



# OUR BRILLIANT CONNECTED FUTURE

Telstra Annual Report 2015



The sections of our Annual Report titled Our Business, The Year at a Glance, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review comprise our operating and financial review and form part of the Directors' Report. An overview of selected aspects of our corporate governance arrangements is set out in the Governance at Telstra section of this Annual Report. A copy of our full Corporate Governance Statement and ASX Appendix 4G outlining how we comply with the third edition of the ASX Corporate Governance Principles and Recommendations is available on our website at [telstra.com/governance](http://telstra.com/governance)

**Telstra Corporation Limited**  
ABN 33 051 775 556



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# OUR BUSINESS

## OUR PURPOSE

To create a brilliant connected future for everyone.

### To create

The brilliant connected future won't happen on its own. It has to be created. Telstra can bring together the parts to create it.

### A brilliant connected future

This is our aspiration for every one of our customers. And in every market in which we operate.

### For everyone

We can only create such a future for everyone when enough people can access technologies that create social, economic and cultural change.

## OUR VISION

To be a world class technology company that empowers people to connect.

## OUR STRATEGY

Our strategy is focused on driving growth and creating long term shareholder value. It has three key pillars.

Our Strategic Priorities		
Improve Customer Advocacy	Drive Value from the Core	Build New Growth Businesses
We're dedicated to improving customer service and creating advocates in all our customers.	We strive to deliver customer and revenue growth, network leadership and productivity improvements through simplifying our business.	We continue to look for new opportunities in new geographies and in new business sectors.

## OUR VALUES

At Telstra, we have five values. Our values express what we stand for and are core to our business. As a values-led organisation, they shape our peoples' decisions and actions. They guide how we work together. We align everything we do with them.

Show you care	Better together	Trust each other to deliver	Make the complex simple	Find your courage
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## WHO WE ARE

An iconic Australian company with a rich history – dating back to 1901



**371**  
Retail Stores

**84**  
Business Centres

**137**  
Business and Enterprise Partners

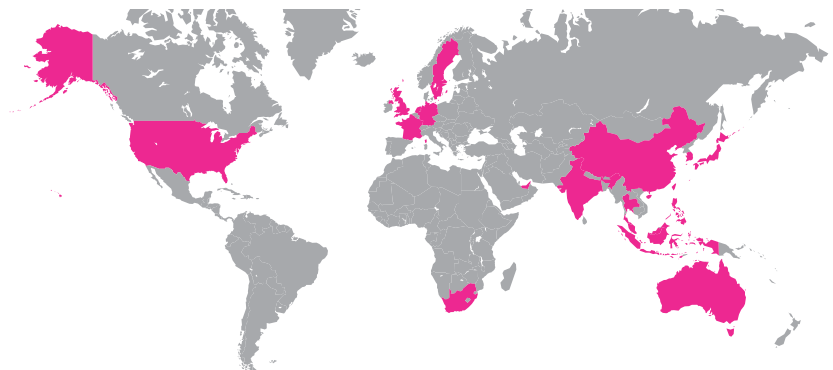
**18,700**  
Retail Points of Presence



**36,000**  
TELSTRA EMPLOYEES ACROSS 20 COUNTRIES WORLDWIDE



**MORE THAN 2,000**  
network points of presence across the globe



## INDUSTRY CONTEXT

Technology is changing our world and we are seeing profound change in the way people connect and communicate.

The telecommunications industry is dynamic and growing, with network traffic increasing rapidly and the continued evolution of IP based products and services.

Twenty years ago there were less than 100 million mobile devices in the world. Today there are more than five billion.

Globally, mobile data grew nearly 70 per cent in 2014<sup>1</sup>. Video now represents more than 50 per cent of all internet traffic. It is a time of enormous opportunity. We know that having the best network is going to matter to the next generation even more than it does to this one – and Telstra is going to make sure they get it.

## WHAT WE DO

We help customers connect to the people and things that matter most to them.

Telstra is Australia's leading telecommunications company, offering a full range of communications services.

We believe the more connected people are, the more opportunities they have.

We aim to build technology and content solutions that are simple and easy to use.

We have built Australia's largest national mobile network, with faster speeds in more places.

We strive to know and serve our customers better than anyone else – offering a choice of not just digital connection, but digital content as well.

We actively seek out new growth opportunities and new technology in Australia and around the world, with our international presence spanning 20 countries, including a growing footprint in Asia.

## OUR BUSINESS

Retail			
<p><b>Consumer</b></p> <p>Providing a portfolio of Fixed voice, Data, Mobile, Media and value added products to customers nationally including Post and Pre-paid mobile and mobile broadband, PSTN, ADSL, HFC, and NBN.</p>	<p><b>Business</b></p> <p>Serving Australian small to medium businesses as a trusted advisor, providing products and bundles including fixed, mobile, data and IP, business software applications and Networks Applications and Services (NAS).</p>	<p><b>Media</b></p> <p>Portfolio of media content and platforms including subscription TV, streaming video, music, and leading sport and news content across fixed and mobile connectivity.</p>	<p><b>Health</b></p> <p>eHealth solutions for primary care, aged and residential care, hospitals, radiology and pathology, pharmacy, Indigenous care and telemedicine.</p>
Global Enterprise and Services			
<p>Serving our global enterprise and government customers with fully integrated end-to-end solutions and products, including: innovation, product development, telephony, mobile and data connectivity, IP networks and cloud. Licenses in Asia, Europe and the US.</p>	<p>Network Applications and Services, including: managed network services, collaboration, cloud, unified comms, security services and a range of software as a service solutions.</p>	<p>Responsible for the Telstra Software Group (TSG), focused on intelligent video solutions and muru-D®, a start-up accelerator program.</p>	
Wholesale			
<p>Australia's leading supplier of wholesale telecommunications services across fixed, data and IP, mobiles, facilities access and NBN.</p>			
Operations			
<p>Responsible for the planning, design, engineering, construction, operation, maintenance, service installation and restoration of Telstra's networks and information technology. The group is also responsible for the company's innovation portfolio, encouraging company-wide innovation and creation of new service opportunities.</p>			

<sup>1</sup> Source – Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2014 – 2019, White Paper, 2015 www.cisco.com

# THE YEAR AT A GLANCE

## Financial highlights

30.5

CENTS TOTAL  
DIVIDEND PER SHARE

+

\$1b

SHARE BUY-BACK

=

\$4.7b

DISTRIBUTION TO  
SHAREHOLDERS

\$4.3b

NET PROFIT AFTER TAX<sup>2</sup>

\$26.6b

TOTAL INCOME<sup>3</sup>

\$1b

INVESTED IN  
WIRELESS NETWORK

## Driving value from the core

4G

SERVICE NOW REACHING 94%  
of the Australian population

4GX™

INTO 1,200  
suburbs and towns

2.2m

CUSTOMERS ON  
A BUNDLED PLAN

16.7m

DOMESTIC RETAIL  
MOBILE CUSTOMERS

18.4% ↑

FOXTEL FROM  
TELSTRA SUBSCRIBERS



BETTER-VALUE PLANS  
more data allowances and  
real time mobile data alerts



4,000

Wi-Fi hotspots for  
Telstra Air® launch

## Sustainability



NAMED AUSTRALIA'S MOST  
RESPECTED COMPANY<sup>4</sup>

\$214m SOCIAL AND COMMUNITY  
CONTRIBUTIONS

TELSTRA FOUNDATION™  
PHILIPPINES LAUNCHED



TELSTRA SAFE CONNECTIONS®  
LAUNCHED TO HELP WOMEN IMPACTED  
BY DOMESTIC VIOLENCE STAY CONNECTED

<sup>2</sup> Profit for the year from continuing operations. For more detail refer to page 20 of the Full Year Results and Operations Review.

<sup>3</sup> Total income figures are on a continuing operations basis and exclude finance income. On a guidance basis total income was \$26.3b. Please refer to the Full Year Results and Operations Review on page 20 and page 180 for more detail and guidance reconciliation.

<sup>4</sup> Announced in November 2014. The Most Respected Companies list is the result of a study conducted by Financial Review Group in partnership with global management consultancy Hay Group.

Customer service

**+5** OVERALL NET PROMOTER SYSTEM (NPS) IMPROVEMENT

**52%** OF CUSTOMER SERVICE TRANSACTIONS ONLINE

**>5m** SERVICE AND INSTALLATION JOBS COMPLETED **~ 13k PER DAY**

**>8m** UNIQUE VISITORS to **telstra.com** each month

**350k** LIVE CHAT SESSIONS on average each month

**2.3m** REGULAR USERS of our **Telstra 24x7® App**

Growth and international expansion

**US\$697m<sup>5</sup>** ACQUISITION OF PACNET including the largest privately owned intra-Asia cable network

**29 DATA CENTRES** + **109 POINTS OF PRESENCE**

**TELKOMTELSTRA** Launched Indonesian Joint Venture

**OOYALA** increased ownership **NOW 97.3%**

**MURU-D® SINGAPORE** launched

**23.2%↑** NAS REVENUE

**FORMALLY LAUNCHED TELSTRA HEALTH™** and continued to build capabilities

Sustainability

**~117k** PEOPLE reached through our digital literacy programs

**27%** REDUCTION IN CARBON EMISSIONS INTENSITY

**476** PEOPLE with a disability or from a disadvantaged background employed through our Supported Workforce program

**>15m** SMS SENT to customers highlighting responsible phone use

<sup>5</sup> Including gross debt.

# CHAIRMAN AND CEO MESSAGE



Catherine Livingstone AO, Chairman  
Andrew Penn, CEO

Dear Shareholders,

Telstra continued to perform strongly, growing revenues, adding fixed and mobile customer services, continuing to invest in our network advantage and returning \$4.7 billion in dividends and buy-back proceeds to our shareholders.

We continued to execute on our strategy to improve customer advocacy, drive value from our core business and build pathways to future growth. We made good progress on our transition from a traditional telecommunications company into a world class technology company that empowers people to connect.

The markets within which we compete continue to undergo significant change, in Australia and around the world.

Technology is driving rapid change and constant innovation across industries, with software and digitisation improving delivery of services to customers and creating new opportunities for growth.

Within this dynamic environment, which, in Australia, includes the structural change of the industry as we transition to the National Broadband Network, we remain absolutely committed to improving the service we provide to our customers.

## Financial results and capital management

In our first full financial year operating without Hong Kong mobile business CSL, which we sold in May 2014, our results show that our business continues to perform strongly. On a reported basis, our total income was up 1.2 per cent and EBITDA was down 3.5 per cent. On a guidance basis<sup>6</sup>, and excluding the CSL operating results from the prior period, our total income was up 6.6 per cent and EBITDA was up 4.5 per cent.

The reduction in EBITDA on a reported basis reflects the one off profit of \$561 million from the sale of CSL included in our 2014 results.

We are pleased to have again delivered on our financial commitments and to have delivered, in total, a 30.5 cent fully franked dividend for the 2015 financial year, distributing \$3.7 billion to shareholders and representing a 3.4 per cent increase in dividends from FY14.

We continued to create shareholder value through capital and portfolio management. Our off market \$1 billion share buy-back was substantially oversubscribed, a sign of the strong market support for this as an efficient way to return capital to shareholders.

Following feedback from our shareholders we also announced the reactivation of the Dividend Reinvestment Plan, which enables shareholders to reinvest either all or part of their dividend payments into additional fully paid Telstra shares in an easy and cost-effective way from the 2015 final dividend.

## Our strategy

During the year we maintained our focus on our three strategic pillars: improving customer advocacy, driving value from the core and building new growth businesses.

### Improve customer advocacy

Our customers remain our highest priority and we continue to improve the way we interact with them every day. We are giving our customers more value and confidence, through our suite of products, as well as providing more personalised service experiences for both our business and consumer customers.

We continue to measure our progress and we actively seek feedback from our customers using our Net Promoter System (NPS). Our overall NPS score improved by five points over the 2015 financial year, building on the improvements we saw last year. While we have made significant progress, we know we have more to achieve.

### Driving value from the core

Our investment in network superiority and customer advocacy initiatives continue to attract new customers and have led to the net addition of 664,000 retail mobile customer services, and 189,000 retail fixed broadband customers during FY15.

We are committed to maintaining our network leadership and will increase our investment in our mobile network, providing an additional half a billion dollars for mobiles over the next two years. In total, over three years to June 2017, we expect to have invested more than \$5 billion in Telstra's mobile network.

In June, we were selected to participate in one of the largest ever expansions of mobile coverage in regional and remote Australia through the Federal Government's Mobile Black Spot Programme.

This will build on our existing 4G network, which already covers 94 per cent of the Australian population. Our objective is to expand this footprint to reach 99 per cent of the population, bringing coverage to more communities across the country. We also launched our new 4GX™ service, which utilises our newly acquired 700 MHz spectrum to offer customers in over 1,200 suburbs and towns some of the fastest mobile data speeds in the world.

<sup>6</sup> Guidance basis assumed wholesale product price stability, no impairments to investments, excluded any proceeds on the sale of businesses, mergers and acquisitions (M&A) and purchase of spectrum. The FY15 guidance excluded the FY14 CSL profit on sale of \$561m from FY14 Income and EBITDA.



We have also switched on Australia's largest Wi-Fi network, Telstra Air®, with 4,000 Wi-Fi hotspots already provided in more than 250 towns and cities at launch. More than 50,000 Telstra Air members have joined the network.

We aspire to offer Australians access to two million hotspots across the nation by 2020, and we already provide access to more than 16 million international hotspots through our partnership with Fon Wireless Ltd.

Throughout the year, we continued to transform our internal business processes to streamline the way we work and remove internal barriers that impede productivity. The total value achieved through our productivity program in FY15 was approximately \$1 billion, including expense benefits, revenue benefits, cash and capital expenditure benefits and avoided costs. We have reinvested these benefits in the business to support our customer advocacy initiatives, growth in our customer base and building new growth businesses.

#### Build new growth businesses

Our strategic growth plan is designed to position the company for continuing success into the future.

Investing in new businesses and growing telecommunications services in Asia supports our growth ambitions, and significant progress has been made this year. We have made a number of acquisitions, including Pacnet Limited, a provider of connectivity, managed services and data centres in the Asia Pacific region.

The Pacnet acquisition increased the scale and capability of our fixed infrastructure, network density and reach across the region, as well as our customer base and operational capability. In a recently published Gartner report<sup>7</sup> on network services in the Asia Pacific, as a combined entity, Telstra and Pacnet were ranked number one for low-latency and high capacity networks, with the best submarine cable infrastructure in the region.

We announced our joint venture (JV) with Telkom Indonesia in the first half of the year. The JV launched a suite of Network Applications and Services (NAS) in the second half, for domestic enterprises and multinationals operating throughout Indonesia.

Another growth opportunity, Telstra Health™, was formally launched during the 2015 financial year and will develop and deliver innovative technology solutions across the health industry.

#### National Broadband Network (NBN)

During the year we finalised revised NBN Definitive Agreements with NBN Co and the Commonwealth, preserving value for shareholders, as we maintained the overall value of the original agreements. These Agreements became effective in June 2015.

As with the original agreements, the estimated value of the revised agreements is based on a range of dependencies and assumptions over the long term life of the agreements.

#### Part of the community

Telstra is committed to showing we care in the way we respond to important economic, social and environmental challenges.

Our longstanding investment in building people's digital skills and capabilities reflects our belief that digital connectivity is an increasingly essential service. This year we reached almost 117,000 people through our digital literacy training programs, and helped over one million vulnerable customers stay connected.

We are also committed to minimising our environmental impacts and to working with our customers to achieve better environmental outcomes. This year, our total carbon emissions decreased by 1.3 per cent despite data loads on our network increasing by 36 per cent. This meant our carbon emissions intensity reduced by 27 per cent, leaving us well positioned to meet our three year target.

#### Looking ahead

We have a clear strategy, and our focus for the year ahead remains on improving our customer service, ongoing investment in our network advantage and building pathways toward future, sustainable and long term growth.

We operate in a dynamic and competitive environment where technology is taking us into a world of rapid change, constant innovation and competition. We see great opportunity to embrace change, great opportunity for those of us that embrace technology innovation and great opportunity for Australian companies and Australia.

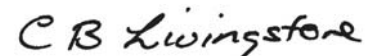
We understand that we need to continue to innovate and to ensure we can build our capability in our growth areas. At Telstra, we are investing in becoming a truly world class technology company that empowers people to connect.

In 2016 Telstra expects to deliver mid-single digit income growth and low-single digit EBITDA growth. Free cashflow is expected to be between \$4.6 billion and \$5.1 billion and capital expenditure to be around 15 per cent of sales to fund increased mobile network investment.

This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excludes externally funded capex.

The Australian Competition and Consumer Commission is consulting on new Access Determinations including a draft determination on Fixed Line Services. While Telstra disagrees with the draft decision on fixed line services, the EBITDA reduction in FY16 would be up to \$90 million if implemented from October.

We would like to thank the leadership team and all of our employees for their commitment, effort and initiative. We also thank you for your loyalty as shareholders.



Catherine Livingstone AO, Chairman



Andrew Penn, CEO

Your comments and feedback are welcome and can be provided to [investor.relations@team.telstra.com](mailto:investor.relations@team.telstra.com), via phone on 1800 880 679, or in the mail to the Investor Relations Department, Telstra, Level 25, 242 Exhibition Street, Melbourne, VIC 3000.

<sup>7</sup> Source – Critical Capabilities for Network Services, Asia/Pacific, Gartner 2015 – [www.gartner.com](http://www.gartner.com)

## Leadership changes

On behalf of the Telstra Board, I would sincerely like to thank David Thodey for his contribution to our company and the Australian telecommunications industry.

During his 14 years with Telstra, including the last six as CEO, he provided incredible leadership, vision and energy as our industry underwent fundamental and substantial change.

With telecommunications being a critical enabler in our increasingly networked society, he was able to strike a balance between his responsibilities to protect the interests of Telstra shareholders and the broader need to ensure Australians can capitalise on the exciting possibilities that come from being connected.

