159
Andrew R Penn[2]	1,429,346
Roy H Chestnutt	-
Craig W Dunn	70,073
Peter R Hearl	70,000
Jane S Hemstritch	91,000
Russell A Higgins	103,217
Nora L Scheinkestel	108,794
Margaret L Seale	253,500
Steven M Vamos	40,000
Trae A N Vassallo	15,793

1. The number of shares held refers to shares held either directly or indirectly by Directors as at 16 August 2018. Shares in which the Director does not have a relevant interest, including shares held by the Directors' related parties (including relatives), are excluded. Refer to the Remuneration Report tables for total shares held by Directors and their related parties directly, indirectly or beneficially as at 30 June 2018. The numbers above include 175,000 shares held by a related party of Margaret Seale and 462 shares held by a related party of Russell Higgins. In both cases, the Director has a relevant interest.

2. Andrew Penn also holds 853,210 Performance Rights.

Company Secretary

Sue Laver BA, LLB (Hons) (Monash), GAICD

Sue was appointed Company Secretary of Telstra Corporation Limited effective 1 February 2018.

Sue is a senior legal and governance professional with over 20 years' experience advising senior management and board levels. Sue reports to the board and her duties include continuous disclosure compliance, corporate governance and communication with Telstra's 1.4 million shareholders.

Sue joined Telstra in 1997 and has served in senior legal roles throughout the company including as Deputy Group General Counsel, and General Counsel roles across the company including: Dispute Resolution, HR, Finance, Risk and Compliance, Media and Telstra Country Wide.

She holds a Bachelor of Law (Hons) and a Bachelor of Arts from Monash University.

Directors' and officers' indemnity and insurance

(a) Constitution

Telstra's constitution provides for it to indemnify each officer, to the maximum extent permitted by law, for any liability and legal costs incurred as an officer of Telstra or a related body corporate. If one of Telstra's officers or employees is asked by Telstra to be a director or other officer of a company that is not related to it, Telstra's constitution provides for it to indemnify the officer or employee for any liability he or she incurs in the capacity as an officer of that other company. This indemnity is to the maximum extent permitted by law, as if that liability had been incurred in the capacity as an officer of Telstra. Telstra's constitution also allows it to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in Telstra's constitution.

(b) Deeds of indemnity in favour of directors, officers, employees and consultants

Telstra has also executed deeds of indemnity in favour of (amongst others):

- Directors and secretaries of Telstra (past and present)
- certain senior managers and employees of Telstra and its wholly-owned subsidiaries and partly-owned companies (including, for example, in relation to particular projects)
- certain Telstra Group senior managers, employees and other persons that act as nominee directors or secretaries (at Telstra's request) for entities, including wholly-owned subsidiaries and partly-owned companies of Telstra,

in each case as permitted under Telstra's constitution and the Corporations Act 2001 (the Act).

The deeds in favour of Directors of Telstra also give Directors certain rights of access to Telstra's books and require it to maintain insurance cover for the Directors.

(c) Directors' and officers' insurance
Telstra maintains directors' and officers' insurance policies that, subject to some exceptions, provide worldwide insurance cover to past, present and future directors, secretaries and officers and certain employees of Telstra and its subsidiaries and, in certain limited circumstances, other entities. Telstra has paid the premiums for the policies. The directors' and officers' insurance policies prohibit disclosure of the premiums payable under the policies and the nature of the liabilities insured.

Environmental regulation and performance

Telstra, as a minimum, seeks to be compliant with all applicable environmental laws and regulatory permissions relevant to its operations. Where instances of non-compliance may occur, Telstra has procedures requiring that internal investigations are conducted to determine the cause of the non-compliance and to ensure that any risk of recurrence is minimised. Telstra's procedures further require that the relevant government authorities are notified of any environmental incidents (where applicable) in compliance with statutory requirements. Telstra ensures that it complies with notices issued by government authorities.

(a) Fines and prosecutions
Telstra has not been prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.

(b) Energy and greenhouse emissions
In Australia, Telstra is subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007, which requires Telstra to report its annual Australian greenhouse gas emissions, energy consumption and energy production. Telstra has implemented systems and processes for the collection and reporting of data and has, in accordance with our obligations, reported to the Clean Energy Regulator on an annual basis. The next report is due on 31 October 2018 and will again be supported with an independent assurance report.

In the United Kingdom, Telstra is subject to the Energy Savings Opportunity Scheme (ESOS) Regulations 2014. Telstra qualifies for ESOS and must carry out energy savings assessments every four years. These assessments are audits of the energy used by our buildings, network facilities and transport to identify cost-effective energy saving measures. Telstra has met our obligations under ESOS for the first compliance period ended 5 December 2015. Telstra's obligations for ESOS' second compliance period will be reassessed by the next qualification date on 31 December 2018.

For more information on environmental performance, including environmental regulation, refer to the Bigger Picture Sustainability Report 2018, which is available online at telstra.com.

Non-audit services

During financial year 2018, Telstra's auditor, Ernst & Young (EY), has been employed on assignments additional to its statutory audit duties. Details of the amounts paid or payable to EY for audit and non-audit services provided during the year are detailed in note 7.2 to the financial statements in our 2018 Financial Report.

The Directors are satisfied, based on advice provided by the Audit & Risk Committee that the provision of non-audit services during financial year 2018 is consistent with the general standard of independence for auditors imposed by the Act and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all EY engagements, including non-audit services, were approved in accordance with the external auditor services policy adopted by the Company and subject to confirmation by both management and EY that the provision of these services does not compromise auditor independence
- the external auditor services policy clearly identifies prohibited services, which include reviewing or auditing the auditor's own work or EY partners or staff acting in a managerial or decision-making capacity for Telstra
- the provision of non-audit services by EY is monitored by the Audit & Risk Committee via periodic reporting to the Audit & Risk Committee.

A copy of the auditor's independence declaration is set out in the Auditor's Independence Declaration to the Directors of Telstra Corporation Limited and forms part of this report.

Remuneration Report

This report details the remuneration framework and outcomes for Key Management Personnel (KMP) of the Telstra Group for the year ended 30 June 2018 (FY18).

Executive Summary

Our aim in preparing this report is to enable you, our shareholders and interested stakeholders, to understand the links between remuneration, company strategy and Telstra's performance, and the framework we have in place to provide effective governance over remuneration at Telstra. To support this we have sought to provide a comprehensive overview of our performance and remuneration outcomes, including additional voluntary disclosures, as well as a summary of our governance practices. The report has been prepared in accordance with section 300A of the Corporations Act 2001 (Corporations Act).

Key remuneration changes and outcomes in FY18

As outlined in our 2017 Remuneration Report, we introduced our Executive Variable Remuneration Plan (EVP) in FY18 which combines our former Short Term Incentive (STI) and Long Term Incentive (LTI) arrangements into a simplified variable incentive plan over a longer timeframe of 5 years.

Our remuneration philosophy is based on linking financial rewards directly to employee contributions and company performance.

Telstra's full year results for financial year 2018 were in line with guidance delivering solid results in the context of challenging market conditions and increased competitive intensity. The Board assessed the overall results under the FY18 EVP noting the positive outcome on two financial measures, improved customer experience and the progress made on defining our Telstra 2022 (T22) strategy. Overall FY18 performance demonstrated reasonable delivery against expectations resulting in a reward outcome that was between threshold and target. However, the Board considered the overall performance of the company during the FY18 year and has exercised its discretion to reduce the FY18 EVP outcome. The FY18 EVP remuneration outcomes for the CEO and Group Executives were therefore reduced by 30%, resulting in Senior Executives (excluding the GE Telstra Wholesale) receiving 33% of their maximum opportunity. Refer to section 2.3(a) for further information on the FY18 EVP outcomes.

Key remuneration changes proposed for FY19

The Board has reviewed the CEO and Group Executive remuneration structures, in particular the implementation of the EVP in FY18. The Board is confident that the EVP remains an appropriate mechanism to align performance and reward for the CEO and Group Executives. However, having considered the introduction of our T22 strategy, the Board has further enhanced the performance measures for the FY19 EVP to increase shareholder alignment, executive retention and executive performance against delivery of the T22 plan. Refer to section 4 for further information.

Each year we review our CEO and Group Executives' (including both KMP and non-KMP Group Executives) Fixed Remuneration against considerations of the company remuneration budget and individual performance, and having regard to internal relativity based on the accountabilities of each executive and relativity to comparable roles in the ASX20. Other than on appointment or promotion to a new role or a significant increase in accountabilities, increases in fixed remuneration are not anticipated in FY19 for Senior Executives.

The Chairman Board fee and non-executive Director base fee have not changed since 2014 and 2012 respectively.

The key outcomes under our incentive plans this year were:

Executive Variable Remuneration Plan (EVP)

As a result of the Board exercising its discretion to reduce the FY18 EVP outcome, Senior Executives (excluding the GE Telstra Wholesale) received 33% of the maximum opportunity. Based on the assessment of financial, customer advocacy and individual performance measures, Telstra's performance against target on the Total Income, Free Cashflow and Episode NPS performance measures was positive. We did not achieve our EBITDA and Strategic NPS performance measures resulting in no payment on these components. Telstra Wholesale performed solidly against all of its EVP performance measures.

Long Term Incentives (LTI)

The FY16 LTI plan was tested on 30 June 2018 and did not satisfy the minimum threshold performance resulting in no awards under the plan. The results of the two FY16 LTI plan performance measures were that Telstra's RTSR ranked at the 10th percentile of the comparator group against a target of the 50th percentile and Telstra achieved a FCF ROI outcome of 15.4% against a target of 16.7%.

Section	Contents	
1. Introduction	1.1 1.2	Key Management Personnel Remuneration policy, strategy and governance
2. Senior Executive remuneration	2.1 2.2 2.3 2.4 2.5	Remuneration structure Financial performance FY18 EVP outcomes FY16 LTI plan outcomes Detailed remuneration and interests in Telstra shares
3. Non-executive Director remuneration	3.1 3.2	Remuneration structure Detailed remuneration and interests in Telstra shares
4. Looking forward to FY19	4.1	Changes to the FY19 EVP
5. Glossary		

1.0 Introduction

1.1 Key Management Personnel (KMP)

Telstra's KMP are assessed each year and comprise the Directors of the company and Senior Executives. The term "Senior Executives" refers to the CEO and those executives with authority and responsibility for planning, directing and controlling the activities of the company and the Group, directly or indirectly. Each KMP held their position for the whole of FY18, unless stated otherwise.

Our KMP for FY18 were:

Non-executive Directors	Senior Executives
John P Mullen Roy H Chestnutt (from 11/05/2018) Craig W Dunn Peter R Hearl Jane S Hemstritch Russell A Higgins AO Nora L Scheinkestel Margaret L Seale Steven M Vamos Trae A N Vassallo	**Chief Executive Officer & Managing Director (CEO)** Andrew Penn **Chief Financial Officer (CFO)** Warwick Bray **Chief Operations Officer (COO)** Robyn Denholm **Group Executive Telstra Enterprise (TE)** Brendon Riley **Group Executive Telstra Consumer & Small Business (C&SB)** Kevin Russell (until 4/09/2017) Vicki Brady (from 5/09/2017) **Group Executive Telstra Wholesale** Will Irving

On 30 July 2018 we announced a new topline organisational structure and leadership team which will take effect from 1 October 2018 and that Warwick Bray and Will Irving will cease employment with Telstra on 30 September 2018. On 14 August 2018, we announced that Steven M Vamos had announced his intention to retire as a non-executive Director at Telstra's Annual General Meeting on 16 October 2018. These changes have no impact on FY18 remuneration disclosed in this report. During FY19 we will assess Telstra's KMP for inclusion in the 2019 Remuneration Report.

1.2 Remuneration policy, strategy and governance

Our remuneration policy is designed to:

- support our strategy and reinforce our culture and values
- link financial rewards directly to employee contributions and company performance
- provide market competitive remuneration to attract, motivate and retain highly skilled employees
- achieve remuneration outcomes of internal consistency
- ensure employees performing at similar levels in similar roles are remunerated within a broadly similar range
- ensure that all reward decisions are made free from bias and support diversity within Telstra
- support commercially responsible pay decisions

Our governance framework for determining Senior Executive remuneration includes the aspects outlined below.

(a) The Remuneration Committee

The Remuneration Committee monitors and advises the Board on remuneration matters and consists only of independent non-executive Directors. It assists the Board in its responsibilities by reviewing and advising on Board and Senior Executive remuneration, giving due consideration to the law and corporate governance principles.

The Remuneration Committee also reviews and makes recommendations to the Board on Telstra's overall remuneration strategies, policies and practices, and monitors the effectiveness of Telstra's overall remuneration framework in achieving Telstra's remuneration strategies.

The governance of Senior Executives' remuneration outcomes remains a key focus of the Remuneration Committee and the Board. We regularly review our policies to ensure that remuneration outcomes for our executives continue to be aligned with company performance. Further detail about the Remuneration Committee and its responsibilities is provided in our Corporate Governance Statement available at telstra.com/governance

(b) Annual remuneration review

The Remuneration Committee and the Board review Senior Executive remuneration annually to ensure there is a balance between fixed and at risk pay, and that it reflects both short and long term performance objectives aligned to Telstra's strategy.

The Board reviews the CEO's remuneration based on market practice, performance against agreed measures and other relevant factors, while the CEO undertakes a similar exercise in relation to Senior Executives. The results of the CEO's annual review of Senior Executives' performance and remuneration are subject to Board review and approval.

(c) Engagement with consultants

During FY18, Telstra did not seek a remuneration recommendation from a remuneration consultant in relation to any of our KMP.

(d) Incentive design and performance assessment

The Remuneration Committee oversees the process of setting robust measures and targets to encourage strong Senior Executive performance and behaviour that is aligned to our values. The EVP performance measures are summarised in sections 2.1(c) and 2.1(d).

If performance targets are achieved we award 50 per cent of the total maximum potential. The maximum level is only paid if there is significant over achievement of targets. There is no incentive awarded unless a threshold level of performance is achieved.

At the end of each financial year, the Board reviews the company's audited financial results and the results of the other non-financial measures. The Board then determines the percentage outcome of the EVP and LTI plan on foot, by assessing performance against each performance measure. The Board considers this is the most appropriate method for assessing whether these performance measures have been satisfied.

(e) Plan variation guidelines

The Board may, in its absolute discretion, amend the performance measures or the basis of determining whether the performance measures of the EVP and LTI plan are satisfied where a matter or event occurs that means these are no longer appropriate. Situations where this discretion can be applied include:

- Board approved material change to the corporate plan
- material regulatory or legislative change
- significant out of plan business development such as acquisitions and divestments
- quality of overall results in any given performance period

In these circumstances the Board may also exercise discretion to determine the outcome under the EVP and LTI plan to take account of the relevant matters, events and their impacts.

During FY18 no amendments were made to the terms of any securities that had been issued under our employee equity plans. However, the Board exercised its discretion in determining the outcome of the FY18 EVP and the FY16 LTI plan as outlined in sections 2.3 and 2.4 respectively.

(f) Strategic investment program

In order to accelerate the delivery of our strategy, in 2016 we announced an additional investment of up to $3 billion over three years on our networks for the future and digitisation to transform our business and drive improvements in customer experience. As disclosed in last year's report, the Board agreed not to make any adjustments, and therefore did not provide any relief, for the effects of the strategic investment program when assessing performance under the FY16 LTI plan as that plan was already in place when the strategic investment program was announced in August 2016.

For the FY17 LTI plan, when the FCF ROI measure is tested at the end of FY19 any reward will reflect the Board's assessment of management's performance in delivering against the strategic investment program. This will include both the cost and the benefits of the program in that period.

(g) NBN Transaction and remuneration

From FY13 the NBN Transaction was incorporated into Telstra's established corporate planning processes and Senior Executives continue to be accountable for achieving planned outcomes, including NBN Transaction related cash flows.

Performance measures for future incentive plans will continue to be developed using the most up to date forecasts for the financial impacts of the NBN Transaction.

The Board may use its discretion as outlined in section 1.2(e) if, due to external factors, the nbn™ network rollout does not proceed according to the nbn co published business plan. The Board's objective in considering the exercise of this discretion is to avoid windfall gains and losses for the Senior Executives.

Adjustments for the NBN Transaction were made for both the FY18 Senior Executive EVP and the FY18 GE Telstra Wholesale EVP

as outlined in section 2.3. The NBN Transaction adjustments made in determining the FY16 LTI plan outcome are outlined in section 2.4.

(h) Share Ownership Policies

The intent of Telstra's Executive Share Ownership Policy is to align a significant portion of executive remuneration to the creation of longer term shareholder value. Under the policy, the CEO and Group Executives are required to hold Telstra shares to the value of 100 per cent of their Fixed Remuneration within five years of their first appointment to Group Executive level.

Any Restricted Shares held by Senior Executives are included in calculating their shareholding for the purposes of this policy.

Senior Executives must obtain Board or, in certain circumstances, CEO or Chairman approval before they sell shares if they have not yet met their share ownership requirements under the policy.

Progress is monitored on an ongoing basis. Where applicable, all Senior Executives met the shareholding requirement as at 30 June 2018.

To further align the interests of non-executive Directors with those of our shareholders, in August 2018 the Board changed its share ownership policy. Non-executive Directors are now required to hold Telstra shares to the value of at least 100 per cent (increased from 50 per cent previously) of the annual non-executive Director base fee, within five years of their appointment. The value of such shares is based on their price at the time of acquisition.

Progress is monitored on an ongoing basis. Directors' shareholdings as at 16 August 2018 are set out in the Directors' Report.

(i) Restrictions and governance

All KMP must comply with Telstra's Securities Trading Policy, which includes a requirement that Telstra securities can only be traded during specified trading windows and with prior written approval. KMP must also consider how any proposed dealing in Telstra securities could be perceived by the market and must not deal if the proposed dealing could be perceived as taking advantage of their position in an inappropriate way.

They are also prohibited from speculative dealing in Telstra securities for short term gain, using Telstra securities as collateral in any financial transactions (including margin loan arrangements), or engaging in stock lending arrangements.

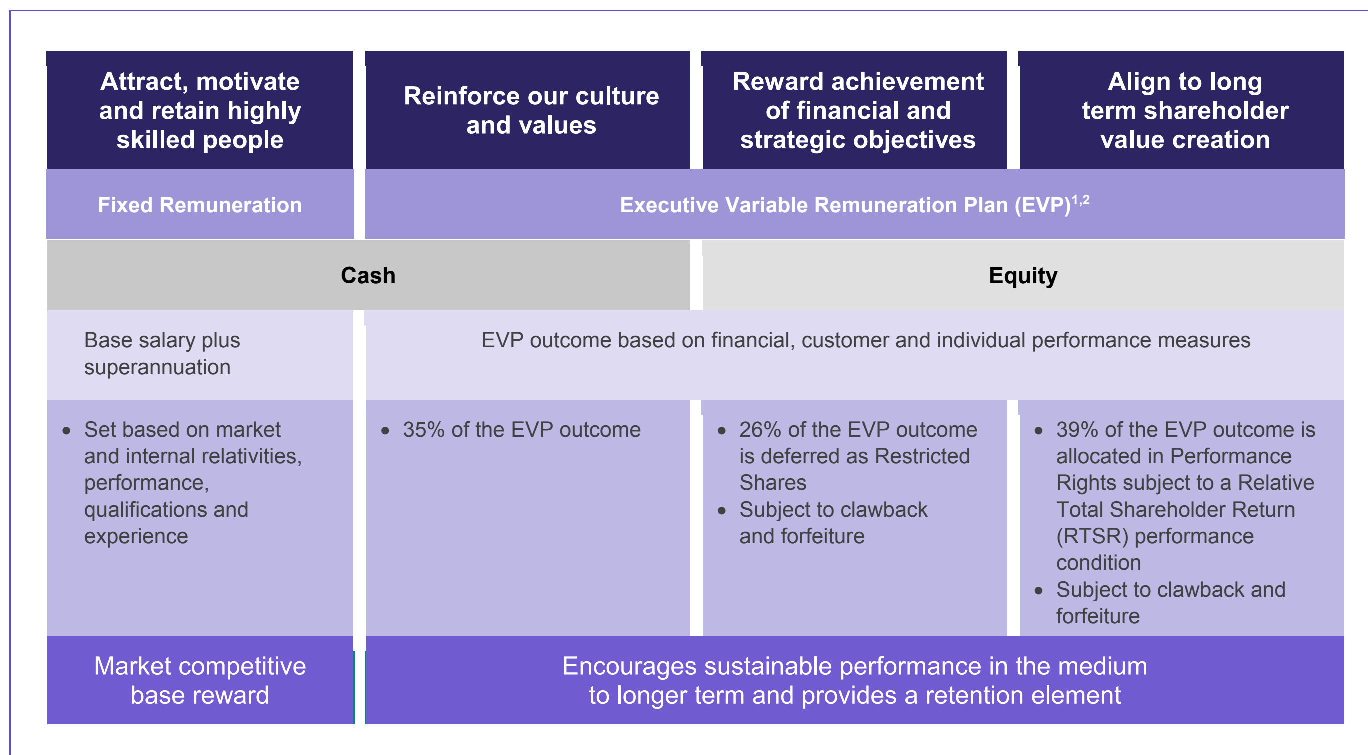
KMP are prohibited from entering into any hedging arrangement that limits the economic risk of holding Telstra securities (including those held under Telstra equity plans). This helps align our KMP's interests with shareholders' interests.

KMP are required to confirm on an annual basis that they comply with our Securities Trading Policy, which assists in monitoring and enforcing our policy.

2.0 Senior Executive remuneration

2.1 Remuneration structure

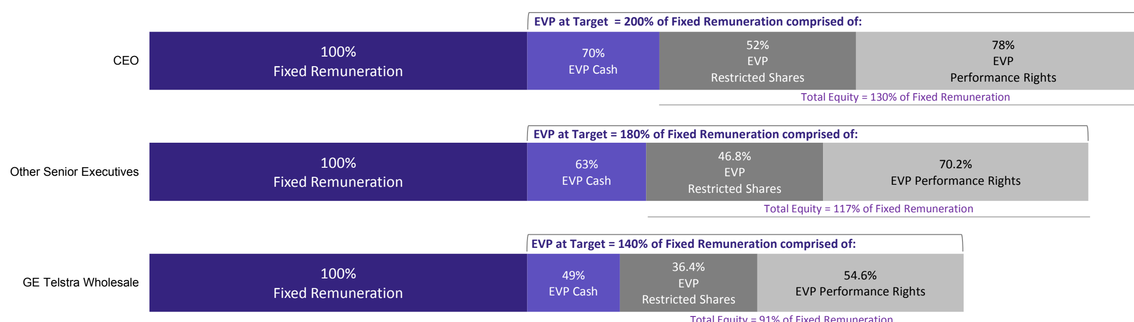
Our remuneration structure is designed to support our remuneration strategy and is consistent for our Senior Executives. The remuneration mix for Senior Executives reflects the nature of, and the appropriate market benchmark for, their roles.



1. The GE Telstra Wholesale has different plan measures to comply with Telstra's Structural Separation Undertaking (SSU).
2. As outlined in our 2017 Remuneration Report, our FY18 EVP is a transition arrangement from our former STI and LTI plan structures. Refer to section 2.1(c) for further information.

(a) Remuneration mix for Senior Executives

The graph below shows the FY18 remuneration mix for Senior Executives expressed as a percentage of Fixed Remuneration.



As Warwick Bray, CFO and Will Irving, GE Telstra Wholesale will cease employment for a Permitted Reason before allocation of the FY18 Restricted Shares and Performance Rights, they will be granted Cash Rights in lieu of those Restricted Shares and Performance Rights. The Cash Rights will be subject to the same time conditions and performance measures as those applying to the FY18 Restricted Shares and Performance Rights (except that the Cash Rights granted to Will Irving in lieu of the Performance Rights will not be subject to an RTSR performance condition due to constraints under our SSU).

(b) Senior Executive contract details

The key terms and conditions of the ongoing service contracts for current Senior Executives are summarised in the table below.

Upon notice being given, Telstra can require a Senior Executive to work through the notice period, or may terminate employment immediately by providing payment in lieu of notice, or a combination of both. Any payment in lieu of notice is calculated based on the Senior Executive's Fixed Remuneration as at the date of termination.

There is no termination payment if termination is for serious misconduct, or for redundancy (unless the severance payment under Telstra's redundancy policy would be less than the termination payment, in which case the termination payment applies instead).

Name	Title	FR at the end of FY18	Notice period	Termination payment
Andrew Penn	CEO	$2,390,000	6 months	6 months
Vicki Brady	GE C&SB	$1,000,000	6 months	6 months
Warwick Bray	CFO	$1,250,000	6 months	6 months
Robyn Denholm	COO	$1,100,000	6 months	6 months
Will Irving	GE Telstra Wholesale	$1,000,000	6 months	6 months
Brendon Riley	GE TE	$1,400,000	6 months	12 months

The table above only includes those individuals who were Senior Executives as at 30 June 2018. The termination payment provisions in each executive contract reflect the company's policy at the time the contract was entered into. Telstra's current policy is to provide for a six month termination payment in executive contracts.

Termination payments in respect of Warwick Bray and Will Irving as determined under the contractual provisions as outlined above, will be disclosed in the 2019 Remuneration Report.

(c) FY18 EVP

The FY18 EVP is structured as follows:

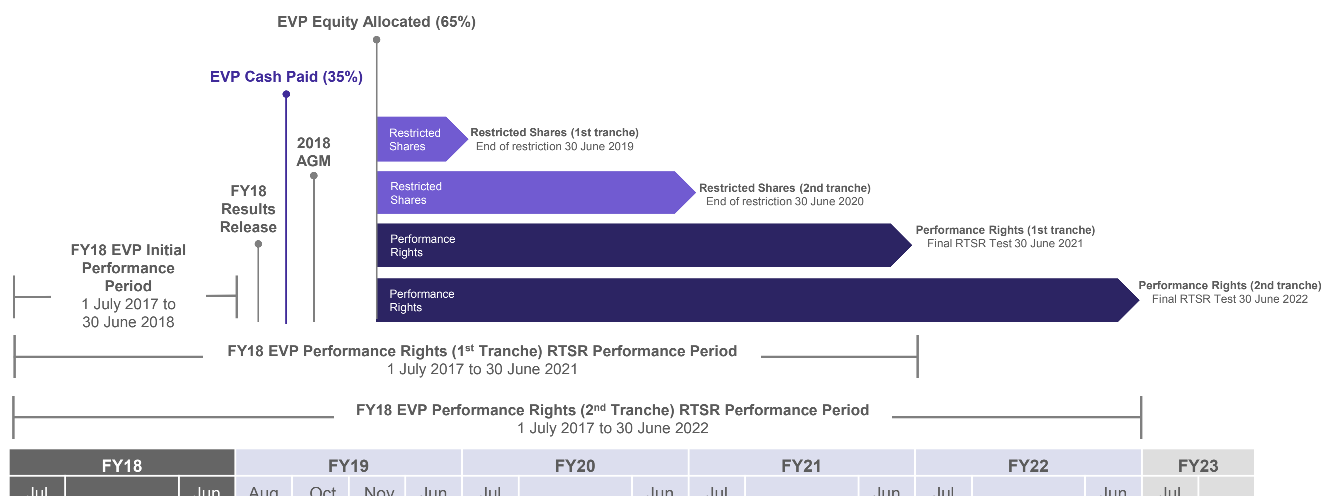
Plan design attribute	Detail
Eligibility	CEO and Group Executives
Reward opportunity	**CEO**: 200% of FR at target; 400% of FR at maximum
	Senior Executives: 180% of FR at target; 360% of FR at maximum
	GE Telstra Wholesale: 140% of FR at target; 280% of FR at maximum

Performance measures and weightings	**Senior Executives** - 10% Telstra Group Total Income - 20% Telstra Group EBITDA - 20% FCF - 20% Strategic NPS - 20% Episode NPS - 10% Individual Performance	**GE Telstra Wholesale** - 20% Wholesale Total Income - 10% Wholesale EBITDA - 30% Wholesale NPS - 40% Individual Performance
Initial performance period	1 year	
Instrument type	Cash with a combination of Restricted Shares (Tranches 1 and 2) and Performance Rights (Tranches 1 and 2). Telstra has retained flexibility in the FY18 Performance Rights terms to settle Performance Rights in shares or a cash amount equivalent to the value of a share, and will determine how a Performance Right is settled at the time it is exercised having regard to the relevant circumstances at that time.	
Cash vs equity balance	35:65 ratio of cash and equity (with 40% of the equity allocated in Restricted Shares and 60% of the equity allocated in Performance Rights).	
Equity allocation methodology	The number of Restricted Shares and Performance Rights to be allocated will be based on the dollar value of the Senior Executive's EVP outcome, multiplied by 26% for Restricted Shares and 39% for Performance Rights, and then divided by the five day VWAP of Telstra shares commencing on the day after the FY18 results announcement (i.e. a face value allocation methodology).	
Restriction and performance periods for equity	**Restricted Shares**: Half have a Restriction Period ending 30 June 2019 and half have a Restriction Period ending 30 June 2020. **Performance Rights**: In addition to the initial performance period, half of the Performance Rights will be subject to a RTSR performance condition* over a four year performance period from 1 July 2017 to 30 June 2021, and the other half will be subject to a RTSR performance condition over a five year performance period from 1 July 2017 to 30 June 2022. Therefore, each tranche of the Senior Executive's Performance Rights will be subject to two performance assessments over a total performance period of four or five years.	
RTSR performance condition*	**Restricted Shares:** Not applicable. **Performance Rights:** The Performance Rights will only vest if Telstra's RTSR ranks at the 50th percentile or greater against a comparator group comprising the ASX100 (excluding resource companies) as at 1 July 2017 over the relevant performance period. For the purposes of RTSR performance testing, the average market value for Telstra against which RTSR performance will be determined at the testing dates (30 June 2021 and 30 June 2022) was calculated by reference to Telstra's daily closing share price over the 30 day period to 30 June 2017. For the performance rights under the FY18 EVP, the average market value was $4.38. Telstra measures the RTSR percentile ranking to two decimal places and rounds up to the nearest whole number if the two decimal places are .50 or above and rounds down to the nearest whole number if the two decimal places are below .50. If the RTSR performance condition is not satisfied, all of the Performance Rights will lapse.	
Dividends	**Restricted Shares:** Participants receive dividends on allocated Restricted Shares. **Performance Rights:** No dividends are paid on Performance Rights prior to vesting. For Performance Rights that do vest, a cash payment equivalent to the dividends paid by Telstra during the period between allocation of the Performance Rights and vesting will be made at or around the time of vesting.	
Leaver	**Before the Restricted Shares and Performance Rights are allocated:** If a Senior Executive ceases employment for a Permitted Reason, the Senior Executive is eligible for a pro-rata EVP outcome based on the proportion of time employed during the initial performance period. The Senior Executive will receive a grant of Cash Rights in lieu of Performance Rights and Restricted Shares. There is no change to the restriction and performance periods, or the RTSR performance condition. If the Senior Executive ceases employment for any other reason, their EVP entitlement is forfeited. **After the Restricted Shares and Performance Rights are allocated:** If a Senior Executive ceases employment for a Permitted Reason after the equity is allocated, Restricted Shares and Performance Rights that have been allocated will remain on foot. There is no change to the restriction and performance periods, or the RTSR performance condition. If the Senior Executive	

	ceases employment for any other reason, their EVP entitlement is forfeited.
Clawback	The Board has discretion to clawback Performance Rights and Restricted Shares if certain Clawback Events occur during the performance period or Restriction Period.

**Due to the provisions of the SSU, Performance Rights (and Cash Rights allocated in lieu) for the GE Telstra Wholesale are not subject to a RTSR performance condition.*

The construct of the FY18 EVP is illustrated in the diagram below:



At the 2017 Annual General Meeting (AGM), Telstra sought shareholder approval for the CEO's FY18 EVP equity grant on the basis of the EVP equity allocation formula but not the actual number of securities to be granted as both the FY18 EVP outcome, and the share price used to determine the number of securities to be granted, were not known at that time. Shareholder approval was sought at that time to ensure support before implementing the EVP which replaced the previous STI and LTI plans.

As shareholder approval for the CEO's FY18 EVP equity grant has already been obtained, we will not seek shareholder approval again for the grant at the 2018 AGM.

We will seek shareholder approval at the 2019 AGM for the actual number of securities to be allocated to the CEO for the FY19 EVP so that shareholders have the opportunity to approve the actual number of securities to be allocated based on the FY19 EVP outcome. This approach reflects market practice and the timing is aligned to how we sought shareholder approval for CEO equity allocations under our prior LTI plans.

(d) EVP performance measures, weightings and methodology

The Board selected the performance measures below for FY18 as they provided the critical link between achieving the outcomes of Telstra's strategy and increasing shareholder value.

FY18 EVP Measures and Weightings

CEO & Group Executives	Financial			Customer		Individual
	Total Income (10%)	EBITDA (20%)	FCF (20%)	Episode NPS (20%)	Strategic NPS (20%)	Individual Performance (10%)

GE Wholesale	Financial		Customer	Individual
	Wholesale Total Income (20%)	Wholesale EBITDA (10%)	Wholesale NPS (30%)	Individual Performance (40%)

In relation to these performance measures:

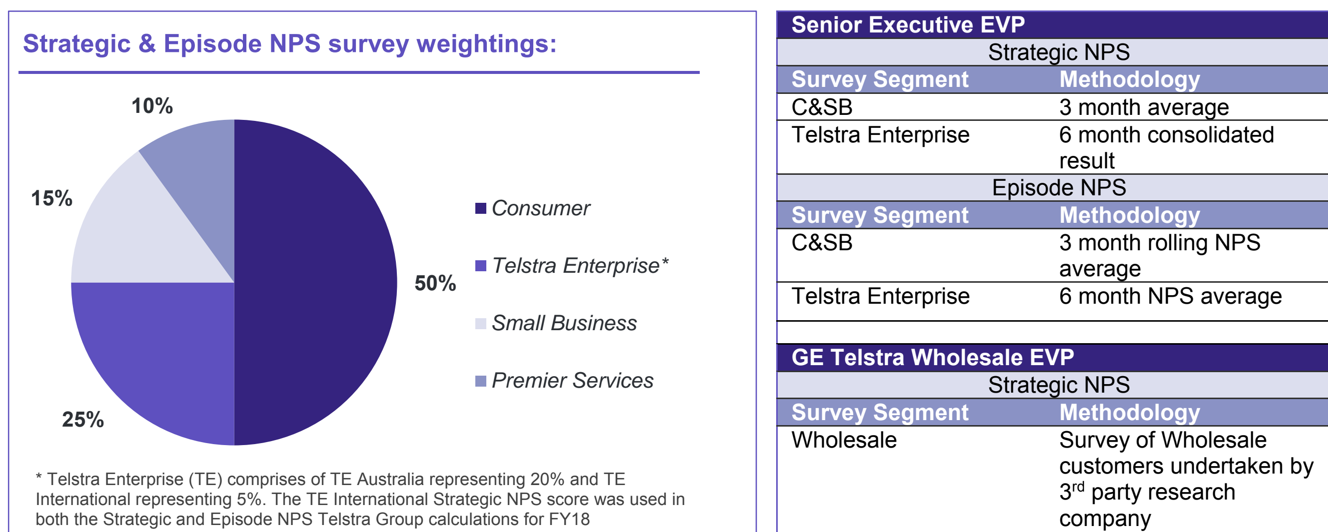
- the financial measures were set in accordance with our FY18 corporate plan and strategy
- the NPS measures support Telstra's strategy to deliver market leading customer experiences (an explanation of the way in which Strategic and Episode NPS is calculated is outlined below)
- the individual performance measures were set at the beginning of FY18 or at the time of appointment, and were based on each Senior Executive's expected individual contribution to the achievement of our strategy

The financial, customer and individual performance measures of the EVP operate independently of each other and each measure has a defined performance threshold, target and maximum.