David's focus included ensuring significant and ongoing investment in infrastructure and new technologies. He always maintained an eye to the future and championed the drive to improve Australia's focus on innovation through support for partnerships with educational institutions, governments and businesses of all sizes.

His professional skills and personal values and integrity have rightly earned him the deep respect of business, government and community stakeholders both in Australia and in many forums around the world. We thank him and extend our best wishes for the future.

In May, Andrew Penn, Telstra's former Chief Financial Officer, became Chief Executive Officer, following the retirement of David Thodey. Telstra's new Chief Financial Officer, Warwick Bray, was previously the Group Managing Director of Products. That we were able to make these appointments from within the company is a reflection of the depth of the leadership talent at Telstra.

On behalf of my fellow Directors I would also like to take this opportunity to acknowledge Geoffrey Cousins AM and John Zeglis, who have announced their intention to retire from the Telstra Board at our Annual General Meeting on 13 October 2015. Both Geoff and John joined in 2006, and have played a significant role in helping to oversee the evolution of Telstra through this period of substantial change. We will miss their contribution and similarly extend our best wishes to them for the future.

As part of our ongoing program of Board renewal, the Board intends to nominate US-based technology executive, investor and advisor Trae Vassallo, for election as a non-executive Director at our AGM in October 2015. Ms Vassallo is a strong candidate who, given her experience in a range of sectors and technologies of strategic interest, we expect to make an immediate contribution to the Telstra Board if her nomination is supported by shareholders.

The Board and leadership team have together developed comprehensive plans to enhance and expand Telstra's capabilities as an increasingly global technology company and to position us for future growth.

It is a time of enormous opportunity and the ability to create, to innovate, and to stay focused on our customers will be critical as we pursue our aspiration to become a world class technology company.



David Thodey

*C B Livingstone*

Catherine Livingstone AO  
Telstra Chairman

# STRATEGY AND PERFORMANCE

We work hard to create a profitable business that cares for customers and provides quality products and services to the market.

We are also looking to the future, pursuing new ideas and innovation to serve our customers' needs and succeed in the changing, dynamic markets we will face in the future.

Our strategy is focused on driving growth and creating long term shareholder value. It has three key pillars.

## Our strategic priorities

- Improve customer advocacy
- Drive value from the core
- Build new growth businesses

This section outlines our progress against our strategic priorities over the past year, including some of our key achievements for customer advocacy, our core and growth businesses.

We also explore some of the challenges, risks and opportunities the business is managing now and into the future.

# IMPROVE CUSTOMER ADVOCACY



Improving customer advocacy remains our number one priority at Telstra.

The better our customers feel about Telstra, the more likely they are to recommend Telstra's products and services.

Our advocacy strategy and programs address the key areas we need to improve across our product and service offerings for our customers.

Our employees strive to put the customer at the centre of everything they do. We want to be known for creating personalised experiences for every single customer, whether through one of our digital options, over the phone, in our stores, or with one of our field technicians at our customers' homes or offices.

We recognise there is more to do to improve the experience our customers have with Telstra. Over the past year we have made good progress and introduced a number of initiatives and changes that demonstrate our commitment to caring for customers and improving value.

## Listening to our customers

We recognise that listening to our customers is critical to continuously improving. We ask customers about their experience with us so that we can act on that feedback. We also know that our customers' views on Telstra go beyond their direct experiences, so we ask for feedback about us as a company. We use this feedback to help us work on the most important things to our customers.

### Net Promoter System (NPS)

We use the Net Promoter System to measure how well we are serving our customers.

**+5** OVERALL NPS IMPROVEMENT

**INVITED MILLIONS OF CUSTOMERS** to come into our stores for an account health check

**52%** CUSTOMER SERVICE TRANSACTIONS ONLINE

**2.3m** REGULAR USERS OF TELSTRA 24X7 APP  
More customers managing accounts on digital channels

**>67k** CUSTOMERS ON AVERAGE PER DAY were sent the name and contact details of the consultant they spoke with

This approach involves us surveying customers in three different ways: at the end of a conversation/contact with Telstra, at the end of a series of contacts (eg moving house) and via external market research.

On average, we receive over 30,000 surveys including 11,000 comments from our customers each day. We use this feedback to:

- help our frontline teams learn how to improve their conversations with customers
- improve our processes
- improve our products and services.

Our overall NPS score has improved by five points over the past 12 months.

### Customer Check-In

This year, we invited millions of customers to come into one of our stores for an account 'health check', to make sure their services with us are supporting their lifestyle. Customers are telling us they really appreciate this 'check-in' and being given the opportunity to adjust their plans to better suit their needs.

### Personal service

All our front line teams are focused on getting it right for customers the first time and recovering quickly if something goes wrong.

We are simplifying our approach to help customers get the best service experience possible.

- **First contact resolution** – when our customers contact us we aim to get it right, on first contact.
- **Providing our name** – when a consultant speaks with a customer, they provide their name and contact details so that the customer can follow up directly with them. On average, more than 67,000 customers per day are sent an email or SMS with the details of the consultant they spoke with. Customers who speak to consultants at our stores or through LiveChat are also provided with their consultant's contact details.

**Online services**

Increasingly, our customers want to engage with us online. Over half of all customer service transactions with Telstra are now taking place through digital channels, with customers appreciating the convenience of self-service and having the right tools at their fingertips.

The Telstra 24x7® App and the My Account portal give our customers control over their services. The Telstra 24x7 App has around 2.3 million regular users, which demonstrates our customers' increasing preference for managing their lives on the go. Using these tools, customers can manage their data, view and pay their bills, purchase new products or get help for products and services.

We are also seeing more than 8 million unique visitors to Telstra.com each month and 350,000 customers making use of our live chat sessions to ask questions of our consultants.

To better cater to the on the go preference of many of our customers, we relaunched telstra.com to improve the digital experience, making it as user friendly on a mobile or tablet as it is from a large screen. Our focus is on offering choice and being where our customers want us to be, when they want to deal with us.

**More value and confidence**

We want our customers to enjoy using the services we offer with confidence. We recognise that customers are rapidly changing their habits. Similarly, new software and applications are changing the way people use our services.

We are committed to providing our customers with more value and the confidence that they won't encounter unexpected usage charges.

**Extra Data and Real Time alerts**

In May, Telstra launched 'Extra Data', giving eligible mobile customers the option to receive additional data in 1GB blocks when they reach their monthly data limit for a flat rate of \$10 per block (or part block). The feature gives customers greater confidence and control over their data use.

Extra Data works with our industry leading, real time data alerts, to significantly reduce the chance of customers receiving unexpectedly high bills. We were the first to introduce real-time mobile data usage alerts for post-paid mobile customers in Australia.

This service provides alerts to customers when they reach 50 per cent, 85 per cent and 100 per cent of their included monthly data allowance, to help them manage their data use.

**Go Mobile plans**

We launched new Go Mobile plans and Go Business Mobile plans for new customers and for customers who are changing plans, giving them more value with higher baseline data inclusions and more entertainment with bonus content subscriptions.

**Data top ups**

This year, 1.8 million consumer fixed broadband customers benefitted from data allowance top ups, as a permanent, free addition to their existing plans. Additionally, we at least doubled data allowances for most of our small business fixed broadband plans.

**Mobile Protect**

We launched Mobile Protect, a free service giving parents and carers the ability to closely monitor and manage the use of their households' mobile devices on our mobile network. The service allows site blocking, limiting periods of network connection, restricting calling and SMS, and setting up notifications of activity; with complete management of services through My Account and the Telstra 24x7 App.

**Telstra Travel Pass**

This year, we introduced the Telstra Travel Pass. Travel Passes allow customers to make and receive unlimited calls, send and receive unlimited text messages to standard numbers and browse the web using an included data allowance while abroad. Travel Passes are available for more than 40 popular holiday destinations.

**Small and medium business benefits**

We have made it easier for our small and medium business customers to work on the move, with a focus on mobility, applications and cloud. Our Go Business Mobile plans allow businesses to share data across eligible services on their account and use that data with a range of business applications.

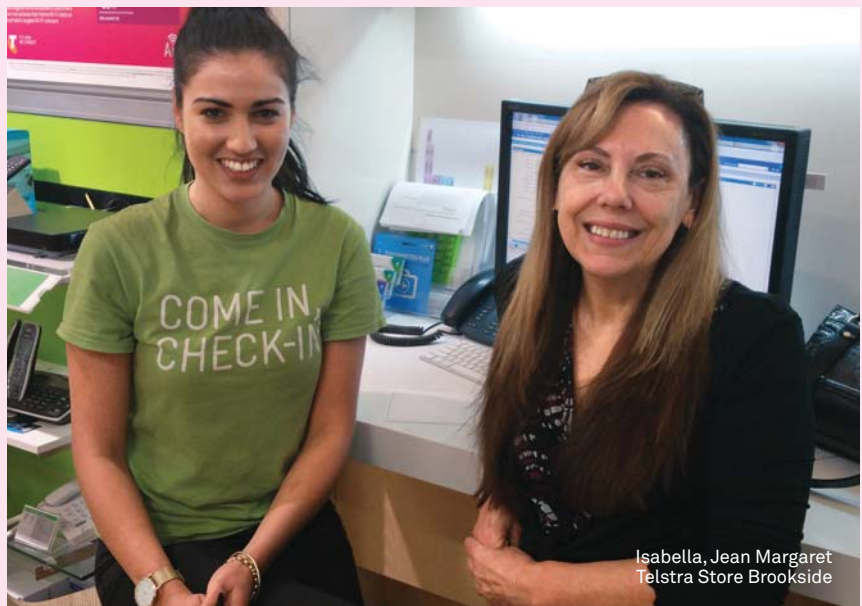
**Telstra Thanks®**

The Telstra Thanks rewards program continues to grow in popularity with our customers, with special deals and offers for movies, live music and sporting events. Our customers have accessed more than 4.7 million tickets or experiences since the launch of the Telstra Thanks program in 2013.

**Check-In**

Local Check-In invited customers to 'Come in and Check-in' with us face-to-face at one of our 371 stores across Australia. As part of the program, our consultants reviewed customers' accounts and gave them an account health check, making recommendations as to how they could get better value from Telstra.

As part of Local Check-In, more than 460,000 customers connected with us across Australia during the financial year. In parallel, we ran the Work in Store program, where more than 1,200 Telstra employees from different parts of the business spent a day working in a local store to help serve our customers and support our retail teams.



Isabella, Jean Margaret  
Telstra Store Brookside

# DRIVE VALUE FROM THE CORE



Andrew  
Field Technician  
Team Leader

To continue to grow our revenue and our customer base, we are focused on driving value from our core including through network leadership and simplifying the business.

Our core refers to our key domestic products, services and costs that make up the bulk of our business today.

## Investing in network superiority

Telstra's customers have come to rely on our networks to connect them to the people and things they love.

We recently announced a further increase to our mobile network investment with the aim of providing our customers with the best possible network experience.

We will increase our total capex investments to 15 per cent of sales for the next two years, providing over half a billion dollars more for investment in our mobile services. In total, over the three years to June 2017, we expect to have invested more than \$5 billion into Telstra's leading mobile network.

## Increasing coverage across Australia

Our mobile network remains the largest and most reliable mobile network in Australia and now covers over 2.4 million square kilometres of the Australian landmass and 99.3 per cent of the Australian population. We pride ourselves on delivering a world class mobile network experience for our customers and our focus is on extending and enhancing the network's capability to deliver reliability, performance and functionality for our customers.

Our core network not only supports Telstra's services, but underpins the operations of some of Australia's largest organisations.

<sup>8</sup> With an eligible gateway device.

**664k↑**  
RETAIL MOBILE  
CUSTOMER  
SERVICES  
TOTAL OF 16.7m

**280k**  
MORE CUSTOMERS  
on bundled plans

**7.3%↑**  
RETAIL FIXED  
DATA REVENUE

**1,200** SUBURBS AND TOWNS  
Ultra fast 4GX™ available now

**4G** SERVICE  
NOW REACHING 94%  
of the Australian population

SIGNED  
REVISED NBN  
AGREEMENTS

**TELSTRA AIR®**  
Launched Australia's  
largest Wi-Fi network

With mobile connectivity a key part of modern life, the availability of high speed mobile services has expanded significantly. Our 4G service now reaches 94 per cent of the Australian population. We have also expanded the reach of 4GX, with the service now available in over 1,200 suburbs and towns.

4GX is based on Telstra's newly acquired 700MHz spectrum band and delivers higher typical mobile download speeds and better in-building 4G coverage on compatible devices in 4GX areas. This allows more Australians to experience ultra-fast mobile internet and gives our customers a better experience.

In June, we were selected to participate in one of the largest ever expansions of mobile coverage in regional and remote Australia, through the Federal Government's Mobile Black Spot Programme.

We will build 429 new 3G/4G towers over the next three years and a further 250 4G data only small cells, representing a combined investment of more than \$340 million in regional and remote Australia by Telstra, the Federal Government and several State and Local Governments.

## Making Wi-Fi more accessible

In June, we also launched Australia's largest Wi-Fi Network, Telstra Air®, which gives Telstra home broadband customers<sup>9</sup> the ability to use their broadband allowance at thousands of hotspots in Australia and millions of hotspots overseas.

The Telstra Air Network® in Australia comprises Telstra built Wi-Fi hotspots at selected payphone sites and retail stores, as well as hotspots created by our Telstra Air members, known as 'homespots'.

Uniquely in Australia, Telstra Air member's homespots are created using innovative Wi-Fi sharing technology which sees members share a piece of their home broadband bandwidth and in return gain access to the Telstra Air Network.

Telstra has reached a number of deals with local governments to bring Telstra Air to civic spaces and will start to roll out hundreds of additional public hotspots in the first half of FY16.

We have also joined exclusively with world leading Wi-Fi provider Fon to allow Telstra Air members to access their home broadband allowance at more than 16 million Fon hotspots overseas.

## Customer and revenue growth

Our network superiority and customer advocacy initiatives continue to attract new customers. With an increasing appetite for data, our higher value plans with increased data allowances are becoming even more attractive to customers.

We had another strong year in the mobiles product portfolio, with the strongest revenue growth in four years. Retail customer services increased by 664,000, bringing the total number to 16.7 million.

With the expansion of our 4G network there are now 7.7 million 4G devices on our network.

While there was continued decline in the number of fixed voice services, this decline was the lowest seen in five years, driven by successful bundling of our fixed products. The total number of customers on a bundled plan increased by 280,000 to 2.2 million, or 71 per cent of the retail fixed data customer base.

Retail fixed data revenue increased 7.3 per cent due to increased subscriber growth and higher average revenue per user. We now have 3.1 million retail fixed data customers, an increase of 189,000.

## NBN

The revised NBN Definitive Agreements we reached with NBN Co and the Commonwealth to support a multi-technology model for the NBN have now come into effect. While these were finalised, NBN Co continued to deploy its fibre-to-the-premise network in parts of Australia, as well as their fixed wireless network in regional areas.

Telstra is Australia's leading provider of consumer and business services on the NBN fibre-to-the-premises network. As the NBN roll-out continues, we are seeing good momentum. As at 30 June 2015 we had 211,000 NBN connections, made up of 161,000 voice and data bundles, 9,000 data only and 41,000 voice only services. These customers now have access to higher speeds, which is driving increased use of video streaming, as well as helping businesses take advantage of online sales, cloud computing and video collaboration.

In the first areas where NBN Co built its fibre-to-the-premise network, the migration of eligible services has taken place and the disconnection of Telstra's legacy copper and HFC networks has occurred. This represents a fundamental change in industry structure and a lot of work has gone into ensuring the migration of services to the NBN has occurred with minimum disruption.

Across the sector, the experience of Australian consumers and businesses adopting an NBN service is not a consistently positive one. Telstra has developed a number of initiatives to improve the experience of Telstra customers connecting to the NBN, such as giving consumer customers greater flexibility through a simple Self Install Kit for connecting on NBN fibre and establishing an NBN customer service centre of excellence in Hobart.

These initiatives have underpinned a significant increase in customer advocacy scores for our NBN services year-on-year. We look forward to continued improvements in this area, which should be helped by changes to the Migration Plan that were recently accepted by the Australian Competition and Consumer Commission (ACCC).

## Simplifying the business

The rate of technology innovation is accelerating and changing the face of our industry. Simplifying our business is therefore a critical component of our strategic agenda, both in removing complexity from our core, and being more adaptable and responsive to market needs.

Our simplification strategy is centred on driving customer advocacy, productivity and organisational agility through simplified processes, products, systems and networks.

### Enhancing the customer experience

We continued to roll out our multi-year Digital First program, aimed at using digital tools throughout the company to improve the speed and quality of the service we offer to customers. The program included:

- significant customer experience improvements for our Global Enterprise and Services and Telstra Business Managed Customers in the way they manage invoices through the enhancement of T Analyst®, our online billing and reporting tool
- with the launch of Contextual Care, some new ADSL customers can scan a unique QR code to instantly receive personalised help via a 24x7 tailored self-service mobile support website.

### Simplifying our products

We saw significant cost savings as a result of our product and platform simplification agenda, where we removed under utilised products, exited unused applications, and simplified our pricing plans and parts of our IT and network infrastructure.

## Telstra Air

At launch, Telstra switched on more than 4,000 hotspots in more than 250 towns and cities across Australia.

### How to log on

Eligible Telstra home broadband customers with an ADSL, Cable or NBN connection and a compatible gateway can become members of Telstra Air. More than a million home broadband customers already have a Telstra Air-ready gateway so can join the Telstra Air Network if they wish to do so.

After they are enrolled to use the service, customers can use the Telstra Air App (available on iOS and Android devices). Customers are able to locate and automatically connect to their nearest Telstra Air hotspot in Australia or Fon Spot when travelling overseas. Customers can find out more, including information on compatible gateways at [telstra.com/air](http://telstra.com/air).



# BUILD NEW GROWTH BUSINESSES



Jason  
GM Innovation & Strategy

Our strategy for our growth businesses is designed to realise opportunities in new portfolios and to pursue growth opportunities that leverage our existing strengths.

The strategy focuses on our Network Applications and Services (NAS) portfolio, Asian growth and longer term growth opportunities such as Telstra Health, Telstra Media, the Telstra Software Group (TSG) and Telstra Ventures.

## Network Applications & Services (NAS)

The NAS portfolio provides our business, enterprise and government customers in Australia and internationally with managed network services, collaboration and security services along with a range of software as a service solutions.

With another year of strong growth, we continued to make progress in growing scale and regional capabilities while making progress improving profitability for our NAS business, with revenue growth of 23.2 per cent.

During the year we established partnerships with leading global technology partners like Cisco, Amazon Web Services, VMware and IBM to expand our cloud services and deliver future innovation.

We also acquired Bridge Point, one of Queensland's leading providers of information, security, networking and data management solutions as part of our strategy to accelerate Telstra's expertise in emerging technologies.

**>\$1.2b** INVESTED IN ACQUISITIONS including a controlling stake in 15 new businesses

**ACQUIRED PACNET LIMITED** expanding our reach in Asia

**OOYALA** increased ownership NOW 97.3%

**TELKOMTELSTRA** Launched our joint venture with Telkom Indonesia

**LAUNCHED TELSTRA HEALTH™**

### Asia

Our Asian growth strategy has three pillars: to leverage Telstra's strong foundation of connectivity in the region to deliver integrated solutions to enterprise and wholesale carrier customers; to pursue deeper in-country investment opportunities in mobility and connectivity; and to bring a suite of innovative new software based solutions to market over the longer term, through targeted investments in the region.

We provide wholesale and enterprise customers with a wide range of end-to-end solutions across data, voice, satellite and managed network services. Through our strategic investments, we now have the largest subsea cable network in Asia Pacific, with licences in Asia, Europe and the Americas and we facilitate access to more than 2,000 Points of Presence around the world. We also have a 54.3 per cent stake in Autohome, the leading online destination for car buyers in China.

### Pacnet

In April 2015, we substantially extended our reach and asset base in Asia by completing the acquisition of Pacnet Limited, a provider of connectivity, managed services and data centre services to carriers, multinational corporations and governments in the Asia-Pacific region.

Pacnet increases the scale and scope of our international connectivity assets.

The completed acquisition doubles Telstra's customers in Asia, and greatly increases our network reach and data centre capabilities.

The Pacnet Business Services joint venture in China offers IP VPN connectivity services and together with state-of-the-art data centres in Tianjin and Chongqing, will enable us to provide a seamless service offering to our customers in and out of China.

### telkomtelstra

Our joint venture with Telkom Indonesia, telkomtelstra launched in May 2015, with a suite of NAS solutions aimed at domestic enterprises and multinationals operating in Indonesia.

### Emerging opportunities

#### Telstra Health

Telstra Health was formally launched as a standalone business unit in October 2014 and is working to become Australia's leading provider of integrated eHealth solutions. We are creating new solutions that leverage Telstra's existing strengths in connectivity and build on our investment in successful eHealth companies.



By partnering with the health sector, our aim is for these new solutions to bring the digital revolution to healthcare.

Telstra Health made a number of additional acquisitions and investments during the year, including global health analytics firm Dr Foster, aged care software vendor iCare Health, hospital software vendor Emerging Systems, GP desktop and hospital software vendor CloudMed.

We also recently launched ReadyCare™, a joint venture between Telstra and Swiss telemedicine provider, Medgate. ReadyCare is a GP telemedicine service that gives Australians the choice to connect to a GP 24/7 via phone or video to receive advice, diagnosis, treatment and prescriptions.

This means Telstra Health now offers solutions for primary care, aged and residential care, hospitals, radiology and pathology, pharmacy, Indigenous care, specialists, analytics and telemedicine.

In addition to these investments and acquisitions, the business has been able to bring a number of new solutions to market to solve key health challenges.

#### Telstra Software Group (TSG)

Software will continue to be a key focus area as we drive our growth for the future in new technologies and new technology companies.

The TSG aims to create long term global growth in markets adjacent to Telstra's core business, where software disrupts traditional business models.

#### Ooyala

A key milestone for TSG was the acquisition of Ooyala, a Silicon Valley-based leader in video streaming and analytics. Ooyala has a fast growing global customer base of large-scale broadcasters, operators, media companies, enterprises and high profile enterprises that use Ooyala to build more engaged and more profitable audiences.

We increased our investment in Ooyala, building on the stake already held by Telstra Ventures Group. Our ownership interest is now 97.3 per cent. We have since enhanced Ooyala's capability by acquiring Videoplaza, with its video ad-serving platforms and programmatic trading solutions, and Nativ, which offers cloud based media logistics and workflow software.

#### muru-D®

Another key priority for Telstra is to foster technology innovation. Our start-up accelerator program, muru-D, a subsidiary of TSG, identifies and supports start-ups to create valuable technology products and services through a six month acceleration program, with muru-D taking a small equity stake in each start-up.

Building on the great success of the inaugural program, our second group of start-ups graduated in May, with all teams securing paying customers.

In April, muru-D launched in Singapore, aspiring to attract the region's best digital talent and the successful start-ups will commence the program in September 2015.

#### Telstra Ventures

Telstra Ventures, our corporate venture capital group founded in 2011, continued to invest in breakthrough companies that are strategically important to Telstra. Telstra Ventures invests in high growth opportunities offering technology and solutions that leverage Telstra's assets and enable us to offer new products and services to our customers.

For example, we work with Whispir\*\*\* and DocuSign to sell their products into Telstra's business, enterprise and government customer base. During the year, we made nine new investments. Telstra Ventures' portfolio now consists of investments in 20 companies in Australia, the United States and Asia.

#### Globecast Australia

Telstra acquired Globecast Australia in June 2015, as part of our strategy to develop deeper capabilities in media services for the global broadcast industry. Globecast Australia has specific capabilities in the delivery of media services, over both satellite and fibre as well as strong linkages between its domestic networking capabilities and international points of media connectivity.

Globecast Australia also provides the innovative Globecam live point of view camera at sporting events, Direct to Home satellite transmission, IPTV managed services, IP streaming, encoding and satellite management services.

#### Digital media

Telstra is Australia's leading aggregator of entertainment products, including subscription TV, streaming video, music, and leading sport and news content across all fixed and mobile platforms. This year, we saw solid growth of our premium television product, Foxtel from Telstra, with a 18.4 per cent increase in subscribers driven by the introduction of new \$25 Entertainment packs and the new iQ3 set top box.

Our goal is for Telstra to lead the industry in giving customers a great content experience. We want to do this by not only aggregating great content, but also providing the broadest content experience of any Australian provider. Rather than restrict our customers' choices, we are open to hosting all Subscription Video on Demand services on our platforms and making it easy for them to get all the content they want in the one place.

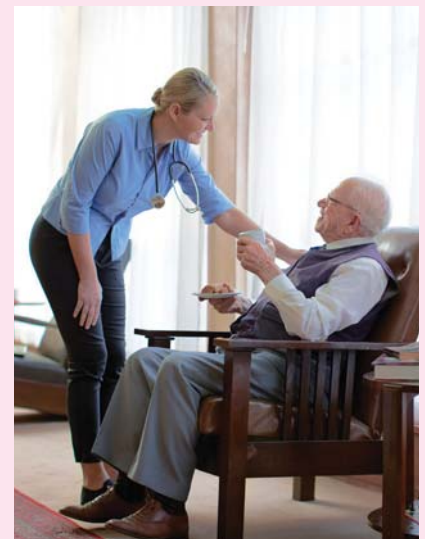
Growth also continued across key content areas, particularly in our AFL and NRL digital sports properties where live video views increased by over 70 per cent and 100 per cent respectively in the past year.

We partnered with the three major streaming video providers – Presto, Stan\*\*\* and Netflix® – and agreed a partnership with the market leader in streaming entertainment devices, Roku\*\*, to launch Telstra TV™ our next generation of streaming device, in the new year.

We also recently announced we would give Australian music fans a great music experience as the only telco in Australia to offer a 12 month membership to Apple Music^.

#### MyCareManager

In April 2015, Telstra Health launched MyCareManager, an integrated eHealth product designed to help disability, community and residential aged care providers deliver innovative services and information from a distance. MyCareManager allows clients, family members and carers to be more involved in the treatment and monitoring of illness or injury through an online portal, telemonitoring through wireless health devices and video conferencing. It allows carers to better utilise clinic-based specialists, manage chronic disease and reduce staff travel while helping clients to engage in their own care and remain at home for longer. For more information visit, [www.mycaremanager.com.au](http://www.mycaremanager.com.au).



# OUR MATERIAL BUSINESS RISKS



Mick  
General Counsel  
Finance & Strategy

Telstra operates in a rapidly changing environment characterised by profound change in the way people connect and communicate.

Our industry is dynamic and growing, with network traffic increasing rapidly and the continued evolution of technologies and markets. These trends contribute to the different risks that pose a challenge to achieving our strategic objectives, including our growth ambitions and future financial performance. The following describes the material risks that could affect Telstra, including any material exposure to economic, environmental

and social sustainability risks, and how we seek to mitigate or manage them. These risks are not listed in order of significance, nor are they all encompassing. Rather, they reflect the most significant risks identified at a whole-of-entity level. We have identified these risks through our risk management process. Further detail about our risk management process is set out in the Governance at Telstra section.

Material Business Risk and Key Drivers	Management Plans
<b>Business Model</b>	
<p>The risk that we are not able to respond to technology and market developments in a productive and cost-effective way. Our exposure to this risk is increasing due to changing market conditions, including accelerated technology advancements, increasing customer expectations of performance, and competitors with disruptive and simpler business models in both domestic and global markets.</p>	<p>Our strategy involves a combination of driving efficiencies in our business, monitoring new and disruptive technologies, and actively investing in innovation and technology-driven business opportunities. To improve our responsiveness and agility, and rationalise our cost base, we are undertaking a multi-year portfolio of work that focuses on simplifying our systems, processes and technology. We are also focused on developing our capability to innovate internally, while accessing and acquiring the required people capability, technology innovations and business models through our relationships with key suppliers, joint venture partners and acquisitions. This includes addressing capability and capacity requirements to succeed in critical growth areas, such as the NBN and health.</p>
<b>Business Resilience</b>	
<p>The risk of disruption to the services we provide to our customers due to factors such as rapidly growing demand and reliance on telecommunications services, greater exposure to complex international networks, and external shocks, such as extreme weather events and natural disasters. Sustained or significant disruption to our services can have significant impacts on our customers and the communities we serve, and could also significantly affect our corporate reputation.</p>	<p>We are developing and maintaining our capability to anticipate, prevent, withstand, respond to and recover from events that can disrupt services to our customers. Key areas of focus include: business continuity management, technology and network service continuity, incident management and emergency management. These activities are centrally governed by our Business Resilience Team who seek to ensure we continue to meet our operational needs while taking advantage of opportunities to grow our business.</p>
<b>Data Management</b>	
<p>The risk of collecting, using or managing customer and corporate data in a way that is inconsistent with our regulatory obligations or doesn't meet the expectations of our customers. This is a growing risk as our business changes, data volumes grow, cyber-security threats become more dynamic, and some data sets converge. Failure to manage our customer and corporate data can result in significant reputational, financial and regulatory implications. It can also damage the trust our customers have in us to keep their information secure.</p>	<p>We have implemented a number of company-wide controls to manage this risk, including in relation to data security and privacy compliance. We have mandatory data security awareness training for our staff and business partners, as well as mandatory vendor compliance with our data security requirements. We continually review and update the security controls on our network, based on known security threats and the latest intelligence. We also have a group-wide program of work to support compliance with our privacy obligations, which is underpinned by our privacy policy and mandatory privacy training. Additionally, we are working to improve our governance and decision making processes with regard to the use of customer and corporate data. Further information on how we manage privacy and data protection is provided under 'Customer Experience' in the Sustainability section.</p>

Material Business Risk and Key Drivers	Management Plans
<b>Regulatory Environment</b>	
<p>The emergence of unfavourable regulatory requirements resulting in increased complexity and cost of doing business.</p> <p>Telstra is heavily regulated in Australia and as people are increasingly relying on telecommunications the risk of regulatory intervention on issues such as consumer protection, service and competition remains high.</p> <p>New regulation and enforcement of existing regulation could significantly affect our revenues and costs, pricing and product strategy, or result in an additional compliance burden that hampers our capacity to operate in line with our strategy.</p> <p>Executing our strategy could also heighten this risk as it creates new exposure from governments and regulators in new jurisdictions and less familiar regulatory environments, both domestically and internationally.</p>	<p>Our risk management strategy is focused on limiting the adverse consequences of existing and new regulations so that we can meet the needs of our customers in a way that is efficient and minimises compliance costs.</p> <p>We proactively develop relationships with relevant regulatory stakeholders and policy makers, community groups and industry. In particular, we engage with: ACCC and Australian Communications and Media Authority on the scope and outcomes from regulation, with all our stakeholders on regulatory reform opportunities, and with government in a way that seeks to achieve optimal policy and regulatory decisions.</p> <p>We're also focused on developing our relationships with government and regulators in jurisdictions outside of Australia where Telstra operates.</p>
<b>National Broadband Network</b>	
<p>Risks related to successfully transitioning and serving our customers in an 'NBN world'.</p> <p>Transitioning to the NBN exposes us to increased competition from retail service providers and new and powerful 'over the top competitors' in the longer term. Our exposure to this risk has also increased as a result of NBN Co's adoption of the multi-technology model and its faster planned rollout.</p> <p>This risk can result in a potential loss in market share, increased costs and delivery of a poor customer experience.</p>	<p>To remain competitive and reduce our costs we are focused on simplifying our systems, processes and technology. We have programs in place to enhance our customer engagement and to deliver innovative NBN products and services for our customers so we can differentiate ourselves from our competitors.</p> <p>We are actively focused on adapting and scaling our business so we can cost-effectively deliver services under the multi-technology model NBN.</p>
<b>People Capability</b>	
<p>The risk that we do not have the capability to drive value from our core and build new growth businesses.</p> <p>As we move from a largely Australian telecommunications business to a multi-faceted technology company with a global focus, the capability of our people will need to change.</p> <p>In our core business, we need to be able to simplify our business and deliver innovative products and services. In growth areas, our people capabilities are a critical enabler to achieving our growth targets and realising the benefits of our mergers, acquisitions and joint venture activities.</p>	<p>We are focused on delivering the capabilities required to simplify our business, transition to an NBN operating environment and extract value from our core. Key capabilities include the areas of IT network simplification, product development and data analytics.</p> <p>In terms of building new growth businesses, we are focused on delivering the capabilities required for our Health business, enterprise managed services, software application integration and development, and international growth.</p> <p>In international markets, we are setting up mobility and remuneration policies and practices that better attract talented people from around the world. We have established an experienced recruitment team in Asia and identified recruitment partners who are able to help us access international talent.</p> <p>Further information on how we attract and retain capable employees so we can better serve our customers is provided in 'Our People' in the Sustainability section.</p>
<b>Reputation and Communication</b>	
<p>The risk that we do not effectively protect and enhance our reputation.</p> <p>Telstra's reputation with customers and in the community is one of our most valuable assets, but a significant reputational issue could quickly erode our position with long term consequences.</p> <p>If not managed effectively, a reputational issue can result in heightened government or regulatory scrutiny and intervention, act as a disincentive to investors, undermine our performance in achieving customer advocacy, and create employee disruption and engagement issues.</p>	<p>We know that the link between our reputation and customer advocacy is strong so we continue to foster relationships with our key stakeholders, operate at best practice in issues management, build our reputation through ongoing promotion of positive activity, and leverage our technology and expertise to make positive contributions to the community.</p> <p>Our core strategy is to build robust working relationships with key decision and opinion makers and ensure clear, consistent messages are delivered in a way that maximises the potential of positive outcomes and minimises the risk of reputational harm.</p> <p>We have recently created the position of Chief Social Officer, who is responsible for enhancing the way in which we communicate and engage with our stakeholders through the use of social media.</p> <p>Further information on how we make positive contributions to the community, including minimising our environmental impacts, is provided in 'Connecting Communities' and 'Environmental Stewardship' in the Sustainability section.</p>

# OUTLOOK

Our vision is to make Telstra a world class technology company that empowers people to connect.

We remain committed to implementing our strategy, to improve advocacy among customers, to drive value from the core of our business, and to invest in and build new growth businesses.

Customer advocacy remains our first priority. We know we don't always get it right, which is why we are focused on improving both our service interactions and the value we offer in our products and services. We will listen and respond to the feedback our customers provide and work on the things that are most important to them.

The telecommunications industry is changing, which in Australia includes the structural change of the industry as we transition to the NBN. Within this dynamic environment, we remain committed to improving the service we provide to our customers.

We operate in a competitive landscape and we will need to continually invest and improve to maintain our advantage. We are committed to maintaining our network leadership and the quality of services across our network, on which our customers rely. We want to offer superior experiences for what matters most to customers – coverage, call and speed reliability, fewer drop outs and the reliable delivery of video.

Investment in our mobile network will be accelerated further, providing an additional half a billion for mobiles over the next two years. Over the three years to June 2017, we expect to have invested more than \$5 billion into our leading mobile network.

We will continue to expand our 4G footprint to 99 per cent of the population, bringing coverage to more communities across rural and regional Australia.

Simplifying our business will remain a key focus.

Our focus on simplification, execution, and agility is critical for us in order to stay competitive and to make it easier for our customers to interact with us through all our channels, including on our digital platforms. Our simplification strategy is centred on driving customer advocacy, productivity, and organisational agility through simplified processes, products, systems and networks.

Growing our business in Asia and internationally is an important priority for the business and we will continue to leverage our core capabilities and look for new opportunities.

We will continue to build our NAS business, where profitability continues to improve, driven by portfolio growth, scalable standardised offerings and a global, lower cost delivery model.

We will also continue to identify and invest in key emerging trends and build on our growing portfolio of investments, including in Telstra Health, the Telstra Software Group and Telstra Ventures, to drive growth opportunities where long term shareholder value can be created.