The calculation of the Strategic NPS measure is based on Telstra's customers' response to a question on likelihood of recommending Telstra on a scale of 0 to 10, asked within third party surveys.

The calculation of the Episode NPS measure is based on responses to internal surveys following actual service experiences customers had with Telstra. The episode surveys measure the likelihood of our customers recommending Telstra based on their experience of an episode with us, for example sales and activations, moving their services to a new location, billing enquiries and modifications to existing services.

Both the Strategic and Episode NPS overall result for Telstra were a weighted average calculation of the survey results from Telstra business segments, based on the following:



* Telstra Enterprise (TE) comprises of TE Australia representing 20% and TE International representing 5%. The TE International Strategic NPS score was used in both the Strategic and Episode NPS Telstra Group calculations for FY18

Senior Executive EVP	
Strategic NPS	
Survey Segment	**Methodology**
C&SB	3 month average
Telstra Enterprise	6 month consolidated result
Episode NPS	
Survey Segment	**Methodology**
C&SB	3 month rolling NPS average
Telstra Enterprise	6 month NPS average

GE Telstra Wholesale EVP	
Strategic NPS	
Survey Segment	**Methodology**
Wholesale	Survey of Wholesale customers undertaken by 3rd party research company

The final Strategic and Episode NPS results were audited by Telstra's Group Internal Audit team.

Details of the EVP outcomes for Senior Executives for FY18 are provided in sections 2.3(a) and 2.5(c).

The FY18 EVP for the GE Telstra Wholesale must comply with Telstra's SSU, which was completed as part of the NBN Transaction. This provides that the GE Telstra Wholesale may only participate in incentive plans that reflect solely the objectives and performance of the Telstra Wholesale business unit.

Relative Total Shareholder Return (RTSR)

RTSR measures the performance of an ordinary Telstra share (including the value of any cash dividend and other shareholder benefits paid during the period) relative to the other companies in the comparator group over the same period.

The Board believes that RTSR is an appropriate performance hurdle because it links executive reward to Telstra's share price performance relative to its peers.

The FY18 EVP comparator group comprises the ASX100 (excluding resource companies) as at 1 July 2017. The Board has discretion to change members of the comparator group under the EVP terms where appropriate, for example in circumstances such as acquisitions, insolvency and de-listings.

2.2 Financial performance

The table below provides a summary of the key financial results for Telstra over the past five financial years and a summary of how those results have been reflected in the EVP and LTI remuneration outcomes is provided in sections 2.3 and 2.4 respectively.

Performance measures	FY18 $m	FY17 $m	FY16 $m	FY15 $m	FY14 $m
Earnings					
Total Income[1]	**29,042**	28,205	27,050	26,112	26,296
EBITDA[1]	**10,121**	10,679	10,465	10,533	11,135
Net Profit[2]	**3,563**	3,891	5,780	4,231	4,275
Shareholder Value					
Share Price ($)[3]	**2.62**	4.30	5.56	6.14	5.21
Total Dividend Paid Per Share (cents)	**26.5**	31.0	31.0	30.0	28.5

1. When there is a discontinued operation for the year, Total Income and EBITDA include only results from continuing operations. There are no discontinued operations in FY17 and FY18.
2. Net Profit attributable to equity holders of the Telstra entity includes results from continuing and discontinued operations (i.e. this includes the Autohome Group and the Sensis Group for FY16 and FY15, and the Sensis Group only for FY14).
3. Share prices are as at 30 June for the respective year. The closing share price for FY13 was $4.77.

2.3 FY18 EVP outcomes

(a) Overall FY18 EVP outcomes

The EVP was first introduced to shareholders in our 2017 Remuneration Report. At the 2017 AGM, shareholders approved the allocation of equity to the CEO under the FY18 EVP (89.13% of votes cast in favour of allocation). The design and implementation of the EVP was based upon extensive consultation with stakeholders. Through this consultation we identified the following remuneration matters:

- **Transparency in the Remuneration Report:**
  The 2017 Remuneration Report provided all necessary information on our remuneration structure and approach. However, feedback from some investors suggested the report could be further enhanced via the disclosure of performance against targets as applied for executive remuneration.
- **Use of non-financial measures:**
  Feedback from some of our investors suggested the non-financial measures may be too highly weighted in the remuneration framework.

We have taken into account the feedback we received in preparing this year's Remuneration Report.

The Board undertook a comprehensive review of our Senior Executive remuneration framework and governance. We have considered the design of our FY19 EVP to ensure the alignment of Senior Executive remuneration outcomes to shareholder outcomes. In this regard, financial performance outcomes are the core component of performance. We also continue to support the use of appropriate non-financial measures to balance the needs of our customers and the broader community with shareholder outcomes. The intention is to ensure that sustainable outperformance over the entire EVP period supports long-term shareholder value creation as a primary driver of reward received by executives. In this regard the structure of our EVP ensures that remuneration outcomes balance both short term performance and appreciation in total shareholder return (see 2.1(c) for overview).

The Board actively evaluates performance against the EVP scorecard. The Board maintains absolute discretion to ensure Senior Executive remuneration outcomes are appropriate in the context of Telstra's performance, our customer experience and shareholder expectations. The overall results under the FY18 EVP delivered positive outcomes for two financial measures and improved customer experience as measured through our NPS. Together with the progress on defining our T22 strategy, the overall performance demonstrated reasonable delivery against our plan. The performance outcome was 94% of the target opportunity (47% of maximum) under the FY18 EVP (excluding Telstra Wholesale).

However, the Board considered the overall performance of the company during the FY18 year in exercising their discretion to reduce the FY18 EVP outcome, including:

- the decline in total shareholder returns over FY18 with Telstra underperforming against the ASX market and relevant peers
- the occurrence of service outages, adversely impacting our customer experience

In determining Senior Executive remuneration outcomes for FY18, the Board determined that our shareholder experience was less than satisfactory and recognised the adverse impacts caused to our customers as a result of service outages. Accordingly, the FY18 EVP remuneration outcomes for the CEO and Group Executives were reduced by 30% to 66% of their target opportunity or 33% of their maximum opportunity (94% of target or 47% of maximum for the GE Telstra Wholesale resulting in an average of 35.3% of the maximum opportunity for all Senior Executives). For the CEO this adjustment results in a $1.35 million reduction in his FY18 EVP outcome. The actual pay and benefits crystallised for Senior Executives in FY18 is also significantly lower in comparison to the previous year (28% lower for the CEO and 29% lower on average for other Group Executives, excluding the GE Telstra Wholesale) due to the non-vesting of the FY16 LTI plan.

To support our shareholders, the following tables provide enhanced disclosure of FY18 EVP performance relative to targets by category of performance measure.

Summary of FY18 Senior Executive EVP	Outcome	% of Target	% of Max	Summary of FY18 Telstra Wholesale EVP	Outcome	% of Target	% of Max
Financial	**44%**	**88%**	**44%**		**34%**	**134%**	**67%**
Total Income	10%	100%	50%	Wholesale Total Income	22%	112%	56%
EBITDA	0%	0%	0%	Wholesale EBITDA	12%	120%	60%
Free Cash Flow	34%	171%	85.5%				
Customer	**40%**	**100%**	**50%**		**60%**	**200%**	**100%**
Strategic NPS	0%	0%	0%	Wholesale NPS	60%	200%	100%
Episode NPS	40%	200%	100%				
Individual	**10%**	**100%**	**50%**		**40%**	**100%**	**50%**
Total	**94%**	**94%**	**47%**		**134%**	**134%**	**67%**
Outcome determined by the Board (reducing reward outcome by 30%)	**66%**	**66%**	**33%**		**94%**	**94%**	**47%**

Total Income

Total Income is based on the Group's annual corporate plan recognising revenue and other income from our products and services. It excludes finance income and discontinued operations. Total Income is a key measure against which EVP outcomes for our Senior Executives are measured and is, in our view, a relevant measure to assess the financial performance of the Group for this purpose.

During the financial year and through assessment of performance, adjustments to Total Income are evaluated to ensure the assessment of performance appropriately measures outcomes that are within the control and influence of the Group and its Senior Executives. Exceptional items such as nbn income, acquisitions and divestments and the accounting treatment of swap lease income have been the most material impacts to the Group's Total Income outcomes. The Board reviews each exceptional item to assess if it should be included in the result for the purposes of deriving the EVP outcome. The Board retains discretion to ensure that the EVP outcome is appropriately aligned with the overall performance of the Group for the year, and such outcome remains appropriate to both management and shareholders.

Financial scorecard target	Performance against target
The reported, baseline FY17 Total Income performance was $28,205m. In respect of FY18, the Board determined a target for Total Income of $29,340m, with a threshold of $28,840m and a maximum of $30,090m. The target was based on the Group's approved annual budget and contains appropriate stretch performance required to achieve a target EVP outcome. The threshold and maximum are an appropriate range of Total Income outcomes which represent a lower limit of underperformance below which no EVP award should be made, and an upper limit of outperformance which would represent the maximum EVP award.	Total Income of $29,042m was reported by Telstra for FY18. Adjusted for the factors outlined below, Total Income is $29,337m, which for the purpose of the EVP performance measure is between threshold and target as determined by the Board. The following adjustments were made to ensure the FY18 EVP outcome appropriately reflected the performance of Senior Executives: • an increase of $735m for NBN Transaction adjustments including the impact of the HFC rollout delay announced by nbn co in November 2017 • a decrease of $57m in respect of acquisition and divestment adjustments • a decrease of $383m due to the impact of swap lease income and expenses related to leasing of mobile phones Having reviewed all FY18 exceptional items, the Board determined that the net $295m adjustment appropriately reflected Senior Executive performance.

The outcome for Total Income was 10% against the target of 10%

EBITDA

EBITDA is a measure of the Group's Earnings Before Interest, Tax, Depreciation and Amortisation and is a key measure against which EVP outcomes for our Senior Executives are measured and is, in our view, a relevant measure to assess the financial performance of the Group for this purpose.

Having reviewed the FY18 EBITDA performance, the Board determined that performance did not achieve threshold performance.

The outcome for EBITDA was 0% against the target of 20%

Free Cashflow (FCF)

FCF for the purpose of the EVP is based on the Group's operating cash flows less investing cash flows, excluding spectrum. FCF is a key measure against which EVP outcomes for our Senior Executives are measured and is, in our view, a relevant measure to assess the financial performance of the Group for this purpose. The target is approved at the commencement of the financial year.

Financial scorecard target	Performance against target
For the FY18 EVP, the baseline FY17 FCF was $4,121m, being the FY17 reported FCF of $3,496m excluding spectrum payments of $625m. In respect of FY18, the Board determined a target for FCF (excluding spectrum) of $4,436m, with a threshold of $4,236m and a maximum of $4,836m. The FCF target of $4,436m was based on the planned cash flows included in the FY18 Corporate Plan, which was approved by the Board at the end of FY17.	FCF of $4,695m was reported by Telstra for FY18. Adjusted for the factors outlined below, FCF is $4,722m which for the purpose of the EVP performance measure is between target and maximum as determined by the Board. The following adjustments were made to ensure the FY18 EVP outcome appropriately reflected the performance of Senior Executives: • a decrease of $76m for NBN Transaction adjustments • a decrease of $10m in respect of acquisition and divestment adjustment

Threshold and maximum are an appropriate range of FCF outcomes which represent a lower limit of underperformance below which no EVP award should be made, and an upper limit of outperformance which would represent the maximum EVP award.	• an increase of $113m to exclude spectrum payments Having reviewed all FY18 exceptional items the Board determined that the net $27m adjustment appropriately reflected Senior Executive performance.

The outcome for FCF was 34% and exceeded the target of 20%

NPS

Strategic and Episode NPS are key measures against which EVP outcomes for our Senior Executives are measured and is, in our view, relevant in assessing how we performed in our interactions with customers and the likelihood of customers recommending Telstra to others.

NPS scorecard target	Performance against target
In respect of FY18, the Board determined a target that is based on the continued improvement of each NPS measure and contains appropriate stretch performance required to achieve a target EVP outcome. The threshold and maximum are an appropriate range of NPS outcomes which represent a lower limit of underperformance below which no EVP award should be made, and an upper limit of outperformance which would represent the maximum EVP award.	Having reviewed the NPS results as audited by Telstra's Group Internal Audit, the Board determined that Strategic NPS fell below threshold and Episode NPS achieved the maximum result. The Strategic NPS result was unchanged over FY18 being negatively impacted by network outages, as well as brand and media performance within Consumer & Small Business segments in the last quarter of FY18. The FY18 Episode NPS increased significantly driven by excellent progress in key customer experiences including: • strong improvement across Mass Market and Premier Customer journeys from Billing, Customer Moves, Sales & Activations and Assurance • improvement across Consumer customers from simplified welcome communications, reduced service connection time, a service proposition including Smart Modems in all bundles, improved service continuity and tools to support customer understanding of bills and connection times • the servicing of 65,000 moves in Q4 of which 84% were the recipients of the improved process providing customers increased information and greater visibility of progress within their move • other initiatives deployed included concierge technology support and NBN initiatives generating positive feedback from customers

The outcome for NPS was 40% against a target of 40%

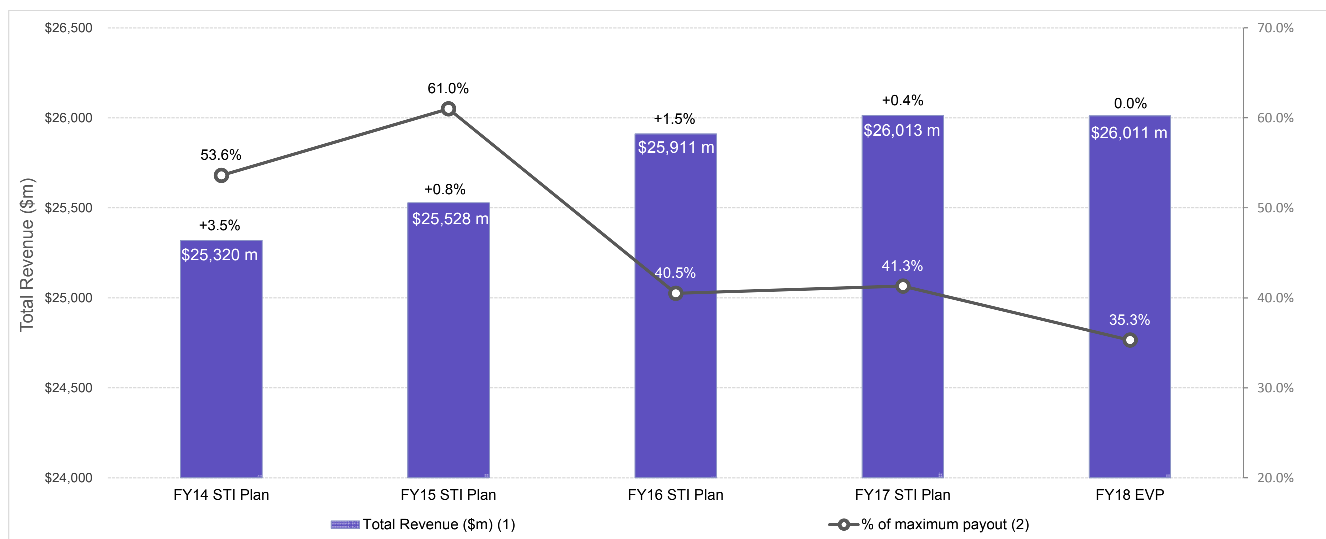
Individual Performance

EVP Outcome	Commentary
10%	The Board evaluates the performance of the CEO and determines the overall assessment for the CEO. The CEO, together with the Board, determines the performance assessment of the Group Executives. The considerations include: • the development and execution of our strategy and success across all business lines, functions and regions • the consideration of market conditions and relative performance • the effective application of risk management practices • the effective engagement with regulators and management of regulatory frameworks • enhancing the company's reputation and reinforcing compliance with our standards and values • enhancing customer experience through promoting collaboration across the business • the development of products and services • the development of successors for the most senior positions, facilitating talent mobility within the company, promoting a diverse and inclusive workforce and reinforcing a culture of accountability

The outcome for Individual Performance was 10% (achieved on target performance)

(b) Historical payment results

The graph below shows the FY18 EVP and previous STI plan outcomes as a percentage of the maximum opportunity relative to total revenue growth over the past five years. As the initial performance period measures in the EVP are the same performance measures as the old STI plan, albeit the weightings have changed, we believe that including the historical STI outcomes in this graph still provides a useful comparison. Given that Telstra's incentive plans measure performance against a range of financial and non financial metrics with varied weightings, the pay for performance relationship is based on the performance against these metrics as a whole and may not always align with total revenue growth. For FY18, whilst Total Revenue growth was flat, Telstra performed solidly against target on the FCF and Episode NPS performance measures.



1. Represents total revenue as reported (in 2016, the 2015 prior year comparative was restated for discontinued operations).
2. The EVP outcomes as a percentage of the maximum shown for all KMP including the GE Wholesale.

2.4 FY16 LTI plan outcomes

The performance period for the FY16 LTI plan concluded on 30 June 2018. The vesting table is detailed below, reflecting performance up to 30 June 2018 against the two performance measures of RTSR and FCF ROI.

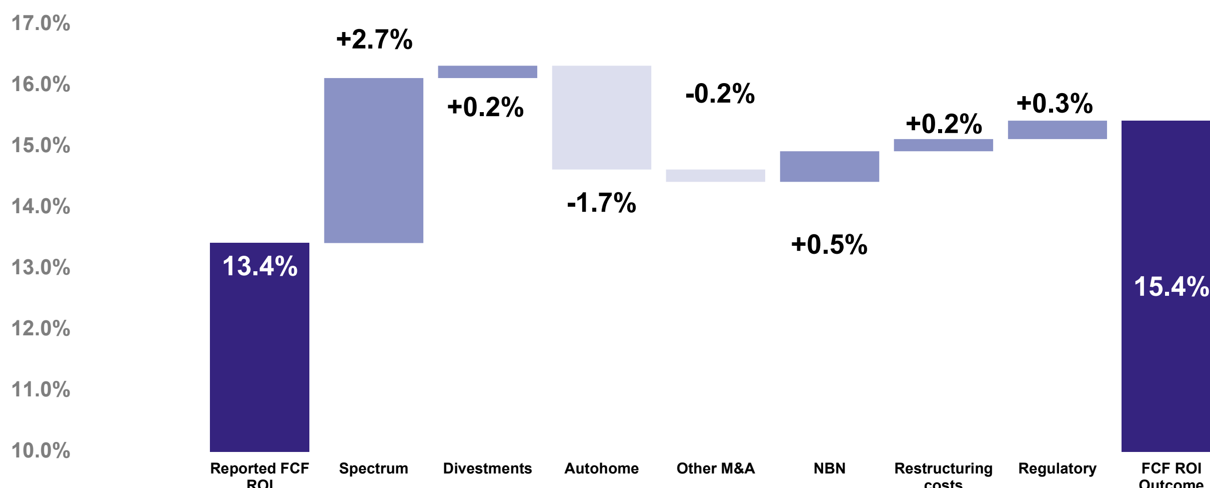
(a) FY16 LTI plan testing as at 30 June 2018

Test date	Performance measure	% of total plan vested
30 June 2018	RTSR (0% vesting)	0%
	FCF ROI (0% vesting)	0%
Total:		**0%**

The RTSR vesting result was based on Telstra ranking at the 10th percentile of the comparator group. As Portugal Telecom SPSG went through a significant restructure in FY16, the Board exercised its discretion under the LTI plan terms to remove it from the comparator group prior to calculation of the results. In addition, two companies within the FY16 LTI comparator group changed their name during the performance period: Belgacom Group was renamed to Proximus SA and Telia Sonera was renamed to Telia Company AB.

The Board determines the FCF ROI outcome by adjusting reported results to remove spectrum and other acquisitions and divestments. The Board can exercise its discretion to ensure there are no windfall gains or losses due to the timing of the nbn™ network rollout or any other significant out of plan business development or material regulatory or legislative change.

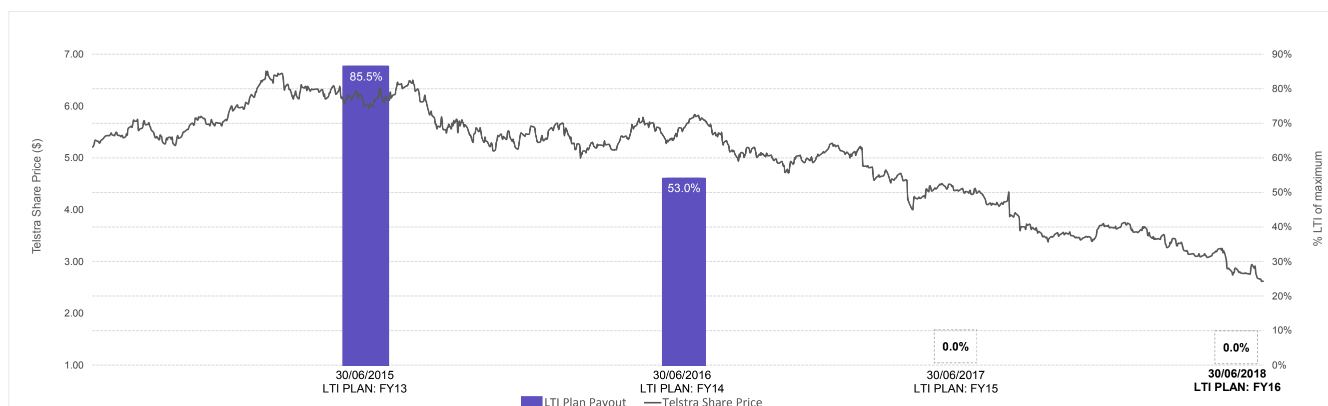
For the FY16 LTI plan the FCF ROI adjustments are as follows:



Whilst the overall adjustments had the effect of increasing Telstra's FCF ROI outcome from 13.4% to 15.4%, the result fell short of the plan target of 16.7% (as per table 2.4(a)). The results of Telstra's RTSR were calculated by an external provider and the FCF ROI outcome was reviewed by our external auditor EY. These outcomes were also reviewed by Telstra's Group Internal Audit team and approved by the Board in accordance with the LTI plan rules.

(b) Historical LTI plan performance relative to Telstra share price

The following chart compares Telstra's LTI plan vesting results for the past four LTI plans (as a percentage of plan maximum opportunity) to the share price history during the same performance period:



2.5 Detailed remuneration and interests in Telstra shares

The tables in this section disclose Senior Executive information and only represent their time as Senior Executives.

(a) Actual pay and benefits which crystallised in FY18 for Senior Executives

As a general principle, the Australian Accounting Standards require the value of share-based payments to be calculated at the time of grant and accrued over the performance period and Restriction Period. This may not reflect what Senior Executives actually received or became entitled to during the year.

The following tables are voluntary disclosures, are not prepared in accordance with Australian Accounting Standards and include the period that a person was KMP.

The table below is provided to demonstrate the remuneration the CEO received or became entitled to receive during FY18 in comparison to FY17. We believe this information is helpful to assist shareholders in understanding the actual pay and benefits received by the CEO from the various components of his remuneration during FY18.

Name	Year	Fixed Remuneration ($000)	Non-monetary benefits ($000)[2]	EVP / STI payable as cash ($000)[4]	Value of STI Restricted Shares that became unrestricted ($000)[5,6]	Value of LTI that became unrestricted ($000)[5,7]	FY18 Total ($000)
Andrew Penn	**2018**	**2,374**	**5**	**1,103**	**263**	**-**	**3,745**
	2017[1]	2,325	9	1,486	349	1,039	5,208
% change in actual pay and benefits							**-28%**

The table below details actual pay and benefits received during FY18 by Senior Executives as at 30 June 2018 (other than the CEO).

Name	Fixed Remuneration ($000)	Non-monetary benefits ($000)[2]	Other ($000)[3]	EVP payable as cash ($000)[4]	Value of STI Restricted Shares that became unrestricted ($000)[5,6]	Value of LTI that became unrestricted ($000)[5,7]	FY18 Total ($000)
Vicki Brady	819	5	410	340	47	-	1,622
Warwick Bray	1,212	2	-	519	129	-	1,862
Robyn Denholm	1,100	6	-	559	37	-	1,702
Will Irving	1,000	9	-	461	113	-	1,583
Brendon Riley	1,387	10	-	582	161	-	2,140

The amounts shown in the tables above include Fixed Remuneration (FR), cash payable under the FY18 EVP, as well as any restricted STI or LTI that has been earned as a result of performance in previous financial years but was subject to a Restriction Period ending 30 June 2018.

1. As reported in the 2017 Remuneration Report.
2. Includes the cost of personal home security services provided by Telstra, the provision of car parking and Telstra products and services.
3. Relates to the third and final tranche of a sign-on bonus for Vicki Brady, which was provided as part of her appointment to the role of Group Managing Director, Consumer and has been pro-rated to represent her time as a Senior Executive.
4. Amount relates to the cash component of the FY18 EVP earned payable in September 2018.
5. Equity in this table has been valued based on the Telstra closing share price on 30 June 2018 of $2.62.
6. Amount relates to the value of STI earned in prior financial years which was provided as Restricted Shares. For amounts reported for FY18, the restriction period for these shares ended on 30 June 2018 and represent 50 per cent of the Restricted Shares relating to each of the FY16 and FY17 STI grants.
7. As the outcome of the FY15 LTI plan was that none of the Performance Rights vested as Restricted Shares, there are no values to report for FY18.

(b) Senior Executive remuneration (main table)

The table below has been prepared in accordance with the requirements of the Corporations Act and the relevant Australian Accounting Standards. The figures provided under the equity settled share-based payments columns are based on accounting values and do not reflect actual payments received by Senior Executives in FY18.

		Short term employee benefits				Post-employment benefits	Termination benefits	Other long term benefits	Equity settled share-based payments — Accounting value (at risk) ($)[8,9]		
Name and title	Year	Salary and fees ($000)[1]	EVP Cash ($000)[2]	Non-monetary benefits ($000)[3]	Other ($000)[4]	Super-annuation ($000)[5]	Termination benefits ($000)[6]	Accrued leave benefits[7] ($000)	Restricted shares ($000)[10]	Performance Rights ($000)[11]	Total ($000)
Andrew Penn CEO	**2018**	**2,354**	**1,103**	**5**	**-**	**20**	**-**	**59**	**672**	**305**	**4,518**
	2017	2,305	1,486	9	-	20	-	57	464	1,319	5,660
Vicki Brady GE C&SB	**2018**	**803**	**340**	**5**	**205**	**16**	**-**	**20**	**159**	**92**	**1,640**
	2017	-	-	-	-	-	-	-	-	-	-
Warwick Bray CFO	**2018**	**1,187**	**519**	**2**	**-**	**25**	**-**	**30**	**320**	**98**	**2,181**
	2017	1,065	703	5	-	35	-	27	214	499	2,548
Robyn Denholm COO	**2018**	**1,080**	**559**	**6**	**-**	**20**	**-**	**27**	**248**	**62**	**2,002**
	2017	512	333	1	-	9	-	13	22	-	890
Will Irving GE TW	**2018**	**980**	**461**	**9**	**-**	**20**	**-**	**3**	**283**	**235**	**1,991**
	2017	980	627	11	-	20	-	25	199	193	2,055
Brendon Riley GE TE	**2018**	**1,367**	**582**	**10**	**-**	**20**	**-**	**34**	**379**	**222**	**2,614**
	2017	1,330	934	9	-	20	-	33	301	606	3,233
Kevin Russell Former GE C&SB	**2018**	**195**	**-**	**1**	**-**	**4**	**495**	**(32)**	**(85)**	**(264)**	**314**
	2017	1,080	527	4	-	20	-	27	87	264	2,009
Total current and former KMP	**2018**	**7,966**	**3,564**	**38**	**205**	**125**	**495**	**141**	**1,976**	**750**	**15,260**
	2017	7,272	4,610	39	-	124	-	182	1,287	2,881	16,395

The total for FY17 of $16.395 million in this table is less than the total for FY17 in the FY17 Remuneration Report of $17.331 million as it does not include the $0.936 million for the former COO, Kate McKenzie reported in last year's report.

1. Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and Fringe Benefits Tax (FBT).
2. For FY18, EVP cash relates to performance in FY18 under the FY18 EVP. For FY17, the amounts in this column relate to cash amounts paid for performance under the FY17 STI plan.
3. Includes the cost of personal home security services provided by Telstra, the cost of personal use of Telstra products and services and the provision of car parking. For Mr Irving the amount includes the value of non-recourse loans under TESOP 99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 "First-time Adoption of Australian Equivalence to International Financial Reporting Standards"). The value of non-monetary benefits have been grossed up for FBT by the relevant FBT rates.
4. For Vicki Brady, the balance relates to the amortised amount for the third and final tranche of a sign-on bonus which was provided as a part of her appointment to the role of Group Managing Director, Consumer.
5. Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives. Telstra does not provide any other post-employment benefits.
6. Termination benefits for Mr Russell of $495,000 comprised a payment in lieu of notice as per his service agreement and was paid in compliance with Part 2D.2, Division 2 of the Corporations Act.
7. Includes the net movement of long service leave entitlement balances.
8. The accounting values included in the table relate to the current year amortised value of all Restricted Shares and Performance Rights that had not yet fully vested at the commencement of the financial year. The value of each equity instrument is calculated by applying valuation methodologies or is based on the market value of Telstra shares at the grant date as described in note 5.2 to the financial statements and is then amortised, based on the maximum achievable allocation, over the relevant vesting period. This value includes an assumption that the instruments will vest at the end of the vesting period unless forfeited during the financial year.
9. As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in both FY18 and FY17 as the service condition or the non-market performance condition (FCF ROI) was not met. In relation to LTI Performance Rights, for FY18, this occurred for the FY16 plan that failed to satisfy the FCF ROI performance target at 30 June 2018, resulting in all of the Performance Rights lapsing allocated under this plan.
10. This includes the amortised value of the Restricted Share component of the FY18 EVP, as well as Restricted Shares allocated under the FY17, FY16 and FY15 (only applicable to FY17 comparatives) STI plans.
11. This includes the amortised value of the Performance Right component of the FY18 EVP, as well as Performance Rights allocated under FY17, FY16, FY15 and FY14 (only applicable to FY17 comparatives) LTI plans.

(c) FY18 EVP Payments (cash and equity)

	Breakdown of FY18 EVP Outcome[1]							
Name	**Year**	**Maximum potential EVP opportunity ($000)[2]**	**35% Cash component ($000)**	**26% Restricted Shares component[3] ($000)**	**39% Performance Rights component[3] ($000)**	**Total grant of EVP ($000)**	**% of maximum opportunity earned**	**% of maximum opportunity forfeited**
Andrew Penn	2018	9,560	1,103	820	1,229	3,152	33%	67%
Vicki Brady	2018	2,950	340	253	379	972	33%	67%
Warwick Bray	2018	4,500	519	386	579	1,484	33%	67%
Robyn Denholm[4]	2018	4,840	559	415	622	1,596	33%	67%
Will Irving	2018	2,800	461	342	514	1,317	47%	53%
Brendon Riley	2018	5,040	582	432	648	1,662	33%	67%
Kevin Russell[5]	2018	358	-	-	-	-	-	100%

1. The FY18 EVP outcomes were approved by the Board on 15 August 2018. These values represent the time served in FY18 as a Senior Executive. The cash component of the FY18 EVP will be paid in September 2018.
2. Represents the maximum potential EVP opportunity specific to their time as Senior Executives for FY18, adjusted for any variation in Fixed Remuneration throughout FY18 that impacts the maximum potential EVP opportunity available. If the minimum threshold performance is not met, the minimum possible EVP payment is nil.
3. The Restricted Shares and Performance Rights awarded are expected to be allocated in November 2018 and are subject to Restriction and Performance Periods (as set out in section 2.1(c)) subject to the Senior Executive's continued employment. As Warwick Bray, CFO and Will Irving, GE Telstra Wholesale will cease employment before allocation of the FY18 Restricted Shares and Performance Rights, they will be granted Cash Rights.
4. As disclosed in our FY17 Remuneration Report, Robyn Denholm did not participate in the FY17 LTI plan due to the timing of her appointment. In lieu of not receiving an FY17 LTI allocation, for FY18 only, her EVP at target opportunity is 220% of Fixed Remuneration. For FY19, Ms Denholm's at target opportunity will revert back to 180% of Fixed Remuneration.
5. As Mr Russell resigned from Telstra during FY18, he forfeited any entitlement under the FY18 EVP.

(d) Number and value of equity instruments allocated, vested and exercised during FY18 (LTI and other equity)

Name	Equity Movements								Equity Outcomes
	Instrument	Total held at 1 July 2017[1]	Allocated during FY18[2]	Value of instruments allocated ($000)[3]	Vested / exercised during FY18[4]	Value of instruments exercised ($000)[5]	Other changes[6]	Total held at 30 June 2018[7]	Achieved performance target during FY18[8]
Andrew Penn	Performance Rights	1,853,347	-	-	(241,573)	$942	(758,564)	853,210	-
Vicki Brady	Performance Rights	85,872	-	-	-	-	-	85,872	-
Warwick Bray	Performance Rights	652,796	-	-	(42,748)	$167	(287,112)	322,936	-
Robyn Denholm	Performance Rights	-	-	-	-	-	-	-	-
Will Irving[9]	Performance Rights	251,292	-	-	(158,294)	$617	(92,998)	-	-
	Restricted Shares	-	86,185	$334	-	-	-	86,185	
	TESOP99	400	-	-	-	-	-	400	-
Brendon Riley	Performance Rights	973,605	-	-	(224,911)	$877	(352,364)	396,330	-
Kevin Russell	Performance Rights	322,936	-	-	-	-	-	322,936	-

In the table above, vest has the meaning defined in the Australian Accounting Standards. A Performance Right vests when it has been performance tested and the resultant share has been released from restriction and provided to the executive. Table 2.5(e) includes details of such shares provided during FY18.

All service and performance conditions for rights granted in previous financial years and that have vested or been exercised in FY18 are summarised in the Remuneration Report for each relevant year of grant. Each equity instrument granted, vested or exercised in FY18 (where applicable) in the table above was issued by Telstra and resulted or will result in one ordinary Telstra share per equity instrument granted, vested or exercised. No amount is payable by the KMP EVP and STI Restricted Shares are excluded from this table, refer to tables 2.5(c) and (e) for further information.