Jaime Lee  
Head of Cloud Practice

# FULL YEAR RESULTS AND OPERATIONS REVIEW

## Reported results

Our financial year 2015 results demonstrate that our strategy is working. Customer advocacy has improved, we continued to invest and drive value from our core business and we have laid the foundations for sustainable growth in our new businesses.

The numbers and commentary in the product, expense and segment performance sections have been prepared on a continuing operations basis and align with the statutory financial statements. This means that the results from CSL New World Mobility Limited ("CSL"), sold in the prior year, are included in the financial year 2014 comparatives. Results from the 70 per cent stake in our Sensis directories business, also sold in the prior year, are classified as a discontinued operation and as such are not included in the comparatives. The financial position section has been prepared on a continuing and discontinued operations basis (that is, they include the results of the Sensis directories business), unless otherwise noted.

## Summary financial results

	FY15	FY14	Change
	\$m	\$m	%
Sales revenue	25,845	25,119	2.9
Total income (excluding finance income)	26,607	26,296	1.2
Operating expenses	15,881	15,185	4.6
Share of net profit from joint ventures and associated entities	19	24	(20.8)
EBITDA	10,745	11,135	(3.5)
Depreciation and amortisation	3,983	3,950	0.8
EBIT	6,762	7,185	(5.9)
Net finance costs	689	957	(28.0)
Income tax	1,787	1,679	6.4
Profit for the period from continuing operations	4,286	4,549	(5.8)
Profit/(loss) for the period from discontinued operation	19	(204)	n/m
Profit for the period from continuing and discontinued operations	4,305	4,345	(0.9)
Profit attributable to equity holders of Telstra	4,231	4,275	(1.0)
Capex <sup>(i)</sup>	3,589	3,661	(2.0)
Free cashflow from continuing and discontinued operations <sup>(ii)</sup>	2,619	7,483	(65.0)
Earnings per share (cents)	34.5	34.4	0.3

(i) 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.

(ii) Free cashflow in the prior period includes the sale of CSL (\$2,107 million) and 70 per cent of our Sensis directories business (\$454 million).

n/m = not meaningful.

## Results on a guidance basis<sup>(i)</sup>

	FY15	FY15 guidance
Total income growth <sup>(ii)</sup>	2.3%	Broadly flat
EBITDA growth	2.0%	Broadly flat
Capex/sales ratio	13.9%	~ 14% of sales
Free cashflow	\$5.0 billion	\$4.6 – \$5.1 billion

(i) This guidance assumed wholesale product price stability, no impairments to investments, excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The FY15 guidance excluded the FY14 CSL profit on sale of \$561m from FY14 Income and EBITDA. Please refer to the guidance versus reported results reconciliation on page 180. This reconciliation has been reviewed by our auditors.

(ii) Excludes finance income.

Guidance versus reported results<sup>(i)</sup>

	FY15	FY15	FY15	FY14
	Reported results \$m	Adjustments \$m	Guidance basis \$m	Guidance basis \$m
Total income <sup>(ii)</sup>	26,607	(288)	26,319	25,735
EBITDA	10,745	37	10,782	10,574
Free cashflow	2,619 <sup>(iii)</sup>	2,400	5,019	4,922

(i) This guidance assumed wholesale product price stability, no impairments to investments, excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The FY15 guidance excluded the FY14 CSL profit on sale of \$561m from FY14 Income and EBITDA. Please refer to the guidance versus reported results reconciliation on page 180. This reconciliation has been reviewed by our auditors.

(ii) Excludes finance income.

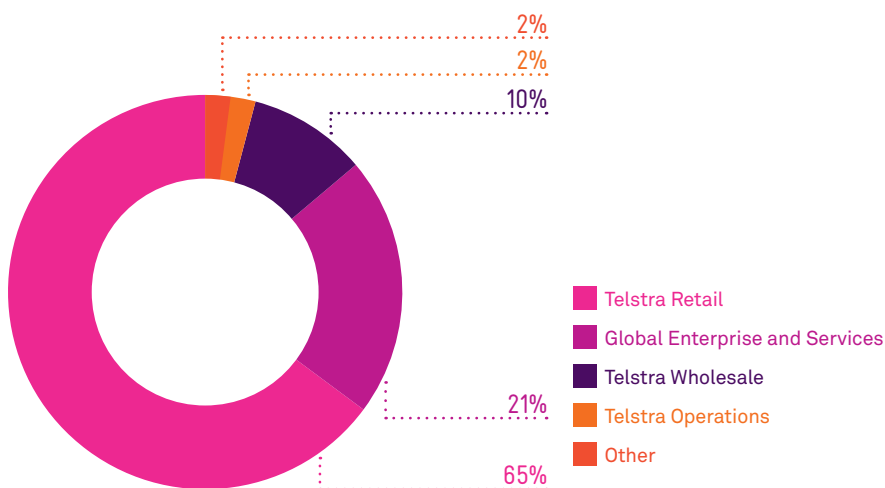
(iii) The difference between our reported free cashflow and free cashflow on a guidance basis is mainly due to spectrum payments of \$1,302 million and M&A activity of \$1,151 million.

On 13 August 2015, the Directors of Telstra resolved to pay a fully franked final dividend of 15.5 cents per share. Shares will trade excluding entitlement to the dividend on 25 August 2015 with payment on 25 September 2015.

## Segment performance

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

## Segment total income



	FY15	FY14	Change
	\$m	\$m	%
Telstra Retail	17,252	16,383	5.3
Global Enterprise and Services	5,674	5,257	7.9
Telstra Wholesale	2,586	2,328	11.1
Telstra Operations	424	289	46.7
Other (excluding Sensis)	671	2,039	(67.1)
Total Telstra segments (excluding Sensis)	26,607	26,296	1.2
Other – Sensis	–	552	n/m
Total Telstra segments	26,607	26,848	(0.9)



Alisha  
Contact Centre Capability Lead

## Telstra Retail

Telstra Retail brings together our key retail businesses including Telstra Consumer, Telstra Business, Telstra Media Group and Telstra Health™. Telstra Retail provides a full range of telecommunications products, services and solutions to consumer customers and to Australia's small to medium sized enterprises, as well as the provision of Foxtel and digital content services. Income in this segment grew by 5.3 per cent to \$17,252 million and EBITDA increased by 0.9 per cent to \$9,449 million.

We saw strong growth in our Consumer business unit with income growing by 6.5 per cent. As a result of the continued focus on customer advocacy and innovative new products and plans introduced during the year, we saw good growth in mobiles and fixed data with post-paid handheld average revenue per user (ARPU) increasing by 6.3 per cent to \$61.72 and an increase of 158,000 fixed data subscribers. In Telstra Business, income grew by 2.9 per cent driven by a 3.3 per cent growth in mobile services revenue, revenue from unified communications, cloud hosted solutions and contributions from TSM (formerly SNP Security) and AFN Solutions which were acquired during the first half of the year. Telstra Health also contributed income of \$78 million.

## Global Enterprise and Services

Global Enterprise and Services (GES) is responsible for sales and contract management support for business and government customers in Australia and globally. It provides product management for advanced technology solutions including data and IP networks, and NAS products such as managed networks, unified communications, cloud, industry solutions and integrated services. GES provides technical delivery support for all NAS customers globally and the recently formed Telstra Software Group and its acquisitions also form part of GES.

Income for GES increased by 7.9 per cent to \$5,674 million due to strong growth in NAS and enterprise mobility in Australia, our international GES customers (GES Global) and Telstra Software. GES EBITDA declined by 1.7 per cent to \$2,439 million largely due to the ongoing change in product mix from higher profit carriage to lower profit NAS products and GES Global businesses, along with the negative EBITDA impact from the Telstra Software Group acquisitions which are businesses in their early stages. The NAS profitability margin continued its trend of improvement in FY15 driven by scalable standardised offerings, a lower cost delivery model and operational leverage.

### Telstra Wholesale

Telstra Wholesale is responsible for the provision of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers. Wholesale income grew by 11.1 per cent to \$2,586 million. This was largely driven by an increase in NBN infrastructure receipts which have increased in line with the NBN rollout. EBITDA contribution increased by 12.7 per cent to \$2,398 million.

### Telstra Operations

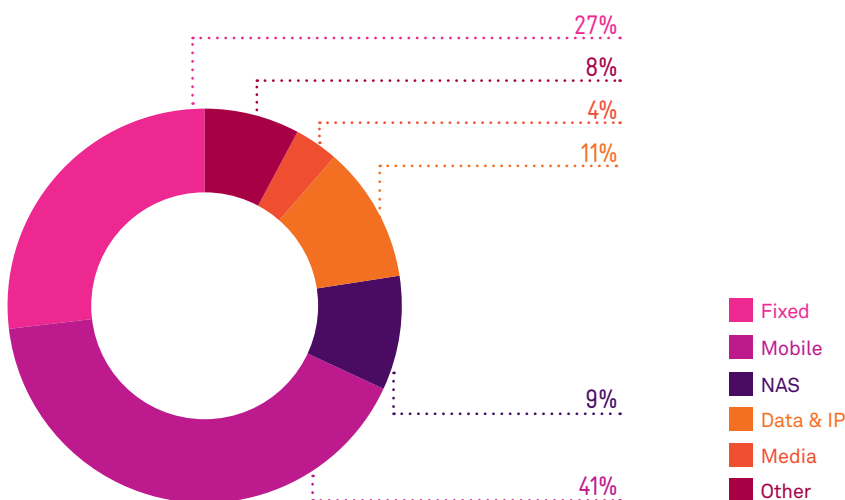
Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of other segments. It also has NBN and property revenue. The EBITDA contribution improved by 4.4 per cent with increases in NBN and property revenue and reductions in labour expenses, partially offset by higher service contracts to support new business growth and NBN related works.

### Other

Our Other segment includes the costs of corporate centre functions, receipts received under certain NBN agreements, adjustments to employee provisions for bond rate movements and short term incentives, and redundancy expenses for the parent entity. It also includes China digital media results.

## Product performance

### Product sales revenue breakdown



### Key product revenue

	FY15	FY14	Change
	\$m	\$m	%
Fixed	6,944	7,076	(1.9)
Mobile	10,651	9,668	10.2
Data and IP	2,883	2,968	(2.9)
NAS	2,418	1,963	23.2

### Product profitability EBITDA margins<sup>(i)</sup>

	FY15	FY14	2H15	1H15
	%	%	%	%
Mobile	40	40	40	40
Fixed voice <sup>(ii)</sup>	55	59	54	56
Fixed data <sup>(ii)</sup>	41	41	39	42
Data and IP	64	65	65	64

(i) The data in this table includes minor adjustments to historic numbers to reflect changes in product hierarchy.  
(ii) Margins include NBN voice and data products.

### Fixed

Our fixed portfolio offers fast and reliable broadband, clear and reliable calling, premium entertainment and expert technology advice through our Telstra Platinum® service. We are also creating Australia's largest Wi-Fi network, Telstra Air®, to provide Australians' connectivity in and out of the home.

Total fixed revenue declined by 1.9 per cent to \$6,944 million. While fixed voice revenue decreased by 7.1 per cent to \$3,746 million, fixed data revenue increased by 7.3 per cent to \$2,379 million. Fixed voice revenue decline continues to moderate as a result of a strong focus on customer retention. The pace of disconnections was stable compared to the prior year with retail fixed voice line loss of 264,000, taking total retail fixed voice customers to 6.0 million. This was partly offset by additional wholesale lines of 53,000. Fixed voice ARPU decline was consistent with the prior year, decreasing by 4.3 per cent to \$42.05.



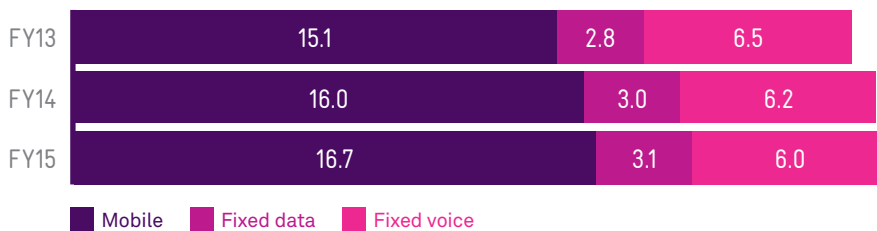
The increase in fixed data revenue was a result of subscriber growth. ARPU was flat in a competitive environment. We now have 3.1 million retail fixed data subscribers, an increase of 189,000 during the year. The total number of customers taking up a bundle has also increased by 280,000 and there are now 2.2 million customers on a bundled plan, or 71 per cent of the retail fixed data customer base. This increase was driven by the success of our bundled offerings which were refreshed during the year to deliver more value for our customers.

As the NBN roll-out continues, we are seeing good momentum. As at 30 June 2015 we had 211,000 NBN connections made up of 161,000 voice and data bundles, 9,000 data only and 41,000 voice only services.

Other fixed revenue decreased by 0.8 per cent to \$819 million with an increase in inter-carrier access services revenue offset by lower customer premise equipment and other fixed telephony revenue. Included in other fixed revenue is revenue from our Platinum customers. 254,000 customers used a Telstra Platinum service this year which provides customers with expert technical advice for either a monthly or on-demand fee.

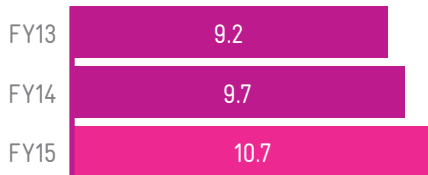
Fixed voice EBITDA margins declined to 55 per cent as a result of lower revenue while fixed data EBITDA margins remained steady at 41 per cent despite the costs incurred to connect our NBN customers.

**Domestic retail customer services (millions)**



**Mobile**

**Mobile revenue (\$b)**



For the 2015 financial year, revenue in our mobile portfolio increased by 10.2 per cent to \$10,651 million. This was a result of growth in ARPU and subscribers in our key mobile categories of post-paid handheld and pre-paid. EBITDA margin remained flat at 40 per cent driven by improved ARPU offset by higher hardware costs due to increased recontracting activity during the year.

We invested \$1 billion in our mobile network during the year to provide our customers with the best connectivity and coverage. Telstra’s 4G coverage now reaches 94 per cent of the Australian population and we will continue to expand our 4G footprint to 99 per cent of the population. We now have 7.7 million 4G devices on our network.

The success of our 4G network in supporting increased data usage across all our mobile products has seen mobile services revenue growth of 7.2 per cent to \$8,765 million. Retail customer services increased by 664,000, bringing the total number to 16.7 million.

We now have 7.3 million post-paid handheld retail customer services, an increase of 113,000. Post-paid handheld revenue grew by 7.7 per cent to \$5,389 million. While there was a slow-down in ARPU growth in the second half due to lower excess data rates and higher data allowances, for the full year ARPU increased by 5.5 per cent, from \$58.70 to \$61.94 (including the impact of mobile repayment options) with customers using more data and moving to higher plans resulting in higher minimum monthly commitments and increased data pack penetration.

Pre-paid handheld revenue growth of 13.1 per cent to \$994 million was driven by an increase in unique users and ARPU due to higher recharge values with the average data usage per user per month increasing. Our Boost pre-paid offerings have also contributed to the increase. Mobile broadband (MBB) revenue grew by 0.2 per cent to \$1,290 million with customer growth, largely due to growth in data share SIMs, offset by a 3.7 per cent reduction in ARPU. In total, we added 187,000 customer services in this category. Machine to machine (M2M) experienced another year of double-digit revenue growth, with revenue growing by 11.9 per cent to \$113 million.

We continue to provide productivity solutions to our M2M customers in the key areas of transport logistics, banking, public safety and security and energy and utilities.

Mobile hardware revenue grew by 26.3 per cent to \$1,886 million due to an increase in average revenue per post-paid handset (higher average recommended retail price), together with an increase in handset recontracts as a result of the iPhone® 6 launch during the year.

**Data and IP**

Data and IP revenue declined by 2.9 per cent to \$2,883 million with growth in IP Access revenue not enough to offset the declines in ISDN and other legacy calling products. IP Access revenue grew by 1.2 per cent to \$1,180 million as a result of increased customer connections however price pressures have impacted yields. There was strong growth in IP MAN, Telstra’s next generation data access service providing high-speed IP access solutions for large to medium corporate enterprises and government departments. IP MAN revenue grew by 6.8 per cent with services in operation increasing by 6.1 per cent.

Other data and calling products revenue decreased by 4.5 per cent to \$1,041 million. Migration to IP solutions, including unified communications products in our Network Applications and Services portfolio, is the primary driver for the decline in legacy calling products. EBITDA margins remained strong at 64 per cent despite some price pressures in the IP market.

**Network Applications and Services (NAS)**

## NAS revenue (\$b)



NAS revenue continued to grow at double-digit rates, increasing by 23.2 per cent to \$2,418 million, exceeding market growth in all key NAS portfolios. This increase was driven by existing and new contracts, and acquisitions. Included in NAS revenue is International NAS which increased by 41.4 per cent to \$99 million. The Pacnet acquisition, completed in April 2015, contributed \$14 million to International NAS. Managed network services revenue increased by 21.8 per cent driven by increased professional service and security activity and includes revenue from the acquisitions of O2 last financial year and Bridge Point in October 2014. Revenue growth of 8.1 per cent in unified communications was driven by increased IP telephony customer connections. Industry Solutions revenue growth of 41.6 per cent was led by NBN commercial works and contributions from TSM (formerly SNP Security). Overall, NAS profitability continued to improve driven by portfolio growth, scalable standardised offerings and a global, lower cost delivery model.

**Media**

Media product portfolio revenue increased by 3.4 per cent to \$931 million. This portfolio includes Foxtel from Telstra (previously Premium Pay TV), IPTV, (which includes T-Box<sup>®</sup> sales, Foxtel on T-Box, BigPond<sup>®</sup> Movies and Presto), Mobility and other content (which includes exclusive AFL and NRL rights and music subscriptions) and cable revenue.

Foxtel from Telstra revenue increased by 9.4 per cent to \$662 million. This was driven by growth in subscribers as a result of the reintroduction of "Foxtel from Telstra" bundles in May 2014 and Foxtel price reductions in November 2014. A shift in focus to Foxtel from Telstra has reduced T-Box sales revenue by \$33 million. Excluding T-Box sales, IPTV revenue increased by 19.6 per cent due to Foxtel on T-Box and Presto sales growth. Mobility and other content revenue declined by 2.5 per cent to \$79 million. The continued decline in legacy mobile download services has been partly offset by the increased take up of NRL and AFL subscribers.

Cable revenue declined by 1.7 per cent to \$118 million. This represents income from the supply of HFC cable services to Foxtel.

While there was an increase in cable subscribers, there was an offsetting reduction in ARPU in line with new Foxtel pricing introduced in November 2014.

**Other**

Global connectivity revenue grew by 27.7 per cent to \$780 million driven by the continued increase in wholesale carrier data. The Pacnet acquisition also contributed \$90 million to global connectivity. Other sales revenue increased by 39.4 per cent to \$1,238 million. Other sales revenue includes revenue from our China digital media portfolio which increased by 81.3 per cent to \$504 million. This was largely driven by Autohome with revenue increasing by 98.0 per cent as a result of increased advertising services and dealer subscriber growth.

**Operating expenses**

	FY15	FY14	Change
	\$m	\$m	%
Labour	4,921	4,732	4.0
Goods and services purchased	6,847	6,465	5.9
Other expenses	4,113	3,988	3.1
<b>Total operating expenses</b>	<b>15,881</b>	<b>15,185</b>	<b>4.6</b>

**Expense performance****Labour**

Total labour expenses increased by 4.0 per cent or \$189 million to \$4,921 million. Our total full time staff and equivalents (FTE) increased to 36,165. This increase in FTE was mainly driven by organic growth and M&A activity across our NAS portfolio (in particular the Pacnet acquisition), Telstra Business, and our nascent Software and Health businesses. Additionally, business growth and the conversion of contractors to permanent staff in our China business also contributed to the increase. Offsetting these increases were reductions in FTE driven by our restructuring programs across various parts of the business.

Salary and associated costs increased by 8.4 per cent or \$287 million to \$3,686 million. This increase was mainly driven by the increase in FTE, as well as salary and wage increases which also incorporated the change in the statutory superannuation contribution. These increases were partially offset by a favourable year on year bond rate impact of \$58 million, driven by a favourable outcome of \$71 million from the transition to a high quality corporate bond rate for the calculation of employee long service leave provisions, in accordance with AASB 119. This change resulted from the G100 concluding in May 2015 that a deep corporate bond market exists in Australia.

Labour substitution costs increased by 3.7 per cent or \$29 million to \$816 million. This increase was mainly driven by the establishment of global operations to support the expansion of our NAS business, higher field fault volumes due to adverse weather events, and increased costs in support of NBN activations.

Redundancy expenses decreased by 55.0 per cent or \$138 million to \$113 million, driven mainly by restructuring work returning to normal levels within our core business, the impact of the Sensis divestment on the prior year, and redundancy expense savings from the redeployment of staff to growing areas of the business.

**Goods and services purchased**

Goods and services purchased increased by 5.9 per cent or \$382 million to \$6,847 million. Cost of goods sold (COGS) (which includes mobile handsets, tablets, dongles, broadband modems) increased by 6.0 per cent or \$173 million to \$3,079 million. This was driven mainly by the strong demand for our iPhone<sup>®</sup> 6 offerings. This increase was significantly offset by a \$397 million decrease in COGS driven by our divestment of CSL in the prior year.

Network payments decreased by 0.3 per cent or \$6 million to \$1,725 million. This decrease was mainly attributable to our divestment of CSL and reduced payments to overseas carriers due to lower negotiated roaming rates. Offsetting these decreases were higher onshore carrier network outpayments in support of increased mobile subscribers and increased NBN network payments as we migrate customers to the NBN.

Other goods and services purchased increased by 11.8 per cent or \$215 million to \$2,043 million. This was mainly driven by increased service fees for Foxtel, cloud services, IPTV and digital content, and mobile insurance in support of increased subscribers. This increase was partially offset by our divestment of CSL.

## Other expenses

Total other expenses increased by 3.1 per cent or \$125 million to \$4,113 million. This increase was the result of higher service contracts and agreements, promotion and advertising costs and the accounting impact of the Sensis divestment. This was partially offset by the divestment of CSL, and the recognition of unrealised losses driven by the liquidation of our subsidiary Octave, both in the prior year.

Service contracts and agreements increased by 6.0 per cent or \$88 million to \$1,556 million, largely driven by increased investment in the simplification of our core business, and costs associated with increased NBN commercial works. Promotion and advertising expenses increased by 21.7 per cent or \$75 million to \$421 million, mainly in support of growth in our China Autohome business, and domestically in support of the iPhone 6 launch, customer advocacy programs and Belong™, our low cost ISP brand.

For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to Australian dollars increased our expenses by \$97 million on the prior period, across labour, goods and services purchased, and other expenses.

## Net finance costs

Net finance costs decreased by 28.0 per cent to \$689 million largely due to an \$87 million reduction in net borrowing costs and a \$175 million reduction in other finance costs.

The reduction in borrowing costs was predominantly due to lower average debt levels resulting from debt maturities which were funded out of existing liquidity. The average interest yield on gross debt for the year was 5.8 per cent compared to 5.9 per cent in the prior year. The closing gross debt interest yield at 30 June 2015 was 5.7 per cent compared to 5.9 per cent at 30 June 2014. The reduction in yield arose through a combination of a reduction in short term market base rates year on year, resulting in lower costs on the floating rate debt component of our portfolio and from refinancing at lower rates.

The reduction in other finance costs primarily relates to non-cash revaluation impacts of our offshore debt portfolio and associated hedges that result in a floating position (fair value hedges). Volatility from these revaluation impacts has been significantly reduced due to changes implemented in the way we designate fair value hedges for accounting purposes and the adoption of the new accounting framework (under AASB 9 (2013)) which allows a component of Telstra's borrowing margin to be treated as a cost of hedging and deferred to equity.

## Summary Statement of Cash Flows

	FY15	FY14	Change
	\$m	\$m	%
<b>Net cash provided by operating activities</b>	<b>8,311</b>	8,613	(3.5)
Total capital expenditure	(6,206)	(4,018)	54.5
Sale of shares in controlled entities (net of cash disposed)	4	2,397	(99.8)
Other investing cash flows	510	491	3.9
<b>Net cash used in investing activities</b>	<b>(5,692)</b>	(1,130)	n/m
<b>Free cashflow</b>	<b>2,619</b>	7,483	(65.0)
<b>Net cash used in financing activities</b>	<b>(6,882)</b>	(4,430)	55.3
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(4,263)</b>	3,053	n/m
Cash and cash equivalents at the beginning of the year	5,527	2,479	123.0
Effects of exchange rate changes on cash and cash equivalents	132	(5)	n/m
<b>Cash and cash equivalents at the end of the period</b>	<b>1,396</b>	5,527	(74.7)

Residual volatility from market movements has not been significant. Notwithstanding changes to accounting treatment all cash flows continue to remain economically and effectively hedged.

## Financial position

### Capital expenditure and cash flow

Our operating capital expenditure for the year was 13.9 per cent of sales revenue or \$3,589 million (excluding spectrum). This investment has enabled us to meet ongoing strong customer demand from the growth in our customer base. This includes building the nation's largest Wi-Fi network, continuing investment in growth areas (such as network access services and cloud services) and supporting the accelerated rollout of mobile 4G and 4GX™ networks.

Free cashflow generated from operating and investing activities was \$2,619 million, representing a decline of 65.0 per cent. The difference between our reported free cashflow and free cashflow on a guidance basis of \$5,019 million is mainly due to spectrum payments of \$1,302 million and M&A activity of \$1,151 million including the acquisitions of Pacnet Limited, Ooyala Inc., Videoplaza AB and Nativ Holdings Limited. These increased payments were partly offset by lower cash capital expenditure. Increased cash from operating activities, predominantly as a result of revenue growth and working capital timing, were offset by decreases due to cash from divested entities included in the prior period.

## Financial settings

	FY15	FY15
	Actual	Target zone
Debt servicing <sup>(i)</sup>	1.3x	1.3 – 1.9x
Gearing <sup>(ii)</sup>	48.3%	50% to 70%
Interest cover <sup>(iii)</sup>	15.0x	>7x

(i) Debt servicing ratio equals net debt to EBITDA.

(ii) Gearing ratio equals net debt to net debt plus total equity.

(iii) Interest cover equals EBITDA to net interest.

## Debt position

Our gross debt position at 30 June 2015 decreased by \$1,086 million to \$14,962 million. Gross debt comprises borrowings of \$15,634 million and net derivative asset of \$672 million (which includes assets and liabilities both current and non current).

The net decrease in gross debt reflects a combination of the following impacts. An increase of \$2,060 million due to a \$1,308 million United States dollar bond debt issuance, \$580 million debt acquired from the acquisition of Pacnet (repaid during the year), \$82 million finance lease additions and \$90 million relating to loans from associated entities and within our subsidiaries. This was offset by a decrease of \$3,146 million due to \$2,798 million term debt maturities, \$220 million repayment of commercial paper, \$47 million finance lease repayments and \$81 million revaluation impacts.

Net debt at 30 June 2015 was \$13,566 million, an increase of \$3,045 million from the prior year. This movement comprises the reduction in gross debt of \$1,086 million offset by a reduction in cash and cash equivalents of \$4,131 million.

Our gearing ratio at the start of FY15 was 43.0 per cent, following the sale of CSL and the 70 per cent stake of our Sensis directories business in FY14. This was below the low end of our target range in anticipation of significant outflows in the current year, including \$1.3 billion to acquire spectrum licences and the \$1 billion off market buy-back. Our gearing ratio has increased to 48.3 per cent at 30 June 2015 reflecting the increase in net debt, and remains just below the conservative end of our target range. Debt servicing (net debt/EBITDA) remains comfortable at 1.3x and we have extended the average debt maturity profile from 4.7 years to 5.0 years.

#### Statement of Financial Position

Our balance sheet remains in a strong position with net assets of \$14,510 million. Current assets decreased by 33.2 per cent to \$6,970 million. This decrease is largely a result of a reduction in cash and cash equivalents of \$4,131 million used to fund the acquisition of Pacnet, debt maturities, spectrum license payments and the share buy-back. The prior period balance also included proceeds of approximately \$2.5 billion from divestments. Offsetting the decrease in cash and cash equivalents was an increase in trade and other receivables of \$549 million due to a higher customer deferred debt as a result of higher average recommended retail prices of our smartphone range, increased debtors resulting from an increase in sales revenue and debtors in newly acquired entities. Inventories also increased by \$129 million due to the Planning Design Services Agreement and the Joint Deployment Works Contract with NBN Co. Inventories also increased to support higher mobile hardware sales.

#### Summary Statement of Financial Position

	FY15	FY14	Change
	\$m	\$m	%
Current assets	6,970	10,438	(33.2)
Non current assets	33,475	28,922	15.7
<b>Total assets</b>	<b>40,445</b>	<b>39,360</b>	<b>2.8</b>
Current liabilities	8,129	8,684	(6.4)
Non current liabilities	17,806	16,716	6.5
<b>Total liabilities</b>	<b>25,935</b>	<b>25,400</b>	<b>2.1</b>
<b>Net assets</b>	<b>14,510</b>	<b>13,960</b>	<b>3.9</b>
<b>Total equity</b>	<b>14,510</b>	<b>13,960</b>	<b>3.9</b>
Return on average assets (%)	18.9	20.4	(1.5)pp
Return on average equity (%)	30.3	32.3	(2.0)pp

Non current assets increased by 15.7 per cent to \$33,475 million. Intangible assets increased by \$2,950 million due to the acquisition of spectrum licenses and an increase in goodwill resulting from acquisitions of controlled entities and businesses. An increase of \$468 million in derivative financial assets is primarily attributable to net foreign currency and other valuation impacts arising from measuring to fair value. Defined benefit assets increased by \$252 million due to a change in the bond rate, in accordance with AASB 119, and higher investment returns.

Current liabilities decreased by 6.4 per cent to \$8,129 million. Borrowings decreased by \$781 million due to a reduction in short term commercial paper and the maturity of domestic and offshore debt, partially offset by the reclassification of debt due to mature within 12 months to current borrowings. Derivative financial liabilities decreased by \$186 million due to foreign currency and other valuation impacts from measuring to fair value. Revenue received in advance increased by \$187 million mainly due to newly acquired entities.

Non current liabilities increased by 6.5 per cent to \$17,806 million. Borrowings increased by \$591 million primarily as a result of long term debt issuance, offset by reclassifications to current borrowings. The decrease in derivative financial liabilities of \$258 million reflects foreign currency and other valuation impacts from measuring to fair value and also includes the reclassification to current for transactions maturing within the next 12 months. Revenue received in advance increased by \$450 million mainly due to newly acquired entities. Deferred tax liabilities increased by \$272 million due to deferred tax liabilities acquired in new investments, an excess of tax deductions over accounting expenses for fixed assets, and the tax effect of actuarial gains recognised for the Telstra Super™ defined benefit fund.

# SUSTAINABILITY

Our goal is to embed social and environmental considerations into our business in ways that create value for the company and our stakeholders.



# OUR APPROACH

At Telstra, our purpose is to create a brilliant connected future for everyone. The success of our business relies on it, and our sustainability agenda is key to achieving it.

We seek to identify ways we can use our technology, expertise, skills and scale to operate more responsibly, contribute to communities and help safeguard the environment. We deliver on this ambition by identifying and responding to the key sustainability issues and opportunities that are important to our business and stakeholders. Understanding and integrating stakeholder values and expectations into organisational decision making is important to help ensure the long term sustainability of our business.

We consider sustainability issues, risks and opportunities that come from a wide variety of sources including regular stakeholder consultation, participation in industry and cross sector initiatives, customer research, benchmarking and future trends analysis. We prioritise issues according to their impact on our business and stakeholders. The key topics identified through this process during the 2015 financial year are outlined in the diagram below.

This section highlights some of the more significant aspects of sustainability at Telstra. Our Bigger Picture 2015 Sustainability Report, available online at [telstra.com/sustainability/report](http://telstra.com/sustainability/report), provides a more detailed overview of these issues and our performance.

## Key sustainability topics



## AT TELSTRA, WE HAVE THREE KEY SUSTAINABILITY PRIORITIES:

### Everyone connected

We believe that the more connected people are, the more opportunities they have. We want everyone – regardless of age, income, ability or location – to enjoy the benefits that new communication technologies can bring. Our Everyone Connected programs focus on making our products and services more accessible, enhancing digital literacy and cyber safety and supporting technological innovation for social good.

### Environmental leadership

We are working to be more proactive and strategic in our approach to the environment. We're doing this by identifying and minimising the material environmental impacts of our operations, working with our suppliers to improve their environmental performance, and assisting our customers to manage their environmental impacts.

### Employee involvement

We aim to make Telstra a great place to work, enhance our reputation and strengthen the communities in which we operate by providing opportunities for our people to get involved with their local communities and the issues that matter.

# CUSTOMER EXPERIENCE

We are committed to creating a brilliant connected future for our customers.

Digital technologies and enhanced connectivity have transformed the way we live and connect. It is now more important than ever for us to deliver brilliant customer experiences.

To achieve this, we must put the customer at the centre of everything we do.

 **>1m VULNERABLE CUSTOMERS**  
benefited from our  
**Access for Everyone program**

## NEW ACCESSIBILITY PORTAL ON TELSTRA.COM

World first for a telco, making it easier for people with disability to choose devices that are right for them

## REAL TIME MOBILE DATA USAGE ALERTS

introduced for post-paid mobile customers to help manage bills

### Vulnerable customers

Through our Access for Everyone program, we help people on a low income or facing financial hardship to stay connected. Since its inception in 2002, we've provided benefits to the value of more than \$2 billion, by working with more than 2,000 community organisations across Australia to deliver these programs. In FY15, the benefit provided was \$128.8 million, a reduction of 11 per cent compared to FY14, largely reflecting a lower take up of our pensioner discount on fixed-line home phone services as more customers are moving to bundles. Around 885,000 pensioners received the discount this year, compared to 980,000 in FY14. We also provided home phone line rental relief for around 74,500 households and distributed around 72,500 pre-paid calling cards. Every month we also provided rebates on Telstra bills for around 2,000 customers seeking emergency relief.

This year we launched a new accessibility portal that assists people with disability to identify the mobile communications products and services that best suit their needs. A world first for a telecommunications company, the portal assists customers by letting them search for features that may assist specific disabilities such as speech, vision, cognitive and dexterity impairment. To find out more, visit [telstra.com.au/mobile-phones/find-accessible-devices](http://telstra.com.au/mobile-phones/find-accessible-devices).

### Managing usage charges

We are committed to providing our customers with more value and the confidence that they will not encounter unexpected usage charges.

This year we became the first telco in Australia to make calls from mobiles to 1800 numbers free of charge. We were also the first to introduce real time mobile data usage alerts for our post-paid mobile customers when they reach 50 per cent, 85 per cent and 100 per cent of their included monthly data allowance.

### Privacy and data protection

Millions of people trust us to protect their privacy and keep their data secure and we continue to work diligently every day to honour this trust. We take customer privacy and data security very seriously. Our priority is making sure we keep personal information safe and secure, as well as listening and responding to the concerns of our customers, particularly as the way in which we communicate with them continues to change. We continue to invest in controls to protect the privacy of our customers and be transparent in the way we manage this information.

This year we continued to build on our commitment to transparency, introducing new measures aimed at providing our customers with a greater understanding of, and access to the data we hold. In a first for the Australian telecommunications industry, we now offer customers the same access to their metadata as we are required to offer to law enforcement agencies without a warrant (subject to certain conditions). This new approach is aimed at providing our customers with a clearer picture of the data we provide in response to lawful requests. To find out more, visit [telstra.com.au/privacy/customer-access](http://telstra.com.au/privacy/customer-access).