1. For Ms Brady, the balance reported at 1 July 2017 reflects the number of equity instruments held as at the date on which she commenced as a KMP.
2. No Performance Rights were allocated during FY18 as there was no FY18 LTI plan due to the introduction of the EVP. The FY18 EVP Performance Rights will be allocated in November 2018, refer to section 2.1 for more information. Restricted Shares granted relate to the GE Telstra Wholesale LTI replacement plan, made in lieu of participation in the FY17 LTI plan. Further information relating to the GE Telstra Wholesale LTI replacement plan can be found in the 2017 Remuneration Report.
3. The fair value reflects the valuation approach required by AASB 2 using market values for Restricted Shares and an option pricing model for Performance Rights granted, as explained in the notes to the financial statements. The fair value of the Restricted Shares allocated during FY18 with a grant date of 18 August 2017 was $3.88 and was based on the market value of Telstra shares. Comparatively, FY18 EVP equity instruments will be allocated in FY19 with a fair value of the instruments calculated (for accounting purposes) based on the grant dates of 17 October 2017 for the CEO and 29 September 2018 for all other Senior Executives, respectively. For FY18 EVP Performance Rights, the fair values per instrument granted under the FY18 EVP are $1.20 (Tranche 1) and $1.25 (Tranche 2) for the CEO, $1.22 (Tranche 2) and $1.27 (Tranche 2) for Senior Executives (excluding the GE Telstra Wholesale), and $2.77 (Tranche 1) and $2.61 (Tranche 2) for the GE Telstra Wholesale. For FY18 EVP Restricted Shares, the fair value per instrument granted under the FY18 EVP is $3.27 for all Senior Executives.
4. Relates to Performance Rights vesting as defined above. Performance Rights vested during FY18 relate to the FY14 LTI plan. For more information on our Senior Executives' interests in Telstra Shares refer to table 2.3(e).
5. The value of the equity instruments vested/exercised reflects the market value at the date the instruments vested and were released from restriction.
6. Relates to Performance Rights that lapsed due to the specified performance hurdles or service conditions not being achieved. Performance Rights in this column relate to the FY16 LTI plan that was performance tested at the end of FY18 and resulted in 100 per cent of the Performance Rights lapsing.
7. For Mr Russell, the balance reported at 30 June 2018 reflects the number of equity instruments held as at the date on which he ceased to hold the KMP position. Refer to section 1.1 for further information.
8. Relates to instruments that have been performance tested for the performance period ending on 30 June 2018 and met the specified performance hurdles. Performance Rights in this column relate to the FY16 LTI plan that was performance tested at the end of FY18 and resulted in zero per cent of the Performance Rights vesting and therefore no Restricted Shares being provided in early FY19.
9. Mr Irving was granted TESOP99 shares in 1999, with an interest free loan which can be repaid at any time. There are no outstanding performance or restriction periods and the shares will vest if and when the loan is repaid in full. Refer to footnote 3 of table 2.5(b) for further information.

There are no Performance Rights or options held by any KMP's related parties and no Performance Rights or options held indirectly or beneficially by our KMP. As at 30 June 2018, there were no options or Performance Rights vested, or vested and exercisable or vested and unexercisable.

(e) Senior Executive interests in Telstra Shares

During FY18, our Senior Executives and their related parties held Telstra shares directly, indirectly or beneficially as follows:

Name	Total shares held at 1 July 2017[1,2]	STI Restricted Shares allocated[3]	LTI Restricted Shares received during FY18[4]	Net shares acquired or disposed of and other changes	Total shares held at 30 June 2018[1,5]	Shares held nominally at 30 June 2018[5,6]
Senior Executives						
Andrew Penn	1,301,712	127,634	-	-	1,429,346	223,122
Vicki Brady	908	34,752	-	-	35,660	35,206
Warwick Bray	257,826	60,386	-	-	318,212	79,510
Robyn Denholm	25,913	28,622	-	-	54,535	52,535
Will Irving	1,351,214	53,866	86,185	(450,000)	1,041,265	186,708
Brendon Riley	1,293,470	80,200	-	(410,000)	963,670	963,670
Kevin Russell	6,260	-	-	(3,130)	3,130	-
Total	**4,237,303**	**385,460**	**86,185**	**(863,130)**	**3,845,818**	**1,540,751**

Each equity instrument exercised or allocated in FY18 (where applicable) in the table above, was issued by Telstra and resulted or will result in one ordinary Telstra share per equity instrument exercised or allocated.

1. Total shareholdings include shares held by our Senior Executives and their related parties. Unless related to our employee share plans, shares acquired or disposed of by our Senior Executives and their related parties during FY18 were on an arm's length basis at market price.
2. For Vicki Brady, the balance as at 1 July 2017 represents shares held as at the date on which she became a Senior Executive. Refer to section 1.1 for further information.
3. STI Restricted Shares allocated during FY18 relate to the FY17 STI plan which was allocated on 13 November 2017. The allocation of Restricted Shares under the FY18 EVP will be made after the reporting date of 30 June 2018, therefore they have not been included in the table above.
4. This column relates to those equity instruments that have been provided as Restricted Shares during this financial year. For FY18, this relates to the FY15 LTI plan that was performance tested last financial year.
5. For Kevin Russell, the balance as at 30 June 2018 represents shares held as at the date on which he ceased to be a Senior Executive. Refer to section 1.1 for further information.
6. Nominally refers to shares held either indirectly or beneficially by Senior Executives and shares held by their related parties including certain Restricted Shares held by Senior Executives. These shares are subject to a restriction period, such that the Senior Executive is restricted from dealing with the shares until the Restriction Period ends. Refer to note 5.2 to the financial statements for further details.

3.0 Non-executive Director remuneration

3.1 Remuneration structure

Our non-executive Directors are remunerated with set fees and do not receive any performance based pay. This enables non-executive Directors to maintain independence and impartiality when making decisions affecting the future direction of the company.

The Telstra Board and Committee fee structure (inclusive of superannuation) during FY18 was:

FY18 Board fees	Chairman	Non-executive Director
Board	$775,000	$235,000
FY18 Committee fees	**Committee Chair**	**Committee Member**
Audit & Risk Committee	$70,000	$35,000
Remuneration Committee	$56,000	$28,000
Nomination Committee	-	$7,000

The Chairman of the Board does not receive Committee fees if he is a Member of a Board Committee.

Our non-executive Directors are remunerated in accordance with Telstra's Constitution, which provides for an aggregate fee pool that is set, and varied, only by approval of a resolution of shareholders at the AGM. The current annual fee pool of $3.5 million was approved by shareholders at Telstra's 2012 AGM.

The total of Board and Committee fees, including superannuation, paid to non-executive Directors in FY18 remained within the approved fee pool.

Superannuation contributions are included within each non-executive Director's Total Remuneration, in accordance with the ASX Listing Rules and Telstra policy. Non-executive Directors may choose to increase the proportion of their remuneration taken as superannuation, subject to legislative requirements.

Telstra does not provide retirement benefits for non-executive Directors other than the superannuation contributions noted above.

Our 2017 Remuneration Report disclosed the FY18 non-executive Director and Committee fees for which there has been no change during FY18. Table 3.2 provides full details of non-executive Director remuneration for FY18.

Sections 1.2(h) and (i) of this report provide details of the share ownership policy and Telstra securities trading restrictions that apply to our non-executive Directors.

(a) Changes to the Board and Committee composition

During the year Roy H Chestnutt was appointed to the Board effective from 11 May 2018. He will stand for election by shareholders at Telstra's 2018 Annual General Meeting in October 2018. There were no other changes to the Board and Committee composition. On 14 August 2018, we announced that Steven M Vamos had announced his intention to retire as a non-executive Director at Telstra's 2018 Annual General Meeting.

3.2 Detailed remuneration and interests in Telstra shares

(a) Non-executive Director Remuneration

Name and title		Short term employee benefits		Post-employment benefits	
	Year	Salary and fees ($000)[1]	Non-monetary benefits ($000)[2]	Superannuation ($000)	Total ($000)
John P Mullen Chairman	**2018**	**755**	**6**	**20**	**781**
	2017	755	5	20	780
Roy H Chestnutt[3,4] Director	**2018**	**32**	**-**	**1**	**33**
	2017	-	-	-	-
Craig W Dunn Director	**2018**	**250**	**-**	**20**	**270**
	2017	250	-	20	270
Peter R Hearl Director	**2018**	**278**	**-**	**20**	**298**
	2017	272	-	20	292
Jane S Hemstritch Director	**2018**	**243**	**2**	**20**	**265**
	2017	213	-	17	230
Russell Higgins Director	**2018**	**278**	**1**	**20**	**299**
	2017	275	-	20	295
Nora L Scheinkestel Director	**2018**	**285**	**2**	**20**	**307**
	2017	296	-	20	316
Margaret L Seale Director	**2018**	**250**	**-**	**20**	**270**
	2017	250	-	20	270
Steven M Vamos Director	**2018**	**250**	**-**	**20**	**270**
	2017	247	2	20	269
Trae A N Vassallo[4] Director	**2018**	**231**	**-**	**4**	**235**
	2017	231	-	4	235
Total	**2018**	**2,852**	**11**	**165**	**3,028**
	2017	2,789	7	161	2,957

The total for FY17 of $2.957 million in this table is less than the total for FY17 in the FY17 Remuneration Report of $3.025 million as it does not include the $0.068 million for a former Director, Chin Hu Lim, reported in last year's report.

1. Includes fees for membership on Board Committees.
2. Includes the cost value of Telstra products and services (such as Foxtel) provided to Directors without charge to allow them to familiarise themselves with Telstra's products and services and with recent technological developments. The value of non-monetary benefits have been grossed up for FBT by the relevant FBT rates.
3. Roy Chestnutt qualifies as a KMP from 11 May 2018 when he was appointed as a non-executive Director of the company.
4. As Roy Chestnutt and Trae Vassallo are overseas residents, their superannuation contributions for FY18 are less than the contributions for Australian resident non-executive Directors.

(b) *Non-executive Directors' interests in Telstra Shares*

During FY18, our non-executive Directors and their related parties held Telstra shares directly, indirectly or beneficially as follows:

Name	Total shares held at 1 July 2017[1,2]	Net shares acquired or disposed of and other changes[1]	Total shares held at 30 June 2018 [1]	Shares held nominally at 30 June 2018 [3]
John P Mullen	26,159	75,000	101,159	101,159
Roy H Chestnutt	-	-	-	-
Craig W Dunn	19,173	54,000	73,173	72,473
Peter R Hearl	45,000	25,000	70,000	-
Jane Hemstritch	91,000	-	91,000	91,000
Russell A Higgins AO	99,983	3,234	103,217	103,217
Nora L Scheinkestel	100,324	15,294	115,618	107,663
Margaret L Seale	269,540	41,000	310,540	310,540
Steven M Vamos	40,000	-	40,000	40,000
Trae A N Vassallo	-	15,793	15,793	15,793
Total	**691,179**	**229,321**	**920,500**	**841,845**

1. Total shareholdings include shares held by our non-executive Directors and their related parties. Shares acquired or disposed of by our non-executive Directors and their related parties during FY18 were on an arm's length basis at market price.
2. For Roy Chestnutt, the balance as at 1 July 2017 represents shares held as at the date on which he became KMP (11 May 2018)
3. Nominally refers to shares held either indirectly or beneficially by non-executive Directors including those shares acquired under Directshare and shares held by their related parties. Any shares held under Directshare are subject to a restriction period, such that the non-executive Director is restricted from dealing with the shares until the Restriction Period ends.

4.0 Looking forward to FY19

4.1 Changes to the FY19 EVP

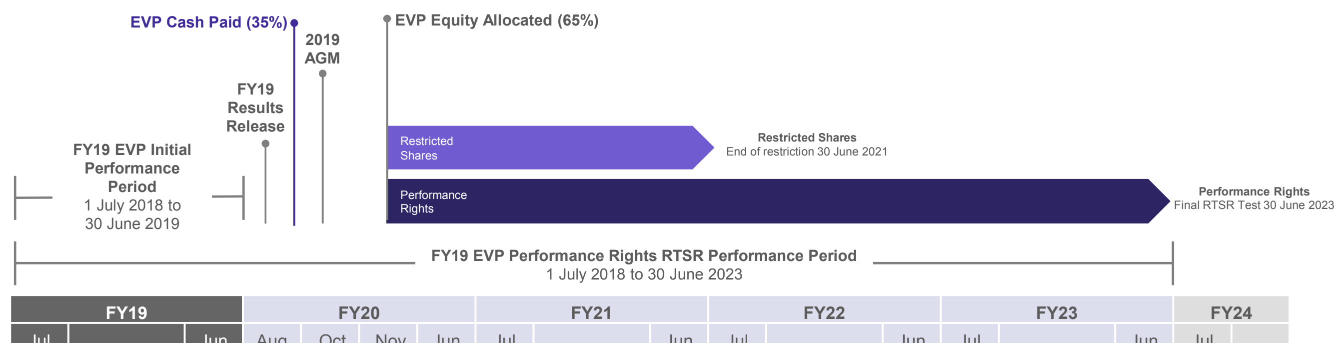
The Board has reviewed the CEO and Group Executive remuneration structures, in particular the implementation of the EVP in FY18. Following the 2017 AGM, the EVP was implemented for FY18 combining the former STI and LTI arrangements into a simplified variable incentive plan. The EVP is designed to drive performance against financial and customer experience metrics, creating long-term shareholder value.

The Board is confident that the EVP remains an appropriate mechanism to align performance and reward for Senior Executives. However, having considered the introduction of our T22 strategy, the Board has further enhanced the performance measures for the FY19 EVP to increase shareholder alignment, executive retention and executive performance against delivery of the plan.

FY19 EVP Measures and Weightings

	Financial – 50%				Strategic, Customer & Transformation – 50%			
CEO & Group Executives	Total Income 12.5%	EBITDA 12.5%	FCF 12.5%	Net Opex Reduction 12.5%	Episode NPS 12.5%	Product Portfolio Simplification 12.5%	Digital Delivery 12.5%	People Capability & Engagement 12.5%

The overall reward opportunity and the time-frame of the FY19 EVP will not change as per the timeline below:



5.0 Glossary

Average Investment	Average investment over the period is the average of the sum of net debt and shareholders' funds over the entire three year performance period
Cash Rights	Rights granted to a Senior Executive who ceases employment for a Permitted Reason before the Restricted Shares and Performance Rights are granted in respect of the EVP in lieu of those Restricted Shares and Performance Rights. The Cash Rights are subject to the same time conditions and performance measures as those applying to those Restricted Shares and Performance Rights. On vesting a Cash Right will entitle the Senior Executive to a cash payment equivalent to the value of a share at the end of the applicable Restriction Period or performance period and dividends paid between the date the Cash Right is allocated and the end of the applicable Restriction Period and performance period.
Clawback Event	Includes fraud, gross misconduct or material breach of obligations by the Senior Executive or behaviour that brings Telstra into disrepute or may negatively impact Telstra's long term financial strength. It also includes where there is a significant and unintended deterioration in Telstra's financial performance, where the financial results that led to the Performance Rights or Restricted Shares being granted are subsequently shown to be materially misstated or the Board determines that the Performance Rights or Restricted Shares are an inappropriate benefit.
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EVP	Executive Variable Remuneration Plan
FCF	Free Cashflow
FCF for LTI	Annual FCF from operating and investing activities adjusted for interest paid and non-recurring factors such as spectrum licence purchases, acquisitions (i.e. the removal of trading cashflows and purchase prices of those entities acquired), divestments (i.e. reinstate forecasted trading cashflows and sale proceeds for those entities disposed) and material regulatory adjustments that impact on pricing that was assumed when setting plan targets
FCF ROI	The average of the annual FCF for LTI over the performance period expressed as a percentage of the Average Investment over the performance period
Fixed Remuneration or FR	Base salary plus company and private salary sacrificed superannuation contributions
FY	Financial year
GE	Group Executive
KMP	Key Management Personnel
LTI	Long Term Incentive
NBN Transaction	Agreements with nbn co and the Government in relation to Telstra's participation in the rollout of the nbn™ network. This includes the entire Definitive Agreement receipts, any impacts the nbn™ has on our existing products, costs associated with connecting customers to the nbn™ network and any tax, interest or debt impacts of nbn™ related changes in profit or cash. Any nbn™ related commercial works are excluded from this definition
NPS	Net Promoter Score which is a non financial performance measure in Telstra's EVP and consists of two components, Strategic NPS and Episode NPS The Strategic NPS performance measure is based on Telstra's customers' response to a question on likelihood of recommending Telstra on a scale of 0 to 10, asked within third party surveys The Episode NPS performance measure is based on responses to internal surveys following actual service experiences customers had with Telstra

	Refer to 2.1(d)) for further information
Performance Right	A right to a share or a cash amount equivalent to the value of a share at the end of a performance period, at Telstra's discretion and subject to the satisfaction of certain performance measures and service conditions
Permitted Reason	Permitted Reason under the EVP, means death, total and permanent disablement, certain medical conditions, company initiated separation for a reason unrelated to performance or conduct, redundancy or retirement. Permitted Reason under the EVP Performance Rights and Restricted Share terms also includes mutual separation
Related parties	of a person means: • a close member of the person's family; and/or • an entity over which the person or close family member has, directly or indirectly, control, joint control or significant influence
Restricted Share	A Telstra share that is subject to a Restriction Period
Restriction Period	A period during which a Telstra share is subject to a service condition and cannot be traded. Restricted Shares are transferred to a Senior Executive on the first day after the end of the Restriction Period that the Senior Executive is able to deal in shares under Telstra's Securities Trading Policy
RTSR	Relative Total Shareholder Return
Senior Executive	Refers to the CEO and those executives who are KMP with authority and responsibility for planning, directing and controlling the activities of the company and Group, directly or indirectly
Service Agreement	A Senior Executive's contract of employment
SSU	Structural Separation Undertaking
STI	Short Term Incentive
Total Income	Total Telstra income
Total Remuneration	The sum of all the fixed and variable components of remuneration as detailed in section 2.5 for Senior Executives, and all the remuneration components as detailed in section 3.2 for non-executive Directors

Directors' Report

Rounding

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. Except where otherwise indicated, the amounts in this Directors' Report and the accompanying financial report have been rounded to the nearest million dollars ($m) and amounts in the Remuneration Report have been rounded to the nearest thousand dollars ($000).

This report is made on 16 August 2018 in accordance with a resolution of the Directors.

John P Mullen
Chairman
16 August 2018

Andrew R Penn
Chief Executive Officer and Managing Director
16 August 2018

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

As lead auditor for the audit of Telstra Corporation Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Andrew Price
Partner
16 August 2018

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Board of Directors

John P Mullen

Age 63, BSc
Non-executive Director since July 2008, Chairman effective 27 April 2016 and last re-elected in 2017. Chairman of the Nomination Committee and previously Chairman of the Remuneration Committee (2009-2016).

John has extensive international transportation and logistics experience with more than two decades in senior positions with multinationals including most recently as Managing Director and Chief Executive Officer of Asciano Ltd from 2011 to 2016. His experience includes 10 years with the TNT Group - two years of those as its Chief Operating Officer. From 1991 to 1994, he held the position of Chief Executive Officer of TNT Express Worldwide based in Europe. John was with the Deutsche Post DHL Group for 15 years from 1994, becoming Chief Executive Officer of DHL Express Asia Pacific in 2002, Chief Executive Officer of DHL USA and joint Chief Executive Officer DHL Express in 2005, and Global Chief Executive Officer, DHL Express, from 2006 to 2009. John is currently Chairman of Toll Group, a transport and logistics company owned by Japan Post.

Directorships of listed companies (past three years) and other directorships/appointments:
Director, Brookfield Infrastructure Partners L.P (from 2017), Asciano Ltd (2011-2016). Other: Chairman, Toll Group (from 2016). Chair, Australian National Maritime Foundation (from 2015) and Councillor, Australian National Maritime Museum (from 2016). Director Kimberley Foundation Australia Limited (from 2016). Member, Australian Graduate School of Management (from 2005).

Andrew R Penn

Age 55, MBA (Kingston), AMP (Harvard), FCCA, HFAIPM
Chief Executive Officer and Managing Director since 1 May 2015.

Andy joined Telstra in 2012 as Chief Financial Officer. Andy is an experienced executive with a career spanning almost 40 years. Prior to joining Telstra, he was with AXA Asia Pacific in a variety of roles including Group Chief Executive (2006-2011), Chief Executive Officer Australia and New Zealand, Group Chief Financial Officer and Chief Executive for Asia. Andy has also contributed widely to not-for-profit and community organisations.

Other directorships/appointments:
Life Governor, Very Special Kids (from 2003). Member, Juvenile Diabetes Research Foundation Advisory Council, The Big Issue Advisory Group, and Ambassador, Amy Gillet Foundation.

Roy H Chestnutt

Age 59, BSc, BA, MBA
Non-executive Director appointed 11 May 2018.

Roy has more than 30 years of direct telecommunications experience. Most recently he was Executive Vice President, Chief Strategy Officer for Verizon Communications and has held leadership positions with other leading firms including Motorola, Grande Communications, Sprint-Nextel and AirTouch. Roy's last six years with Verizon, included almost five as head of strategy responsible for the development and implementation of Verizon's overall corporate strategy, including business development, joint ventures, strategic investments, acquisitions and divestitures.

Roy has been a Director for international industry association GSMA and is a former chair of the Chief Strategy Officers Group including 25 global strategists from the world's leading wireless carriers. He is also a senior advisor at Blackstone and a board member for Saudi Telecom and Digital Turbine.

Directorships of listed companies (past three years) and other directorships/appointments:
Director, Saudi Telecom (from 2018) and Digital Turbine Inc (from 2018). Other: Non-executive Partner, Delta Partners.

Craig W Dunn

Age 54, BCom, FCA
Non-executive Director appointed 12 April 2016. Member of the Audit & Risk Committee.

Craig is a highly regarded business leader with more than 20 years' experience in financial services, pan-Asian business activities and strategic advice for government and major companies. Craig was Chief Executive Officer and Managing Director of AMP from 2008 to 2013 and held various roles at AMP in a 13-year career including Managing Director of AMP Financial Services, Managing Director for AMP Bank and Head of Corporate Strategy and M&A.

Previously he was at Colonial Mutual Group from 1991 to 2000, including Managing Director for EON CMB Life Insurance in Malaysia and senior roles in Group Strategy, M&A and Finance. He has also served as a member of the Federal Government's Financial System Inquiry in 2014 and the Consumer and Financial Literacy Taskforce.

Directorships of listed companies (past three years) and other directorships/appointments:
Director, Westpac (from 2015). Other: Chair, ISO Blockchain Standards Committee (from 2017). Chairman, Stone and Chalk Limited (from 2015), The Australian Ballet (from 2015 (Director from 2014)) and the Australian Government Fintech Advisory Group (from 2016). Director, Jobs for NSW (from 2016) and Financial Literacy Australia Limited (from 2012). Member, ASIC External Advisory Panel (from 2015).

Peter R Hearl

Age 67, B Com (UNSW), MAIM, FAICD, Member – AMA
Non-executive Director since 15 August 2014, last re-elected in October 2017. Chairman of the Remuneration Committee and member of the Nomination Committee.

Peter is an experienced company director with substantial international experience as a senior executive in the fast moving consumer goods sector. Peter served in senior executive roles with Yum! Brands Inc from 1997 to 2008, including global Chief Operations and Development Officer for Yum! Brands from 2006 until 2008 and President of Pizza Hut from 2002 to 2006. He previously worked for PepsiCo Inc in Sydney and London reaching regional vice-president level, as well as in various roles with Exxon in the United States and Australia.

Directorships of listed companies (past three years) and other directorships/appointments:
Director, Santos Ltd (from 2016), Treasury Wine Estates (2012-2017) and Goodman Fielder Ltd (2010-2015). Other: Member, UNSW's Australian School of Business Alumni Leaders Group and previously honorary Chairman of the US-based UNSW Study Abroad-Friends and US Alumni Inc.

Jane Hemstritch

Age 64, BSc (Hons), FAICD, FICAEW
Non-executive Director appointed 12 August 2016 and elected 11 October 2016. Member of the Remuneration Committee.

Jane is an experienced company director and has extensive senior executive experience in information technology, communications, change management and accounting. She also has broad experience across the financial services, telecommunications, government, energy and manufacturing sectors and in business expansion in Asia. During a 25-year career with Accenture and Andersen Consulting, Jane worked with clients across Australia, Asia and the US. She held a number of leadership positions within Accenture and was Managing Director Asia Pacific for Accenture from 2004 until her retirement in 2007. Jane was a member of Accenture's global Executive Leadership Team and oversaw the management of Accenture's business in the Asia Pacific region which spanned 12 countries and included 30,000 personnel.

Directorships of listed companies (past three years) and other directorships/appointments:
Director, Lendlease Group (from 2011), Tabcorp Holdings Ltd (2008-2017), Santos Limited (2010-2016) and Commonwealth Bank of Australia (2006-2016). Other: Vice President, The Walter and Eliza Hall Institute of Medical Research (from 2016 (Director from 2013)), Deputy Chair, Council of the National Library of Australia (from 2016 (member from 2010)), Chairman, Victorian Opera Company (2012-2018 (Director 2010-2018)). Member, Global Council of Herbert Smith Freehills (from 2015).

Russell A Higgins AO

Age 68, BEc, FAICD
Non-executive Director since September 2009 and last re-elected in 2015. Member of the Audit & Risk Committee and Remuneration Committee.

Russell is an experienced company director who has worked at very senior levels of both government and private sectors. He has served on the boards of a wide range of listed companies, private companies, government business enterprises and international organisations, including as Chairman of the Snowy Mountains Hydro Electric Scheme and the Global Carbon Capture and Storage Institute and a Director of Ricegrowers Limited (SunRice). From 2003 to 2004, he was Chairman of the then Prime Minister's Energy Task Force and prior to that he was Secretary of the Department of Industry, Science and Resources. In 2006, Russell was appointed an Officer of the Order of Australia for service to the community in financial management and accountability, microeconomic reform and science and innovation.

Directorships of listed companies (past three years):
Chairman, Argo Investments Limited (from 2018 (Director from 2011)), Chairman, Argo Global Listed Infrastructure Ltd (from 2018), Director, APA Group (from 2004), and Leighton Holdings Limited (2013-2014).

Nora L Scheinkestel

Age 58, LLB (Hons), PhD, FAICD
Non-executive Director since August 2010 and last re-elected in 2016. Chairman of the Audit & Risk Committee.

Nora is an experienced company director with a background as a senior banking executive in international and project financing. She consults to government, corporate and institutional clients in areas such as corporate governance, strategy and finance. She is also an Associate Professor in the Melbourne Business School at Melbourne University and a former member of the Takeovers Panel. Nora has served as Chairman and Director in a range of companies across various industry sectors including utilities, AMP Limited and its funds management and banking subsidiaries, Mayne Group Limited and Mayne Pharma Limited, Medical Benefits Fund of Australia Ltd, Newcrest Mining Limited, North Limited and Pacific Brands. In 2003, Nora was awarded a centenary medal for services to Australian society in business leadership.

Directorships of listed companies (past three years) and other directorships/appointments:
Chairman, Atlas Arteria Limited (from 2015 (Director from 2014), Director, Atlas Arteria International Limited (from 2015), OceanaGold Corporation (from 2018), AusNet Services Ltd (from 2016), Stockland Group (2015-2018), Orica Limited (2006 -2015), Insurance Australia Group Limited (2013-2014). Other: Trustee, Victorian Arts Centre Trust (from 2017).

Margaret L Seale

Age 57, BA, FAICD
Non-executive Director since May 2012 and last re-elected in 2015. Member of the Audit & Risk Committee.

Margie has more than 25 years' experience in senior executive roles in Australia and overseas, including in consumer goods, global publishing and the transition of traditional business models to adapt and thrive in a digital environment, and in sales and marketing. Margie was Managing Director of Random House, Australia (with managerial responsibility for Random House New Zealand) and President, Asia Development for Random House Inc, the global company. She was Chief Executive Officer of The Macquarie Dictionary and Lansdowne Publishing (1997-1999), and also of the Juvenile Diabetes Research Foundation (1994-1997). She served on the boards of Penguin Random House Australia/New Zealand as non-executive Director then Chair (2000-2016), the Australian Publishers' Association, the Powerhouse Museum, the Sydney Writers Festival and on the Council of Chief Executive Women, chairing its Scholarship Committee (2011-2012).

Directorships of listed companies (past three years) and other directorships/appointments:
Director, Scentre Group Limited (from 2016), Ramsay Health Care Limited (from 2015), Bank of Queensland Limited (2014-2018). Other: Director, Australian Pacific (Holdings) Pty Limited (from 2018).

Steven M Vamos

Age 60, BEng (Hons)
Non-executive Director since September 2009 and last re-elected in 2015. Member of the Nomination Committee and the Remuneration Committee.

Steve has more than 30 years' experience in the information technology, internet and online media industry. He is the Chief Executive Officer of Xero Limited, a global online platform providing accounting software for businesses and their advisors.

Steve led Microsoft Australia and New Zealand from 2003 to January 2007 before moving to the United States to become the company's online business head of worldwide sales and international operations. He was the Chief Executive Officer of ninemsn (1998 – 2002) and held senior management roles at Apple Computer in the 1990s and various roles at IBM Australia over 14 years.

Directorships of listed companies (past three years) and other directorships/appointments:
Director, Fletcher Building Limited (from 2015), David Jones Limited (2012-2014). Other: Director, Divvy Parking (2016-2018), eGeneration Investments Pty Limited (from 1999), Medibank Private Limited (2011-2014). Member, Advisory Board of the University of Technology Sydney Business School (from 2011).

Trae Vassallo

Age 46, BSc, MSc, MBA (Stanford)
Non-executive Director elected 13 October 2015.

Trae is an experienced technology executive, investor and advisor based in the USA with a successful track record in the technology and venture capital sectors.

She is a co-founder and Managing Director of Defy Partners, an early stage venture capital firm. Prior to Defy, Trae spent over 10 years at KPCB where she played a leading role in KPCB's investments in a number of successful companies including Nest Labs (acquired by Google), Dropcam (acquired by Google) and Opower (acquired by Oracle).

Previously Trae was a co-founder of Good Technology, a KPCB portfolio company (acquired by Motorola) that provides end-to-end wireless email services to enterprise customers. Trae began her career at IDEO, where she developed ground-breaking products for companies including Palm and Dell. She holds 13 patents across a broad array of technologies and disciplines.

Other directorships/appointments (past three years):
Director, Agentology Inc (from 2018), Grove Advisors LLC (from 2018), Owl Cameras Inc (from 2017), Enlighted Inc. (from 2011-2017).

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial report: introduction and contents

As at 30 June 2018

About this report

This is the financial report for Telstra Corporation Limited (referred to as the Company or Telstra Entity) and its controlled entities (together referred to as we, us, our, Telstra, the Telstra Group or the Group) for the year ended 30 June 2018.

Telstra Corporation Limited is a 'for profit' company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

This financial report was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 16 August 2018. The Directors have the power to amend and reissue the financial report.

Reading the financials

Section introduction

The 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, which users may not be familiar with.

Narrative table

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

Information panel

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

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Income Statement

For the year ended 30 June 2018

Telstra Group	Note	Year ended 30 June	
		2018	2017
		$m	$m
Income			
Revenue (excluding finance income)	2.2	26,011	26,013
Other income	2.2	3,031	2,192
		29,042	**28,205**
Expenses			
Labour		5,157	5,381
Goods and services purchased		8,758	7,671
Other expenses	2.3	4,984	4,506
		18,899	**17,558**
Share of net (loss)/profit from joint ventures and associated entities	6.3	**(22)**	**32**
		18,921	**17,526**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**10,121**	**10,679**
Depreciation and amortisation	2.3	4,470	4,441
Earnings before interest and income tax expense (EBIT)		**5,651**	**6,238**
Finance income	2.2	82	138
Finance costs	2.3	631	729
Net finance costs		**549**	**591**
Profit before income tax expense		**5,102**	**5,647**
Income tax expense	2.4	1,573	1,773
Profit for the year		**3,529**	**3,874**
Profit/(loss) attributable to:			
Equity holders of Telstra Entity		3,563	3,891
Non-controlling interests		(34)	(17)
		3,529	**3,874**
Earnings per share (cents per share)		cents	cents
Basic	2.5	30.0	32.5
Diluted	2.5	30.0	32.5

The notes following the financial statements form part of the financial report.

Statement of Comprehensive Income

For the year ended 30 June 2018

Telstra Group	Note	Year ended 30 June	
		2018	2017
		$m	$m
Profit/(loss) for the year attributable to:			
Equity holders of Telstra Entity		3,563	3,891
Non-controlling interests		(34)	(17)
		3,529	**3,874**
Items that will not be reclassified to the income statement			
Retained profits			
Actuarial gain on defined benefit plans attributable to equity holders of Telstra Entity	5.3	112	133
Income tax on actuarial gain on defined benefit plans		(34)	(40)
Cumulative gains from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal		-	83
Fair value of equity instruments reserve			
(Loss)/gain from investments in equity instruments designated at fair value through other comprehensive income		(16)	86
Share of other comprehensive income of equity accounted entities		29	-
Income tax on fair value movements for investments in equity instruments		2	(9)
Cumulative gain from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal		-	(83)
Foreign currency translation reserve			
Translation differences of foreign operations attributable to non-controlling interests		(3)	(4)
		90	**166**
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		62	(77)
Share of foreign currency translation reserve of equity accounted entities		4	-
Cash flow hedging reserve	4.3		
Movements in cash flow hedging reserve		(97)	(72)
Income tax on movements in the cash flow hedging reserve		29	22
Foreign currency basis spread reserve			
Changes in the value of the foreign currency basis spread		(31)	(41)
Income tax on movements in the foreign currency basis spread reserve		9	9
		(24)	**(159)**
Total other comprehensive income		**66**	**7**
Total comprehensive income for the year		**3,595**	**3,881**
Total comprehensive income attributable to:			
Equity holders of Telstra Entity		3,632	3,902
Non-controlling interest		(37)	(21)

The notes following the financial statements form part of the financial report.

Statement of Financial Position

As at 30 June 2018

Telstra Group	Note	As at 30 June 2018 $m	As at 30 June 2017 $m
Current assets			
Cash and cash equivalents	2.6	629	938
Trade and other receivables	3.3	5,018	5,468
Inventories	3.4	801	893
Derivative financial assets	4.3	75	21
Current tax receivables		6	11
Prepayments		548	531
Total current assets		**7,077**	**7,862**
Non-current assets			
Trade and other receivables	3.3	1,012	1,039
Inventories	3.4	19	29
Investments – accounted for using the equity method	6.3	1,237	194
Investments – other	4.4	36	292
Property, plant and equipment	3.1	22,108	21,350
Intangible assets	3.2	9,180	9,558
Derivative financial assets	4.3	1,897	1,623
Deferred tax assets	2.4	54	44
Defined benefit asset	5.3	250	142
Total non-current assets		**35,793**	**34,271**
Total assets		**42,870**	**42,133**
Current liabilities			
Trade and other payables	3.5	4,835	4,189
Employee benefits	5.1	868	865
Other provisions		118	190
Borrowings	4.3	1,635	2,476
Derivative financial liabilities	4.3	1	42
Current tax payables		132	161
Revenue received in advance		1,227	1,236
Total current liabilities		**8,816**	**9,159**
Non-current liabilities			
Other payables	3.5	65	70
Employee benefits	5.1	157	160
Other provisions		171	134
Borrowings	4.3	15,316	14,808
Derivative financial liabilities	4.3	388	536
Deferred tax liabilities	2.4	1,624	1,539
Defined benefit liability	5.3	7	6
Revenue received in advance		1,312	1,161
Total non-current liabilities		**19,040**	**18,414**
Total liabilities		**27,856**	**27,573**
Net assets		**15,014**	**14,560**
Equity			
Share capital	4.2	4,428	4,421
Reserves	4.2	(117)	(105)
Retained profits		10,716	10,225
Equity available to Telstra Entity shareholders		**15,027**	**14,541**
Non-controlling interests		(13)	19
Total equity		**15,014**	**14,560**

The notes following the financial statements form part of the financial report.

Statement of Cash Flows

For the year ended 30 June 2018

Telstra Group		Year ended 30 June	
		2018	2017
	Note	$m	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		31,901	31,288
Payments to suppliers and employees (inclusive of GST)		(21,948)	(21,997)
Government grants received		174	235
Net cash generated by operations		**10,127**	**9,526**
Income taxes paid	2.4	(1,521)	(1,751)
Net cash provided by operating activities	2.6	**8,606**	**7,775**
Cash flows from investing activities			
Payments for property, plant and equipment		(3,571)	(3,725)
Payments for intangible assets		(1,361)	(1,596)
Capital expenditure (before investments)		**(4,932)**	**(5,321)**
Payments for business and shares in controlled entities (net of cash acquired)		(56)	(63)
Payments for equity accounted investments		(15)	(6)
Payments for other investments		(67)	(76)
Total capital expenditure (including investments)		**(5,070)**	**(5,466)**
Government grants received		91	-
Proceeds from sale of property, plant and equipment		796	679
Proceeds from sale of business and shares in controlled entities (net of cash disposed)		49	-
Proceeds from sale of other investments		24	285
Distributions received from equity accounted investments		9	10
Interest received		65	109
Proceeds from finance lease principal amounts		125	104
Net cash used in investing activities		**(3,911)**	**(4,279)**
Operating cash flows less investing cash flows		**4,695**	**3,496**
Cash flows from financing activities			
Proceeds from borrowings		4,195	4,710
Repayment of borrowings		(5,148)	(4,571)
Repayment of finance lease principal amounts		(120)	(131)
Share buy-back		-	(1,502)
Purchase of shares for employee share plans		(18)	(22)
Finance costs paid		(776)	(854)
Dividend paid to equity holders of Telstra Entity	4.1	(3,150)	(3,736)
Other		2	2
Net cash used in financing activities		**(5,015)**	**(6,104)**
Net decrease in cash and cash equivalents		**(320)**	**(2,608)**
Cash and cash equivalents at the beginning of the year		936	3,550
Effects of exchange rate changes on cash and cash equivalents		4	(6)
Cash and cash equivalents at the end of the year	2.6	**620**	**936**

The notes following the financial statements form part of the financial report.

Statement of Changes in Equity

For the year ended 30 June 2018

Telstra Group	Share capital	Reserves	Retained profits	Total	Non-controlling interests	Total equity
	$m	$m	$m	$m	$m	$m
Balance at 1 July 2016	**5,167**	**62**	**10,642**	**15,871**	**36**	**15,907**
Profit/(loss) for the year	-	-	3,891	**3,891**	(17)	**3,874**
Other comprehensive income	-	(165)	176	**11**	(4)	**7**
Total comprehensive income for the year	**-**	**(165)**	**4,067**	**3,902**	**(21)**	**3,881**
Dividend	-	-	(3,736)	**(3,736)**	(2)	**(3,738)**
Share buy-back (net of income tax)	(754)	-	(748)	**(1,502)**	-	**(1,502)**
Transactions with non-controlling interests	-	(2)	-	**(2)**	4	**2**
Amounts repaid on share loans provided to employees	1	-	-	**1**	-	**1**
Additional shares purchased	(22)	-	-	**(22)**	-	**(22)**
Share-based payments	29	-	-	**29**	2	**31**
Balance at 30 June 2017	**4,421**	**(105)**	**10,225**	**14,541**	**19**	**14,560**
Profit/(loss) for the year	-	-	3,563	**3,563**	(34)	**3,529**
Other comprehensive income	-	(9)	78	**69**	(3)	**66**
Total comprehensive income for the year	**-**	**(9)**	**3,641**	**3,632**	**(37)**	**3,595**
Dividend	-	-	(3,150)	**(3,150)**	(2)	**(3,152)**
Non-controlling interests on disposals	-	-	-	**-**	(1)	**(1)**
Transactions with non-controlling interests	-	(3)	-	**(3)**	3	**-**
Amounts repaid on share loans provided to employees	1	-	-	**1**	-	**1**
Additional shares purchased	(18)	-	-	**(18)**	-	**(18)**
Share-based payments	24	-	-	**24**	5	**29**
Balance at 30 June 2018	**4,428**	**(117)**	**10,716**	**15,027**	**(13)**	**15,014**

The notes following the financial statements form part of the financial report.

Section 1. Basis of preparation

This section explains basis of preparation of our financial report and provides a summary of our key accounting estimates and judgements.

1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report, prepared by a 'for profit' entity, in accordance with the requirements of the Australian Corporations Act 2001, Accounting Standards applicable in Australia and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). It also complies with International Financial Reporting Standards (IFRS) and Interpretations published by the International Accounting Standards Board (IASB).

The financial 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 under the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191. The functional currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non-Australian controlled entities is not Australian dollars. The results of these entities are translated into Australian dollars in accordance with our accounting policy in note 7.1.

The financial report is prepared in accordance with historical cost, except for some categories of financial instruments, which are recorded at fair value.

1.2 Key accounting estimates and judgements

Preparing the financial report requires management to make estimates and judgements. The accounting policies and significant management judgments and estimates used and any changes thereto are set out in the relevant notes. They can be located within 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	F15
Estimating provision for income tax	2.4	F18
Unrecognised deferred tax assets	2.4	F19
Cash generating units (CGUs) for impairment assessment	3.1	F23
Useful lives and residual values of tangible assets	3.1	F23
Impact of nbn Infrastructure Services Agreement (ISA) on our fixed asset base	3.1	F24
Determining CGUs and their recoverable amount for impairment assessment	3.2	F26
Capitalisation of development costs	3.2	F29
Determining fair value of identifiable intangible assets	3.2	F29
Useful lives of intangible assets	3.2	F29
Estimating allowance for doubtful debts	3.3	F30
Estimating net realisable value	3.4	F31
Long service leave provision	5.1	F52
Defined benefit plan	5.3	F60
Accounting for business combinations	6.1	F62
Significant influence over our investments	6.3	F70
Joint control of our investments	6.3	F70

Note 7.1 includes our accounting policy on foreign currency translation, changes in accounting policies and a summary of new accounting standards to be applied in future reporting periods.

1.3 Terminology used in our income statement

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

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

1.4 Principles of consolidation

Our financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the financial year and the consolidated results and cash flows for the year.

An entity is considered to be a controlled entity where we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power to direct the activities of the entity. We consolidate the results of our controlled entities from the date on which we gain control until the date we cease control.

The effects of intra-group transactions and balances are eliminated in full from our consolidated financial statements.

Non-controlling interests in the results and equity of controlled entities are shown separately in our income statement, statement of comprehensive income, statement of financial position and statement of changes in equity.

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies.

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 structure, and our earnings per share for the period. It also provides details of selected income and expense items, information about taxation and a reconciliation of our profit to net cash generated from operating activities.

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 buying to billing and service requests
Telstra Enterprise (TE)	• sales and contract management for medium to large business and government customers in Australia and globally • management of Telstra's networks outside Australia in conjunction with Telstra Operations • product management for advanced technology solutions and services, including Data and Internet Protocol (IP) networks, Mobility Applications and Services, and Network Applications and Services (NAS) products such as managed network, unified communications, cloud, industry solutions and integrated services and monitoring in Australia and globally • development of industry vertical solutions based on Telstra's networks and technology
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 revised 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 revised 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 following Table A in note 2.1.2. As such, only transactions external to the Telstra Group are reported.

Certain items of income and expenses are recorded by our corporate areas (included in the 'All Other' category) rather than being allocated to each segment. These items include:
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy (our reportable segments record these amounts upfront)
- the majority of redundancy expenses for the Telstra Entity and restructuring costs.

In addition, the following points further explain how some items are allocated and managed and, as a result, how they are reflected in our segment results:
- revenue associated with mobile handsets sold via dealers for the TE segment is allocated to the TC&SB segment along with the associated costs of goods sold, as the TC&SB segment manages our supplier, delivery and dealership arrangements. Ongoing pre-paid and post-paid mobile revenues derived from our mobile usage services are recorded in the TC&SB and TE segments depending on the type of customer serviced
- call centre costs associated with the TE segment are included in the TC&SB segment
- a portion of NAS costs associated with revenue from small to medium business customers, included in the TC&SB segment, are reported in the TE segment
- the TOps segment result includes network service delivery costs for TC&SB, TE and TW customers
- the TOps segment recognises expenses in relation to the installation, maintenance and running of the Hybrid Fibre Coaxial (HFC) cable assets, while a portion of the running costs of HFC cable assets is managed by Media & Marketing operating segment (included in the 'All Other' category)
- domestic promotion and advertising expenses for the Telstra Entity are recorded centrally in the Media & Marketing operating segment (included in the 'All Other' category)
- 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 TOps. Previously these expenses were recorded in their respective business units
- the TW segment result includes rental revenue and income from the transfer of Telstra assets under the nbn Infrastructure Services Agreement (ISA), while the associated costs are reported in the TOps segment and in the 'All Other' category, respectively
- the 'All Other' category includes income from nbn disconnection fees, while the associated costs are reported in the TOps segment.

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results

Table A details our segment results and a reconciliation of EBITDA contribution to the Telstra Group's EBITDA, EBIT and profit before income tax expense.

Table A Telstra Group	TC&SB $m	TE $m	TOps $m	TW $m	All Other $m	Total $m
	Year ended 30 June 2018					
Revenue from external customers	14,629	8,217	844	2,341	(20)	**26,011**
Other income	54	32	373	396	2,176	**3,031**
Total income	**14,683**	**8,249**	**1,217**	**2,737**	**2,156**	**29,042**
Share of net profit/(loss) from joint ventures and associated entities	-	2	-	-	(24)	**(22)**
EBITDA contribution	**6,970**	**3,216**	**(2,715)**	**2,544**	**106**	**10,121**
Depreciation and amortisation						(4,470)
Telstra Group EBIT						**5,651**
Net finance costs						(549)
Telstra Group profit before income tax expense						**5,102**
	Year ended 30 June 2017					
Revenue from external customers	14,647	8,089	789	2,394	94	**26,013**
Other income	75	19	362	443	1,293	**2,192**
Total income	**14,722**	**8,108**	**1,151**	**2,837**	**1,387**	**28,205**
Share of net profit/(loss) from joint ventures and associated entities	-	4	-	(1)	29	**32**
EBITDA contribution	**7,972**	**3,442**	**(2,763)**	**2,627**	**(599)**	**10,679**
Depreciation and amortisation						(4,441)
Telstra Group EBIT						**6,238**
Net finance costs						(591)
Telstra Group profit before income tax expense						**5,647**

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 $214 million (2017: $192 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 $13 million (2017: $14 million) of inter-segment expenses treated as external revenue in the TW segment and eliminated in the 'All Other' category.

During the period, there was a total impairment loss of $327 million related to goodwill and other non-current assets, of which $273 million related to Ooyala Holdings Group and was recognised in the 'All Other' category. Refer to note 3.2.1 for further details.

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results (continued)

Information about our geographical operations is presented in Table B.

Table B Telstra Group	Year ended/as at 30 June	
	2018	2017
	$m	$m
Revenue from external customers		
Australian customers	24,701	24,734
Offshore customers	1,310	1,279
	26,011	**26,013**
Carrying amount of non-current assets		
Located in Australia	30,141	28,884
Located offshore	2,384	2,218
	32,525	**31,102**

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

The carrying amount of our segment non-current assets excludes financial instrument assets, inventories, defined benefit assets and deferred tax assets.

Table C provides information about revenue and other income from our products and services.

Table C Telstra Group		Year ended 30 June	
		2018	2017
	Note	$m	$m
Total income (excluding finance income)			
Fixed		5,812	6,402
Mobile		10,145	10,102
Data & IP		2,557	2,698
Network applications and services		3,646	3,358
Media		993	1,039
Global connectivity		1,513	1,449
Other sales revenue [1]		1,001	862
Other revenue [2]	2.2	344	103
Other income	2.2	3,031	2,192
	2.2	**29,042**	**28,205**

1 Other sales revenue relates to nbn co accessing our infrastructure and miscellaneous revenue. It also includes revenue from Telstra Health and Telstra Software business units.

2 Other revenue primarily consists of $314 million (2017: $64 million) from Go Mobile Swap lease and rental income.

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

- A standalone infrastructure business unit, Telstra InfraCo will be established comprising Telstra Wholesale and Telstra's nbn co commercial works activities which were part of Telstra Operations segment. Telstra InfraCo will comprise Telstra's high quality fixed network infrastructure including data centres, non-mobiles related domestic fibre, copper, HFC, international subsea cables, exchanges, poles, ducts and pipes. Its services will be sold to Telstra, wholesale customers and nbn co
- Global Business Services (GBS), a new business unit will be created comprising Global Finance Services, Procurement and Supply Chain, Global Service Delivery and Property Services.

Section 2. Our performance (continued)

2.2 Income

Table A Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Sales revenue		
Rendering of services	21,608	22,132
Sale of goods	2,994	2,773
Construction contracts	1,065	1,005
	25,667	**25,910**
Other revenue (excluding finance income)	344	103
Total revenue (excluding finance income)	**26,011**	**26,013**
Other income		
Net gain on disposal of property, plant and equipment and intangibles	607	686
Net gain/(loss) on disposal of business and investments	323	(2)
Government grants	209	178
nbn disconnection fees	1,779	1,248
Other miscellaneous income	113	82
	3,031	**2,192**
Total income (excluding finance income)	**29,042**	**28,205**
Finance income	82	138
Total income	**29,124**	**28,343**

Other revenue includes income from operating leases of mobile handsets offered to our retail customers. Refer to note 7.4.2 for further information about these lease arrangements.

Net gain/(loss) on disposal of business and investments includes the fair value gain on Foxtel and Fox Sports Australia merger of $261 million.

Government grants include income under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), Mobile Blackspot Government Program and other individually immaterial contracts accounted for as government grants. There are no unfulfilled conditions or other contingencies attached to these grants.

Other miscellaneous income includes a $38 million fair value gain from conversion of the loan to our Foxtel joint venture (Foxtel) into investment. Refer to note 6.3.1(c) for further details.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement

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

Category	Recognition and measurement
Rendering of services	**Telecommunication services** Revenue from: • calls is earned on completion of the call • internet and data is earned on a straight-line basis over the period of service provided, unless another method better represents the stage of completion. Installation and connection fees that are not considered to be separate services are deferred and recognised over the average estimated customer life. **Rent of network facilities** We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period. **Advertising and subscription service** Revenue from online advertising services is recognised when displayed or over the stated display period for advertisements published on the websites or when the services have been rendered for promotional activities. Subscription revenue is recognised on a straight-line basis over the subscription period.
Sale of goods	Revenue from the sale of goods includes revenue from the sale of customer equipment and other goods. This revenue is recorded on delivery of the goods sold.
Construction contracts	We record construction revenue and profit on a percentage of contract completion basis. The percentage of completion is calculated based on estimated costs to complete the contract. This does not apply to short duration contracts (less than one month) where revenue is only recorded upon contract completion. Profits are recognised when: • the stage of contract completion can be reliably determined • costs to date can be clearly identified • total contract revenues to be received and costs to complete can be reliably estimated.
Lease income	We earn income from operating subleases of mobile handsets offered to our retail customers (Telstra as a lessor), which we lease from a third party in a back-to-back arrangement (Telstra as a lessee). We also earn income from property leases. Lease income is recognised as other revenue on a straight-line basis over the lease term. Expenses arising from the head lease are recognised as other expenses (refer to note 2.3).
Government grants	Government grants are recognised where there is reasonable assurance that the grant will be received and Telstra will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.
Interest income	We record interest income on an accrual basis. For financial assets, interest income is determined by the effective yield on the instrument.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement (continued)

The following paragraphs further explain how we measure and recognise revenue generated from our business activities.

(a) Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to have a value to the customer on a standalone basis is accounted for as a separate unit of account.

We allocate the consideration from the revenue arrangement to its separate units based on the relative selling prices of each unit. In the absence of a standalone selling price, the item is measured based on the best estimate of the selling price of that unit. The amount allocated to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (non-contingent amount).

(b) Principal versus agency relationship (gross versus net revenue recognition)

Generally, we record the full gross amount of sales proceeds as revenue. However, if we are acting as an agent, revenue is recorded on a net basis.

(c) Sales incentives

We provide cash and non-cash sales incentives. The incentives are accrued when it is probable that the customer will earn the incentives. Cash sales incentives are generally recorded as a reduction in revenue and allocated to each product/service contributing towards the earning of the incentive. The allocation is based on the relative amounts of revenue earned for each product and service, unless a more appropriate methodology is available.

A non-cash sales incentive is considered to be a separate deliverable in a multiple deliverables arrangement regardless of whether it is provided to customers at the commencement of a contract or is an amount that can be used to buy future products and services. A portion of the total revenue under the arrangement is allocated to the non-cash incentive in accordance with the policy for multiple deliverables arrangements. The sales revenue allocated to the incentive is recognised when the customer redeems the reward and we provide the product or service or when the right to purchase additional goods or services is forfeited.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement (continued)

Impact of nbn Infrastructure Services Agreements (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 financial year 2018. Should evidence exist in the future reporting periods that changes these best estimates, other income and sales revenue will be adjusted in the future reporting periods.

Section 2. Our performance (continued)

2.3 Expenses

In our income statement, we classify our expenses (apart from finance costs) by nature as this classification more accurately reflects the type of operations we undertake.

Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Included in our labour expenses are the following:		
Employee redundancy	163	313
Share-based payments	29	31
Defined contribution plan expense	253	251
Defined benefit plan expense	69	72
Cost of goods sold	3,551	3,287
Other expenses		
Impairment losses	568	306
Rental expense on operating leases	1,071	724
Service contracts and other agreements	1,661	1,802
Promotion and advertising	344	330
General and administration	1,056	998
Other operating expenses	284	346
	4,984	**4,506**
Depreciation and amortisation		
Depreciation of property, plant and equipment	3,005	3,058
Amortisation of intangible assets	1,465	1,383
	4,470	**4,441**
Finance costs		
Interest on borrowings	784	832
Other	(52)	(22)
	732	**810**
Less: interest on borrowings capitalised	(101)	(81)
	631	**729**

The following paragraphs detail further information about our expenses and finance costs:

- impairment losses include a $219 million (2017: $202 million) impairment of trade and other receivables and a $327 million (2017: $86 million) impairment of goodwill and other non-current assets. Refer to note 3.2.1 for further details on the impairment of goodwill
- interest on borrowings has been capitalised using a capitalisation rate of 4.9 per cent (2017: 5.1 per cent)
- other finance costs include unrealised valuation impacts on our borrowings and derivatives. These include net (gains)/losses which arise from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not effective or the hedge accounting criteria are not met. These fair values increase or decrease because of changes in financial indices and prices over which we have no control. All unrealised amounts unwind to nil at maturity of the underlying instrument
- further information on our operating leases is provided in note 7.4.2.

Section 2. Our performance (continued)

2.4 Income taxes

This note sets out our tax accounting policies and provides an analysis of our income tax expense and deferred tax balances, including a reconciliation of tax expense to accounting profit.

Current income tax is based on the accounting profit adjusted for differences in accounting and tax treatments of income and expenses (i.e. taxable income).

Deferred income tax, which is accounted for using the balance sheet method, arises because the accounting income is not always the same as taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, a deferred tax asset or liability must be recognised on the balance sheet.

In Table B we provide a breakdown of effective income tax rates and Tax Transparency Code effective income tax rates for both the Australian Economic Group (the Telstra Entity and its Australian resident controlled entities) and the Telstra Group. In Table C we provide a reconciliation of income tax expense to income tax paid during the period. These disclosures form part of the requirements of the Board of Taxation's Voluntary Tax Transparency Code. Any disclosed amounts are determined in accordance with Australian Accounting Standards. Details on how we manage our tax affairs will be provided in our Bigger Picture 2018 Sustainability Report due to be released on 31 August 2018.

2.4.1 Income tax expense

Table A provides a reconciliation of notional income tax expense to actual income tax expense.

Table A Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Major components of income tax expense		
Current tax expense	1,552	1,731
Deferred tax resulting from the origination and reversal of temporary differences	24	26
(Over)/under provision of tax in prior years	(3)	16
	1,573	**1,773**
Reconciliation of notional income tax expense to actual income tax expense		
Profit before income tax expense	5,102	5,647
Notional income tax expense calculated at the Australian tax rate of 30% (2017: 30%)	1,531	1,694
Notional income tax expense differs from actual income tax expense due to the tax effect of:		
Different tax rates in overseas jurisdictions	(18)	(11)
Non-taxable and non-deductible items	66	78
Amended assessments	(3)	(4)
(Over)/under provision of tax in prior years	(3)	16
Income tax expense on profit	**1,573**	**1,773**
Income tax (benefit)/expense recognised directly in other comprehensive income or equity during the year	**(6)**	**18**

Table B details effective income tax rates as part of the requirements of the Voluntary Tax Transparency Code.

Table B Telstra Group	Year ended 30 June			
	2018		2017	
	Group	Australia	Group	Australia
Effective income tax rate	30.8%	30.5%	31.4%	32.5%
Tax Transparency Code effective income tax rate	30.9%	30.6%	31.2%	32.5%

The effective income tax rate for the Telstra Group of 30.8 per cent (2017: 31.4 per cent) was calculated as income tax expense divided by profit before income tax expense. The Tax Transparency Code effective income tax rate (TTC ETR) for the Telstra Group of 30.9 per cent (2017: 31.2 per cent) differs to the effective income tax rate by excluding the impact of under or over provision of tax in prior years and amended assessments. The TTC ETR forms part of the requirements of the Voluntary Tax Transparency Code to demonstrate the income tax expense borne by Telstra in respect of the Australian and global operations for the individual year.

Non-taxable and non-deductible items in the current period include the tax effect of:
- non-deductible impairment of Ooyala Holdings Group CGU ($82 million)
- non-assessable gain on the merger of the Foxtel business ($78 million)
- tax losses not recognised ($31 million)
- estimated share of taxable income from the Foxtel Partnership ($17 million)
- non-deductible losses crystallised on equitisation of Foxtel shareholder loan ($13 million)
- various other items ($1 million).

Section 2. Our performance (continued)

2.4 Income taxes (continued)

2.4.1 Income tax expense (continued)

Table C below provides a reconciliation of income tax expense to income tax paid during the period. 'Temporary differences recognised in deferred tax expense' does not include the deferred tax impact of acquisitions and disposals or the deferred tax expense impact of under/over provisions of tax in prior years which is included in 'Other'.

Table C Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Income tax expense	1,573	1,773
Temporary differences recognised in deferred tax expense		
Property, plant and equipment	(133)	(106)
Intangible assets	118	118
Provision for employee entitlements	(25)	6
Trade and other payables	18	12
Revenue received in advance	36	63
Accrued revenue	(64)	(33)
Long-term construction contracts	40	(84)
Other temporary differences	(14)	(2)
	(24)	**(26)**
Income tax payments relating to prior years	101	174
Current year income tax payable next year	(132)	(161)
Other	3	(9)
Income tax paid	**1,521**	**1,751**

Estimating provision for income tax

We are subject to income tax legislation in Australia and in jurisdictions where we have foreign operations. Judgement is required in determining our worldwide provisions for income taxes and in assessing whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation in the countries we operate in may affect the amount of provision for income taxes and deferred tax balances recognised.

2.4.2 Deferred tax assets/(liabilities)

Table D details the amount of deferred tax assets and liabilities recognised in the statement of financial position. Deferred tax items recognised in the income statement include impact of foreign exchange movements.

Table D Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Deferred tax items recognised in the income statement		
Property, plant and equipment	(1,440)	(1,343)
Intangible assets	(867)	(895)
Provision for employee entitlements	305	330
Trade and other payables	136	113
Defined benefit liability	96	95
Borrowings and derivative financial instruments	(52)	(32)
Revenue received in advance	271	241
Allowance for doubtful debts	27	36
Provision for workers' compensation and other provisions	68	72
Accrued revenue	(130)	(63)
Long-term construction contracts	(80)	(117)
Income tax losses	32	35
Capital tax losses	123	-
Other	(65)	34
	(1,576)	**(1,494)**
Deferred tax items recognised in other comprehensive income or equity		
Defined benefit liability	(171)	(137)
Financial instruments	184	147
Other	(7)	(11)
	6	**(1)**
Net deferred tax liability	**(1,570)**	**(1,495)**
Comprising:		
Deferred tax assets	54	44
Deferred tax liabilities	(1,624)	(1,539)
	(1,570)	**(1,495)**

Section 2. Our performance (continued)

2.4 Income taxes (continued)

2.4.2 Deferred tax assets/(liabilities) (continued)

Unrecognised deferred tax assets

We apply management judgement to determine a deferred tax asset and review its carrying amount at each reporting date. The carrying amount is only recognised to the extent that it is probable that sufficient taxable profit will be available in the future to utilise this benefit. Any amount unrecognised could be subsequently recognised if it has become probable that future taxable profit will allow us to benefit from this deferred tax asset.

Table E details deferred tax assets not recognised in the statement of financial position.

Table E	Year ended 30 June	
Telstra Group	2018	2017
	$m	$m
Deferred tax assets not recognised		
Income tax losses	358	322
Capital tax losses	1,744	1,896
Deductible temporary differences	165	272
	2,267	**2,490**

2.4.3 Tax consolidated group

Under Australian taxation law, the Telstra Entity and its Australian resident wholly owned entities (members) form a tax consolidated group and are treated as a single entity for income tax purposes. The Telstra Entity is the head entity of the group and, in addition to its own transactions, it recognises the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all members in the group.

Entities within the tax consolidated group have entered into a tax sharing agreement and a tax funding agreement with the head entity.

The tax sharing agreement specifies methods of allocating any tax liability in the event the head entity defaults on its group payment obligations and the treatment where a member exits the tax consolidated group.

Under the tax funding agreement the head entity and each of the members have agreed to pay/receive a current tax payable to/ receivable from the head entity based on the current tax liability or current tax asset recorded in the financial statements of the members. The Telstra Entity will also compensate the members for any deferred tax assets relating to unused tax losses and tax credits.

Amounts receivable by the Telstra Entity of $59 million (2017: $32 million) and payable by the Telstra Entity of $114 million (2017: $101 million) under the tax funding agreement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

2.4.4 Recognition and measurement

Our income tax expense is the sum of current and deferred income tax expenses. Current income tax expense is calculated on accounting profit after adjusting for non-taxable and non-deductible items based on rules set by the tax authorities. Deferred income tax expense is calculated at the tax rates that are expected to apply for the period in which the deferred tax asset is realised or the deferred tax liability is settled. Both our current and deferred income tax expenses are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our current and deferred taxes are recognised as an expense in the income statement, except when they relate to items that are directly recognised in other comprehensive income or equity. In this case, our current and deferred tax expenses are also recognised directly in other comprehensive income or equity.

We apply the balance sheet method for calculating our deferred tax balances. Deferred tax is the expected tax payable or recoverable on all taxable and deductible temporary differences determined with reference to the tax bases of assets and liabilities and their carrying amount for financial reporting purposes as at the reporting date.

We generally recognise deferred tax liabilities for all taxable temporary differences, except to the extent that the deferred tax liability arises from:
- the initial recognition of goodwill
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit nor our taxable income at the time of the transaction.

For our investments in controlled entities, joint ventures and associated entities, recognition of deferred tax liabilities is required unless we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse.

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

Deferred tax assets and deferred tax liabilities are offset in the statement of financial position where they relate to income taxes levied by the same taxation authority and to the extent that we intend to settle our current tax assets and liabilities on a net basis.

Section 2. Our performance (continued)

2.5 Earnings per share

This note outlines the calculation of Earnings per Share (EPS), which is the amount of post-tax profit attributable to each share. EPS excludes profit attributable to non-controlling interest and takes into account the average number of shares weighted by the number of days on issue.

We calculate basic and diluted EPS. Diluted EPS reflects the effects of the equity instruments allocated to our employee share schemes under the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans.

Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Earnings used in the calculation of basic and diluted EPS		
Profit for the year attributable to equity holders of Telstra Entity	**3,563**	**3,891**
Weighted average number of ordinary shares	Number of shares (millions)	
Weighted average number of ordinary shares used in the calculation of basic EPS	11,877	11,968
Dilutive effect of certain employee share instruments	7	11
Weighted average number of ordinary shares used in the calculation of diluted EPS	**11,884**	**11,979**
	cents	cents
Basic EPS	30.0	32.5
Diluted EPS	30.0	32.5

When we calculate the basic EPS, we adjust the weighted average number of ordinary shares to exclude the shares held in trust by Telstra Growthshare Trust (Growthshare) and by the Telstra Employee Share Ownership Plan Trust II (TESOP99).

Information about equity instruments issued under the Growthshare and TESOP99 share plans can be found in note 5.2.

2.6 Notes to the statement of cash flows

2.6.1 Reconciliation of profit to net cash provided by operating activities

Table A Telstra Group		Year ended 30 June	
		2018	2017
	Note	$m	$m
Profit for the year		3,529	3,874
Add/(subtract) items classified as investing/financing activities			
Finance income		(82)	(138)
Finance costs		631	729
Net gain on disposal of property, plant and equipment and intangible assets		(607)	(686)
Net (gain)/loss on disposal of business, controlled entities and equity accounted investments		(323)	2
Government grants received relating to investing activities		(91)	-
Add/(subtract) non-cash items			
Depreciation and amortisation		4,470	4,441
Share-based payments		29	31
Defined benefit plan expense		69	72
Share of net loss/(profit) from joint ventures and associated entities	6.3	22	(32)
Impairment losses (excluding inventories, trade and other receivables)		327	86
Other		(33)	(20)
Cash movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)			
Increase in trade and other receivables		(164)	(370)
Decrease/(increase) in inventories		106	(335)
Increase in prepayments and other assets		(142)	(279)
Increase in trade and other payables		649	99
Increase in revenue received in advance		204	225
Increase in net taxes payable		52	26
(Decrease)/increase in provisions		(40)	50
Net cash provided by operating activities		**8,606**	**7,775**

Section 2. Our performance (continued)

2.6 Notes to the statement of cash flows (continued)

2.6.2 Cash and cash equivalents

Table B Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Cash at bank and on hand	129	212
Bank deposits and negotiable certificates of deposit	500	726
	629	**938**
Bank overdraft	(9)	(2)
Cash and cash equivalents in the statement of cash flows	**620**	**936**

2.6.3 Recognition, measurement and presentation

(a) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits and negotiable certificates of deposit that are held to meet short-term cash commitments rather than for investment purposes.

Bank deposits and negotiable certificates of deposit are classified as financial assets held at amortised cost.

(b) Short-term borrowings in financing cash flows

Where our short-term borrowings are held for the purposes of meeting short-term cash commitments, we report the cash receipts and subsequent repayments in financing activities on a net basis in the statement of cash flows.

(c) Goods and Services Tax (GST) (including other value-added taxes)

We record our revenue, expenses and assets net of any applicable GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due to the ATO but not paid is included in our current trade and other payables.

Section 3. Our core assets and working capital

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

3.1 Property, plant and equipment

Table A shows movements in net book value of our tangible assets during the financial year.

Table A Telstra Group	Land and site improve-ments	Buildings	Commu-nication assets	Other plant, equipment and motor vehicles	Total property, plant and equipment
	$m	$m	$m	$m	$m
Net book value at 1 July 2016	**52**	**621**	**19,429**	**479**	**20,581**
Additions	-	79	3,647	124	**3,850**
Disposals	-	-	(4)	(1)	**(5)**
Impairment losses	-	-	(4)	-	**(4)**
Depreciation expenses	-	(72)	(2,836)	(150)	**(3,058)**
Net foreign currency exchange differences	-	(4)	(34)	(4)	**(42)**
Transfers	-	(4)	22	10	**28**
Net book value at 30 June 2017	**52**	**620**	**20,220**	**458**	**21,350**
At cost	52	1,310	60,987	1,963	**64,312**
Accumulated depreciation and impairment	-	(690)	(40,767)	(1,505)	**(42,962)**
Net book value at 1 July 2017	**52**	**620**	**20,220**	**458**	**21,350**
Additions	-	92	3,536	112	**3,740**
Acquisition of controlled entities	-	-	-	4	**4**
Disposals	-	-	(5)	(3)	**(8)**
Impairment losses	-	(4)	(9)	(7)	**(20)**
Depreciation expenses	(3)	(96)	(2,801)	(105)	**(3,005)**
Net foreign currency exchange differences	-	3	48	3	**54**
Transfers	-	(3)	76	(80)	**(7)**
Net book value at 30 June 2018	**49**	**612**	**21,065**	**382**	**22,108**
At cost	52	1,381	62,111	1,405	**64,949**
Accumulated depreciation and impairment	(3)	(769)	(41,046)	(1,023)	**(42,841)**

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

3.1 Property, plant and equipment (continued)

The following paragraphs provide further information about our fixed asset classes:

- additions to property, plant and equipment include $73 million (2017: $54 million) of capitalised borrowing costs directly attributable to qualifying assets
- buildings include leasehold improvements and a $103 million (2017: $44 million) net book value of buildings under finance lease
- communication assets include certain network land and building assets that are essential to the operation of our communication assets
- as at 30 June 2018, we had property, plant and equipment under construction amounting to $1,388 million (2017: $1,147 million). As these assets were not installed and ready for use, no depreciation has been charged on these assets.

3.1.1 Impairment assessment

All non-current tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. For our impairment assessment we identify cash generating units (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.

The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value less cost of disposal is measured with reference to quoted market prices in an active market. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal.

We recognise any reduction in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

An impairment assessment is performed at the level of our Telstra Entity ubiquitous telecommunications network CGU.

Cash generating units (CGUs) for impairment assessment

We apply management judgement to establish our CGUs.

We have determined that under the nbn Infrastructure Services Agreement (ISA) our ubiquitous telecommunications 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 assets to which it is connected to deliver our products and services.

During the financial year 2018, 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.

3.1.2 Recognition and measurement

(a) Acquisition

Property, plant and equipment, including construction in progress, is recorded at cost less accumulated depreciation and impairment. Cost includes the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use.

We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs is recognised as an expense in our income statement when incurred.

(b) Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated on a straight-line basis in the income statement over their estimated useful lives. We start depreciating assets when they are installed and ready for use.

The useful lives of our significant property, plant and equipment classes are detailed in Table B.

Table B Telstra Group	Useful life (years) As at 30 June	
	2018	2017
Buildings	5 - 48	5 - 48
Communication assets	2 - 57	2 - 57
Other plant and equipment	4 - 13	4 - 20

Useful lives and residual values of tangible assets

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

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

The net effect of the assessment of useful lives was a $216 million (2017: $34 million) decrease in depreciation expense.

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

3.1 Property, plant and equipment (continued)

3.1.2 Recognition and measurement (continued)

(b) Depreciation (continued)

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

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

As at 30 June 2018, the net book value of assets that are in scope to be potentially transferred to nbn co under the ISA amounted to $625 million (2017: $825 million). This represents 2.8 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 year ended 30 June 2018, we have applied management judgement in assessing the useful lives of these assets based on our best estimate of the expected consequential impacts of the nbn™ network rollout. The result of our assessment is included in the net effect of our useful lives assessment.