It builds upon our Transparency Report, which outlines our legal obligation to assist national security and law enforcement agencies, as well as the types of law enforcement requests we receive each year.

The importance of our efforts to protect our customer and corporate data was underscored when, shortly after we completed our acquisition of Pacnet Limited in April 2015, we were advised that Pacnet's corporate IT network had been accessed by an unauthorised third party. We took immediate action to investigate and respond to the breach, including addressing the security vulnerability and putting in place additional monitoring and incident response capabilities. We also took active steps to notify employees, customers and relevant regulators around the world of the breach. The Pacnet corporate IT network remains isolated from Telstra's IT systems and we have found no evidence of any activity related to this incident on Telstra's networks.

### Cyber safety

We want people to participate safely in the online world by providing the networks, products and services that make it easy to do so. This year we introduced a number of new consumer products including Telstra Broadband Protect and Telstra Mobile Protect to help our customers stay safely connected. We are committed to providing consumers with the information they need to have a positive online experience. To access our free cyber safety materials, visit [telstra.com/cybersafety](http://telstra.com/cybersafety).

# CONNECTING COMMUNITIES

We use our technology, expertise, scale and presence to make a difference in the community.

Digital connectivity is increasingly an essential service, with access to the internet now underpinning everything from social interactions to employment and social services. Finding a job or accommodation, paying bills or staying in touch are all made simpler and quicker thanks to the internet and technology – provided you can get online.

As a result we focus on ensuring that everyone can connect and benefit from being connected to communications technologies.

## Digital literacy

Being confident and literate with technology is an essential skill in the digital age. This year, our Everyone Connected digital literacy programs reached almost 117,000 people. To extend the reach of these programs we partnered with the New South Wales and Victorian state governments to deliver Tech Savvy Seniors. This year, we provided face to face training to almost 32,000 people.

## Supporting victims of domestic violence

In November 2014, we launched Telstra Safe Connections® in partnership with the Women's Services Network to help women impacted by domestic violence to stay safely connected to their friends, family, essential services and vital information. Through the program, we provide up to 5,000 smartphones each year, along with \$30 pre-paid credit and educational materials on the safe use of technology.

## Telstra Foundation®

Through the Telstra Foundation social innovation grants program we invest in 'tech for good' collaborations across Australia and look to the power of smart devices, social media, platforms and apps to champion social change and community connection. In FY15, the Telstra Foundation approved five social innovation grants, including with Code Club Australia (see case study), to the value of \$2.4 million.

This year we officially launched the Telstra Foundation™ Philippines, our first international Foundation, which aims to assist Filipino youth and promote education in the Philippines.

**~117k<sup>9</sup>** PEOPLE  
reached through our digital literacy training programs

**40%** OF ALL AUSTRALIAN PUBLIC LIBRARIES  
have started their eSmart journey



**TELSTRA SAFE CONNECTIONS LAUNCHED TO HELP WOMEN IMPACTED BY DOMESTIC VIOLENCE TO STAY SAFELY CONNECTED**

<sup>9</sup> This figure is a combination of actual and estimated data. Our Bigger Picture 2015 Sustainability Report provides more detail on our approach and methodology.

## eSmart Libraries

In August 2012, we launched eSmart Libraries, a multi year, \$8 million partnership between the Telstra Foundation and The Alannah and Madeline Foundation. This program is designed to better equip Australia's 1,500 public libraries to support library users with the skills they need for smart, safe and responsible use of technology. To date, more than 40 per cent of public libraries across Australia (more than 600 libraries) have commenced the eSmart journey.

## Indigenous Digital Excellence

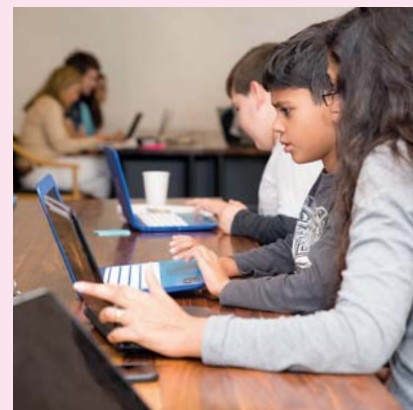
This year we continued to implement our \$5 million, multi year Indigenous Digital Excellence (IDX) partnership with the National Centre of Indigenous Excellence. IDX aims to inspire Aboriginal and Torres Strait Islander people to take the next step towards 'making digital objects' such as apps and devices, build relevant skills and connect Indigenous 'digital makers' with each other and to meaningful opportunities in the digital space.

## Helping kids code their way to a brighter future

It's typically not until high school that Australian kids get the opportunity to participate in a concentrated ICT program as part of the curriculum. Studies show that by this stage, young people – especially girls – are already self selecting out of STEM subjects (science, technology, engineering and mathematics).

Code Club Australia is changing that. Its mission is to give every child in Australia the chance to learn code, via a network of after school clubs for kids aged 9 to 11 years. Code Club Australia is designed to be inclusive of kids who face barriers to thriving in STEM education. The sessions emphasise fun, creativity, problem solving skills and learning through exploring.

The Telstra Foundation is investing \$532,000 in Code Club Australia to raise awareness about coding and to support the delivery of an accelerated 'train the trainer' program, targeting 500 teachers and prioritising schools in low socioeconomic areas. For more information, visit [telstrafoundation.com/projects/code-club-australia](http://telstrafoundation.com/projects/code-club-australia).





# OUR PEOPLE

We are working to attract and retain employees with the skills and passion to best serve our markets.

Technology is evolving rapidly, customer expectations are changing and we're facing a more competitive global market. To ensure we thrive in these conditions, we're taking a values led approach to driving engagement and collaboration, as well as embracing generational change and diversity. We're providing targeted learning and development opportunities and are continuously improving our approach to health and safety. We're also investing in programs to attract and retain employees with the skills and passion to help transform Telstra into a world class technology company.

## Employee engagement

Having completed an Employee Engagement Survey in May 2014, we did not undertake a company survey in FY15, opting instead to focus on our known areas for development. Our next whole of company employee engagement survey is expected to be conducted in the first half of FY16, with results reported in our 2016 Telstra Annual Report.

## Health and safety

The health and safety of our people is paramount to us and we are committed to developing a values based health and safety culture that is an extension of our overall organisational culture.

Through our health, safety and environment (HSE) strategy we continue to embed a strong risk management culture across our global operations. In FY15 we continued to develop our HSE incident reporting culture and worked with cross sections of our workforce and subject matter experts to improve our knowledge, understanding and management of our key HSE risks. We have seen an ongoing improvement in incident reporting and importantly a continued reduction in our injury rates. We have also maintained our Workers Compensation Self Insurance licence, Office of Federal Safety Commission accreditation, and AS/NZS4801 (H&S Systems) certification.

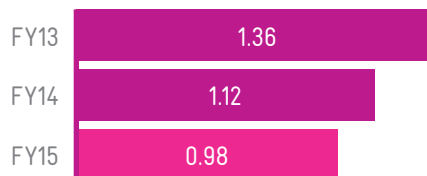
**LOST TIME INJURY FREQUENCY RATE DOWN TO 0.98**

**31% FEMALE REPRESENTATION** across Telstra Corporation Limited and its wholly owned subsidiaries

**Our employees contributed over 7,200 DAYS VOLUNTEERING IN THE COMMUNITY**

The activities undertaken in FY15 have allowed us to develop a strong program of work to further improve our HSE performance in FY16.

### Lost Time Injury Frequency Rate (LTIFR)<sup>(i)</sup>



(i) LTIFR is the reported number of accepted workers' compensation claims for work related injury or disease that incur lost time for each million hours worked. This data relates to Telstra Corporation Limited only and does not include subsidiaries or contractors.

## Diversity and inclusion

Promoting diversity and inclusion across Telstra helps us to improve our business results, enhance our reputation and attract, engage and retain talented people. In addition, having a diverse range of employees better enables us to understand our customers' needs, and provide them with excellent customer service.

Our focus on diversity and inclusion relates to differences in gender, age, ethnicity, race, cultural background, disability, religion and sexual orientation. It also includes differences in background and life experience, communication styles, interpersonal skills, education, functional expertise and problem solving skills.



Roxanne Security Operations Support

## Gender equality

Overall female representation across Telstra Corporation Limited and its wholly owned subsidiaries increased this year to 31 per cent. This increase was the result of an upwards shift across all segments other than the number of women in executive management, which decreased slightly from 25.9 per cent at 30 June 2014 to 25.6 per cent at 30 June 2015. This year we were named as an Employer of Choice for Gender Equality by the Federal Government's Workplace Gender Equality Agency and recognised by the Agency for our leading practice in promoting pay equity. We launched Brilliant Connected Women, a network designed to better connect women across Telstra and engage our leaders in more actively recruiting, retaining and developing female talent. As a White Ribbon accredited workplace we took active steps to support our employees, launching a Family and Domestic Violence Support Policy, which provides employees in Australia who are experiencing violence with up to 10 days of additional paid leave each year.

## Flexible working

We know that our people have different priorities, passions and interests that must be balanced with work, so this year we continued to enable All Roles Flex, our Group wide approach whereby flexibility is now considered the starting point for all roles.

## Ageing population

In Australia, people aged 45 and over make up the fastest growing employee category. It's therefore important for us to consider how we can best promote age and generational diversity, and offer the flexibility required to attract and retain talent of all ages. This year we piloted a program that supports mature age workers to make positive plans for their future work, life and eventual transition to retirement.

## Employment pathways

We are committed to providing employment pathways for candidates with diverse backgrounds and needs. This year our intake of Indigenous trainees increased to 11 thanks to a greater level of business sponsorship of the program. All of the 18 Indigenous employees who joined us during FY15 remain employed as at 30 June 2015. Additionally, over the past three years we've hired more than 100 new employees who identify as living with disability.

More information on Diversity and Inclusion at Telstra, including our Diversity Measurable Objectives, can be found in our 2015 Corporate Governance Statement which is available on our website at [telstra.com/governance](http://telstra.com/governance).



## Representation of women in Telstra as at 30 June 2015

Role	Number	Percentage	FY14 % result
Board (non-executive Directors)	3	30	33.33
Executive management <sup>(i)</sup>	72	25.6	25.9
CEO	0	0	0
CEO-1 (Band A)	3	21.4	23.1
CEO-2 (Band B)	18	24	19.7
CEO-3 (Band C)	51	26.6	28.7
Middle management <sup>(ii)</sup>	2,856	27.8	27.2
Operational <sup>(iii)</sup>	7,237	32.5	31.4
Telstra Total*	10,165	31	30.1
Telstra Group Total**	11,757	31.3	30.2

\* Includes full time, part time and casual staff in Telstra Corporation Limited and its wholly owned subsidiaries, excluding contractors and agency staff. It does not include staff in any other controlled entities within the Telstra Group.

\*\* Includes full time, part time and casual staff in controlled entities within the Telstra Group, excluding contractors and agency staff.

Information regarding the controlled entities in the Telstra Group can be found in Note 25 to the Financial Statements in this report.

Notes:

(i) Executive management comprises persons holding roles within Telstra designated as Band A, B or C, or equivalent.

(ii) Middle management comprises persons holding roles within Telstra designated as Band 1 or 2, or equivalent.

(iii) Operational comprises persons holding roles within Telstra designated as Bands 3 or 4, or equivalent.

## Learning and development

This year we refined our induction experience to deliver a more consistent program across the Telstra Group. All new employees are introduced to our culture and strategic priorities through this program, with a particular focus on driving customer advocacy.

We also redesigned our Business Essentials training program, through which we ensure our people are aware of their legal, regulatory and compliance responsibilities. Mandatory refresher training is completed annually, with each compliance topic covered every two years at a minimum.

As at 30 June 2015, 96.3 per cent of Telstra Group employees and contractors have completed this year's mandatory refresher course.

## Volunteering and giving

We encourage our people to get involved in the community. Our people contributed over 7,200 days volunteering their time and expertise to a range of community organisations. Our dollar for dollar matched payroll giving resulted in a total contribution of \$1.5 million in donations to over 300 charities. During FY15, 5.8 per cent of our employees made donations through Telstra's payroll giving program, compared with 5.3 per cent for the previous year.

# ENVIRONMENTAL STEWARDSHIP

We are committed to minimising our environmental impacts and working with our customers and suppliers to achieve better environmental outcomes.

Our long term vision is to become an Australian environmental leader. The extent of our network coverage and depth of our technical expertise provide an opportunity for Telstra to support government, businesses and consumers to reduce their energy consumption, leading to considerable cost savings and reduced greenhouse gas emissions.

## Environment Strategy

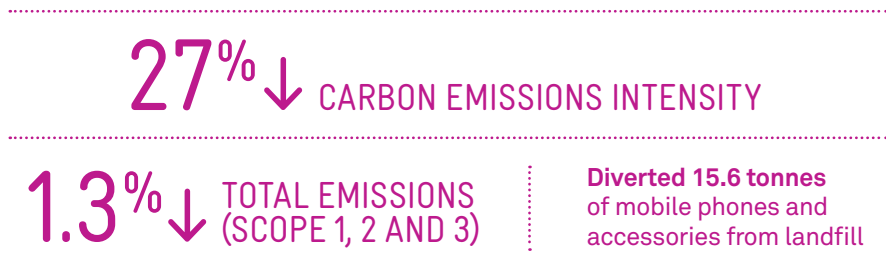
Our Environment Strategy is aimed at addressing our most material environmental impacts across three strategic focus areas:

- **Environmental customer value proposition:** quantifying and communicating how our products and services can enable our customers to reduce their environmental impacts, particularly energy use and carbon emissions
- **Operational excellence:** actively identifying and minimising material environmental impacts and operating costs
- **Sustainable supply chain:** working with and influencing suppliers to manage and reduce the environmental and social impacts of their operations and of the products and services they provide to Telstra.

## Energy efficiency and carbon emissions

Energy use in our networks is our most material environmental impact, accounting for around 87 per cent of our total carbon emissions (Scope 1, 2 and 3) in FY15. Large amounts of energy are required to power our network equipment and keep it at an optimum operating temperature.

In FY14 we set a long term target to reduce our carbon emissions per terabyte of data used (emissions intensity) by 55 per cent over the three year period from FY15 to FY17, from a baseline year of FY14. This year there has been a 27 per cent decrease in our emissions intensity, putting us on track to meet our FY17 target.



While data loads carried over our network increased by 36 per cent in FY15, total carbon emissions (Scope 1, 2 and 3) decreased by 1.3 per cent, as a result both of our energy efficiency initiatives and a reduction in the emission factors published by the Australian Federal Government for the reporting period.

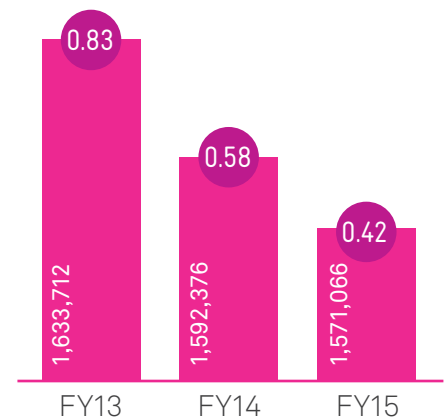
In FY15 we completed the fourth year of our \$41.3 million capital investment program, aimed at making our facilities more energy and carbon efficient. As part of this program we invested \$6 million and implemented more than 540 energy and carbon reduction projects. We also invested a further \$3.5 million in capital expenditure to improve the operating efficiency of our rectifiers, which convert AC mains power to the DC power required to run our telecommunications equipment and battery backup systems. Collectively, these initiatives, along with a program of work to decommission redundant equipment across our network sites, have reduced carbon emissions by 35,180 tCO<sub>2</sub>e and saved more than 33,239 MWh of electricity in FY15.

## E-waste

Australia is one of the highest per capita producers of electronic waste (e-waste) in the world, generating more than 25 kilograms of e-waste per person each year<sup>10</sup>. E-waste is an important element of Telstra's Environment Strategy. We collected 3,940 tonnes of e-waste this year, including 21 tonnes from an internal e-waste collection campaign across 29 corporate offices and 38 exchange buildings.

We also help our customers deal more effectively with e-waste. Throughout FY15 we collected 15.6 tonnes of mobile phones and accessories from Telstra retail stores, offices and repair centres through the MobileMuster program, a two per cent increase in collections for the year.

## Total carbon emissions and emissions intensity



- Total carbon emissions<sup>(i)</sup> (Scope 1, 2 & 3)  
Tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e)
- Carbon emissions intensity<sup>(ii)</sup>  
Tonnes of carbon dioxide equivalent per terabyte (tCO<sub>2</sub>e/TB)

(i) Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships.

<sup>10</sup> Global e-waste system, Insights for Australia from other developed countries, The Economist Intelligence Unit, 2014, page 4.

# RESPONSIBLE BUSINESS

We're committed to excellence in corporate governance, transparency and accountability.

As a large telecommunications company with a presence across Australia and a global footprint, we recognise that our long term ability to prosper is dependent on how we respond to the changing social and environmental expectations of our employees, customers, investors, regulators and the wider public. These expectations increasingly extend beyond our own operations and into our supply chain and relationships with our business partners.

## United Nations Global Compact

We have been a signatory to the United Nations Global Compact since 2011 and are committed to supporting its principles – on human rights, labour rights, environment and anti-corruption – wherever we operate. We implement our commitment through a range of policies, management systems, strategies and initiatives that reflect the diverse range of conditions our business operates in. This year we updated our Human Rights Policy to more closely align with external developments such as the publication of the United Nations Guiding Principles on Business and Human Rights – the global standard for preventing and addressing adverse human rights impacts linked to business activity – and internal policy changes including updates to our Code of Conduct.



Mike  
GM EME Management,  
Education & Compliance

**UPDATED  
OUR HUMAN  
RIGHTS POLICY**  
in line with  
global standards

**PARTNERED WITH  
LOCAL INDIGENOUS GROUPS**  
to conduct grounds maintenance at  
more than **500 regional and remote sites**

**>15m** SMS SENT TO CUSTOMERS  
highlighting responsible mobile phone use

## Supply chain

This year, the Telstra Group purchased \$6.8 billion in goods and services from about 4,800 suppliers.