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

(c) Leased assets (Telstra as a lessee)

We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, and operating leases under which the lessor effectively retains substantially all such risks and benefits. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement depends on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Property, plant and equipment under finance lease are capitalised at the beginning of the lease term at the lower of the fair value of the asset and the present value of the future minimum lease payments. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

Capitalised property, plant and equipment under finance lease are depreciated on a straight-line basis to the income statement over the shorter of the lease term or the expected useful life of the assets.

Where we lease properties, costs of improvements to these properties are capitalised as leasehold improvements and amortised over the shorter of the useful life of the improvements and the term of the lease.

Operating lease payments are charged to the income statement on a straight-line basis over the term of the lease.

When we sell and lease back the same asset, the accounting treatment depends on the classification of the leaseback. If the leaseback is classified as a finance lease, any gain or loss on the sale is deferred and amortised over the lease term. If the leaseback is classified as an operating lease, any profit or loss on sale is recognised immediately.

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

3.2 Goodwill and other intangible assets

This note provides details of our goodwill and other intangible assets and their impairment assessment.

Our impairment assessment compares the carrying value of our CGUs with their recoverable amounts determined using a 'value in use' calculation. The value in use calculations use key assumptions such as cash flow forecasts, discount rates and terminal growth rates.

Table A Telstra Group	Goodwill	Software assets	Licences	Deferred expen-diture	Other intan-gibles	Total intan-gible assets
	$m	$m	$m	$m	$m	$m
Net book value at 1 July 2016	**1,346**	**4,660**	**1,869**	**1,143**	**211**	**9,229**
Additions	-	1,065	652	1,079	-	**2,796**
Acquisition of controlled entities	22	26	-	-	2	**50**
Impairment losses	(64)	(16)	-	-	-	**(80)**
Amortisation expense	-	(1,158)	(195)	(981)	(30)	**(2,364)**
Net foreign currency exchange differences	(35)	(6)	(1)	-	(3)	**(45)**
Transfers	-	(28)	-	-	-	**(28)**
Net book value at 30 June 2017	**1,269**	**4,543**	**2,325**	**1,241**	**180**	**9,558**
At cost	1,571	11,070	3,087	2,462	332	**18,522**
Accumulated amortisation and impairment	(302)	(6,527)	(762)	(1,221)	(152)	**(8,964)**
Net book value at 1 July 2017	**1,269**	**4,543**	**2,325**	**1,241**	**180**	**9,558**
Additions	-	1,205	88	1,056	-	**2,349**
Acquisition of controlled entities	24	6	-	-	20	**50**
Impairment losses	(261)	(31)	-	-	(5)	**(297)**
Amortisation expense	-	(1,217)	(217)	(1,039)	(31)	**(2,504)**
Disposal through sale of controlled entities	(16)	-	(1)	-	(11)	**(28)**
Net foreign currency exchange differences	33	7	-	-	5	**45**
Transfers	-	7	-	-	-	**7**
Net book value at 30 June 2018	**1,049**	**4,520**	**2,195**	**1,258**	**158**	**9,180**
At cost	1,624	11,903	3,174	2,558	343	**19,602**
Accumulated amortisation and impairment	(575)	(7,383)	(979)	(1,300)	(185)	**(10,422)**

Refer to note 3.2.1 for further details on the impairment of goodwill.

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

3.2 Goodwill and other intangible assets (continued)

The following paragraphs detail further information about our intangible assets classes:

- as at 30 June 2018, we had software assets under development amounting to $493 million (2017: $456 million). As these assets were not installed and ready for use, no amortisation has been charged on the amounts
- additions to software assets include $28 million (2017: $27 million) of capitalised borrowing costs directly attributable to qualifying assets
- software assets mostly comprise internally generated assets
- licences include $88 million for the 3.4 GHz, 2 GHz and 1.8GHz spectrum licences and 30 MHz land mobile systems acquired in the current financial year.

3.2.1 Impairment assessment

Goodwill and intangible assets with an indefinite useful life are not subject to amortisation and are assessed for impairment at least on an annual basis, or whenever an indication of impairment arises. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use.

Impairment loss is recognised in the income statement in the reporting period when the carrying amount of the asset exceeds the recoverable amount.

For our impairment assessment, we identify CGUs, to which goodwill is allocated, and which cannot be larger than an operating segment.

Our impairment testing compares the carrying value of an individual CGU with its recoverable amounts determined using a value in use calculation.

Determining CGUs and their recoverable amount for impairment assessment

We apply management judgement to identify our CGUs and determine their recoverable amounts using a 'value in use' calculation for our impairment assessment. These judgments 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 five-year management-approved forecasts unless a longer period is justified. The forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

(a) Cash generating units with allocated goodwill

The carrying amount of goodwill has been allocated to the CGUs as detailed in Table B.

Table B Telstra Group	Goodwill As at 30 June	
	2018	2017
	$m	$m
CGU		
Telstra Enterprise International Group [1]	488	609
Ooyala Holdings Group	-	242
Telstra Enterprise Australia Group [2]	367	126
Telstra Europe Group [1]	64	61
O2 Networks Group	-	57
Other [3]	130	174
	1,049	**1,269**

1 These CGUs operate in overseas locations. Therefore the goodwill allocated to these CGUs will fluctuate in line with movements in applicable foreign exchange rates.

2 The Telstra Enterprise Australia Group includes goodwill from past acquisitions integrated into this business.

3 Other includes individually immaterial CGUs.

During the financial year ended 30 June 2018, there have been no changes to our CGUs with allocated goodwill except for:

- the operations of O2 Networks Group, MSC Mobility and Telstra Broadcast Services were integrated into Telstra Enterprise Australia Group to generate combined cash inflows for the Group. Prior to integration, these three CGUs were treated and assessed individually
- the operations of Pacnet Services (A) Pty Ltd and Pacnet Internet (A) Pty Ltd were integrated into Telstra Enterprise Australia Group, resulting in a re-allocation of $150 million of goodwill from Telstra Enterprise International Group CGU to the Telstra Enterprise Australia Group CGU
- changes in other individually immaterial CGUs due to acquisitions and disposal.

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

3.2 Goodwill and other intangible assets (continued)

3.2.1 Impairment assessment (continued)

(b) Value in use

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill has been allocated:

Table C Telstra Group	Discount rate		Terminal value growth rate	
	2018	2017	2018	2017
	%	%	%	%
Telstra Enterprise International Group	9.2	9.2	3.0	3.0
Ooyala Holdings Group	24.0	24.0	3.0	3.0
Telstra Enterprise Australia Group	12.8	12.8	3.0	3.0
Telstra Europe Group	8.5	6.2	3.0	3.0
O2 Networks Group	-	11.5	-	3.0

Discount rate represents the pre-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk-adjusted discount rate that is adjusted for specific risks relating to the CGU and the countries in which it operates.

Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five-year forecast period. These growth rates are based on our expectation of the CGUs' long-term performance in their markets.

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 these CGUs were determined using a 'value in use' calculation and it was lower than their carrying value. As a result, we recognised in the income statement 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. Refer to Table C above for the pre-tax discount rate and terminal value growth rate used in determining the recoverable amount of this CGU.

In addition, during the year, a $24 million impairment loss was recognised against goodwill and other non-current assets for individually immaterial CGUs which are reported in the 'Other' category in Table B.

Sensitivity analysis also examined the effect of a change in a key assumption on the remaining CGUs. The discount rate would need to increase by 221 basis points (2017: 57 basis points) or the terminal value growth rate would need to decrease by 294 basis points (2017: 117 basis points) before the recoverable amount of any of the CGUs would equal its carrying value. No other changes in key assumptions will result in a material impairment charge for any of the CGUs.

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

3.2 Goodwill and other intangible assets (continued)

3.2.2 Recognition and measurement

Category	Recognition and measurement
Goodwill	Goodwill acquired in a business combination is measured at cost. Cost represents the excess of what we pay for the business combination over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is not amortised but is tested for impairment on an annual basis or when an indication of impairment arises. Goodwill amount arising on acquisition of joint ventures or associated entities constitutes part of the cost of the investment.
Internally generated intangible assets	Internally generated intangible assets include mainly IT development costs incurred in design, build and testing of new or improved IT products and systems. Research costs are expensed when incurred. Capitalised development costs include: • external direct costs of materials and services consumed • payroll and payroll-related costs for employees (including contractors) directly associated with the project • borrowing costs that are directly attributable to the qualifying assets. Refer to 'Capitalisation of development costs' for management judgment on recognition of development costs. Internally generated intangible assets have a finite life and are amortised on a straight-line basis over their useful lives.
Acquired intangible assets	We acquire other intangible assets either as part of a business combination or through a separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. Intangible assets acquired through a specific acquisition are recorded at cost. Refer to 'Determining fair value of identifiable intangible assets' for management judgment on measurement of fair value of intangible assets acquired as part of a business combination. Intangible assets that are considered to have a finite life are amortised on a straight-line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment on an annual basis or when an indication of impairment exists.
Deferred expenditure	Deferred expenditure mainly includes direct incremental costs of establishing a customer contract, costs incurred for basic access installation and connection fees for existing and new services, as well as deferred costs related to the revised nbn Definitive Agreements. Significant items of expenditure are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Any costs in excess of future revenue are recognised immediately in the income statement. We amortise deferred expenditure over the average period in which the related benefits are expected to be realised. The amortisation expense is recognised in our operating expenses.

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

3.2 Goodwill and other intangible assets (continued)

3.2.2 Recognition and measurement (continued)

Capitalisation of development costs

Management judgement is required to determine whether to capitalise development costs. Development costs are only capitalised if the project is assessed to be technically and commercially feasible, we are able to use or sell the asset and we have sufficient resources and intent to complete the development.

Determining fair value of identifiable intangible assets

Management judgement is required to determine the appropriate fair value of identifiable intangible assets acquired in business combinations. This involves estimating timing and amounts of future cash flows derived from the use of these assets as well as an appropriate discount rate to be applied to the forecast cash flows. Such estimates are based on current forecasts, extrapolated for an appropriate period and taking into account growth rates, operating costs and the expected useful life of the assets.

(a) Amortisation

The weighted average amortisation periods of our identifiable intangible assets are as follows:

Table D Telstra Group	Expected benefit (years)	
	As at 30 June	
	2018	2017
Software assets	8	8
Licences	14	14
Deferred expenditure	4	5
Other acquired intangibles	10	10

Useful lives of intangible assets

We apply management judgement to determine the amortisation period based on the expected useful lives of each asset class. In addition, we apply management judgement to assess annually the indefinite useful life assumption applied to certain acquired intangible assets.

We review the useful lives of our identifiable intangible assets each year. The net effect of the reassessment of useful lives for the financial year 2018 was a $26 million (2017: $54 million) decrease in amortisation expense.

3.3 Trade and other receivables

3.3.1 Current and non-current trade and other receivables

Table A Telstra Group	Note	As at 30 June	
		2018	2017
		$m	$m
Current			
Trade receivables		3,146	3,635
Allowance for doubtful debts		(103)	(133)
		3,043	**3,502**
Finance lease receivables		108	122
Accrued revenue		1,810	1,672
Other receivables		57	172
		1,975	**1,966**
		5,018	**5,468**
Non-current			
Trade receivables		326	111
Amounts owed by joint ventures and associated entities	6.3	-	443
Finance lease receivables		193	250
Other receivables		493	235
		1,012	**1,039**

Refer to note 6.3.1(c) for conversion of the loan to Foxtel into investment.

(a) Trade receivables and allowance for doubtful debts

The majority of our receivables are in the form of contracted agreements with our customers. In general, the terms and conditions of these contracts require settlement between 14 to 30 days from the date of invoice. Credit and recovery risk associated with trade receivables has been provided for.

Our trade receivables include our customer deferred debt, which allows eligible customers the opportunity to repay the amounts due for certain hardware and professional installation services monthly over 12, 24 or 36 months.

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

3.3 Trade and other receivables (continued)

3.3.1 Current and non-current trade and other receivables (continued)

(a) Trade receivables and allowance for doubtful debts (continued)

The ageing of current and non-current trade receivables is detailed in Table B.

Table B Telstra Group	As at 30 June			
	2018		2017	
	Gross	Allow-ance	Gross	Allow-ance
	$m	$m	$m	$m
Not past due	2,722	(17)	2,894	(13)
Past due 0 - 30 days	446	(7)	499	(9)
Past due 31 - 60 days	110	(8)	115	(10)
Past due 61 - 90 days	47	(6)	41	(7)
Past due 91 - 120 days	55	(11)	59	(17)
Past 120 days	92	(54)	138	(77)
	3,472	**(103)**	**3,746**	**(133)**

Ageing analysis in the above table is based on the original due date of trade receivables, including where repayment terms for certain long outstanding trade receivables have been renegotiated. The comparatives have been adjusted to realign with updated aging reporting.

As at 30 June 2018, trade receivables with a carrying amount of $976 million (2017: $732 million) were past due but not impaired.

We hold security for a number of trade receivables, including past due or impaired receivables, in the form of guarantees, letters of credit and deposits. During the financial year 2018, the securities we called upon were insignificant. These trade receivables, along with our trade receivables that are neither past due nor impaired, comprise customers who have a good debt history and are considered recoverable.

Movements in the allowance for doubtful debts in respect of our trade receivables are detailed in Table C.

Table C Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Opening balance	**(133)**	**(134)**
Additional allowance	(48)	(54)
Amount used	49	40
Amount reversed	29	15
Closing balance	**(103)**	**(133)**

Estimating allowance for doubtful debts

We apply management judgement to estimate the allowance for doubtful debts for our trade receivables. Our assessment is based on historical trends and management's assessment of general economic conditions. We consider credit risk, insolvency risk and incapacity to pay a legally recoverable debt and use:

- a statistical approach to determine debt risk segmentation and apply historical impairment rates
- an individual account by account assessment based on past credit history
- any prior knowledge of debtor insolvency or other credit risk.

(b) Finance lease receivables

We enter into finance lease arrangements predominantly for communication assets dedicated to solutions management that we provide to our customers largely in a back-to-back finance lease arrangement. Refer to note 7.4 for information about our finance lease commitments arising from these finance arrangements (Telstra as a lessee). The weighted average term of the finance lease in our customer contracts is 6 years (2017: 6 years). Table D presents detailed information about our finance lease receivables.

Table D Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Amounts receivable under finance leases		
Within 1 year	115	141
Within 1 to 5 years	183	226
After 5 years	73	90
Total minimum lease receivables	**371**	**457**
Less: unearned finance income	(70)	(85)
Present value of minimum lease receivables	**301**	**372**
Included in the financial statements as:		
Current finance lease receivables	108	122
Non-current finance lease receivables	193	250
	301	**372**

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate was 5.3 per cent (2017: 5.6 per cent) per annum.

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

3.3 Trade and other receivables (continued)

3.3.2 Recognition and measurement

Trade and other receivables are financial assets. They are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method.

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

Bad debts specifically provided for in previous years are written off against the allowance for doubtful debts. In all other cases, bad debts are written off directly against the carrying amount and expensed in the income statement.

(a) Leased assets (Telstra as a lessor)

Refer to note 3.1.2 (c) for details about the distinction between finance leases and operating leases and whether an arrangement contains a lease.

Where we lease assets via a finance lease, a lease receivable is recognised at the beginning of the lease term and measured at the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are allocated between finance income and a reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

3.4 Inventories

Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Current		
Construction work in progress		
Contract costs incurred and recognised profits	1,072	973
Progress billings	(804)	(573)
	268	**400**
Raw materials recorded at cost	59	45
Finished goods recorded at cost	375	361
Finished goods recorded at net realisable value	99	87
	533	**493**
	801	**893**
Non-current		
Finished goods recorded at net realisable value	19	29
Total current and non-current inventories	**820**	**922**

Finished goods include goods available for sale and materials and spare parts to be used within one year in constructing and maintaining our telecommunications network. We also purchase strategic inventories for use in maintenance of network assets beyond one year.

Estimating net realisable value

At the reporting date, we applied management judgement to determine net realisable value of inventories by making certain price assumptions to project selling prices into the future. We also made assumptions about current and future technologies.

3.4.1 Recognition and measurement

(a) Inventories

Inventories are valued at the lower of cost and net realisable value. For the majority of inventory items, we assign cost using the weighted average cost basis.

Net realisable value of items expected to be sold is the estimated selling price less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less costs to sell.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

(b) Construction contracts

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost and includes any profits recognised less progress billings and any provisions for foreseeable losses. The cost includes:

- both variable and fixed costs directly related to specific contracts
- amounts that are attributable to contract activity in general and can be allocated to specific contracts on a reasonable basis
- costs expected to be incurred under penalty clauses, warranty provisions and other variances.

Where a significant loss is estimated to be made on completion of a construction contract, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.

Construction work in progress is presented as part of inventories for contracts in which costs incurred and recognised profits exceed progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

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

3.5 Trade and other payables

Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Current		
Trade creditors	1,588	1,185
Accrued expenses	1,891	1,733
Accrued capital expenditure	341	438
Accrued interest	264	256
Contingent consideration	4	4
Other creditors	747	573
	4,835	**4,189**
Non-current		
Contingent consideration	-	4
Other creditors	65	66
	65	**70**

Trade creditors and other creditors are non-interest bearing liabilities. Our payment terms vary, however payments are generally made within 30 to 45 days from the invoice date.

From time to time, Telstra's suppliers utilise supply chain finance, i.e. they transfer their rights of the amounts due from Telstra to third parties. However, Telstra's obligation is to pay for goods and services purchased from our suppliers on the original due date without any change in payment terms. As at 30 June 2018, the amount payable under this arrangement was $42 million (2017: nil) and we have reclassified it from 'Trade creditors' to 'Other creditors'.

3.5.1 Recognition and measurement

Trade and other payables, including accruals, are recorded when we are required to make future payments as a result of purchases of assets or services. Trade and other payables are financial liabilities initially recognised at fair value and carried at amortised cost using the effective interest method.

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 Dividend

This note includes dividend paid for the previous year final dividend and the current year interim dividend. On 17 August 2017, we announced a change to our dividend policy. From financial year 2018, our dividend will comprise both ordinary and special dividend.

As the current year final dividend resolution was passed on 16 August 2018, no provision had been raised as at 30 June 2018.

We currently pay dividend twice a year, an interim and a final dividend. Table A below provides details about dividend paid during the financial year 2018.

Table A Telstra Entity	Year ended 30 June			
	2018	2017	2018	2017
	$m	$m	cents	cents
Dividend paid				
Previous year final dividend paid	1,842	1,894	15.5	15.5
Interim dividend paid	1,308	1,842	11.0	15.5
Total dividend paid	**3,150**	**3,736**	**26.5**	**31.0**

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
- 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 dividend.

'Net one-off nbn receipts' is 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, assumes the nbn™ network rollout and migration is broadly in accordance with management's current best estimates, 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 16 August 2018, the Board resolved that the DRP will continue to operate for the final dividend. The election date for participation in the DRP is 31 August 2018.

On 16 August 2018, the Directors of Telstra Corporation Limited resolved to pay a fully franked final dividend for the financial year 2018 of 11 cents per ordinary share, comprising a final ordinary dividend of 7.5 cents and a final special dividend of 3.5 cents. The final dividend will be fully franked at a tax rate of 30 per cent. The record date for the final dividend will be 30 August 2018, with payment to be made on 27 September 2018. From 29 August 2018, shares will trade excluding entitlement to the dividend.

As at 30 June 2018, the final dividend for the financial year 2018 was not determined or publicly recommended by the Board, therefore no provision for the dividend has been raised in the statement of financial position. However, a provision for the final dividend payable amounting to $1,308 million has been raised as at the date of resolution.

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

Table B provides information about franking credits available for use in subsequent reporting periods.

Table B Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Franking credits available for use in subsequent reporting periods		
Franking account balance	191	9
Franking credits that will arise from the payment of income tax payable as at 30 June (at a tax rate of 30% on a tax paid basis)	115	146
	306	**155**

We believe that our current balance in the franking account, combined with the franking credits that will arise on income tax instalments expected to be paid in the financial year 2019, will be sufficient to fully frank our 2018 final dividend.

Section 4. Our capital and risk management (continued)

4.2 Equity

This note provides information about our share capital and reserves presented in the statement of changes in equity.

We have established the Telstra Growthshare Trust (referred to as the Trust) to allocate and administer the Company's employee share schemes. The Trust is consolidated as it is controlled by us. Shares that are held within the Trust, known as treasury shares, are used to satisfy future vesting of entitlements in these employee share schemes. These treasury shares reduce our contributed equity.

4.2.1 Share capital

Table A Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Contributed equity	4,530	4,530
Share loan to employees	(11)	(12)
Shares held by employee share plans	(64)	(81)
Net services received under employee share plans	(27)	(16)
	4,428	**4,421**

(a) Contributed equity

As at 30 June 2018, we have 11,893,297,855 (2017: 11,893,297,855) authorised fully paid ordinary shares on issue. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the Company. Holders of our shares also have the right to receive dividend and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the Company winding up.

(b) Shares held by employee share plans

As at 30 June 2018, the number of shares held by employee share plans totalled 13,007,480 (2017: 14,434,930). During the financial year, 5,040,872 shares were acquired on market by Telstra Growthshare Trust at an average price of $3.50 per share.

(c) Net services received under employee share plans

We measure the fair value of services received under employee share plans by reference to the fair value of the equity instruments granted. The net services received under employee share plans represent the cumulative value of all instruments issued.

Section 4. Our capital and risk management (continued)

4.2 Equity (continued)

4.2.2 Reserves

Table B details our reserve balances.

Table B Telstra Group	Foreign currency translation reserve	Cash flow hedging reserve	Foreign currency basis spread reserve	Fair value of equity instruments reserve	General reserve	Total reserves
	$m	$m	$m	$m	$m	$m
Balance at 1 July 2016	**95**	**(93)**	**48**	**14**	**(2)**	**62**
Other comprehensive income	(77)	(50)	(32)	(6)	-	**(165)**
Transactions with non-controlling interests	-	-	-	-	(2)	**(2)**
Balance at 30 June 2017	**18**	**(143)**	**16**	**8**	**(4)**	**(105)**
Other comprehensive income	66	(68)	(22)	15	-	**(9)**
Transactions with non-controlling interests	-	-	-	-	(3)	**(3)**
Balance at 30 June 2018	**84**	**(211)**	**(6)**	**23**	**(7)**	**(117)**

The table below details the nature and purpose of our reserve balances.

Reserve	Nature and purpose
Foreign currency translation reserve	Used to record exchange differences arising from the conversion of the non-Australian controlled entities' financial statements into Australian dollars. This reserve is also used to record our percentage share of exchange differences arising from our equity accounted non-Australian investments in joint ventures and associated entities.
Cash flow hedging reserve	Represents the effective portion of gains or losses on remeasuring the fair value of hedge instruments, where a hedge qualifies for hedge accounting.
Foreign currency basis spread reserve	Used to record changes in the fair value of our derivative financial instruments attributable to movements in foreign currency basis spread. Currency basis is included in interest on borrowings in the income statement over the life of the borrowing.
Fair value of equity instruments reserve	Represents changes in fair value of equity instruments we have elected to measure at fair value through other comprehensive income.
General reserve	Represents other items we have taken directly to equity.

4.2.3 Recognition and measurement

Issued and paid up capital is recognised at the fair value of the consideration received by the Telstra Entity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity, net of income tax, as a reduction of the share proceeds received.

Where we undertake a share buy-back, contributed equity is reduced in accordance with the structure of the buy-back arrangement. Costs associated with the buy-back, net of income tax, are also deducted from contributed equity.

Services received under employee share plans (i.e. share-based payments) increase our share capital balance and vested employee share plans decrease the share capital balance resulting in a net movement in our equity. Non-recourse loans provided to employees to participate in these employee share plans are recorded as a reduction in share capital.

We also record the purchase of Telstra Entity shares underpinning our employee share plan as a reduction in share capital.

Section 4. Our capital and risk management (continued)

4.3 Capital management

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 dividend paid to shareholders, return capital to shareholders or issue new shares.

4.3.1 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 (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 in relation to 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 risks.

Refer to note 4.4 for further discussion on financial risks.

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

Table A Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Borrowings	(16,951)	(17,284)
Derivative financial instruments	1,583	1,066
Gross Debt	**(15,368)**	**(16,218)**
Cash and cash equivalents	629	938
Net debt	**(14,739)**	**(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 current or prior years.

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

Table B Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Net debt at 1 July	**(15,280)**	**(12,459)**
Debt issuance	(718)	(1,399)
Net commercial paper repayments/ (issuance)	809	(816)
Debt repayments	862	2,076
Finance lease repayments	120	131
Net cash outflow/(inflow)	**1,073**	**(8)**
Fair value (loss)/gain impacting:		
Equity	(128)	(102)
Other expenses	15	(8)
Finance costs	40	(4)
Other non-cash movements		
Finance lease additions	(143)	(85)
Total decrease/(increase) in gross debt excluding bank overdraft	**857**	**(207)**
Net decrease in cash and cash equivalents net of bank overdraft (includes effects of foreign exchange rate changes)	(316)	(2,614)
Total decrease/(increase) in net debt	**541**	**(2,821)**
Net debt at 30 June	**(14,739)**	**(15,280)**
Total equity	(15,014)	(14,560)
Total capital	**(29,753)**	**(29,840)**
	%	%
Gearing ratio	49.5%	51.2%

(a) Borrowings and repayment of debt

During the financial year 2018, we repaid $853 million of term debt (Australian dollar equivalent). This included:

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

We also repaid $9 million loans from associated entities. The above also includes the cash settlement of derivative financial instruments, where applicable.

Debt issuance for the year of $718 million (Australian dollar equivalent), included:

- 10-year $500 million United States dollar bond ($648 million Australian dollar equivalent)
- $56 million loan from associated entities
- $14 million loans held by controlled entities.

In addition, at 30 June 2018, we have $200 million (2017: $200 million) drawn under our revolving bank facilities. 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)

4.3 Capital management (continued)

4.3.2 Borrowings

Table C details the carrying and fair values of borrowings included in the statement of financial position.

Table C Telstra Group	As at 30 June 2018		As at 30 June 2017	
	Carrying value	Fair value	Carrying value	Fair value
	$m	$m	$m	$m
Current borrowings				
Domestic borrowings	(541)	(543)	(813)	(812)
Offshore borrowings	(315)	(315)	(95)	(95)
Bank loans	(2)	(2)	(2)	(2)
Bank overdraft	(9)	(9)	(2)	(2)
Commercial paper	(677)	(684)	(1,457)	(1,457)
Finance leases	(91)	(91)	(107)	(107)
	(1,635)	**(1,644)**	**(2,476)**	**(2,475)**
Non-current borrowings				
Domestic borrowings	(2,182)	(2,373)	(2,642)	(2,859)
Offshore borrowings	(12,147)	(12,779)	(11,225)	(12,081)
Bank loans	(713)	(735)	(707)	(728)
Finance leases	(274)	(274)	(234)	(234)
	(15,316)	**(16,161)**	**(14,808)**	**(15,902)**
Total borrowings	**(16,951)**	**(17,805)**	**(17,284)**	**(18,377)**

Borrowings	Treasury policy and purpose
Offshore borrowings	Unless designated as a hedge of a foreign controlled entity, our policy is to swap foreign currency denominated borrowings into Australian dollars using cross currency and interest rate swaps. Refer to note 4.4 for further details.
Commercial paper	Commercial paper is used principally to support working capital and short-term liquidity. Commercial paper will continue to be supported by a combination of liquid financial assets, and access to committed bank facilities.
Finance leases	Finance lease balances are secured as the rights to the leased assets transfer to the lessor in the event of a default by us.

Generally all our borrowings are unsecured, except for finance leases as noted above. No assets are pledged as security for our borrowings. All our borrowings are interest bearing.

The notional (face) value of our total borrowings is $16,737 million (2017: $17,017 million).

(a) Maturity of borrowings

We reduce refinancing risk by ensuring that our borrowings mature at different periods. Refer to Table F in note 4.4 for the repayment profile of our borrowings. The notional values disclosed represent values repayable at contractual maturities.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.2 Borrowings (continued)

(b) Recognition and measurement

(i) Borrowings

Borrowings are:

- recognised initially on the trade date (the date on which we become a party to the contractual provisions of the instrument)
- derecognised when our contractual obligations are discharged or cancelled or expired
- classified as non-current liabilities except for those that mature in less than 12 months from the reporting date, which are classified as current liabilities.

	Recognition and measurement
Initial recognition and measurement	All loans and borrowings are initially recorded at fair value, which typically reflects the proceeds received, net of directly attributable transaction costs.
Subsequent measurement	After initial recognition, all interest bearing loans and borrowings are stated at amortised cost, using the effective interest method. Any difference between proceeds received net of direct transaction costs and the amount payable at maturity is recognised over the term of the borrowing using the effective interest method. Loans or borrowings that are in designated fair value hedge relationships are adjusted for fair value movements attributable to the hedged risk. Refer to note 4.3.3 for our hedging policies. Gains or losses are recognised in the income statement when the loan or borrowing is derecognised.

(ii) Finance leases

Refer to note 3.1.2 for our accounting policy, where Telstra is a lessee.

(c) Finance costs

Table D presents our net finance costs for the year ended 30 June 2018. Interest on borrowings are net amounts after offsetting interest income and interest expense on associated derivative instruments. Our hedging strategies are discussed further in note 4.3.3.

Table D	Year ended 30 June	
Telstra Group	2018	2017
	$m	$m
Interest expense on:		
Domestic borrowings	151	147
Offshore borrowings	536	611
Bank loans	31	15
Commercial paper	30	23
Finance leases	17	21
Other	19	15
Total borrowing costs	**784**	**832**
Finance income	(78)	(138)
Net interest (income)/expense on defined benefit plan	(4)	1
Net finance costs before capitalised interest and remeasurements	**702**	**695**
Less: interest capitalised	(101)	(81)
Net gains on financial instruments included in remeasurements	(52)	(23)
Net finance costs	**549**	**591**

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

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rate, foreign currency exchange rate, credit spread or other index.

Table E shows the carrying value of each class of derivative financial instruments.

Table E Telstra Group	As at 30 June 2018		As at 30 June 2017	
	Assets	Liabilities	Assets	Liabilities
	$m	$m	$m	$m
Current derivative financial instruments				
Cross currency swaps	54	-	16	-
Interest rate swaps	3	-	4	-
Forward foreign exchange contracts	18	(1)	1	(42)
	75	**(1)**	**21**	**(42)**
Non-current derivative financial instruments				
Cross currency swaps	1,462	(54)	994	(117)
Interest rate swaps	435	(334)	629	(419)
	1,897	**(388)**	**1,623**	**(536)**
Total derivative financial instruments	**1,972**	**(389)**	**1,644**	**(578)**

The terms of a derivative contract are determined at inception, therefore any movements in the price of the underlying item over time will cause the contract value to constantly fluctuate, which is reflected in the fair value of the derivative. Derivatives which are in an asset position (i.e. the market has moved in our favour) are referred to as being 'in the money' and derivatives in a liability position as 'out of the money'.

Both parties are therefore exposed to the credit quality of the counterparty. We are exposed to credit risk on derivative assets as a result of the potential failure of the counterparties to meet their contractual obligations. We do not have credit risk associated with derivatives that are out of the money.

Refer to note 4.4.3 for information about our credit risk policies.

(a) Recognition and measurement

Derivative financial instruments are:

- recognised on the date on which we commit to purchase or sell an asset or liability
- included as non-current assets or liabilities, except for those that mature in less than 12 months from the reporting date, which are classified as current assets or liabilities.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives (continued)

(a) Recognition and measurement (continued)

	Recognition and measurement
Recognition and measurement	All derivatives are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Where the fair value of a derivative is positive, it is carried as an asset, and where negative, as a liability. Refer to note 4.4.5 for details on the determination of fair value.
Right to set-off	We record derivative financial instruments on a net basis in our statement of financial position where we: • have a legally recognised right to set-off the derivative asset and the derivative liability, and we intend to settle on a net basis or simultaneously • enter into master netting arrangements relating to a number of financial instruments, have a legal right of set-off, and intend to exercise that right. For our interest rate swaps, we do not offset the receivable or payable with the underlying financial asset or financial liability being hedged as the transactions are usually with different counterparties and are not generally settled on a net basis.
Derecognition	Derivative assets are derecognised when the rights to receive cash flows from the derivative assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership. Derivative liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.
Impact to the income statement	The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, on the nature of the item being hedged.

(b) Utilisation of derivatives to manage risks

We enter into derivative transactions in accordance with policies approved by the Board to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. We do not speculatively trade in derivative financial instruments.

Hedging refers to the way in which we use financial instruments, primarily derivatives, to manage our exposure to financial risks. The gain or loss on the underlying item (the 'hedged item') is expected to move in the opposite direction to the gain or loss on the derivative (the 'hedging instrument'), therefore offsetting our risk position. Hedge accounting allows the matching of the gains and losses on hedged items and associated hedging instruments in the same accounting period to minimise volatility in the income statement. In order to qualify for hedge accounting, prospective hedge effectiveness testing must meet all of the following criteria:

- an economic relationship exists between the hedged item and hedging instrument
- the effect of credit risk does not dominate the value changes resulting from the economic relationship
- the hedge ratio is the same as that resulting from actual amounts of hedged items and hedging instruments for risk management.

Our major exposure to interest rate risk and foreign currency risk arises from our long-term borrowings. We also have translation foreign currency risk associated with investments in foreign operations and transactional foreign currency exposures such as purchases in foreign currencies. These risks are discussed further in note 4.4.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives (continued)

(b) Utilisation of derivatives to manage risks (continued)

To the extent permitted by Australian Accounting Standards, we formally designate and document our financial instruments by hedge type as follows:

	Fair value hedges	Cash flow hedges	Net investment hedges
Objectives of this hedging arrangement	To hedge the exposure to changes in the fair value of borrowings which are issued at a fixed rate, or denominated in foreign currency, by converting to floating rate borrowings denominated in Australian dollars.	To hedge the exposure to changes in cash flows from borrowings that bear floating interest rates or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from highly probable and committed future currency cash flows.	To offset the foreign exchange exposure arising from the translation of our foreign investments from their functional currency to Australian dollars.
Instruments used	We enter into cross currency and interest rate swaps to mitigate our exposure to changes in the fair value of our long-term borrowings.	We enter into interest rate and cross currency swaps to hedge future cash flows arising from our borrowings. We use forward foreign exchange contracts to hedge a portion of firm commitments and highly probable forecast transactions.	Where we choose to hedge our net investment exposures, we use forward foreign exchange contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.
Economic relationships	In all our hedge relationships the critical terms of the hedging instrument and hedged item (including notional values, cash flows and currency) are aligned.		

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives (continued)

(b) Utilisation of derivatives to manage risks (continued)

Table F shows the carrying value and notional value of each component of our gross debt including derivative financial instruments categorised by hedge type.

Table F Telstra Group	As at 30 June 2018		As at 30 June 2017	
	Carrying value	Notional value	Carrying value	Notional value
	$m	$m	$m	$m
Borrowings by hedge designation				
Fair value hedges	(4,751)	(4,339)	(5,337)	(4,874)
Cash flow hedges	(7,766)	(7,798)	(6,805)	(6,840)
Not in a hedge relationship	(4,434)	(4,600)	(5,142)	(5,303)
Total borrowings	**(16,951)**	**(16,737)**	**(17,284)**	**(17,017)**
Derivative assets by hedge designation				
Fair value hedges	962	669	775	458
Cash flow hedges	999	932	868	579
Not in a hedge relationship	11	11	1	1
Total derivative assets	**1,972**	**1,612**	**1,644**	**1,038**
Derivative liabilities by hedge designation				
Fair value hedges	-	-	(3)	(4)
Cash flow hedges	(388)	-	(536)	(46)
Not in a hedge relationship	(1)	(1)	(39)	(41)
Total derivative liabilities	**(389)**	**(1)**	**(578)**	**(91)**
Total gross debt	**(15,368)**	**(15,126)**	**(16,218)**	**(16,070)**

(i) Fair value hedges

All changes in the fair value of the underlying item relating to the hedged risk are recognised in the income statement together with the changes in the fair value of derivatives. The net difference is recorded in the income statement as ineffectiveness. The carrying value of borrowings in effective fair value hedge relationships is adjusted for gains or losses attributable to the risk(s) being hedged.

Table G outlines the cumulative amount of fair value hedge adjustments that are included in the carrying amount of borrowings in the statement of financial position.

Table G Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Notional value as at 30 June	(4,339)	(4,874)
Unamortised discounts/premiums	12	17
Amortised cost	**(4,327)**	**(4,857)**
Cumulative fair value hedge adjustments	(424)	(480)
Carrying amount	**(4,751)**	**(5,337)**

Table H shows the ineffectiveness recognised in the income statement. We have excluded foreign currency basis spreads from our designated fair value and cash flow hedge relationships.

Table H Telstra Group	Year ended 30 June	
	2018	2017
	(Gain)/ loss	(Gain)/ loss
	$m	$m
Re-measurement of hedged item used to measure ineffectiveness	161	(180)
Change in value of hedging instruments	(167)	199
Net (gain)/loss before tax from ineffectiveness	**(6)**	**19**
Net (gain)/loss after tax	(4)	13

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives (continued)

(b) Utilisation of derivatives to manage risks (continued)

(ii) Cash flow hedges

The portion of the gain or loss on the hedging instrument that is effective (offsets the movement on the hedged item) is recognised directly in the cash flow hedging reserve in equity and any ineffective portion is recognised as finance costs directly in the income statement.

Gains or losses deferred in the cash flow hedging reserve are subsequently:

- transferred to the income statement when the hedged transaction affects profit or loss (e.g. a forecast transaction occurs)
- included in the initial carrying amount when the hedged item is a non-financial asset or liability
- transferred immediately to the income statement if a forecast hedged transaction is no longer expected to occur.

Table I shows the hedge gains or losses transferred to and from the cash flow hedging reserve.

Table I Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Cash flow hedging reserve		
Changes in fair value of cash flow hedges	154	(402)
Changes in fair value transferred to other expenses	(409)	117
Changes in fair value transferred to goods and services purchased	3	3
Changes in fair value transferred to finance costs	155	208
Changes in fair value transferred to property, plant and equipment	-	2
Income tax on movements in the cash flow hedging reserve	29	22
	(68)	**(50)**

During the current and prior financial years, there was no material impact on profit or loss resulting from ineffectiveness of our cash flow hedges or from discontinuing hedge accounting for forecast transactions no longer expected to occur.

Table J shows when the cash flows are expected to occur with respect to items in cash flow hedges. These amounts are the undiscounted cash flows reported in Australian dollars and represent our foreign currency exposures at the reporting date.

Table J Telstra Group	Notional cash outflows	
	As at 30 June	
	2018	2017
	$m	$m
Non-capital items		
Within 1 year	(422)	(634)
Capital items		
Within 1 year	-	(89)
Borrowings		
Within 1 year	(251)	(316)
Within 1 to 5 years	(3,700)	(3,553)
After 5 years	(5,063)	(4,147)
	(9,436)	**(8,739)**

Non-capital items will be recognised in the income statement in the same period in which the cash flows are expected to occur.

(iii) Derivatives not in a formal hedge relationship

Some derivatives may not qualify for hedge accounting or are specifically not designated as a hedge as natural offset achieves substantially the same accounting results. This includes forward foreign currency contracts that are used to economically hedge exchange rate fluctuations associated with trade creditors or other liability and asset balances denominated in a foreign currency.

4.3.4 Other hedge accounting policies

(a) Discontinuation of hedge accounting

Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or no longer meets the criteria for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement as the previously hedged item affects profit or loss. For fair value hedges, the cumulative adjustment recorded against the carrying value of the hedged item at the date hedge accounting ceases is amortised to the income statement using the effective interest method.

(b) Embedded derivatives

Derivatives embedded in host contracts that are financial assets are not separated from financial asset hosts and a hybrid contract is classified in its entirety at either amortised cost or fair value.

Derivatives embedded in other financial liabilities or other host contracts are treated as separate financial instruments when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

4.4 Financial instruments and risk management

Our underlying business activities result in exposure to operational risks and a number of financial risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks in order to reduce volatility on our financial performance and to support the delivery of our financial targets. Financial risk management is carried out centrally by our treasury department under policies approved by the Board.

This note summarises how we manage these financial risks.

All our financial instruments are accounted for under AASB 9 (2013): 'Financial instruments'.

4.4.1 Managing our interest rate risk

Interest rate risk arises from changes in market interest rates. Borrowings issued at fixed rates expose us to fair value interest rate risk. Variable rate borrowings give rise to cash flow interest rate risk, which is partially offset by cash and cash equivalents balances held at variable rates.

We manage interest rate risk on our net debt portfolio by:

- setting our target ratio of fixed interest debt to variable interest debt, as required by our debt management policy
- ensuring access to diverse sources of funding
- reducing risks of refinancing by establishing and managing our target maturity profiles
- entering into cross currency and interest rate swaps. Also refer to note 4.3.3.

(a) Exposure

Table C in note 4.3.2 sets out the carrying amount of borrowings. The use of cross currency and interest rate swaps allows us to manage the level of exposure our borrowings have to interest rate risks. Table A below shows our fixed to floating ratio based on the carrying value of our borrowings pre and post hedging.

For internal risk management purposes, we classify debt due to mature within 12 months as floating.

Table A Telstra Group		As at 30 June 2018		As at 30 June 2017	
		Pre-hedge borrowings	Post-hedge borrowings	Pre-hedge borrowings	Post-hedge borrowings
	Note	$m	$m	$m	$m
Fixed rate		(14,457)	(10,220)	(14,964)	(9,627)
Floating rate		(2,494)	(6,731)	(2,320)	(7,657)
Total borrowings	4.3	**(16,951)**	**(16,951)**	**(17,284)**	**(17,284)**

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.1 Managing our interest rate risk *(continued)*

(b) Sensitivity

We have performed a sensitivity analysis based on the interest rate risk exposures of our financial instruments as at 30 June, showing the impact that a 10 per cent shift in interest rates would have on our profit after tax and on equity. In accordance with our policy to swap foreign currency borrowings into Australian dollars, interest rate sensitivity relates primarily to movements in Australian interest rates.

Table B shows the results of our sensitivity analysis.

Table B Telstra Group	As at 30 June			
	2018		2017	
	Gain/(loss)			
	Net profit/ (loss)	Equity	Net profit/ (loss)	Equity
	$m	$m	$m	$m
Interest rates (+10%)	(18)	32	(19)	48
Interest rates (-10%)	18	(33)	18	(49)

A shift of 10 per cent has been selected as a reasonably possible change in interest rates based on the current level of both short-term and long-term interest rates. This is not a forecast or prediction of future market conditions.

The results of the sensitivity analysis are driven by the following main factors:

- any increase or decrease in interest rates will impact our net unhedged floating rate financial instruments and therefore will directly impact profit or loss
- changes in the fair value of derivatives which are part of effective cash flow hedge relationships are deferred in equity with no impact to profit or loss
- changes in the fair value of foreign currency basis spreads associated with our cross currency swaps are deferred in equity
- there is minimal net impact on profit or loss as a result of fair value movements on derivatives designated in effective fair value hedge relationships as there will be an offsetting adjustment to the underlying borrowing
- the analysis does not include the impact of any management action that might take place if a 10 per cent shift were to occur.

4.4.2 Managing our foreign currency risk

Foreign currency risk is our risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign exchange rates. We issue debt offshore and operate internationally and hence we are exposed to foreign exchange risk from various currencies. However, our largest concentration of risk is attributable to the Euro, United States dollar and the Philippine peso.

This risk exposure arises primarily from:
- borrowings denominated in foreign currencies
- trade and other creditor balances denominated in foreign currencies
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies
- net investments in foreign controlled entities (foreign operations).

(a) Borrowings

We mitigate the foreign currency exposure on foreign currency denominated borrowings by:

- converting borrowings to Australian dollars using cross currency swaps
- holding borrowings to offset the translation of the net assets of a foreign controlled entity (we may also choose to hedge the foreign currency translation risk using derivatives). We have nil hedges in place for foreign currency translation risk associated with our investments in foreign operations (2017: nil).

Table C shows the carrying value of offshore borrowings by underlying currency. As at 30 June 2018, all offshore borrowings were swapped into Australian dollars (2017: all Australian dollars).

Table C Telstra Group	As at 30 June	
	2018	2017
	$m	$m
United States dollar	(3,391)	(2,592)
Euro	(8,372)	(7,948)
Japanese yen	(126)	(119)
Swiss franc	(311)	(315)
Other	(262)	(346)
Total offshore borrowings	**(12,462)**	**(11,320)**

As at 30 June 2018, we also held $677 million (2017: $1,457 million) of commercial paper at carrying value, including $100 million denominated in United States dollar ($135 million Australian dollar equivalent). This was converted into Australian dollars using foreign exchange swaps.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.2 Managing our foreign currency risk (continued)

(b) Trading

We have some exposure to foreign currency risk from our operating (transactional) activities. We manage this risk by:

- hedging a proportion of the exposure of foreign exchange transaction risk arising from firm commitments or highly probable forecast transactions denominated in foreign currencies in accordance with our risk management policy. These transactions may be physically settled in a foreign currency or in Australian dollars but with direct reference to quoted currency rates in accordance with a contractual formula
- economically hedging a proportion of foreign currency risk associated with trade and other asset and liability balances
- economically hedging the risk associated with our wholly owned controlled entities ('WOCE') that may be exposed to transactions, both forecast and committed, in currencies other than their functional currency, in accordance with our overall risk management policy.

We hedge the above risks using forward foreign exchange contracts. Table D summarises the impact of outstanding forward foreign exchange contracts that are hedging our transactional currency exposures.

Table D	As at 30 June 2018				As at 30 June 2017			
Telstra Group	Exposure	Forward foreign exchange contract receive/(pay)			Exposure	Forward foreign exchange contract receive/(pay)		
	Local currency		Australian dollars	Average exchange rate	Local currency		Australian dollars	Average exchange rate
	m	m	$m	$	m	m	$m	$
Commercial paper borrowings								
United States dollars	(100)	100	(133)	0.75	(1,020)	1,020	(1,357)	0.75
Transactions to and from WOCE								
British pounds sterling	(18)	15	(26)	0.57	(15)	13	(23)	0.59
United States dollars	(174)	141	(186)	0.76	(342)	295	(390)	0.76
Other (various currencies)	-	-	(12)	-	-	-	(3)	-
Forecast transactions								
United States dollars	(257)	93	(121)	0.77	(469)	216	(284)	0.76
Philippine peso	(2,840)	2,272	(56)	40.35	(3,840)	3,072	(80)	38.40
Other (various currencies)	-	-	-	-	-	-	(7)	-
Other assets and liabilities								
United States dollars	(46)	46	(61)	0.75	(83)	83	(109)	0.76
Total in Australian dollars			**(595)**				**(2,253)**	

(c) Natural offset

Our direct foreign exchange exposure arising from the impact of translation of the results of our foreign entities to Australian dollars is, in part, naturally offset at the Group level by foreign currency denominated operating and capital expenditure of business units, for which we do not have formal hedging in place.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.2 Managing our foreign currency risk (continued)

(d) Sensitivity

We have performed a sensitivity analysis based on our foreign currency risk exposures existing at balance date. Table E shows the impact that a 10 per cent shift in applicable exchange rates would have on our profit after tax and on equity.

Table E Telstra Group	As at 30 June			
	2018		2017	
	Gain/(loss)			
	Net profit/ (loss)	Equity	Net profit/ (loss)	Equity
	$m	$m	$m	$m
Exchange rates (+10%)	6	(30)	19	(24)
Exchange rates (-10%)	(8)	36	(23)	30

A shift of 10 per cent has been selected as a reasonably possible change taking into account the current level of exchange rates and the volatility observed both on a historical basis and on market expectations of future movements. This is not a forecast or prediction of future market conditions.

We are exposed to equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. Foreign currency risk is spread over a number of currencies. We have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency.

The translation of our foreign entities' results into the Group's presentation currency has not been included in the above sensitivity analysis as this represents translation risk rather than transaction risk.

Any unhedged foreign exchange positions associated with our transactional exposures will directly affect profit or loss as a result of foreign currency movements.

There is no significant impact on profit or loss from foreign currency movements associated with our borrowings portfolio in effective fair value or cash flow hedges as an offsetting entry will be recognised on the associated hedging instrument.

The analysis does not include the impact of any management action that might take place if these events occurred.

4.4.3 Managing our credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss. We are exposed to credit risk from our operating activities (primarily customer credit risk) and financing activities.

We manage credit risk by:

- applying Board approved credit policies
- monitoring exposure to high risk debtors
- requiring collateral where appropriate
- assigning credit limits to all financial counterparties.

We may also be subject to credit risk on transactions not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 7.3.2.

(a) Customer credit risk

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. Other than nbn co, we do not have any significant credit risk exposure to a single customer or group of customers. Ageing analysis and ongoing credit evaluation are performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debts is raised. In addition, receivable balances are monitored on an ongoing basis so that our exposure to bad debts is not significant. Refer to note 3.3 for further details about our trade and other receivables.

(b) Treasury credit risk

We are exposed to credit risk from the investment of surplus funds (primarily deposits) and from the use of derivative financial instruments.

We have a number of exposures to individual counterparties. To manage this risk, we have Board approved policies that limit the amount of credit exposure to any single counterparty. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted where appropriate. We also manage our credit exposure using a value at risk (VaR) methodology, which is an industry standard measure that estimates the maximum potential exposure of our risk positions as a result of future movements in market rates. This helps to ensure that we do not underestimate credit exposure with any single counterparty. Using VaR analysis, at 30 June 2018, 94 per cent (2017: 99 per cent) of our derivative credit exposure was with counterparties that have a credit rating of A- or better. Management does not expect any significant losses from non-performance by any of these counterparties.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.4 Managing our liquidity risk

Liquidity risk is the risk that we will be unable to meet our financial obligations as they fall due.

Our objective is to maintain a balance between continuity and flexibility of funding through the use of liquid financial instruments, long-term and short-term borrowings, and committed available bank facilities.

We manage liquidity risk by:

- defining minimum levels of cash and cash equivalents
- defining minimum levels of cash and cash equivalents plus undrawn bank facilities
- closely monitoring rolling forecasts of liquidity reserves on the basis of expected business cash flows
- using instruments which trade in highly liquid markets with highly rated counterparties
- investing surplus funds within various types of liquid instruments.

We believe that our contractual obligations can be met through existing cash and cash equivalents, operating cash flows and other funding arrangements we reasonably expect to have available to us, including the use of committed bank facilities.

Table F shows our contractual cash flow maturities of financial liabilities including estimated interest payments. The amounts disclosed are undiscounted future cash flows and therefore do not reconcile to the amounts in the statement of financial position.

Table F Telstra Group	Contractual maturity									
	As at 30 June 2018					As at 30 June 2017				
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Domestic borrowings	(548)	(60)	(2,080)	(750)	**(3,438)**	(808)	(538)	(1,257)	(1,550)	**(4,153)**
Offshore borrowings	(313)	(1,580)	(5,179)	(5,030)	**(12,102)**	(97)	(306)	(4,906)	(5,606)	**(10,915)**
Commercial paper	(686)	-	-	-	**(686)**	(1,467)	-	-	-	**(1,467)**
Interest on borrowings, excluding finance lease liabilities	(721)	(503)	(450)	(161)	**(1,835)**	(530)	(498)	(1,158)	(456)	**(2,642)**
Finance lease liabilities	(102)	(70)	(106)	(233)	**(511)**	(125)	(73)	(100)	(184)	**(482)**
Trade/other creditors and accrued expenses	(4,835)	(10)	(14)	(41)	**(4,900)**	(4,190)	(11)	(18)	(40)	**(4,259)**
Derivative financial assets	1,402	1,963	5,779	5,251	**14,395**	2,778	659	5,605	5,869	**14,911**
Derivative financial liabilities	(1,481)	(2,035)	(5,042)	(4,928)	**(13,486)**	(2,963)	(772)	(5,551)	(5,612)	**(14,898)**
Total	**(7,284)**	**(2,295)**	**(7,092)**	**(5,892)**	**(22,563)**	**(7,402)**	**(1,539)**	**(7,385)**	**(7,579)**	**(23,905)**

(a) Borrowing facilities

We have committed available bank facilities in place to support our liquidity requirements and our short-term and long-term borrowings. Table G shows our undrawn facilities as at 30 June.

Table G Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Facilities available	3,200	3,200
Facilities used	(200)	(200)
Facilities unused	**3,000**	**3,000**

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.5 Valuation and disclosures within fair value hierarchy

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 a three level hierarchy as shown below. The classification is based on the lowest level input that is significant to the fair value measurement as a whole.

Fair value hierarchy:

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

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

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

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.5 Valuation and disclosures within fair value hierarchy (continued)

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

Table H Telstra Group	As at 30 June 2018				As at 30 June 2017			
	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	-	1,972	-	**1,972**	-	1,644	-	**1,644**
Investments in listed securities	11	-	-	**11**	15	-	-	**15**
Investments in unlisted securities	-	-	25	**25**	-	-	277	**277**
	11	**1,972**	**25**	**2,008**	**15**	**1,644**	**277**	**1,936**
Liabilities								
Derivative financial instruments	-	(389)	-	**(389)**	-	(578)	-	**(578)**
Contingent consideration	-	-	(4)	**(4)**	-	-	(8)	**(8)**
	-	**(389)**	**(4)**	**(393)**	**-**	**(578)**	**(8)**	**(586)**
Total	**11**	**1,583**	**21**	**1,615**	**15**	**1,066**	**269**	**1,350**

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

Table I Telstra Group	Unlisted securities
	Level 3
	$m
Opening balance 1 July 2017	**277**
Purchases	67
Remeasurement recognised in other comprehensive income	12
Transfer to listed securities	(13)
Disposals	(22)
Contribution to Telstra Ventures Fund II, L.P.	(296)
Closing balance 30 June 2018	**25**

The remeasurement recognised in other comprehensive income in the financial year 2018 related to investments held by Telstra Ventures Pty Ltd.

During the financial year, we have not received any dividend from our listed or unlisted equity investments and there have been no transfers to or from equity in relation to these investments.

During the financial year, a financial instruments balance of $13 million was transferred from Level 3 to Level 1 following the investment listing on a stock exchange. The valuation technique for the investment changed to reflect the quoted market price.

Refer to note 6.3.1 for further information on contribution to Telstra Venture Fund II, L.P.

Our borrowings as per Table C in note 4.3.2 are classified as level 2 in the fair value hierarchy.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.6 Offsetting and netting arrangements

Table J presents financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements.

Table J Telstra Group	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Gross amounts not offset in the statement of financial position		Net amounts
				Financial instruments	Collateral received or pledged	
	$m	$m	$m	$m	$m	$m
	A	B	C=A-B	D	E	F=C-D-E
	As at 30 June 2018					
Trade and other receivables	658	110	**548**	51	10	**487**
Trade and other payables	(370)	(110)	**(260)**	(51)	-	**(209)**
Derivative financial assets	1,972	-	**1,972**	370	-	**1,602**
Derivative financial liabilities	(389)	-	**(389)**	(370)	-	**(19)**
Total	**1,871**	**-**	**1,871**	**-**	**10**	**1,861**
	As at 30 June 2017					
Trade and other receivables	732	100	**632**	109	9	**514**
Trade and other payables	(329)	(100)	**(229)**	(109)	-	**(120)**
Derivative financial assets	1,644	-	**1,644**	480	-	**1,164**
Derivative financial liabilities	(578)	-	**(578)**	(480)	-	**(98)**
Total	**1,469**	**-**	**1,469**	**-**	**9**	**1,460**

Gross amounts not offset in the statement of financial position reflect amounts subject to conditional offsetting arrangements.

Gross amounts of financial instruments not offset in the statement of financial position, i.e. our material rights of set-off that are not otherwise included in column B, related to:

- our inter-operative tariff arrangements with some of our international roaming partners, where we have executed agreements that allow the netting of amounts payable and receivable by us on cessation of the contract
- our wholesale customers, where we have executed Customer Relationship Agreements that allow for the netting of amounts payable and receivable by us in certain circumstances where there is a right to suspend the supply of services or on the expiration or termination of the agreement
- our derivative financial instruments, where we have executed master netting arrangements under our International Swaps and Derivatives Association agreements. These agreements allow for the netting of amounts payable and receivable by us or the counterparty in the event of default or a credit event. In line with contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability.

Section 5. Our people

We are working to attract and retain employees with the skills and passion to best serve our markets. This section provides information about our employee benefits obligations. It also includes details of our employee share plans and compensation paid to key management personnel.

5.1 Employee benefits

5.1.1 Aggregate employee benefits

Our employee benefits include provisions and accrued expenses for our employee benefits and incentives, which are separately presented in the statement of financial position. These provisions and accruals include elements where we apply estimates and judgement. Accrued labour and related on-costs are disclosed within our current trade and other payables in note 3.5.

Table A provides a summary of all these employee obligations.

Table A Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Current provision for employee benefits	868	865
Non-current provision for employee benefits	157	160
Current redundancy provisions	5	86
Accrued labour and on-costs	498	480
	1,528	**1,591**

Provision for employee benefits includes annual leave, long service leave and incentives accrued by employees.

Long service leave provision

We applied management judgment to determine the following key assumptions used in the calculation of long service leave entitlements:

- 4.5 per cent (2017: 4.5 per cent) weighted average projected increases in salaries
- 3.9 per cent (2017: 4 per cent) discount rate.

The discount rate used to calculate the present value has been determined by reference to market yields at 30 June 2018 on 10 year (2017: 10 year) high quality corporate bonds which have due dates similar to those of our liabilities.

For the amounts of the provision presented as current, we do not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, we do not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Amounts disclosed in Table B have been determined in accordance with an actuarial assessment and reflect leave that is not expected to be taken or paid within the next 12 months.

Table B Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Leave obligations expected to be settled after 12 months	524	532

5.1.2 Recognition and measurement

The liabilities for employee benefits relating to wages and salaries, annual leave and other current employee benefits are accrued at their nominal amounts. These are calculated based on remuneration rates expected to be current at the settlement date and include related costs.

Certain employees who have been employed by Telstra for at least 10 years are entitled to long service leave of three months (or more depending on the actual length of employment). We accrue liabilities for long service leave not expected to be paid or settled within 12 months of reporting date at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

Provisions are recognised when:

- the Telstra Group has a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events
- it is probable that a future sacrifice of economic benefits will arise
- a reliable estimate can be made of the amount of the obligation.

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies have been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be effected.

Section 5. Our people (continued)

5.2 Employee share plans

We have a number of employee share plans that are available for executives and employees as part of their short-term and long-term remuneration packages. Active share plans are conducted through the Telstra Growthshare Trust (Growthshare). Telstra wholly owns Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare (the Trustee), the results of which are consolidated into our Telstra Group Financial Report.

A transaction will be classified as share-based compensation where the Group receives services from employees and pays for these in shares or similar equity instruments.

This note summarises the primary employee share plans conducted through Growthshare and the key movements in the share-based payment arrangements during the financial year.

5.2.1 Description of Executive Variable Remuneration Plan (EVP) share-based payment arrangements

The EVP was implemented for the CEO and other eligible senior executives from financial year 2018. The EVP combines and replaces our short-term incentive (STI) and long-term incentive (LTI) share-based payment arrangements for those executives into a simplified single incentive plan. Under the EVP, the amount earned by an executive is determined at the end of an initial one year performance period based on the executive's performance. The last allocations of restricted shares and performance rights under the previous STI and LTI arrangements to those executives were made in November 2017 and November 2016, respectively. The first allocation of restricted shares and performance rights under the EVP will be made in financial year 2019.

(a) Restricted shares

Restricted shares are subject to a two year restriction period following the initial one year performance period. In order to have a smooth transition from our existing STI arrangements, the restricted shares allocated under the FY18 EVP will be split into two equal tranches, with half of them restricted for 12 months ending 30 June 2019 and the other half for 24 months ending 30 June 2020.

Performance hurdles are applied in determining the number of restricted shares to be allocated under EVP, and therefore, no other performance hurdles will apply once they are allocated. During the restriction period, executives are entitled to vote and earn dividend on their restricted shares from the actual allocation date. However, they are restricted from dealing with the shares during this period. The restricted shares will have a nil exercise price.

If an executive leaves Telstra for a non-permitted reason (the definition of which is set out in the Remuneration Report Glossary) before the end of the relevant restriction period, the restricted shares will be forfeited. Restricted shares may also be forfeited if certain clawback events occur during the restriction period.

As at 30 June 2018, there are no restricted shares allocated yet under the EVP.

(b) Performance rights

Under the EVP, the number of performance rights allocated to an executive will depend on the executive's performance against certain performance hurdles over the initial one year performance period.

Once allocated, the performance rights will be tested against a Relative Total Shareholder Return (RTSR) measure over a five year period inclusive of the initial one year performance period.

In order to have a smooth transition from our previous LTI arrangements, the performance rights will be split into two equal tranches under the FY18 EVP. Half of the rights will be subject to the RTSR measure over a four year performance period from 1 July 2017 to 30 June 2021. The second half will be subject to the RTSR measure over a five year performance period from 1 July 2017 to 30 June 2022.

The performance rights will only vest into Telstra ordinary shares if Telstra's RTSR ranks at the 50th percentile or greater against a comparator group comprising the ASX100 (excluding resource companies) over the performance period. If the RTSR measure is not satisfied, all of the applicable performance rights in the relevant tranche will lapse.

No dividend will be paid on performance rights prior to vesting. For performance rights that do vest, a cash payment equivalent to dividend paid by Telstra during the period between allocation of the performance rights and vesting will be made at or around the time of vesting. This cash entitlement is not included in the grant date fair values of the performance rights as this will be accounted for separately.

The performance rights will have a nil exercise price.

The RTSR measure does not apply to performance rights granted to the Group Executive (GE) Telstra Wholesale due to constraints under our Structural Separation Undertaking (SSU) arising from the nbn transaction.

As at 30 June 2018, there are no performance rights allocated yet under the EVP.

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.1 Description of Executive Variable Remuneration Plan (EVP) share-based payment arrangements (continued)

(i) Fair value measurement of performance rights

Table A provides details of the inputs used in the measurement of fair values at grant date of the performance rights under the FY18 EVP.

Table A Telstra Group	CEO		GE Telstra Wholesale		All other executives	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2	Tranche 1	Tranche 2
	Measurement date at					
	Oct 2017		Sep 2017		Sep 2017	
Share price	$3.55	$3.55	$3.49	$3.49	$3.49	$3.49
Risk free rate	2.14%	2.27%	2.15%	2.28%	2.15%	2.28%
Dividend yield	6.01%	6.01%	6.11%	6.11%	6.11%	6.11%
Expected life in years	3.7	4.7	3.8	4.8	3.8	4.8
Expected stock volatility	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Fair value ($)	$1.20	$1.25	$2.77	$2.61	$1.22	$1.27

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This is based on an annualised historical daily volatility of closing share prices over a certain period to the measurement date.

5.2.2 Description of STI share-based payment arrangements

(a) Restricted shares

Under the STI arrangements, 25 per cent of executives' actual STI payment is provided as restricted shares with an effective allocation date of 1 July each financial year. For the CEO and other senior executives who participated in those arrangements, up to financial year 2017, half of these shares were restricted for 12 months and half for 24 months from their effective allocation date. For other executives who continue to participate in these arrangements, these shares are restricted for three years from their effective allocation date.

Performance hurdles are applied in determining the number of restricted shares allocated to executives, and therefore, restricted shares are not subject to any other performance hurdles once they are allocated. During the restriction period, from the actual grant date, executives are entitled to vote and earn dividend on their restricted shares. However, they are restricted from dealing with the shares during this period.

If an executive leaves Telstra for a non-permitted reason before the end of the relevant restriction period, the restricted shares are forfeited. Restricted shares may also be forfeited if certain clawback events occur during the restriction period.

(b) Summary of movements

Table B summarises the movements in the number of STI restricted shares outstanding for the Group. ‘Exercised’ refers to restricted shares being released from restriction.

Table B Telstra Group	As at 30 June	
	2018	2017
Opening balance	**5,433,477**	**6,609,538**
Allocated	2,912,859	1,708,194
Forfeited	(334,906)	(363,205)
Exercised	(1,933,945)	(2,521,050)
Closing balance	**6,077,485**	**5,433,477**
Weighted average fair value of instruments allocated during the year	$3.88	$5.47
Weighted average share price at date of exercise during the year	$3.91	$5.44

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.3 Description of LTI share-based payment arrangements

Under the previous LTI arrangements that applied up to (and including) financial year 2017, there were two key types of LTI share-based payment arrangements for executives being:

- Executive LTI performance rights
- GE Telstra Wholesale restricted shares.

We still have an LTI arrangement for non-executives, being the employee share plan restricted shares.

The performance rights and restricted shares have a nil exercise price.

(a) Executive LTI performance rights

The last allocation under this type of LTI share-based payment arrangement was made in November 2016.

In respect of performance rights, an executive has no legal or beneficial interest in the underlying shares, no entitlement to receive dividend from the shares and no voting rights in relation to the shares unless the performance rights become restricted shares.

If the performance hurdle is satisfied at the end of the applicable performance period, a specified number of performance rights will become restricted shares.

Although the Trustee holds the restricted shares in trust, the executive will retain the beneficial interest (dividend, voting rights, bonus issues and rights issues) in these shares until they vest and are transferred to them, on the first day after the end of the restriction period that the executive is able to deal with the shares under Telstra's Securities Trading Policy (unless forfeited).

The performance rights and restricted shares are subject to lapsing and forfeiture provisions if the executive leaves Telstra before the end of the performance period or restriction period. The performance rights may also lapse and the restricted shares may be forfeited if a specified clawback event occurs during the performance period or restriction period.

Two types of Executive LTI performance rights were outstanding in financial year 2018 as follows:

- Relative Total Shareholder Return (RTSR) performance rights
- Free Cashflow Return on Investment (FCF ROI) performance rights.

Table C provides details of the two types of outstanding LTI performance rights, including relevant performance hurdles and vesting schedules.

Minimum threshold target refers to the minimum allocation threshold specified in each of the relevant plan terms. Stretch target refers to the maximum potential allocation threshold specified in each of the relevant plan terms.

Table C

Telstra Group

LTI plan component	Detail
Performance measure weighting	50% to RTSR 50% to FCF ROI
Performance period	Three years from 1 July to 30 June
Restriction period after vesting of performance rights as restricted shares	Approximately one year
RTSR Performance Rights	
Performance Hurdle - RTSR	RTSR measures the growth in Telstra's total shareholder return (TSR) relative to the growth in total shareholder return of telecommunication companies in a global peer group over the same period
Vesting schedule	25% vests at minimum threshold target Straight-line vesting from minimum threshold target to stretch target where 100% vests
FCF ROI Performance Rights	
Performance Hurdle - FCF ROI	FCF ROI is calculated by dividing the average annual free cashflow (adjusted for interest paid and specific non-recurring factors) over the performance period by Telstra’s average investment over the same period and may be adjusted by the Board to ensure that material events do not result in unintended windfall gains or losses
Vesting schedule	50% vests at minimum threshold target Straight-line vesting from minimum threshold target to stretch target where 100% vests

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.3 Description of LTI share-based payment arrangements (continued)

(b) Employee Share Plan (ESP) restricted shares

Restricted shares provided under the ESP in each financial year were allocated at no cost to certain eligible employees (executives are excluded from the ESP).

The restricted shares are held by the Trustee on behalf of employees until the restriction period ends. For Australian based employees, the shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment. Although the Trustee holds the restricted shares in trust, the employees retain beneficial interest (dividend, voting rights, bonus issues and right issues) in these shares until the end of the restriction period.

There are no performance hurdles for these restricted shares.

(c) GE Telstra Wholesale restricted shares

The last allocation under this type of LTI share-based payment arrangement was made in November 2017.

Due to the SSU arising from the nbn transaction, the executive fulfilling the GE Telstra Wholesale role was prohibited from participating in the LTI plans. As a result, an alternative remuneration arrangement was provided to that executive, which was a restricted share plan where the allocated number of restricted shares was based on the executive's STI outcome for the previous financial year. The restriction period for the outstanding restricted shares is three years from the allocation date.

The performance hurdles for the outstanding GE Telstra Wholesale restricted shares were applied in determining the number of restricted shares allocated and the restricted shares are not subject to any other performance hurdles.

If the GE Telstra Wholesale executive leaves Telstra for any non-permitted reason before the end of the three-year restriction period, the restricted shares are forfeited. If the executive leaves for a permitted reason, he or she will forfeit a pro rata number of restricted shares. Restricted shares may also be forfeited if certain clawback events occur during the restriction period.

(d) Outstanding equity based instruments

Table D provides further information about each type of LTI plan that was outstanding during the financial year.

End date refers to the end of the restriction period for ESP restricted shares, GE Telstra Wholesale restricted shares, and the restricted shares allocated after vesting of RTSR and FCF ROI performance rights.

All ESP restricted shares, GE Telstra Wholesale restricted shares and RTSR & FCF ROI performance rights have a nil exercise price.

Table D Telstra Group	Effective allocation date	Performance period from	Performance period to	End date
Growthshare 2014				
RTSR & FCF ROI performance rights	1 Jul 2013	1 Jul 2013	30 Jun 2016	30 Jun 2017
Growthshare 2015				
ESP restricted shares	27 Feb 2015	n/a	n/a	27 Feb 2018
GE Telstra Wholesale restricted shares	1 Jul 2014	n/a	n/a	30 Jun 2017
Growthshare 2016				
ESP restricted shares	26 Feb 2016	n/a	n/a	26 Feb 2019
RTSR & FCF ROI performance rights	1 Jul 2015	1 Jul 2015	30 Jun 2018	30 Jun 2019
GE Telstra Wholesale restricted shares	1 Jul 2015	n/a	n/a	30 Jun 2018
Growthshare 2017				
ESP restricted shares	24 Feb 2017	n/a	n/a	24 Feb 2020
RTSR & FCF ROI performance rights	1 Jul 2016	1 Jul 2016	30 Jun 2019	30 Jun 2020
GE Telstra Wholesale restricted shares	1 Jul 2017	n/a	n/a	30 Jun 2020
Growthshare 2018				
ESP restricted shares	23 Feb 2018	n/a	n/a	23 Feb 2021

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.3 Description of LTI share-based payment arrangements (continued)

(e) Summary of movements

Table E provides a summary of the movements in our LTI plans.

Forfeited refers to either instruments that lapsed on cessation of employment or following a clawback event or instruments that lapsed unexercised.

Exercised refers to performance rights and restricted shares released from restriction.

Expired refers to instruments that lapsed as a result of the performance hurdle not being met.