The Telstra Supplier Code of Conduct sets out our minimum standards in the areas of labour and human rights, health and safety, environment, ethical dealings and supply chain diversity. The Code applies to all suppliers of goods and services to Telstra worldwide. We have a three year sustainable procurement strategy in place (FY14-16) that focuses on embedding sustainability into processes and procedures, supplier engagement, building capability and partnerships, and monitoring compliance.

Our spend can be leveraged to positively influence the behaviour and actions of our suppliers and, in turn, benefit the environment and communities. We significantly expanded our Indigenous Workforce Program to more than 500 sites across Queensland, the Northern Territory and Western Australia this year. Through the program, we partner with local Indigenous groups to undertake grounds maintenance at our sites, employing more than 60 people. We also continue to partner with 14 not for profit groups around Australia to create employment opportunities for people with disability or who are disadvantaged. At 30 June 2015, 620 people, including 144 support workers, were employed through the program.

## Mobile phones, towers and health

We acknowledge that some people are genuinely concerned about possible health effects from electromagnetic energy (EME), and we are committed to addressing these concerns responsibly. We are proactive, transparent and fact based in our communications regarding EME and comply with the standards set by regulators. We rely on the expert advice of national and international health authorities including the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) and the World Health Organization (WHO) and actively contribute to scientific research in EME and health.

Helping our customers and the community keep abreast of the latest information is important to us. We provide information on EME on our website at [telstra.com/eme](http://telstra.com/eme). We also invite customers to go directly to the WHO, ARPANSA and 'EMF Explained' websites for further information.

We have a dedicated EME help desk and team that proactively reviews new site proposals, develops community consultation plans and works with the community to determine acceptable sites for new base stations. This year, we continued our mobile safety SMS campaign, sending out more than 15 million messages referring customers to [telstra.com/mobiletips](http://telstra.com/mobiletips), our information site for safe and responsible phone use.

# BOARD OF DIRECTORS





**Catherine B Livingstone AO**

**Age 59** BA (Hons), Hon DBus (Macquarie), Hon DSc (Murdoch), Hon DLitt (USyd), Hon D Bus (UTS), FCA, FTSE, FAICD, FAA

Non-executive Director since November 2000, Chairman from May 2009 and last re-elected in 2014. Chairman of the Nomination Committee, and a member of the Audit & Risk Committee and the Remuneration Committee. Ms Livingstone is a Chartered Accountant and has held several finance and general management roles, primarily in the medical devices sector. She was the Chief Executive of Cochlear Limited from 1994 to 2000 and Chairman of CSIRO from 2001 to 2006. She has also served on the boards of Goodman Fielder Limited and Rural Press Limited. In 2008, Ms Livingstone was appointed an Officer of the Order of Australia for service to the development of Australian science, technology and innovation policies for the business sector. In 2014, Ms Livingstone was appointed President of the Business Council of Australia.

**Directorships of listed companies (past three years) and other directorships/appointments:**

Director, WorleyParsons Limited (from 2007), Macquarie Bank Limited (2003-2013) and Macquarie Group Limited (2007-2013). **Other:** President, Business Council of Australia (from 2014) and President, Australian Museum Trust (from 2012). Member, The Growth Centres Advisory Committee (from 2015), Commonwealth Science Council (from 2014) and the Prime Minister's Business Advisory Council (from 2013). Director, The George Institute for Global Health (from 2012) and Saluda Medical Pty Ltd (from 2013).



**Andrew R Penn**

**Age 52** BEc, MBA (Kingston), AMP (Harvard), FCCA, HFAIPM

Chief Executive Officer and Managing Director since 1 May 2015. Mr Penn joined Telstra in 2012 as Chief Financial Officer. In this role, he was responsible for strategy, mergers and acquisitions, treasury, internal audit, risk management, tax, corporate planning, reporting and analysis, external reporting and investor relations. In addition, as Group Executive, International, he was responsible for expanding Telstra's operations outside Australia. Mr Penn is an experienced chief executive and chief financial officer with a career spanning more than 30 years. Prior to joining Telstra, he was with AXA Asia Pacific in a variety of positions around Asia for 20 years, including Group Chief Executive (2006-2011), Chief Executive Officer Australia and New Zealand, Group Chief Financial Officer and Chief Executive for Asia. Mr Penn has also contributed widely to not for profit and community organisations.

**Other directorships/appointments:**

Life Governor and Foundation Board member, Very Special Kids (from 2003). Member, Juvenile Diabetes Research Foundation Advisory Council, The Big Issue Advisory Group, and Ambassador, Amy Gillet Foundation.



**Geoffrey A Cousins AM**

**Age 72**

Non-executive Director since November 2006 and last re-elected in 2012. Member of the Nomination Committee and the Remuneration Committee. Mr Cousins has more than 26 years' experience as a company director. Previously Chairman of George Patterson Australia, he is also a former Director of Publishing and Broadcasting Limited, the Seven Network, Hoyts Cinemas group and NM Rothschild & Sons Limited. He was the first Chief Executive of Optus Vision and before that held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia. In 2014, Mr Cousins was appointed a Member of the Order of Australia for significant services to the community and to the visual and performing arts.

Mr Cousins was previously a consultant to the Prime Minister. He was also Chairman of Cure Cancer Australia and of the St James Ethics Foundation, and has served on the boards of the Insurance Australia Group Ltd, Globe International Limited and a number of cultural institutions and not for profit foundations.

**Other directorships/appointments:**

President, Australian Conservation Foundation (from 2014).



**Peter R Hearl**

**Age 64** B Com (UNSW), MAIM, GAICD, Member – AMA

Non-executive Director since 15 August 2014, elected in October 2014. Member of the Nomination Committee and the Remuneration Committee. Mr Hearl is an experienced company director with substantial international experience as a senior executive in the fast moving consumer goods sector. Mr Hearl served in senior executive roles with Yum! Brands Inc from 1997 to 2008, including Chief Operating and Development Officer for Yum! Brands globally from 2006 until 2008. 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, Treasury Wine Estates (from 2012) 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.



**Russell A Higgins AO**

**Age 65** BEc, FAICD

Non-executive Director since September 2009 and last re-elected in 2012. Member of the Audit & Risk Committee. Mr Higgins 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. 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, Mr Higgins 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):**

Director, APA Group (from 2004), Argo Investments Limited (from 2011), Leighton Holdings Limited (2013-2014) and Ricergrowers Limited (SunRice) (2005-2012).



**Chin Hu Lim**

Age 56 B Applied Science, Dip EEE

**Non-executive Director since August 2013 and elected in October 2013.** Mr Lim is an experienced company director and has almost 30 years of experience in the technology sector across the Asia Pacific Region. He is the Managing Partner of Stream Global Pte Ltd, a venture fund providing seed funding for technology start-ups. He was CEO of Frontline Technologies Corp Inc., a Singapore Exchange listed company, from 2000 to 2008 and BT South East Asia from 2010 to 2011. Previously, he was Managing Director for Sun Microsystems in Singapore and country director for Sun in Thailand, Indonesia, the Philippines and Vietnam during the 1990s, after a career in Hewlett Packard in the 1980s.

**Directorships of listed companies (past three years) and other directorships/appointments:**

Director, Kulicke & Soffa Industries Inc (NASDAQ: KLIC) (from 2011), Keppel DC Reit Pte Ltd (from 2014). **Other:** Director, Heliconia Capital Management Pte Ltd (from 2014), Citibank Singapore Ltd (from 2013), G-Able (Thailand) Ltd (from 2011) and Changi General Hospital & Integrated Health Information Systems (from 2009). Fellow and Council member of Singapore Institute of Directors (from 2012) and Infocomm Development Authority – Personal Data Protection Advisory Committee (from 2013).



**John P Mullen**

Age 60 BSc

**Non-executive Director since July 2008 and last re-elected in 2014. Chairman of the Remuneration Committee and a member of the Nomination Committee.** Mr Mullen is the Managing Director and Chief Executive Officer of Asciano Ltd and has served in that role since 2011. He has worked for more than two decades in a multitude of senior positions with different multinationals including 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. Mr Mullen joined Deutsche Post World Net as an Advisor in 1994, becoming Chief Executive Officer of DHL Express Asia Pacific in 2002 and Joint Chief Executive Officer, DHL Express, in 2005. Mr Mullen was Global Chief Executive Officer, DHL Express, from 2006 to 2009.

**Directorships of listed companies (past three years) and other directorships/appointments:**

Director, Asciano Ltd (from 2011), Brambles Limited (2009-2011), Embarq Corporation USA (2006-2009) and MAp Airports Limited (2010-2011). **Other:** Member, Australian Graduate School of Management (from 2005).



**Nora L Scheinkestel**

Age 55 LLB (Hons), PhD, FAICD

**Non-executive Director since August 2010 and last re-elected in 2013. Chairman of the Audit & Risk Committee.** Dr Scheinkestel 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 member of the Takeovers Panel. Dr Scheinkestel has served as Chairman and Director of a number of utilities. Other prior directorships include 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 and North Limited. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

**Directorships of listed companies (past three years):**

Chairman, Macquarie Atlas Road Limited (from 2015 (Director from 2014)), Director, Macquarie Atlas Roads International Limited (from 2015), Stockland Corporation Ltd (effective 19 August 2015), Orica Limited (from 2006 and retiring effective 1 December 2015), Insurance Australia Group Limited (from 2013-2014), Pacific Brands Limited (2009-2013) and AMP Limited (2003-2013).



**Margaret L Seale**

Age 54 BA, FAICD

**Non-executive Director since May 2012 and elected in October 2012. Member of the Audit & Risk Committee.**

Ms Seale 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. She 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 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, Ramsay Health Care Limited (from 2015), Bank of Queensland Limited (from 2014). **Other:** Director, Random House Australia, New Zealand (from 2001).



**Steven M Vamos**

Age 57 BEng (Hons)

**Non-executive Director since September 2009 and last re-elected in 2012. Member of the Nomination Committee and the Remuneration Committee.** Mr Vamos has more than 30 years' experience in the information technology, internet and online media industry. He 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. Previously, he was Chief Executive Officer of ninemsn. Mr Vamos also worked for Apple Computer in the 1990s after spending 14 years in senior management roles at IBM Australia.

**Directorships of listed companies (past three years) and other directorships/appointments:**

Director, Fletcher Building Limited (from 2015), David Jones Limited (2012-2014). **Other:** Director, Medibank Private Limited (2011-2014), Reading Room Inc (from 2013), BDB Soti Pty Ltd (from 2012), eGeneration Investments Pty Limited (from 1999). Member, Advisory Board of the University of Technology Sydney Business School (from 2011).



**John D Zeglis**

Age 68 BSc Finance, JD Law (Harvard)

**Non-executive Director since May 2006 and last re-elected in 2012.** Mr Zeglis has had a long and distinguished career in the US telecommunications sector. He joined AT&T in 1984, and was elected its President in 1998 and Chairman and Chief Executive Officer of the AT&T Wireless Group in 1999. He continued as CEO of AT&T Wireless until retiring in November 2004 following the company's sale to Cingular Wireless. He has also served on the boards of Georgia Pacific Corporation, Illinois Power Company and Sara Lee Corporation. Mr Zeglis has a legal background, and became partner with the law firm Sidley & Austin in 1978. He was General Counsel of AT&T from 1986 to 1998.

**Directorships of listed companies (past three years) and other directorships/appointments:**

Director, Helmerich & Payne Corporation (from 1989). **Other:** Director, The Duchossois Group (from 2011) and State Farm Automobile Insurance (from 2004).

# SENIOR MANAGEMENT TEAM

In 2015 we made some changes to our senior management team and corporate structure.

We appointed Warwick Bray to the role of Chief Financial Officer in May, following Andrew Penn's appointment as CEO. Warwick's previous role was Group Managing Director, Products with responsibility for our mobile, fixed, NBN and Wi-Fi products. He brings more than 25 years of global experience in finance, strategy, telecommunications and business development and a deep understanding of the worldwide telecommunications industry.

We also integrated our Business Support & Improvement (BS&I) business unit into other parts of the company.

BS&I, led by Robert Nason was created in 2010 to solve a number of specific cross-company issues Telstra was facing at the time. Since then, we have delivered productivity gains, our NPS score has improved significantly and we have established tools, processes and programs to help us simplify the business, which provided the opportunity to integrate the unit.

Earlier this year, Robert decided to retire after championing this productivity and customer advocacy agenda across Telstra. He will remain until October 2015 to help manage the transition of work into our other business units.

We made some changes to our International team to ensure we continue our focus on this strategically important part of our business and maintain our momentum. Tim Chen, President of Telstra International, will leave Telstra at the end of the calendar year however he will continue as the Chairman of Autohome. Tim has played a fundamental role for International as we have developed our relationships and capabilities in Asia. His contribution to navigating our growth paths in the region and in China position us well for the future success.

Cynthia Whelan will take on the role of Group Executive of Telstra International in an acting capacity.

## **Andrew Penn** Chief Executive Officer

Mr Penn became Chief Executive Officer in May, 2015.

Prior to his appointment as Chief Executive, Andrew led the Finance and Strategy and International teams as Chief Financial Officer and Group Executive International.

## **Gordon Ballantyne** Group Executive, Telstra Retail

Telstra Retail brings together Telstra's core domestic activities covering consumer, business, sales and marketing, fixed and mobiles, our National Broadband Network and media products, and our Telstra Health™ business.

## **Warwick Bray** Chief Financial Officer

The Finance and Strategy team is responsible for corporate planning and strategy, accounting and administration, treasury, risk management and assurance, corporate security, investor relations, capital planning and delivery, billing and credit management, procurement and supply chain and mergers and acquisitions.

## **Tracey Gavegan** Group Executive, Human Resources

Human Resources is responsible for organisational effectiveness and capability, talent and succession management, implementation of people and culture initiatives, leadership development, health, safety and environment, workplace relations and all employment and remuneration policies and practices that work towards making Telstra a great place to work and its people a source of competitive advantage.

## **Stuart Lee** Group Executive, Telstra Wholesale

Telstra Wholesale is responsible for telecommunication products and services delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers as well as NBN Co. Telstra Wholesale also buys services from NBN Co and other carriers on behalf of the whole company.

## **Kate McKenzie** Chief Operations Officer, Telstra Operations

Telstra Operations is responsible for the planning, design, engineering, construction, operation, maintenance, service installation and restoration of Telstra's networks and information technology. The group is also responsible for the company's innovation portfolio, encouraging company-wide innovation and creation of new service opportunities.

## **Carmel Mulhern** Group General Counsel, Telstra Legal Services

Telstra Legal Services provides operational and strategic legal support and advice to the Board and across the company, including on corporate governance and compliance, contracts, consumer law, mergers and acquisitions, regulatory issues and dispute resolution.

## **Brendon Riley** Group Executive, Global Enterprise and Services

Global Enterprise and Services provides enterprise and Government customers in Australia and around the world with leading networks, advanced products and solutions, together with supporting services to enable the connected business world. It is also responsible for incubating Telstra Software Group, a new division focused on intelligent video solutions for the personalised TV world, and muru-D® a start-up accelerator supporting the next generation of entrepreneurship.

## **Tony Warren** Group Executive, Corporate Affairs

Corporate Affairs is responsible for Telstra's internal and external communications, government relations, regulatory affairs and sustainability (including the Telstra Foundation®).

## **Cynthia Whelan** Acting Group Executive, Telstra International

International is responsible for developing Telstra operations and activities outside of Australia to deliver on the company strategy. This includes identifying growth opportunities in target markets, with a particular focus on Asia.





Andrew Penn



Gordon Ballantyne



Warwick Bray



Tracey Gavegan



Stuart Lee



Kate McKenzie



Carmel Mulhern



Brendon Riley



Tony Warren



Cynthia Whelan



Timothy Chen



Robert Nason

# GOVERNANCE AT TELSTRA

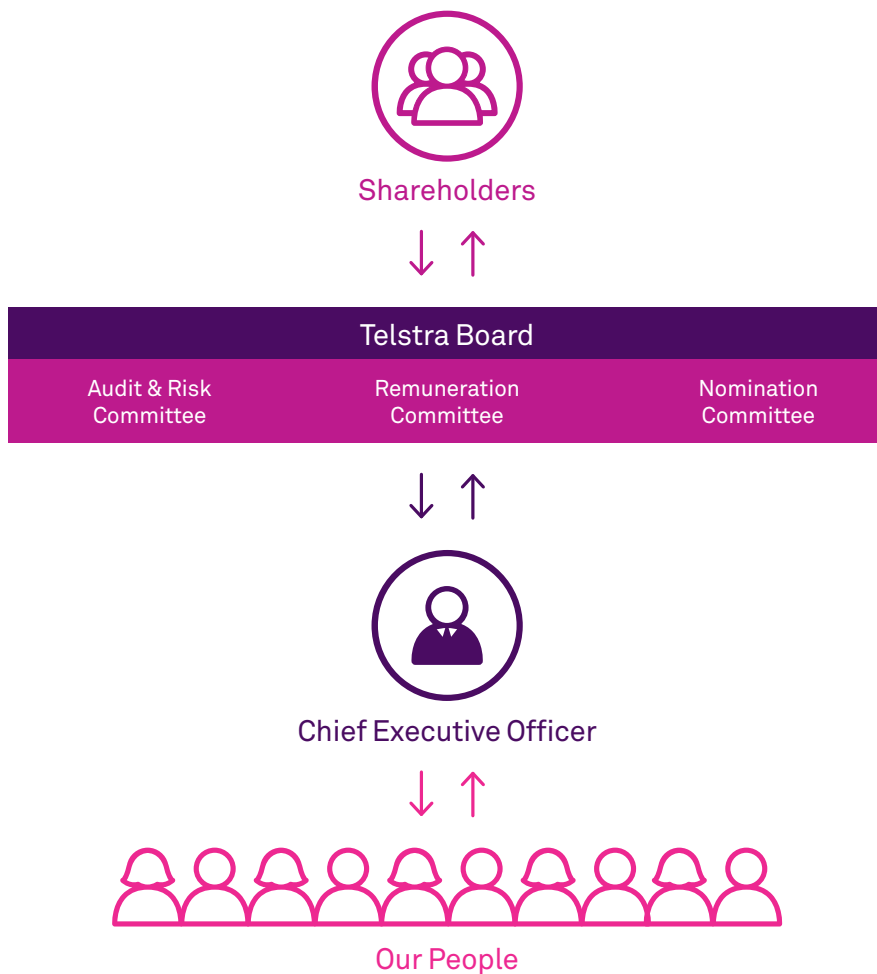
Our governance framework plays an integral role in supporting our business and helping us deliver on our strategy.