Table E	Number of equity instruments					
Telstra Group	Outstanding at 30 June 2017	Allocated	Forfeited	Exercised	Expired	Outstanding at 30 June 2018
Growthshare 2014						
RTSR performance rights	**496,734**	-	-	(496,734)	-	**-**
FCF ROI performance rights	**1,201,768**	-	-	(1,201,768)	-	**-**
Growthshare 2015						
ESP restricted shares	**1,972,100**	-	-	(1,972,100)	-	**-**
GE Telstra Wholesale restricted shares	**100,174**	-	-	(100,174)	-	**-**
Growthshare 2016						
ESP restricted shares	**2,171,400**	-	-	(233,400)	-	**1,938,000**
RTSR performance rights	**1,228,380**	-	(121,327)	-	(1,107,053)	**-**
FCF ROI performance rights	**1,228,380**	-	(121,327)	-	(1,107,053)	**-**
GE Telstra Wholesale restricted shares	**39,893**	-	-	-	-	**39,893**
Growthshare 2017						
ESP restricted shares	**2,380,500**	-	-	(252,800)	-	**2,127,700**
RTSR performance rights	**1,925,108**	-	(464,757)	-	-	**1,460,351**
FCF ROI performance rights	**1,925,108**	-	(464,757)	-	-	**1,460,351**
GE Telstra Wholesale restricted shares	**-**	86,185	-	-	-	**86,185**
Growthshare 2018						
ESP restricted shares	**-**	2,492,700	(200)	(63,400)	-	**2,429,100**

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.3 Description of LTI share-based payment arrangements (continued)

(f) Reconciliation of outstanding share plans

Table F summarises the number of each type of LTI equity instrument.

Table F Telstra Group	Performance rights		Restricted shares	
	As at 30 June			
	2018	2017	2018	2017
Opening balance	**8,005,478**	**10,411,513**	**6,664,067**	**7,189,303**
Allocated	-	3,923,426	2,578,885	2,460,600
Forfeited	(1,172,168)	(527,192)	(200)	(43,241)
Exercised	(1,698,502)	(3,564,166)	(2,621,874)	(2,942,595)
Expired	(2,214,106)	(2,238,103)	-	-
Closing balance	**2,920,702**	**8,005,478**	**6,620,878**	**6,664,067**
Weighted average fair value of instruments allocated during the year	n/a	$3.27	$3.45	$4.84
Weighted average share price at date of exercise during the year	$4.11	$5.41	$3.43	$4.77

(g) Fair value of performance rights

Table G provides details of the inputs used in the measurement of the fair values at grant date of the performance rights under the LTI arrangement.

Table G Telstra Group	LTI RTSR performance rights	LTI FCF ROI performance rights
	Measurement date at	
	Oct 2016	
Share price	$5.10	$5.10
Risk free rate	1.76%	1.76%
Dividend yield	6.0%	6.0%
Expected life	(a)	(a)
Expected stock volatility	15.0%	15.0%
Expected rate of achievement of TSR performance hurdles	43.2%	n/a
Fair value ($)	$2.18	$4.35

(a) The expected life represents the date on which the instruments become exercisable.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This is based on the historical daily and weekly closing share prices.

5.2.4 Other equity plans

(a) TESOP 99

As part of the Commonwealth's sale of its shareholding in the financial years 1998 and 2000, Telstra offered eligible employees the opportunity to buy ordinary shares of Telstra with an interest-free loan from Telstra. The shares are held by Telstra ESOP Trustee Pty Limited (TESOP Trustee) on behalf of the employee until the loan has been repaid in full. The Telstra Employee Share Ownership Plan II (TESOP 99) has 2,989,600 outstanding equity instruments as at 30 June 2018 (2017: 3,093,400) with a total fair value of $8 million (2017: $13 million). This plan did not have a material impact on our results.

The employee share loan balance as at 30 June 2018 was $11 million (2017: $12 million). For TESOP99, the weighted average loan still to be repaid was $3.54 (2017: $3.74) per instrument.

5.2.5 Recognition and measurement

Our employee share plans are equity settled and consist of restricted shares and performance rights. For each of our share plans, we measure the fair value of the equity instrument at grant date and recognise the expense over the relevant vesting period in the income statement with a corresponding increase in equity (i.e. share capital). The expense is adjusted to reflect actual and expected levels of vesting.

The fair values of our equity instruments are calculated by taking into account the terms and conditions of the individual plan and as follows:

Equity instrument	Fair value approach
Restricted shares	Market value of Telstra share at grant date
Performance rights	Black-Scholes methodology and utilises Monte Carlo simulations

The restricted shares are subject to a specified period of service, except for ESP for Australia based employees. Performance rights are subject to certain performance conditions and are measured over the relevant period depending on the plan.

Section 5. Our people (continued)

5.3 Post-employment benefits

We participate in, or sponsor, defined benefit and defined contribution schemes for our employees. This note provides details of our Telstra Superannuation Scheme (Telstra Super) defined benefit plan.

Our employer contributions to Telstra Super are based on our actuary's recommendations in line with any legislative requirements. The net defined benefit asset/(liability) at balance date is also affected by the valuation of Telstra Super's investments and our obligations to members of Telstra Super.

5.3.1 Net defined benefit plan asset/(liability)

Table A details our net defined benefit plan asset/(liability) recognised in the statement of financial position.

Table A Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Fair value of defined benefit plan assets	2,423	2,565
Present value of the defined benefit obligation	2,180	2,429
Net defined benefit asset	**243**	**136**
Attributable to:		
Telstra Super Scheme	250	142
Other	(7)	(6)
	243	**136**

5.3.2 Telstra Superannuation Scheme (Telstra Super)

The Telstra Entity participates in Telstra Super, a regulated fund in accordance with the Superannuation Industry Supervision Act governed by the Australian Prudential Regulation Authority.

Telstra Super's board of directors operates and governs the plan, including making investment decisions.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions, which are closed to new members, provide benefits based on years of service and final average salary paid as a lump sum. Post-employment benefits do not include payments for medical costs.

On an annual basis, we engage qualified actuaries to calculate the present value of the defined benefit obligations.

Contribution levels made to the defined benefit divisions are determined by Telstra after obtaining the advice of the actuary and in consultation with Telstra Super Pty Ltd (the Trustee). These are designed to ensure that benefits accruing to members and beneficiaries are fully funded as they fall due. The benefits received by members of each defined benefit division take into account factors such as each employee's length of service, final average salary, and employer and employee contributions.

Telstra Super is exposed to Australia's inflation, credit risk, liquidity risk and market risk. Market risk includes interest rate risk, equity price risk and foreign currency risk. The strategic investment policy of the fund is to build a diversified portfolio of assets to match the projected liabilities of the defined benefit plan.

(a) Reconciliation of changes in fair value of defined benefit plan assets

Table B provides a reconciliation of fair value of defined benefit plan assets from the opening to the closing balance.

Table B Telstra Super	As at 30 June	
	2018	2017
	$m	$m
Fair value of defined benefit plan assets at beginning of year	**2,565**	**2,638**
Employer contributions	60	66
Member contributions	33	36
Benefits paid (including contributions tax)	(334)	(266)
Plan expenses after tax	(8)	(9)
Interest income on plan assets	97	81
Actual asset gain	10	19
Fair value of defined benefit plan assets at end of year	**2,423**	**2,565**

(b) Reconciliation of changes in the present value of the wholly funded defined benefit obligation

Table C provides a reconciliation of the present value of defined benefit obligation from the opening to the closing balance.

Table C Telstra Super	As at 30 June	
	2018	2017
	$m	$m
Present value of defined benefit obligation at beginning of year	**2,423**	**2,623**
Current service cost	79	82
Interest cost	93	82
Member contributions	14	16
Benefits paid	(334)	(266)
Actuarial (gain) due to change in financial assumptions	(74)	(144)
Actuarial (gain) due to change in demographic assumptions	(23)	(8)
Actuarial (gain)/loss due to experience	(5)	38
Present value of wholly funded defined benefit obligation at end of year	**2,173**	**2,423**

The actual return on defined benefit plan assets was 4.4 per cent (2017: 4.5 per cent).

Net actuarial gain recognised in other comprehensive income for Telstra Super amounted to $112 million (2017: $133 million net gain).

Section 5. Our people (continued)

5.3 Post-employment benefits (continued)

5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

(c) Categories of plan assets

Table D details the weighted average allocation as a percentage of the fair value of total defined benefit plan assets by class based on their nature and risks.

Table D Telstra Super	As at 30 June	
	2018	2017
	%	%
Asset allocations		
Equity instruments		
Australian equity [1]	16	18
International equity [1]	18	17
Private equity	4	7
Debt instruments		
Fixed interest [1]	46	45
Property	7	4
Cash and cash equivalents	4	6
Other	5	3
	100	**100**

1 These assets have quoted prices in active markets.

(i) Related party disclosures

As at 30 June 2018, Telstra Super owned 41,973,318 (2017: 39,779,094) shares in the Telstra Entity at a cost of $166 million (2017: $198 million) and a market value of $110 million (2017: $171 million). All these shares were fully paid at 30 June 2018. In the financial year 2018, we paid dividend to Telstra Super of $10 million (2017: $9 million). We own 100 per cent of the equity of Telstra Super Pty Ltd, the Trustee of Telstra Super.

Telstra Super also holds promissory notes and bonds issued by the Telstra Entity. As at 30 June 2018, these securities had a cost of $61 million (2017: $24 million) and a market value of $61 million (2017: $24 million).

All purchases and sales of Telstra shares, promissory notes and bonds by Telstra Super are on an arm's length basis and are determined by the Trustee and/or its investment managers on behalf of the members of Telstra Super.

(d) Actuarial assumptions and sensitivity analysis

Defined benefit plan

Management judgement was used to determine the following key assumptions used in the calculation of our defined benefit obligations:

- 3.0 per cent (2017: 3.3 per cent) average expected rate of increase in future salaries
- 3.7 per cent (2017: 3.9 per cent) discount rate.

We have used a 8 year (2017: 9 year) high quality corporate bond rate to determine the discount rate as the term matches closest to the term of the defined benefit obligations.

Our assumption for the salary inflation rate for Telstra Super reflects our long-term expectation for salary increases.

If the estimates prove to be different to actual experience, this may materially affect balances in the next reporting period.

Table E summarises how the defined benefit obligation as at 30 June 2018 would have increased/(decreased) as a result of a change in the respective assumptions by 1 percentage point (1pp).

Table E Telstra Super	Defined benefit obligation	
	1pp increase	1pp decrease
	$m	$m
Discount rate	(121)	139
Expected rate of increase in future salaries	84	(76)

Section 5. Our people (continued)

5.3 Post-employment benefits (continued)

5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

(e) Employer contributions

During the year, we paid contributions totalling $60 million (2017: $66 million) at the rate of 15 per cent (2017: 15 per cent) to our defined benefit divisions, following recommendations from our actuary.

We expect to continue to contribute at the rate of 15 per cent to our defined benefit divisions for the financial year 2019. This contribution rate could change depending on market conditions and actuarial review during the financial year 2019.

Table F shows the expected proportion of benefits paid from the defined benefit obligation in future years.

Table F Telstra Super	Year ended 30 June	
	2018	2017
	%	%
Within 1 year	16	6
Between 1 and 4 years	25	19
Between 5 and 9 years	18	20
Between 10 and 19 years	33	42
After 20 years	8	13
	100	**100**

The weighted average duration of the defined benefit plan obligations at the end of the reporting period was eight years (2017: nine years).

5.3.3 Other defined benefit schemes

Our controlled entities also participate in both funded and unfunded defined benefit schemes, which are individually and in aggregate immaterial.

5.3.4 Recognition and measurement

(a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements and other obligations. The contributions are recorded as an expense in the income statement as they become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

(b) Defined benefit plans

(i) Telstra Superannuation Scheme

We currently sponsor a post-employment defined benefit plan under the Telstra Superannuation Scheme.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit is recognised as a liability. In the reverse situation, the net surplus is recognised as an asset. We recognise the asset only when we have the ability to control this surplus to generate future funds that will be available to us in the form of reductions in future contributions or as a cash refund.

The actuaries use the projected unit credit method to estimate the present value of the defined benefit obligations of the plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on high quality corporate bonds.

We recognise all our defined benefit costs in the income statement, with the exception of actuarial gains and losses that are recognised directly in other comprehensive income.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at a reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

5.4 Key management personnel compensation

Key management personnel (KMP) refer to those who have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. KMP are deemed to include the following:

- the non-executive Directors of the Telstra Entity
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, including the CEO.

This note summarises the aggregate compensation of our KMP during the financial years 2018 and 2017, and provides information about other transactions with our KMP and their related parties.

5.4.1 KMP aggregate compensation

During the financial years 2018 and 2017, the aggregate compensation of our KMP was:

Telstra Group	As at 30 June	
	2018	2017
	$000	$000
Short-term employee benefits	14,636	15,024
Post-employment benefits	290	284
Other long-term benefits	141	184
Termination benefits	495	672
Share-based payments	2,726	4,193
	18,288	**20,357**

Refer to the Remuneration Report, which forms part of the Directors' Report for further details regarding KMP remuneration.

5.4.2 Other transactions with our KMP and their related parties

During the financial years 2018 and 2017, apart from transactions trivial and domestic in nature and on normal commercial terms and conditions, there were no other transactions with our KMP and their related parties.

Section 6. Our investments

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

6.1 Changes in the group structure

6.1.1 Current year acquisitions and disposals

There were no material acquisitions and disposals during the financial year 2018 except for Telstra Media Pty Ltd, which held our investment in the Foxtel joint venture (Foxtel) and Telstra Ventures' contribution of investments to Telstra Ventures Fund II, L.P. Refer to note 6.3.1 for further details.

Accounting for business combinations

We apply management judgment to determine the fair value of acquired net assets. The relevant accounting standard allows the fair value of net assets acquired to be refined for a window of a year after the acquisition date and judgment is required to ensure that the adjustments made reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjustments made to fair value of net assets are retrospective in nature and have an impact on goodwill recognised on acquisition.

6.1.2 Recognition and measurement

We account for the acquisition of our controlled entities using the acquisition method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the fair value of consideration over our interest in the fair value of the acquiree's net identifiable assets is recognised as goodwill. We expense acquisition related costs as incurred in the income statement.

The non-controlling interests on the date of acquisition can be measured at either fair value or at the non-controlling shareholders' proportion of the net fair value of the identifiable assets assumed. This choice is made separately for each acquisition. Transactions with non-controlling interests are recorded directly in the statement of comprehensive income.

Contingent consideration is classified as a financial instrument. It is recognised at fair value at acquisition date and subsequently remeasured to fair value, with changes in fair value recognised in the income statement.

If a business combination is achieved in stages, we remeasure any previously held equity interest at its acquisition fair value and any resulting gain or loss is recognised in income statement.

Section 6. Our investments (continued)

6.2 Investments in controlled entities

6.2.1 List of our investments in controlled entities

Table A sets out our material operating controlled entities as at 30 June 2018 (or ownership changes to such entities) based on a percentage of earnings before interest, income tax expense, depreciation and amortisation (EBITDA). The ownership percentages represent the relevant percentage of equity held by the subsidiary's immediate and ultimate parent, respectively.

A complete list of our controlled entities is available online at www.telstra.com/investor.

Table A		% of equity held by immediate parent		% of equity held by ultimate parent	
		As at 30 June		As at 30 June	
		2018	2017	2018	2017
Name of entity	Country of incorporation	%	%	%	%
Ultimate parent entity					
Telstra Corporation Limited	Australia				
Controlled entities					
1300 Australia Pty Ltd [8]	Australia	-	85.0	-	85.0
Asia Global Crossing Finance Co. Ltd	Bermuda	100.0	100.0	100.0	100.0
Asia Netcom Pacnet (Ireland) Limited	Ireland	100.0	100.0	100.0	100.0
Bridge Point Communications Pty Ltd	Australia	100.0	100.0	100.0	100.0
CloudMed Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Health Pty Ltd (formerly DCA Direct Health Pty Ltd)	Australia	100.0	100.0	100.0	100.0
Fred IT Group Pty Ltd [1, 2]	Australia	50.0	50.0	50.0	50.0
Neto E-Commerce Solutions Pty Ltd [5]	Australia	66.9	59.7	66.9	59.7
O2 Networks Pty Ltd [3]	Australia	100.0	100.0	100.0	100.0
Ooyala AB [4,6]	Sweden	100.0	100.0	97.0	98.4
Ooyala Holdings Inc. [4,6]	United States	97.0	98.4	97.0	98.4
Ooyala Inc. [4,6]	United States	100.0	100.0	97.0	98.4
Pacific Business Solutions (China) [1, 2, 4]	China	50.0	50.0	50.0	50.0
Pacnet Cable Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Internet (A) Pty Ltd	Australia	100.0	100.0	100.0	100.0
Pacnet Internet (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Pacnet Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Networks (Philippines) Inc.	Philippines	100.0	100.0	100.0	100.0
Pacnet Network (UK) Limited	United Kingdom	100.0	100.0	100.0	100.0
Pacnet Network Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Services (A) Pty Ltd	Australia	100.0	100.0	100.0	100.0
Pacnet Services (Japan) Corp. [3]	Japan	100.0	100.0	100.0	100.0
PT Teltranet Aplikasi Solusi [1, 4]	Indonesia	49.0	49.0	49.0	49.0
Telstra Broadcast Services Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Cable (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra Global (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0

Section 6. Our investments (continued)

6.2 Investments in controlled entities (continued)

6.2.1 List of our investments in controlled entities (continued)

Table A (continued)		% of equity held by immediate parent		% of equity held by ultimate parent	
		As at 30 June		As at 30 June	
		2018	2017	2018	2017
Name of entity	Country of incorporation	%	%	%	%
Telstra Global (Singapore) Pte Ltd [7]	Singapore	-	100.0	-	100.0
Telstra Holdings Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Inc.	United States	100.0	100.0	100.0	100.0
Telstra International (Aus) Limited	Australia	100.0	100.0	100.0	100.0
Telstra International Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra International Philippines Inc.	Philippines	100.0	100.0	100.0	100.0
Telstra Internet (S) Pte Ltd	Singapore	100.0	100.0	100.0	100.0
Telstra iVision Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Japan K.K.	Japan	100.0	100.0	100.0	100.0
Telstra Limited	United Kingdom	100.0	100.0	100.0	100.0
Telstra Media Pty Ltd [8]	Australia	-	100.0	-	100.0
Telstra Multimedia Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Pay TV Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra ReadyCare Pty Ltd [5]	Australia	90.5	88.7	90.5	88.7
Telstra Services (Taiwan) Inc. [3]	Taiwan	100.0	100.0	100.0	100.0
Telstra Services (USA) Inc.	United States	100.0	100.0	100.0	100.0
Telstra Services Asia Pacific (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra Services Global (S) Pte Ltd [7]	Singapore	-	100.0	-	100.0
Telstra Singapore Pte Ltd [7]	Singapore	100.0	100.0	100.0	100.0
Telstra SNP Monitoring Pty Ltd [1]	Australia	51.0	51.0	51.0	51.0
Telstra Telecommunications Private Limited [4]	India	74.0	74.0	74.0	74.0
Telstra Web Holdings Inc. [3]	Philippines	64.0	64.0	64.0	64.0

1 We have control over these companies through our decision making ability on the board.

2 These companies are not audited by Ernst & Young, our Australian statutory auditor.

3 The investment in these companies is held by various entities. The immediate parent percentage reflected represents the ultimate ownership by Telstra Corporation Limited.

4 These entities have a 31 December reporting date except for Telstra Telecommunications Private Limited which has a 31 March reporting date.

5 We increased our ownership interest in these entities via additional equity contributions during the year.

6 We decreased our ownership interest in these entities during the year. This was due to shares issued to management which was partially offset via additional equity contributions.

7 We amalgamated Telstra Global (Singapore) Pte Ltd and Telstra Service Global (S) Pte Ltd into Telstra Singapore Pte Ltd during the year.

8 We disposed of 1300 Australia Pty Ltd and Telstra Media Pty Ltd (refer to note 6.3 for our retained interests in Foxtel) during the year.

Section 6. Our investments (continued)

6.2 Investments in controlled entities (continued)

6.2.2 Deed of cross guarantee

Telstra Corporation Limited and each of the wholly-owned subsidiaries set out below (together the 'Closed Group'), are party to a deed of cross guarantee (Deed), as defined in ASIC legislative instrument: 'ASIC Corporations (Wholly-owned Companies) Instrument 2016/785' (ASIC Instrument).

The effect of the Deed is that each entity in the Closed Group guarantees the payment in full of all debts of the other entities in the Closed Group in the event of their winding up.

Pursuant to the ASIC Instrument, the wholly-owned subsidiaries within the Closed Group are relieved from the requirement to prepare and lodge separate financial statements, directors' reports and auditors' reports.

The statement of comprehensive income and statement of financial position disclosed in this section present consolidated results of the Closed Group.

The following entities are party to the Deed and part of the Closed Group:

- Telstra Corporation Limited
- Bridge Point Communications Pty Ltd
- Telstra Health Pty Ltd (formerly DCA Direct Health Pty Ltd)
- DCA eHealth Solutions Pty Ltd
- Goodwin Enterprises (VIC) Pty Ltd
- Kelzone Pty Ltd
- iCareHealth Pty Ltd
- Readify Pty Ltd
- Telstra Software Group Pty Ltd
- Network Design and Construction Limited
- O2 Networks Pty Ltd
- Prentice Management Consulting Pty Ltd
- Telstra Communications Limited
- Telstra Holdings Pty Ltd
- Telstra International (Aus) Limited
- Telstra iVision Pty Ltd
- Telstra Multimedia Pty Ltd
- Telstra Pay TV Pty Ltd
- Telstra Plus Pty Ltd
- Telstra Services Solutions Holdings Limited
- Telstra Ventures Pty Ltd
- Kloud Solutions (National) Pty Ltd
- Telstra Broadcast Services Pty Ltd
- The Silver Lining Consulting Group Pty Ltd

On 3 April 2018, we disposed of Telstra Media Pty Ltd, which has now ceased to be both a party to the Deed and a member of the Closed Group.

These entities were added as parties to the Deed via an assumption deed on 25 June 2018 and are also part of the Closed Group:

- Kloud Solutions Pty Ltd
- Mobile Tracking and Data Pty Ltd
- MTData Holdings Pty Ltd
- MSC Mobility Pty Ltd
- Pacnet Internet (A) Pty Ltd
- Virtual Machine Technology Pty Ltd

On 18 June 2018, a revocation deed was lodged with ASIC to revoke and release Prentice Management Consulting Pty Ltd, Kelzone Pty Ltd, Goodwin Enterprises (VIC) Pty Ltd and The Silver Lining Consulting Group Pty Ltd from the Deed in preparation for the voluntary deregistration of these entities. The revocation deed will take effect 6 months after the date of lodgement with ASIC at which point these entities will cease being members of the Closed Group.

There are no other members of the Extended Closed Group (as defined in the ASIC Instrument). Telstra Finance Limited is trustee under the Deed. However, it is not a member of the Closed Group or the Extended Closed Group.

The consolidated statement of financial position and statement of comprehensive income of the entities that are members of the Closed Group are presented in Tables B and C respectively. This excludes Telstra Finance Limited. All transactions between members of the Closed Group have been eliminated.

Section 6. Our investments (continued)

6.2 Investments in controlled entities (continued)

6.2.2 Deed of cross guarantee (continued)

Table B Closed Group	As at 30 June	
	2018	2017
	$m	$m
Current assets		
Cash and cash equivalents	582	809
Trade and other receivables	4,219	4,711
Inventories	786	877
Derivative financial assets	75	21
Current tax receivables	-	7
Prepayments	501	487
Total current assets	**6,163**	**6,912**
Non-current assets		
Trade and other receivables	1,018	1,037
Inventories	19	29
Investments – controlled entities	2,750	2,816
Investments – accounted for using the equity method	1,228	187
Investments – other	32	289
Property, plant and equipment	20,901	20,239
Intangible assets	7,903	7,859
Derivative financial assets	1,897	1,663
Defined benefit asset	250	142
Total non-current assets	**35,998**	**34,261**
Total assets	**42,161**	**41,173**
Current liabilities		
Trade and other payables	4,436	3,811
Provisions	966	1,029
Borrowings	2,369	3,031
Derivative financial liabilities	1	42
Current tax payables	119	92
Revenue received in advance	1,131	1,153
Total current liabilities	**9,022**	**9,158**
Non-current liabilities		
Other payables	62	62
Provisions	314	276
Borrowings	15,155	14,725
Derivative financial liabilities	388	536
Deferred tax liabilities	1,551	1,456
Revenue received in advance	926	767
Total non-current liabilities	**18,396**	**17,822**
Total liabilities	**27,418**	**26,980**
Net assets	**14,743**	**14,193**
Equity		
Share capital	4,428	4,421
Reserves	(89)	(93)
Retained profits	10,404	9,865
Equity available to the closed group	**14,743**	**14,193**

Table C Closed Group	Year ended 30 June	
	2018	2017
	$m	$m
Income		
Revenue (excluding finance income)	24,647	24,596
Other income	3,025	2,192
	27,672	**26,788**
Expenses		
Labour	4,656	4,868
Goods and services purchased	8,025	7,007
Other expenses	5,034	4,412
	17,715	**16,287**
Share of net (loss)/profit from joint ventures and associated entities	(25)	27
	17,740	**16,260**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**9,932**	**10,528**
Depreciation and amortisation	4,191	4,114
Earnings before interest and income tax expense (EBIT)	**5,741**	**6,414**
Finance income	88	141
Finance costs	629	724
Net finance costs	**541**	**583**
Profit before income tax expense	**5,200**	**5,831**
Income tax expense	1,602	1,736
Profit for the year	**3,598**	**4,095**

Section 6. Our investments (continued)

6.2 Investments in controlled entities (continued)

6.2.2 Deed of cross guarantee (continued)

Table C (continued) Closed Group	Year ended 30 June	
	2018	2017
	$m	$m
Items that will not be reclassified to the Closed Group income statement		
Retained profits		
Actuarial gain on defined benefit plans	112	133
Income tax on actuarial gain on defined benefit plans	(34)	(40)
Cumulative gains from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal	-	83
Fair value of equity instruments reserve		
Gains from investments in equity instruments designated at fair value through other comprehensive income	13	86
Income tax on fair value movements for investments in equity instruments	2	(9)
Cumulative gains from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal	-	(83)
	93	**170**
Items that may be subsequently reclassified to the Closed Group income statement		
Changes in fair value of cash flow hedging reserve	(97)	(32)
Income tax on movements in the cash flow hedging reserve	29	10
Changes in the value of the foreign currency basis spread	(31)	(41)
Income tax on movements in the foreign currency basis spread reserve	9	9
	(90)	**(54)**
Total other comprehensive income for the Closed Group	**3**	**116**
Total comprehensive income for the year for the Closed Group	**3,601**	**4,211**

Table D provides a reconciliation of retained profits of the Closed Group from the opening to the closing balance.

Table D Closed Group	Year ended 30 June	
	2018	2017
	$m	$m
Retained profits at the beginning of the financial year available to the Closed Group	**9,865**	**10,074**
Effect on retained profits from addition of entities to the Closed Group	13	4
Share buy-back (net of income tax)	-	(748)
Total comprehensive income recognised in retained profits	3,676	4,271
Dividend	(3,150)	(3,736)
Retained profits at the end of the financial year available to the Closed Group	**10,404**	**9,865**

Section 6. Our investments (continued)

6.3 Investments in joint ventures and associated entities

We account for joint ventures and associated entities using the equity method. Under this method, we recognise the investment at cost and subsequently adjust it for our share of profits or losses, which are recognised in the income statement and our share of other comprehensive income, which is recognised in the statement of comprehensive income. Generally, dividend received reduce the carrying value of the investment.

The movements in the carrying amount of equity accounted investments in our joint ventures and associated entities are summarised in Table A.

Table A Telstra Group	As at 30 June			
	Joint ventures		Associated entities	
	2018	2017	2018	2017
	$m	$m	$m	$m
Carrying amount of investments at beginning of year	**2**	**6**	**192**	**165**
Additions	759	1	800	5
Disposals	(485)	-	(1)	-
Contribution to Telstra Ventures Fund II, L.P.	-	-	(26)	-
Reclassification to other investment	-	(7)	-	-
Net (impairment loss)/reversal of impairment recognised in the income statement	-	-	(9)	2
	276	**-**	**956**	**172**
Share of net (loss)/profit	(16)	2	(6)	30
Share of distributions	-	-	(9)	(10)
Share of reserves	36	-	-	-
Carrying amount of investments at end of year	**296**	**2**	**941**	**192**

Refer to note 6.3.1 for further information on additions, disposals and the contribution to Telstra Ventures Fund II, L.P.

Section 6. Our investments (continued)

6.3 Investments in joint ventures and associated entities (continued)

6.3.1 List of our investments in joint ventures and associated entities

Table B shows a list of our investments in joint ventures and associated entities, their principal place of business/country of incorporation and our ownership interest.

Table B			Ownership interest	
			As at 30 June	
			2018	2017
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
Joint ventures				
Foxtel Partnership (c)	Pay television	Australia	-	50.0
Foxtel Television Partnership (c)	Pay television	Australia	-	50.0
Customer Services Pty Ltd (c)	Customer service	Australia	-	50.0
Foxtel Management Pty Ltd (c)	Management services	Australia	-	50.0
Foxtel Cable Television Pty Ltd (c)	Pay television	Australia	-	80.0
Reach Limited (a)	International connectivity services	Bermuda	50.0	50.0
3GIS Pty Ltd	Management of former 3GIS Partnership (non-operating)	Australia	50.0	50.0
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	50.0	50.0
Telstra Ventures Fund II, L.P. (b)	Venture capital	Guernsey	62.5	-
Associated entities				
Australia-Japan Cable Holdings Limited (a)	Network cable provider	Bermuda	46.9	46.9
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0
IPScape Pty Ltd (b)	Cloud based contact centre solution	Australia	-	24.9
Whispir Limited (b)	Cloud communication software provider	Australia	-	24.5
IP Health Pty Ltd	Health workflow software development	Australia	-	32.9
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	Australia	30.0	30.0
Near Pte Ltd (b)	Location intelligence and analytics	Singapore	-	12.5
Panviva Pty Ltd (b)	Cloud based business process guidance software	Australia	-	22.2
Gorilla Technology Group Inc. (b)	Video analytics software provider	Taiwan/Cayman Islands	-	8.9
enepath (Group Holdings) Pte Ltd (a)	Trading turret and calling software provider	Singapore	28.1	24.8
PharmX Pty Ltd	Internet based ordering gateway	Australia	15.0	15.0
Asia Netcom Philippines Corporation (a)	Ownership of physical property	Philippines	40.0	40.0
Dacom Crossing Corporation (a)	Network cable provider	Korea	49.0	49.0
Digitel Crossing Inc. (a)	Telecommunication services	Philippines	48.0	48.0
Pivotal Labs Sydney Pty Ltd	Software development	Australia	20.0	20.0
NXE Australia Pty Limited (c)	Pay television	Australia	35.0	-

Section 6. Our investments (continued)

6.3 Investments in joint ventures and associated entities (continued)

6.3.1 List of our investments in joint ventures and associated entities (continued)

Significant influence over our investments

We applied management judgment to determine that we do not control Telstra Super Pty Ltd even though we own 100 per cent of its equity. Telstra Super Pty Ltd is a trustee for the Telstra Superannuation Scheme. We do not consolidate Telstra Super Pty Ltd as we do not control the board of directors. The board of directors consists of an equal number of employer and member representatives and an independent chairman. Our voting power over the relevant activities is 44 per cent, which is equivalent to our representation on the board. The entity is therefore classified as an associated entity as we have significant influence over it.

(a) Joint ventures and associated entities with different reporting dates

Several of our joint ventures and associated entities have reporting dates that differ from our reporting date of 30 June for financial year 2018 as follows:

- Reach Limited – 31 December
- Australia-Japan Cable Holdings Limited – 31 December
- Asia Netcom Philippines Corporation – 31 December
- Dacom Crossing Corporation – 31 December
- Digitel Crossing Inc. – 31 December
- enepath (Group Holdings) Pte Ltd – 31 March
- Pivotal Labs Sydney Pty Ltd – 31 January.

The differences in reporting dates are due to jurisdictional requirements. Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in joint ventures and associated entities with different reporting dates is the same at that reporting date as at 30 June unless otherwise noted.

Joint control of our investments

We applied management judgment to determine that we have joint control of our investment in Telstra Ventures Fund II, L.P. While we hold 62.5 per cent of the partnership interest on a fully committed basis, key decisions for the entity require the unanimous approval of the Advisory Committee, on which we hold one of the two seats, or a majority of at least 75 per cent of the fully committed capital.

(b) Telstra Ventures Fund II, L.P.

On 29 June 2018, Telstra entered into agreement with HarbourVest to form a new fund, "Telstra Ventures Fund II, L.P." As part of the agreement, Telstra contributed a majority of Telstra Ventures Pty Ltd's investments into the new fund. This resulted in a $25 million fair value gain recognised in other income and a $53 million fair value loss recognised in other comprehensive income.

(c) Foxtel joint venture and NXE Australia Pty Limited

As at 30 June 2017, our investment in 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 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.

The profit for the financial period from 1 July 2017 to 2 April 2018 for Foxtel and its controlled entities is $91 million. The profit for the financial year ended 30 June 2017 was $132 million.

On 3 April 2018, Telstra and News Corporation merged the previously shared joint venture Foxtel, with Fox Sports Australia, which is owned 100 per cent by News Corporation. As a result of the transaction, Telstra contributed its shares in Telstra Media Pty Ltd in exchange for a 35 per cent interest in NXE Australia Pty Limited, which is the newly formed head entity of the merged group of Foxtel and Fox Sports Australia. This resulted in a $261 million gain recognised in other income.

We have applied judgement and determined that we have significant influence over our investment in NXE Australia Pty Limited.

Section 6. Our investments (continued)

6.3 Investments in joint ventures and associated entities (continued)

6.3.1 List of our investments in joint ventures and associated entities (continued)

(c) Foxtel joint venture and NXE Australia Pty Limited (continued)

Financial information of NXE Australia Pty Limited and its controlled entities for the period 3 April 2018 to 30 June 2018 is summarised in Table C based on their consolidated management financial statements prepared in accordance with IFRS. The information disclosed reflects the amounts presented in the financial statements of NXE Australia Pty Limited and not Telstra's share of those amounts. The management financial information has been amended to reflect adjustments made by Telstra when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Table C NXE Australia Pty Limited	Year ended 30 June
	2018
	$m
Revenue	808
Share of profit from associated entities	2
Expenses	(664)
Depreciation and amortisation	(106)
Interest expense	(27)
Other finance costs	(31)
Income tax expense	6
Loss for the period	**(12)**
Other comprehensive income	-
Total comprehensive income for the period	**(12)**
Fair value adjustments	(57)
Adjusted loss for the period	(69)
Telstra's share of result (35%)	**(24)**

Financial liabilities exclude trade and other payables and provisions.

6.3.2 Other joint ventures and associated entities

Our share of the aggregate financial information (including joint ventures and associated entities where equity accounting has been suspended) is presented in Table D.

Table D Telstra Group	Year ended/As at 30 June			
	Joint ventures		Associated entities	
	2018	2017	2018	2017
	$m	$m	$m	$m
Carrying amount of investment	**296**	**2**	**941**	**192**
Group's share of:				
(Loss)/profit	(14)	7	-	58
Other comprehensive income	32	4	(1)	1
Total comprehensive income	**18**	**11**	**(1)**	**59**

6.3.3 Suspension of equity accounting

Table E presents our unrecognised share of profits/(losses) for the period and cumulatively for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount. Refer to note 6.3.1 for further information on equity accounting for Foxtel.

Table E Telstra Group	Year ended 30 June			
	Period	Cumulative	Period	Cumulative
	2018	2018	2017	2017
	$m	$m	$m	$m
Joint ventures				
Foxtel	-	-	62	(63)
Reach Ltd	2	(548)	5	(550)
Associated entities				
Australia-Japan Cable Holdings Limited	6	(71)	28	(77)
	8	**(619)**	**95**	**(690)**

Section 6. Our investments (continued)

6.3 Investments in joint ventures and associated entities (continued)

6.3.4 Transactions with our joint ventures and associated entities

Table F details transactions with our joint ventures and associated entities recorded in the income statement and statement of financial position.

Table F Telstra Group	Year ended/As at 30 June	
	2018	2017
	$m	$m
Income		
Sale of goods and services	258	287
Interest income from loans to joint ventures and associated entities	13	49
Expenses		
Purchase of goods and services	927	933
Interest expense on loans from joint ventures and associated entities	6	2
Total amounts receivable as at 30 June		
Current		
Joint ventures and associated entities – receivables	36	69
	36	**69**
Non-current		
Joint ventures and associated entities – loans	7	450
Allowance for amounts owed by joint ventures and associated entities	(7)	(7)
	-	**443**
Movement in allowance for amounts owed by joint ventures and associated entities		
Opening balance	**(7)**	**(7)**
Foreign currency exchange differences	-	-
Closing balance	**(7)**	**(7)**
Total amounts payable as at 30 June		
Current		
Joint ventures and associated entities – payables	92	89
Joint ventures and associated entities – loans	-	29
	92	**118**
Non-current		
Joint ventures and associated entities – loans	80	-
	80	**-**

(a) Sale and purchase of goods and services

We sold and purchased goods and services, and received and paid interest from/to our joint ventures and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of individually significant transactions with our joint ventures and associated entities during the financial year 2018 were as follows:

- we purchased pay television services amounting to $810 million (2017: $811 million) from Foxtel. The purchases were to enable the resale of Foxtel** services, including Pay TV content, to our existing customers as part of our ongoing product bundling initiatives
- we made sales to Foxtel for our broadband system services of $69 million (2017: $103 million) and wholesale services of $58 million (2017: $58 million).

(b) Loans to joint ventures and associated entities

Loans provided to joint ventures and associated entities relate to Reach Ltd of $7 million (2017: $443 million to Foxtel Management Pty Ltd and $7 million to Reach Ltd).

On 28 September 2017, the face value of the loan to Foxtel Management Pty Ltd was converted into investment, which was subsequently disposed on 3 April 2018 in exchange for our investment in NXE Australia Pty Limited.

The loan provided to Reach Ltd is an interest-free loan and repayable upon the giving of 12 months' notice by both PCCW Limited and us. We have fully provided for the non-recoverability of the loan as we do not consider that Reach Ltd is in a position to be able to repay the loan amount in the medium term.

(c) Loans from joint ventures and associated entities

As at 30 June 2018, we had a loan payable amount of $80 million (2017: $29 million) under a loan agreement with an associated entity, Project Sunshine I Pty Ltd which includes capitalised interest. The loan has an interest rate of 9.5 per cent per annum and a maturity date of 22 September 2020.

Section 6. Our investments (continued)

6.3 Investments in joint ventures and associated entities (continued)

6.3.4 Transactions with our joint ventures and associated entities (continued)

(d) Commitments

We have purchase commitments to Project Sunshine I Pty Ltd, primarily for advertising services, amounting to $8 million (2017: $21 million) over the remaining one-year contract term.

6.3.5 Recognition and measurement

(a) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Our interests in joint ventures are accounted for using the equity method of accounting.

(b) Investments in associated entities

These are investments in entities over which we have the ability to exercise significant influence but we do not control the decisions of the entity. Our interests in associated entities are accounted for using the equity method of accounting.

(c) Equity method of accounting

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

Section 7. Other information

This section provides other information and disclosures not included in the other sections, for example our external auditor's remuneration, commitments and contingencies, parent entity disclosures and significant events occurring after reporting date.

7.1 Other accounting policies

7.1.1 Changes in accounting policies

The following amendments to the accounting standards 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.

7.1.2 Foreign currency translation

(a) Transactions and balances

Foreign currency transactions are translated into the relevant functional currency at the spot exchange rate at transaction date. At the reporting date, amounts receivable or payable denominated in foreign currencies are translated into the relevant functional currency at market exchange rates at reporting date. Any currency translation gains and losses that arise are included in our income statement.

Non-monetary items denominated in foreign currency that are measured at fair value (i.e. certain equity instruments not held for trading) are translated using the exchange rates at the date when the fair value was determined. The differences arising from the translation are reported as part of the fair value gain or loss in line with the recognition of the changes in the fair value of the non-monetary item.

(b) Financial reports of foreign operations that have a functional currency that is not Australian dollars

The financial statements of our foreign operations are translated into Australian dollars (our presentation currency) using the following method:

Foreign currency amount	Exchange rate
Assets and liabilities including goodwill and fair value adjustments arising on consolidation	The reporting date rate
Equity items	The initial investment date rate
Income statements	Average rate (or the transaction date rate for significant identifiable transactions)

The exchange differences arising from the translation of financial statements of foreign operations are recognised in other comprehensive income.

7.1.3 New accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the financial year 2018 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.

We 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 loss (ECL) model for impairment of financial assets. We will adopt these impairment requirements from 1 July 2018.

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; and
- lifetime ECL which result from all possible default events over the expected life of a financial instrument.

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

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

(i) Cash and cash equivalents

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

Section 7. Other information (continued)

7.1 Other accounting policies (continued)

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

(a) Financial instruments - impairment of financial assets (continued)

The impairment assessment on cash and cash equivalents was performed based on the 12-month ECL basis and reflects the short maturities of the exposures. Based on the external credit ratings of the counterparties we consider cash and cash equivalents to have low credit risk. Therefore we do not expect any increase in impairment loss for cash and cash equivalents after implementation of AASB 9 (2014) requirements.

(ii) Trade and other receivables including contract assets

For our trade and other receivables and contract assets the estimated ECL is calculated using either:

- portfolio approach based on historical credit loss experience, or
- a probability of default and expected loss from any outstanding balance.

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

Any customer account with debt more than 90 days past due is considered to be in default, which is in line with the AASB 9 (2014) guidance.

Given AASB 9 (2014) requires us to hold provisions for expected rather than incurred credit losses, most portfolio provision holdings will be impacted by these changes.

On adoption of the new standard in the financial year ending 30 June 2019, we expect a reduction in opening retained earnings (before tax) of $74 million (after tax $52 million) as at 1 July 2018 due to earlier recognition of credit losses. However, any final AASB 9 (2014) 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, the estimates of which are presented in note 7.1.3 (b) (vii).

(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 and are further collectively referred to as AASB 15.

AASB 15 supersedes the existing accounting standards and interpretations for revenue. It establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers and requires revenue to be recognised in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

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

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

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

We have substantially completed our analysis and the impact assessment of the new revenue standard on our financial results, including changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and associated internal controls in order to support ongoing compliance with the new accounting requirements from 1 July 2018 i.e. the mandatory effective date. However, we will continue to fully embed the new requirement into our processes in the financial year 2019. We will apply the standard retrospectively to prior reporting periods from 1 July 2017.

Like many other telecommunications companies we have identified that the adoption of the new revenue standard will result in a number of accounting policy changes and a financial impact on our opening retained earnings (as at 1 July 2017) and on restatement of the financial performance for 2018. Impacts identified primarily relate to the timing of revenue recognition, the classification of revenue, the capitalisation of costs to obtain a contract with a customer and expensing some of the currently deferred costs to fulfil a contract. These changes are summarised below together with the most reliable estimates of the expected financial impacts. Those estimates may be subject to some changes as we progress to fully operationalise the new requirements in the financial year 2019. Our final adjustments and detailed disclosures will be included in our financial year 2019 financial statements.

(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 contracts being:

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

A summary of the changes in our accounting policies on the adoption of AASB 15 is presented below.

Section 7. Other information (continued)

7.1 Other accounting policies (continued)

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

(b) Revenue from contracts with customers (continued)

(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.

Our mobile long-term contracts often offer a bundle of hardware (delivered upfront) and services (delivered over the contract term), where the customer pays a monthly fee and receives a discount, which is allocated between the hardware and services based on their relative selling prices. When determining the customer contract, AASB 15 requires us to assess the combination of two or more contracts entered into at or near the same time with the same customer. As a result, we 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.

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 for 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 for together with the Infrastructure Services Agreement (ISA). ISA also includes payments for sale of our infrastructure assets, which are not in scope of AASB 15, however, the timing of control transfer 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.

When determining the contract term for accounting purposes AASB 15 focuses on legal rights and obligations of counterparties to the agreement. Currently our accounting is largely aligned to the legal term of the contacts. On adoption of the AASB 15 the contract term for accounting purposes will change mainly for our enterprise and government contracts, our wholesale contracts and commercial contracts with nbn co. These types of contracts often include general terms and conditions (including pricing) under which customers can order goods and services in the future, i.e. they are framework / umbrella agreements rather than accounting contracts. This is because on signing of the framework agreement the customer would not have committed to purchase any goods or services; rather goods or services will only be transferred to the customer once a valid purchase order or a statement of work is raised. Furthermore, where the goods or services have been identified the term of legal contracts may need to be reduced if the termination of the contract would not result in a substantive penalty to the customer over and above the amounts owed by the customer for goods and services already delivered (i.e. where the contract can be cancelled by either party at any time). In such circumstances additional good or services requested by the customer under the same order will often be treated and accounted for as separate short-term accounting contracts.

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 retail mass market contracts prospectively. Upon transition to AASB 15, we do not expect material impacts from modifications of these contracts because the standard terms and conditions of our homogeneous mass market contracts are normally not re-negotiated and the customer rights to move up and down within the plan family are included in each contract from its inception and considered to be a non-beneficial option.

However, our bespoke contracts with small business, enterprise and wholesale customers are varied or re-negotiated from time to time. Currently each time we consider specific facts and circumstances and, depending on the nature and legal form of the negotiated changes, we determine the appropriate accounting treatment using the existing accounting principles. On transition to AASB 15 we expect our bespoke contracts to be impacted by the new rules which will apply to any contract re-negotiations from financial year 2018 onwards. This is because we have elected to apply a transition practical expedient for contracts that were modified before 1 July 2017, i.e. we will not retrospectively restate the transitioning contracts for each of their modifications. Instead, we will reflect the aggregate effect of all of the modifications that have occurred before 1 July 2017 when estimating the retained earnings adjustments. For the restatement of the financial year 2018 we have not identified material adjustments arising from contract modifications of our bespoke contracts.

Section 7. Other information (continued)

7.1 Other accounting policies (continued)

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

(b) Revenue from contracts with customers (continued)

(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.

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

Depending on whether ongoing telecommunication services are also purchased under the same arrangement will determine whether these contracts are in scope of AASB 15. This is because Telstra continues to control the contributed network assets (i.e. they will never transfer to the counterparty) and therefore on their own they cannot be a performance obligation to which sales revenue from these arrangements can be allocated.

Where the counterparty makes a contribution for network construction activities and under the same (or linked) contract(s) purchases ongoing services the arrangement represents a contract with a customer, as the customer purchases goods or services, and therefore it is in scope of AASB 15. As the contributed network assets cannot be a performance obligation to the customer as these are our assets, the upfront contribution should be added to a total transaction price of the customer contract and allocated to the distinct goods and services to be delivered under that contract. Compared to current accounting this will result in a deferral of sales revenue due to the long term nature of these contracts.

However, where under the same (or linked) contract(s) the counterparty does not purchase any ongoing services, the arrangement is not in scope of AASB 15 because the counterparty is not transacting to purchase any goods or services, i.e. is not considered to be a customer under AASB 15. These kind of arrangements are not covered by any specific accounting guidance. Therefore we will continue to account for them consistent with the current accounting treatment under an internally developed accounting policy based on the 'Framework for the Preparation and Presentation of Financial Statements'.

Another change to current accounting will result from AASB 15 defining 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 mass market plans or as part of the small business and enterprise loyalty programs and technology funds, but given the value of material rights is usually not significant compared to the total contract value we have not identified material adjustments for those items on transition to AASB 15.

Finally, in our nbn DAs the build of nbn related infrastructure under the ICM Deed will not be considered a separate 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 instead be treated as an advance receipt for performance obligations transferred over the ISA average contracted period of 35 years, leading to an opening retained earnings adjustment on transition of our nbn DAs.

(iv) Determining and allocating the transaction price

AASB 15 removes our contingent consideration accounting policy. Currently in the arrangements with multiple deliverables we limit revenue to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (non-contingent amount). Because our mobile long-term mass market 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, we currently recognise the hardware revenue on delivery of the handset. Therefore, on adoption of AASB 15, and unlike many other telecommunication companies, we have not identified an acceleration of hardware revenue in our mobiles business due to the removal of the contingent consideration rules. Also we have not identified material adjustments to small business, enterprise or wholesale contracts as generally they have not been impacted by the contingent consideration rules.

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

Our contracts offer customers the ability to move up and down within the plan family under predefined terms. As a result, often we can only contractually enforce a lower amount than the monthly fee customer has initially signed up for. In situations such as these, we should allocate revenue between performance obligations using the minimum enforceable rights and obligations and any excess amount should be recognized as revenue as it is earned. However, due to low level of plan changes we have not identified material adjustments resulting from this accounting change on transition to AASB 15.

Section 7. Other information (continued)

7.1 Other accounting policies (continued)

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

(b) Revenue from contracts with customers (continued)

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. On transition to AASB 15 we have identified some changes in timing of revenue recognition and product allocations in our mobile and fixed mass market contracts and product allocations in our wholesale contracts.

AASB 15 also provides new guidance on how to determine standalone selling prices, by reference to which the total transaction price gets allocated to goods and services. Despite the fact that our current accounting policy uses relative selling prices as allocation basis, i.e. a concept similar to standalone selling prices, AASB 15 requires consideration of similar customer circumstances, including for example assessment of volumes they are expected to purchase. As a result, we have identified an adjustment to our mass market mobile contracts where a higher hardware revenue will be recognised at the time of its recognition, and lower services revenue over the customer contract term as well as revenue allocation between the products in a bundle will change.

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

Under some of our mass market contracts customers obtain a handset or another device on a device repayment plan, i.e. under deferred payment terms. 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 the financing in the contract, i.e. the customer. For our mass market customers this rate is significantly higher than our current practice of using Telstra's incremental borrowing rate. This change will result in a reduction of revenue and a higher interest income being recognised over the contract term.

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

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

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

(v) Contract costs

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

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

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 network contracts and remediation costs related to our nbn DAs. These costs arise from work performed on Telstra owned assets and therefore are not in scope of AASB 15 as they are already assessed under AASB 116: 'Property, plant and equipment'. We will continue to capitalise and amortise over the contract term certain set up costs that relate to our large enterprise contracts, however these costs will be presented in the statement of financial position as contract costs instead of intangible assets.

Our deferred expenses currently also include certain balances related to cash and non-cash sales incentives which have been granted mainly to our small business, enterprise and wholesale customers at contract inception. Under current accounting, both types of incentives reduce sales revenue over the term of the customer contract on a straight line basis and either result in an upfront reduction of receivables or cash (for cash sales incentives) or the recognition of other liabilities (for non-cash sales incentives considered to be separate deliverables) to reflect our obligation to deliver additional goods or services. Under AASB 15 these amounts either represent a discount that should reduce the transaction price (if the incentive is cash) or a material right for additional goods or services (if the incentive is non-cash), which represents a separate performance obligation in the customer contract.

Section 7. Other information (continued)

7.1 Other accounting policies (continued)

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

(b) Revenue from contracts with customers (continued)

Given our current accounting largely aligns with the new requirements, no material re-measurement adjustments have been identified for these types of deferred expenses. However, they will be presented as part of a contract asset or contract liability under AASB 15.

(vi) Presentation and classification

AASB 15 requires changes to presentation and classification of items in the statement of financial position and in the income statement. This includes presentation in the statement of financial position of a contract asset or contract liability at the contract level, separate presentation of contract costs and appropriate current and non-current split of all relevant balance sheet line items. On adoption of AASB 15 a number of existing line items in the statement of financial position (e.g. accrued revenue and revenue received in advance) will be replaced by the new presentation of contract assets and liabilities and new items will be created (e.g. refund liabilities). AASB 15 also requires disclosure of disaggregated revenue. We will provide detailed disclosures for the financial year 2018 on its restatement in our financial statements for the financial year 2019.

(vii) Expected financial impact on the first time adoption in financial year 2019

On adoption of the new standard in the financial year ending 30 June 2019, we expect the following adjustments to be made to our financial statements for the financial year 2019 to reflect the requirements of AASB 15:

- $516 million decrease ($412 million after tax) in opening retained earnings as at 1 July 2017 with corresponding adjustments against relevant line items in the statement of financial position;
- $191 million decrease in total income, $300 million decrease in operating expenses, $109 million increase in EBITDA, $39 million increase in net finance costs, $70 million increase in profit before tax and $51 million increase in our net profit after tax for the year ended 30 June 2018.

We expect the above estimates to be consistent with the full restatement of the financial year 2018 (i.e. comparative period) results in our 30 June 2019 financial statements. However, we are yet to fully operationalise the AASB 15 requirements across all parts of our business and should we identify any other changes or adjust current estimates we will update the above estimates to reflect our final adjustments in the financial year 2019 financial statements.

(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 'Evaluating 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 right-of-use 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 that are subject to subleases or are expected to be subleased do not qualify for the low-value exception.

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

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

We continue to assess the impact of the new leasing standard on our financial results. This includes identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and controls. We will not early adopt the standard and we expect that we will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. Various practical expedients are available on adoption to account for leases previously classified as operating leases under AASB 117. The election is made on a lease-by-lease basis. We are still assessing the potential impact of using these practical expedients.

(d) Conceptual Framework for Financial Reporting

In March 2018 the International Accounting Standards Board (the IASB) issued a revised Conceptual Framework for Financial Reporting (‘Framework’) which will be used immediately by the IASB. The reason behind issuing the revised Framework was that some important areas were not previously covered and the guidance in some areas was unclear. The main purpose of the Framework is to help the IASB develop accounting standards and to help companies develop accounting policies based on the Framework when there is no specific or similar standard that addresses a particular issue. It is not a standard and it does not override the concepts or requirements in any standard. Therefore, we do not expect the practical consequences of the new Framework to be significant in the short term. However, we are currently assessing the impact arising from the amendments to the standards effective for Telstra from 1 July 2020 arising from ‘Amendments to References to the Conceptual Framework in IFRS Standards’.

(e) Other

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

Section 7. Other information (continued)

7.2 Auditor's remuneration

Our external auditor of the Group is Ernst & Young (EY). In addition to the audit and review of our financial reports, EY provides other services throughout the year. This note shows the total fees to external auditors split between audit, audit-related and non-audit services.

Telstra Group	Year ended 30 June	
	2018	2017
	$m	$m
Audit fees		
EY fees for the audit and review of the financial reports	**9.011**	**8.011**
Other services		
Audit-related	1.322	2.114
Non-audit services		
Tax services	0.065	0.164
Advisory services	0.664	0.596
Total other services provided by EY	**2.051**	**2.874**

Audit-related fees charged by EY are for services that are reasonably related to the performance of the audit or review of our financial reports and for other assurance engagements. These services include regulatory financial assurance services, services over debt raising prospectuses, additional control assessments, various accounting advice and additional audit services related to our controlled entities.

We have processes in place to maintain the independence of the external auditor, including the nature of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

7.3 Parent entity disclosures

This note provides details of Telstra Entity financial performance and financial position as a standalone entity. The results include transactions with its controlled entities.

Tables A and B provide a summary of the financial information for the Telstra Entity.

Table A Telstra Entity	As at 30 June	
	2018	2017
	$m	$m
Statement of financial position		
Total current assets	6,802	7,493
Total non-current assets	38,613	36,967
Total assets	**45,415**	**44,460**
Total current liabilities	12,792	12,817
Total non-current liabilities	18,370	17,797
Total liabilities	**31,162**	**30,614**
Share capital	4,428	4,421
Cash flow hedging reserve	(211)	(143)
Foreign currency basis spread reserve	(6)	16
General reserve	201	194
Retained profits	9,841	9,358
Total equity	**14,253**	**13,846**

Table B Telstra Entity	Year ended 30 June	
	2018	2017
	$m	$m
Statement of comprehensive income		
Profit for the year	3,555	3,934
Total comprehensive income	3,547	3,945

Total non-current assets include impairment losses of $545 million (2017: $324 million) recognised in the income statement and relating to the value of our investments in, and amounts owed by, our controlled entities. The impairment losses have been eliminated on consolidation of the Telstra Group.

7.3.1 Property, plant and equipment commitments

Table C provides details of our expenditure commitments for the acquisition of property, plant or equipment, which have been contracted for at balance date but not recognised in the financial statements.

Table C Telstra Entity	As at 30 June	
	2018	2017
	$m	$m
Total property, plant and equipment expenditure commitments	635	802

Section 7. Other information (continued)

7.3 Parent entity disclosures (continued)

7.3.2 Contingent liabilities and guarantees

(a) Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2018, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial results. The maximum amount of these contingent liabilities cannot be reliably estimated.

(b) Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity:

- indemnities to financial institutions to support bank guarantees to the value of $189 million (2017: $212 million) in respect of the performance of contracts
- indemnities to financial institutions and other third parties in respect of performance and other obligations of our controlled entities, with the maximum amount of our contingent liabilities of $133 million (2017: $153 million)
- letters of comfort to indicate support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due, subject to certain conditions (including that the entity remains our controlled entity)
- during the financial year 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to $210 million as a shareholder of IBMGSA. During the financial year 2000, we issued a guarantee of $68 million on behalf of IBMGSA. During the financial year 2004, we sold our shareholding in this entity. The $68 million guarantee, provided to support service contracts entered into by IBMGSA and third parties, was made with IBMGSA bankers or directly to IBMGSA customers. As at 30 June 2018, this guarantee remains unchanged and $142 million (2017: $142 million) of the $210 million guarantee facility remains unused. Upon sale of our shareholding in IBMGSA and under the deed of indemnity between shareholders, our liability under these performance guarantees has been indemnified for all guarantees that were in place at the time of sale. Therefore, the overall net exposure to any loss associated with a claim has effectively been offset.

(c) Other

In addition to the above matters, entities in the Telstra Group may be recipients of, or defendants in, certain claims, regulatory or legal proceedings and/or complaints made, commenced or threatened. At 30 June 2018, management believes that the resolution of these contingencies will not have a material effect on the financial position of the Telstra Group, or are not at a stage which supports a reasonable evaluation of the likely outcome of the matter.

7.3.3 Recognition and measurement

The accounting policies for the Telstra Entity are consistent with those of the Telstra Group, except for those noted below:

- under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed from our Australian wholly-owned entities are booked as current assets or liabilities
- investments in controlled entities, included within non-current assets, are recorded at cost less impairment of the investment value. Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 4.3. Refer to note 6.2 for details on our investments in controlled entities
- our interests in associated entities and joint ventures, including partnerships, are accounted for using the cost method of accounting and are included within non-current assets.

7.4 Commitments and contingencies

This note provides details of our commitments for capital expenditure, operating leases and finance leases arising from our contractual agreements.

This note also includes information about contingent liabilities for which no provisions have been recognised due to the uncertainty regarding the outcome of future events and/or inability to reliably measure such liabilities.

7.4.1 Capital expenditure commitments

Table A shows the capital expenditure commitments contracted for at balance date but not recorded in the financial statements.

Table A Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Property, plant and equipment commitments	638	833
Intangible assets commitments	209	395

Property, plant and equipment commitments include the Telstra Entity capital expenditure commitments of $635 million (2017: $802 million) as disclosed in note 7.3.

7.4.2 Operating lease commitments

Table B shows future lease payments for non-cancellable operating leases (Telstra as a lessee) not recorded in the financial statements.

Table B Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Within 1 year	1,008	753
Within 1 to 5 years	1,467	1,477
After 5 years	1,649	1,724
	4,124	**3,954**

Table C provides information about the assets under our operating leases and their weighted average lease terms.

Table C Telstra Group	Weighted average lease term (years)	
	As at 30 June	
	2018	2017
Land and buildings	16	16
Motor vehicles	2	2
Light commercial vehicles (caravan huts and trailers)	3 - 4	3 - 4
Trucks and mechanical aids and heavy excavation equipment	5 - 7	5 - 7
Personal computers, laptops, printers and other related equipment used in non-communications plant activities	3-4	3
Mobile handsets	2	2

Section 7. Other information (continued)

7.4 Commitments and contingencies (continued)

7.4.2 Operating lease commitments (continued)

The majority of our operating leases relate to land and buildings. We have several subleases with total minimum lease payments of $42 million (2017: $40 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between three and five per cent, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

We also lease handsets which we then sublease to our retail customers in a back-to-back arrangement.

Table D sets out our future minimum lease receivables from retail customers under non-cancellable operating leases (Telstra as lessor).

Table D Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Within 1 year	332	158
Within 1 to 5 years	130	104
	462	**262**

Refer to notes 3.1 and 3.3 for our lease accounting policy (Telstra as lessee and Telstra as a lessor, respectively). The accounting policy described in note 3.1 applies to both property, plant and equipment and other assets, including handsets.

7.4.3 Finance lease commitments

Table E includes finance lease commitments of the Telstra Group as a lessee.

Table E Telstra Group	As at 30 June	
	2018	2017
	$m	$m
Finance lease commitments		
Within 1 year	102	125
Within 1 to 5 years	176	173
After 5 years	233	184
Total minimum lease payments	**511**	**482**
Future finance charges on finance leases	(146)	(141)
Present value of net future minimum lease payments	**365**	**341**
The present value of finance lease liabilities is as follows:		
Within 1 year	81	107
Within 1 to 5 years	114	124
After 5 years	170	110
Total finance lease liabilities	**365**	**341**

Table F provides information about the assets under our finance leases and their weighted average lease terms.

Table F Telstra Group	Weighted average lease term (years)	
	As at 30 June	
	2018	2017
Property lease in our controlled entity, Telstra Limited (initial life 25 years)	19	20
Computer mainframes, processing equipment and other related equipment	6	6

We lease computer mainframes, processing equipment and other related equipment to our customers as part of the solutions management and outsourcing services. Refer to note 3.3 for further details on these finance leases.

Refer to note 3.1 for our lease accounting policy (Telstra as a lessee).

7.4.4 Commitments of our associated entities

Information about our share of our associated entities' commitments is included in note 6.3.

7.4.5 Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2018. Other than the above, details and estimated maximum amounts (where reasonable estimates can be made) of contingent liabilities for the Telstra Entity are disclosed in note 7.3.2.

Other contingent liabilities identified for the Telstra Group relate to the ASIC deed of cross guarantee. A list of the companies that are part of the deed are included in note 6.2.2. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up.

7.5 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 30 June 2018 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than the following:

7.5.1 Final dividend

The details of the final dividend for the financial year 2018 are disclosed in note 4.1.

Directors' Declaration

This Directors' Declaration is required by the Corporations Act 2001 of Australia.

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

(a) in the Directors' opinion, the financial statements and notes of the Telstra Group for the financial year ended 30 June 2018 as set out in the financial report:
   (i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations (as disclosed in note 1.1 to the financial statements), and Corporations Regulations 2001
   (ii) give a true and fair view of the financial position of Telstra Corporation Limited and the Telstra Group as at 30 June 2018 and of the performance of Telstra Corporation Limited and the Telstra Group, for the year ended 30 June 2018
   (iii) have been made out in accordance with the Corporations Act 2001.

(b) they have received declarations as required by section 295A of the Corporations Act 2001

(c) at the date of this declaration, 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

(d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 6.2.2 to the financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any liabilities to which they are, or may become, subject to because of the Deed of Cross Guarantee described in note 6.2.2.

For and on behalf of the board

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

16 August 2018
Melbourne, Australia

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Telstra Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the Directors' Declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Key audit matter	How our audit addressed the matter
Revenue recognition	
There are three areas where the Group exercises significant judgment relating to revenue recognition: • accounting for new products and plans including multiple element arrangements; • accounting for large Network Application Services (NAS) contracts; and • accounting for NBN revenue under the revised Definitive Agreements (DAs) with nbn co and the Commonwealth Government. Disclosures relating to revenue recognition can be found at Note 2.2. The accuracy and completeness of amounts recorded as revenue is an inherent industry risk due to the complexity of billing systems, the complexity of products and services, and the combination of products sold and price changes in the year. The complexity of the billing systems was also considered as part of the reliance on automated processes and controls Key Audit Matter below.	We evaluated the effectiveness of key controls over the capture and measurement of revenue transactions across all material revenue streams, including evaluating the relevant IT systems. We examined the process and controls over the capture and assessment of the timing of revenue recognition for new products and plans, as well as performed testing of a sample of new plans to supporting evidence. We stratified the population and tested a sample of major NAS contracts, focusing our work on those which we regarded as higher risk because of the nature of the contract, its stage of delivery or the quantum of the related assets, and then by those which were significant by size. In performing this testing, we assessed the appropriateness of the assumptions and estimates underpinning the accounting for these major contracts as follows: • We tested the effectiveness of controls that operate across the contract life cycle for major contracts. • We obtained and read the relevant sections of certain contracts, to identify the contracted revenues, key provisions in the event of contract termination (such as penalties or the ability for the Group to recover costs) and other significant obligations.

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Key audit matter	How our audit addressed the matter
	• We ensured the future forecasts reflected the contract terms, testing any significant changes (such as new services) to contract amendments or other supporting documentation. • We tested a sample of recorded revenue and cost transactions by agreeing them to supporting evidence, which for revenue included evidence of delivery and/or customer acceptance. • We compared the historical forecast results of certain contracts with the actual results to assess the performance of the contract and the historical accuracy of forecasting. • We considered the future forecast profitability and the contractual terms to assess the recoverability of the contract-specific assets and to determine if any contracts required loss provisions. We assessed the appropriateness of the assumptions and estimates underpinning the accounting for the revised DAs including understanding the timing of disconnections, the progress of the NBN rollout and the transfer of the copper and Hybrid Fibre Coaxial (HFC) networks to nbn co. We assessed the Group accounting policies as set out in Note 2.2, and the adequacy of disclosures for compliance with the revenue recognition requirements of Australian Accounting Standards.
Reliance on automated processes and controls	
A significant part of the Group's financial processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions. This is a key part of our audit because of the: • Complex IT environment supporting diverse business processes; • Mix of manual and automated controls; • Multiple internal and outsourced support arrangements; and • Complexity of the billing systems which result in revenue being recognised. The Group continues to enhance its IT systems and during the year implemented new systems which were significant to our audit.	Our IT specialists assessed the Group's manual and automated controls relating to IT systems relevant to financial reporting, including the recognition of revenue. When testing controls was not considered an appropriate or efficient testing approach, alternative audit procedures were performed on the financial information being produced by systems. Our IT specialists analysed the impact on our audit of new systems that are significant to our audit. This included assessing the design of relevant automated processes and controls. We evaluated the effectiveness of the controls in the new systems.
Impairment of goodwill and intangible assets	
Given the dynamic nature of the industry in which the Group operates, there is a risk that there could be material impairment to goodwill, other intangible asset balances and other non-current assets. Determination as to whether or not there is an impairment relating to an asset or Cash Generating Unit (CGU) involves significant judgment about the future cash flows and plans for these assets and CGUs. At 31 December 2017 an impairment charge of $242 million was recorded against goodwill relating to the Ooyala CGU. Further disclosure regarding the Group's impairment testing can be found in Note 3.2.	We evaluated the Group's impairment calculations including the testing of the recoverable amount of each CGU where there were indicators of impairment, or there were significant goodwill or indefinite life intangible asset balances. We evaluated the Group's assessment of indicators of impairment or impairment reversal. Where we or the Group determined indicators existed, we evaluated the Group's calculation of the recoverable amount of each CGU. We assessed the reasonableness of the Board approved cash flow projections used in the impairment models as well as the reliability of the Group's historical cash flow forecasts.

Key audit matter	How our audit addressed the matter
	We involved our valuation specialists to assess the impairment models and evaluated the reasonableness of key assumptions including the discount rate, terminal growth rates and forecast growth assumptions. We also performed sensitivity analysis around the key drivers of the cash flow projections. Having determined the change in assumptions (individually or collectively) that would be required for the CGUs to be impaired, we considered the likelihood of such a movement in those key assumptions arising. We evaluated the adequacy of impairments that had been recognised during the financial year. We evaluated the adequacy of the disclosures included in Note 3.2.
Capitalisation and asset lives	
There are a number of areas where judgment impacts the carrying value of property, plant and equipment, software intangible assets and their respective depreciation and amortisation profiles. These areas are as follows: • the decision to capitalise or expense costs; • the annual asset life review; and • the timeliness of the transfer from assets in the course of construction. Changes in these judgments have a significant impact on the results of the Group. Accordingly, this was considered a key audit matter. Disclosures relating to the capitalisation and write-off of assets can be found at Notes 3.1 and 3.2.	Our audit procedures included the following: • Assessed the effectiveness of the Group's controls over the acquisition and disposal of fixed assets. • Evaluated the appropriateness of capitalisation policies. • Selected a sample of costs capitalised during the year to determine whether capitalisation was appropriate. • Assessed the appropriateness of the date from which assets commenced being depreciated. We assessed the application of the Group's annual asset life review. This included assessing judgments made by the Group on: • the nature of underlying costs capitalised; and • the appropriateness of assets lives applied in the calculation of depreciation and amortisation. We evaluated the adequacy of disclosures included in Notes 3.1 and 3.2.
AASB 15 Revenue from Contracts with Customers	
AASB 15 *Revenue from Contracts with Customers* (AASB 15) applies to the Group from 1 July 2018. The adoption of the new standard and the disclosure of the expected financial impact is inherently complex due to the need to apply the requirements of the new standard to complex billing systems, the complex range of products and services, and the combination of products sold, including multiple element arrangements. On adoption the Group will apply the standard retrospectively to prior reporting periods from 1 July 2017. The new standard will result in a number of accounting policy changes and a financial impact on retained earnings as at 1 July 2017, and on restatement of the financial performance for 2018. During the period the Group substantially completed the analysis of this new standard on the Group. Disclosure is required of the expected financial impact on first time adoption in the financial report for the year ended 30 June 2018. These disclosures can be found in Note 7.1.3.	We assessed the Group's process for estimating the expected impact of the new standard. We assessed the analysis of the expected financial impact of the new standard and the accounting policies, estimates and judgements made in respect of the products and services of the Group. We evaluated the effectiveness of key systems, processes and controls to capture and measure revenue transactions in accordance with the new standard, which were used to determine the expected financial impact. We assessed the appropriateness of the methods used to determine the estimated impact of the initial application of AASB 15 and assessed the accuracy of identified amounts captured in the adjustment to opening retained earnings calculated by the Group. We evaluated the adequacy of disclosures included in Note 7.1.3.

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Information Other than the Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

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Andrew Price
Partner
Melbourne
16 August 2018

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