It provides the structure through which our strategy and business objectives are set, our performance is monitored, and the risks we face are managed. It includes a clear framework for decision making and accountability across our business and provides guidance on the standards of behaviour we expect of each other.

We are committed to excellence in corporate governance, transparency and accountability. This is essential for the long term performance and sustainability of our company, and to protect and enhance the interests of our shareholders and other stakeholders.

We regularly review our governance arrangements, to reflect developments in market practice, expectations and regulation as appropriate. We comply with the third edition of the ASX Corporate Governance Principles and Recommendations.

This section provides an overview of our shareholder engagement initiatives and our Board and its operating rhythm, as well as some of the other important elements of our governance framework. Our full corporate governance statement, which provides detailed information about governance at Telstra, is available on our website at [telstra.com/governance](https://telstra.com/governance).



## Our governance framework includes:

- open, clear and timely communications with our shareholders
- a skilled, experienced, diverse and independent Board, with a Board Committee structure suited to our needs
- clear delegation, decision making and accountability frameworks
- robust systems of risk management and assurance
- Telstra Values, Code of Conduct and policy framework which define the standards of behaviour we expect of each other as we deliver on our purpose and achieve our strategy.



LET'S NOW WE CONNECT **T**  
ANNUAL GENERAL MEETING  
2014



2014 Annual General Meeting

## Engaging with our shareholders

We value a direct, two-way dialogue with our shareholders and investors about our company. We believe it is important not only to provide relevant information as quickly and efficiently as possible (recognising the importance of meeting our continuous disclosure and other legal obligations to the market), but also to listen to and understand their perspectives and respond to their feedback.

We have a number of initiatives in place to promote effective communication with our shareholders and investors, and to encourage participation at our shareholder meetings. During FY15 these included:

- **Retail shareholder information briefings** – as we have done in recent years, before our 2014 Annual General Meeting (AGM) we held four retail shareholder information briefings with the CEO and/or CFO. Briefings were held in Sydney, Melbourne, Perth and Adelaide and attended by about 1,000 retail shareholders. We intend to hold similar briefings again this year ahead of our 2015 AGM
- **Encouraging questions in advance of our AGM** – we encouraged shareholders to provide us with their questions ahead of our 2014 AGM, consistent with our approach in previous years, and we received more than 1,300 questions and comments. This helped us understand shareholder issues and concerns and enabled us to address the key areas of shareholder feedback
- **Investor briefings** – we held various briefings for investors during the year, including our April 2015 Investor day on growth through network and product differentiation, which provided investors with insights into our mobiles business, our networks, security and innovation
- **Electronic communications** – we continued to encourage shareholders to provide us with their email addresses so we could communicate with them

electronically. We utilised electronic communications to inform shareholders about events and matters relevant to our company, such as the appointment of our new CEO, our strategy to improve customer advocacy and our April 2015 investor event

- **Webcasting important company events** – we webcast important events such as our financial results briefings, our AGM and other investor events discussing the performance and strategy of our business.

Following shareholder feedback and consistent with our capital management framework, in February 2015 we also announced the reactivation of our Dividend Reinvestment Plan for our shareholders.

## The Board

The Board actively seeks to ensure it has an appropriate mix of diversity (including gender diversity), skills, experience and expertise to enable it to discharge its responsibilities effectively and to be well equipped to help our company navigate the range of opportunities and challenges we face.

### Composition

As at the date of this report, we have 11 Directors on the Board, comprising 10 non-executive Directors and the CEO. With the exception of the CEO, all our Directors are non-executive Directors and have been determined by the Board to be independent. Details of the Directors can be found in the Board of Directors section of this report.

The Board has identified the set of skills, experience and expertise it currently has and is looking to achieve in its membership, reflecting areas particularly relevant to the three pillars of our strategy

(improve customer advocacy, drive value from the core and build new growth businesses), as well as other areas of general relevance to the composition of our Board. The Board reviews this on a regular basis and it helps the Board identify areas of focus and to maintain an appropriate and diverse mix in its membership.

During FY15, one new non-executive Director, Peter Hearl, was appointed to the Board. The Board considered it would benefit from additional experience in the area of building customer advocacy. Mr Hearl brings considerable experience from industries including consumer goods and energy, and in building customer advocacy for brands. He was appointed to the Board in August 2014 and was elected by shareholders at our 2014 AGM.

Directors also welcomed Andrew Penn to the Board as Managing Director on 1 May 2015, when he became our CEO following David Thodey's retirement as CEO and as a Director on 30 April 2015.

For FY15, the Board's measurable objective about Board diversity was that there would be at least three women on the Board, representing a female gender representation among non-executive Directors of at least 30 per cent. As at 30 June 2015, there were three female Directors on the Board (including the Chairman of the Board and Chairman of the Audit & Risk Committee), representing a female gender representation among non-executive Directors of 30 per cent.

For FY16, the Board has maintained its diversity objective, with an additional aspiration to achieve 40 per cent female representation among non-executive Directors by 2020.

The Board has three standing Committees – the Audit & Risk Committee, the Remuneration Committee and the Nomination Committee. Together they play a significant role by focusing in more detail on specific areas of our operations and governance framework, which assists in strengthening the Board's oversight of Telstra.

### Board operating rhythm

The Board has an established Board cycle, which provides a high level overview of items to be considered over a 12 month period. Its key purpose is to link the Board program with strategic and operational priorities and to ensure the Board devotes appropriate time to consideration of the various dimensions of our business across the cycle. The items covered across the cycle include matters ranging from implementation of our strategy, performance against our corporate plan, the status of our material business risks and matters requiring Board approval, to matters relating to our people, culture and governance framework. The Board cycle is reviewed on an ongoing basis to ensure it reflects the current needs of the Board and the business.

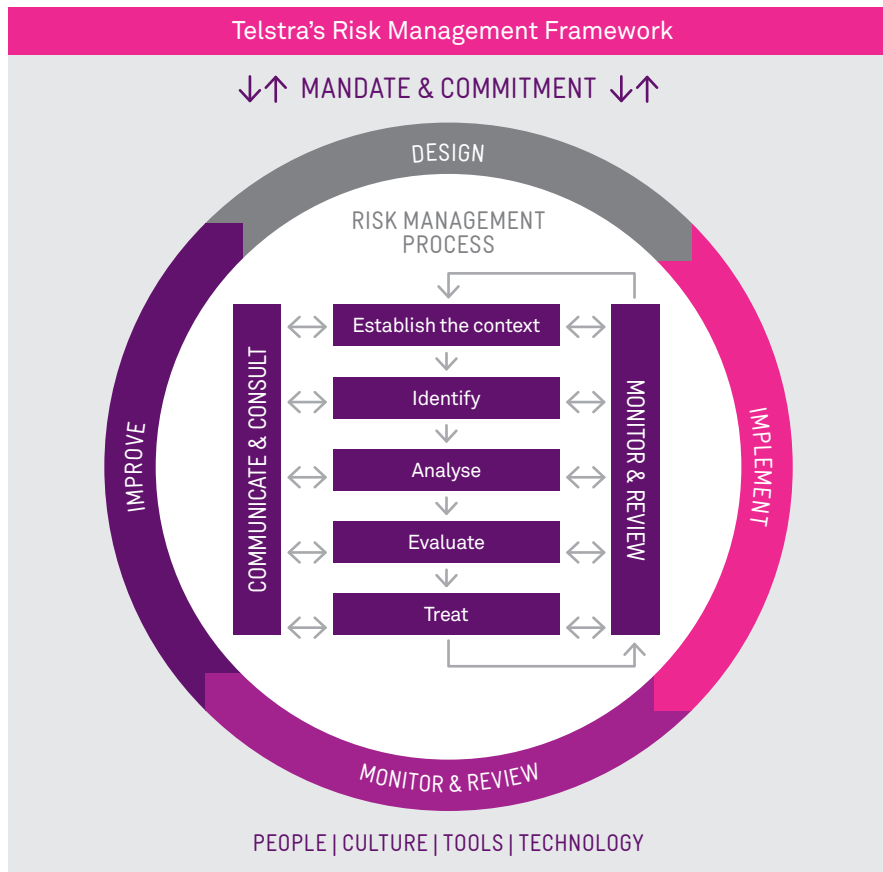
Some of the activities and areas of focus of the Board during FY15 included:

- in depth consideration of our strategy over the short, medium and longer term
- a Board visit to our overseas operations in Hong Kong and the Philippines in April 2015. The Directors met with our people, customers and stakeholders and it provided the Board with valuable insight into our operations in Asia, as well as aspects of our customer service initiatives and new growth businesses
- selecting and appointing our new CEO, Andrew Penn, and overseeing his smooth transition into the role.

### Managing our risks

Understanding and managing our risks is part of how we work. It helps us meet our business objectives and our legal and regulatory obligations, and to make better decisions and act ethically in the best interests of Telstra Group and our shareholders.

We have a risk management framework in place that provides the foundations and organisational arrangements for how we manage risks across the Group. The framework aligns with ISO 31000:2009, the International Standard for risk management, and consists of a set of components for designing, implementing, monitoring, reviewing and continually improving risk management at Telstra. The objective is for our risk management framework to be embedded within our governance, strategic decision-making, business activities, operations and culture.



The framework is designed, implemented and reviewed via our ‘three lines of defence’ accountability model, which comprises the following:

- **First Line** – business stakeholders and operational management who are responsible for identifying, assessing and managing their risks
- **Second Line** – the Chief Risk Office, and risk management teams in the business units, who are responsible for risk and compliance frameworks, oversight and monitoring
- **Third Line** – our Group Internal Audit function, who are responsible for providing independent assurance on governance, risk management and internal control processes.

One of the core components of our framework is the risk management process which provides the business with a process for assessing our risks. Through this risk management process, we identify, monitor and report on risks to the achievement of our plans and objectives. The risk management process is inclusive of all types of risks from internal and external sources, including strategic, operational, financial, regulatory, and sustainability risks.

A summary of our material business risks (including any material exposure to economic, environmental and social sustainability risks), their key drivers and our plans to manage them is provided in the Strategy and Performance section of this report. Our material business risks, which are strategic in nature and can have a material impact on the achievement of our strategic growth objectives and future financial prospects, are monitored for changes in their exposure and are reported to the Board during the course of the financial year, along with their related controls and treatment plans. Our principal risk exposures, which are operational in nature, are monitored and reported to our Management Risk Committee and the Audit & Risk Committee.

Also core to our framework are the activities we undertake to monitor and review its design and implementation. We conduct reviews and self-assessments of our framework across the enterprise, and report the results to our Management Risk Committee and the Audit & Risk Committee. We use the results of those reviews, as well as recommendations from Group Internal Audit, our third line of defence, to identify and implement opportunities for improving our framework. In respect of FY15, the Audit & Risk Committee has reviewed Telstra’s risk management framework and satisfied itself that it continues to be sound.

## Acting ethically and responsibly

<b>OUR PURPOSE</b>	Why we exist	
<b>OUR STRATEGY</b>	Where we are going	What we are going to do
<b>OUR VALUES</b>	What we stand for	How we do things

Our purpose is to create a brilliant connected future for everyone. Our Telstra Values, together with our Telstra Group Code of Conduct and policy framework, define the standards of behaviour that we expect of each other as we deliver on our purpose and achieve our strategy.

### Our Telstra Values

Show you care	Better together	Trust each other to deliver	Make the complex simple	Find your courage
---------------	-----------------	-----------------------------	-------------------------	-------------------

Our values express what we stand for and are core to our business. As a values-led organisation, our values shape our people's decisions and actions. They guide how we work together. We align everything we do with them.

#### Our Code of Conduct and policy framework

Our Code of Conduct and policy framework underpin our Telstra Values. Together they set out, in more detail, the standards of behaviour we expect of our people. They define our commitment to good corporate governance, responsible business practice, our customers, our workforce, the communities in which we operate and the environment. They also provide the structure through which we maintain compliance with our legal obligations.

Our governance framework includes elements that address the following key areas. These are central to how we promote good governance, and ethical and responsible behaviour:

#### Our people and our community

- **Health and safety** – recognising our commitment to the health, safety and wellbeing of our staff, contractors and community. In addition to highlighting the importance of caring about health and safety, it sets out our commitment to providing a safe and healthy workplace and our expectations of our staff, contractors and suppliers.
- **Diversity** – setting out our strategy and principles in relation to diversity. This provides the framework for the establishment of our diversity measurable objectives, and monitoring and reporting on diversity matters across Telstra.

- **Discrimination and bullying** – aiming to ensure that we have a workplace free of all forms of unlawful discrimination, harassment, bullying and victimisation.
- **Sustainability** – seeking to manage our business to produce an overall positive impact for our customers, employees, shareholders, the wider community and other stakeholders, while minimising our environmental impacts.

#### Our customers

- **Privacy** – setting out our commitment to the protection of our customers' personal information. This outlines how we protect customer personal information, how and why we collect it, how we may use and disclose it, how we keep it secure and accurate, and how customers may access their personal information.

#### Good corporate governance and responsible business practice

- **Anti-bribery and anti-corruption** – aiming to ensure we comply with all applicable anti-bribery and anti-corruption laws. We also seek to ensure that gifts, prizes and hospitality are not given or accepted in inappropriate circumstances, including where the offering or acceptance may (or may be perceived to) compromise independence or be construed as a bribe.
- **Conflicts of interest and outside activities** – helping our employees and contractors understand what would be a conflict of interest, how to avoid actual, potential or apparent conflicts of interest, and how to manage them if a conflict arises.

- **Whistleblowing** – providing an avenue for anyone to report suspected unethical, illegal or improper behaviour. Our whistleblowing process is supported by an independent service provider and all disclosures are treated confidentially and can be made anonymously.
- **Securities trading** – setting out the rules and restrictions relating to buying, selling and otherwise dealing in Telstra securities by our Directors, CEO, senior management, specified other employees and their closely related parties, through a trading windows approach.
- **Market disclosure** – outlining responsibilities and the process for the approval of our ASX announcements, including where Board approval is required, as well as the role of our CEO, CFO and Continuous Disclosure Committee in relation to disclosure matters. We aim to ensure that we provide our shareholders, investors and the financial community with appropriate and timely information while ensuring we fulfil our statutory reporting obligations under the Corporations Act and the ASX Listing Rules.
- **Social media** – providing guidance to employees and contractors who use social media, either as part of their job or in a personal capacity, about our expectations when they talk online about us, our products and services, our people, our competitors and/or other business related individuals or organisations.

# 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 2015. Financial comparisons used in this report are of results for the year ended 30 June 2015 compared with the year ended 30 June 2014.

The historical financial information included in this Directors' Report has been extracted from the audited Financial Report on pages 70 to 174 of the Annual 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 our Operating and Financial Review (OFR), consisting of Our Business, The Year at a Glance, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review on pages 2 to 26 of this Annual Report.

## Dividends

On 13 August 2015, the Directors resolved to pay a final fully franked dividend of 15.5 cents per ordinary share (\$1,894 million), bringing dividends per share for financial year 2015 to 30.5 cents per share. The record date for the final dividend will be 27 August 2015, with payment being made on 25 September 2015. Shares will trade excluding entitlement to the dividend on 25 August 2015.

The Dividend Reinvestment Plan (DRP) remained suspended with respect to the interim dividend for the financial year 2015. The Board has determined that the DRP will operate for the final dividend for financial year 2015 to be paid in September 2015. The election date for participation in the DRP is 28 August 2015.

Dividends 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 2014	14 Aug 2014	26 Sept 2014	15.0 cents	1,866
Interim dividend for the year ended 30 June 2015	12 Feb 2015	27 March 2015	15.0 cents	1,833

## Capital management

On 6 October 2014, Telstra announced the completion of an off-market share buy-back pursuant to which 217,418,521 shares, representing 1.75 per cent of Telstra's issued share capital, were purchased off-market and cancelled. These shares were bought back at a price of \$4.60 for an aggregate consideration of \$1 billion. This represented a discount of 14 per cent to the Telstra market price of \$5.34 (volume weighted average price of Telstra ordinary shares over the five trading days up to and including the closing date of 3 October 2014).

## 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 2015.

## Business strategies, prospects and likely developments

The OFR 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 (see Our Business, The Year at a Glance, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review on pages 2 to 26 of this Annual Report). 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

Apart from the final dividend for financial year 2015 and the DRP operating in respect of that dividend, 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.

## 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:

- Peter R Hearl was appointed as a non-executive Director effective 15 August 2014
- Andrew R Penn was appointed as Chief Executive Officer and Managing Director effective 1 May 2015
- David I Thodey retired as Chief Executive Officer and Managing Director effective 30 April 2015. He commenced in the role from 19 May 2009. Mr Thodey (BA, FAICD) joined Telstra in April 2001 as Group Managing Director of Telstra Mobiles. From December 2002 to May 2009 he was Group Managing Director Telstra Enterprise and Government where he was responsible for the Company's corporate, government and large business customers in Australia, TelstraClear in New Zealand and Telstra's International sales division.

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 given in the Board of Directors section on pages 36 to 37 of this Annual Report
- details of Director and senior executive remuneration are set out in the Remuneration Report on pages 48 to 67 which forms part of this Directors' Report.

Details of Directors' shareholdings in Telstra are shown in the table below:

#### (a) Directors' shareholdings in Telstra

As at 13 August 2015

Director	Number of shares held <sup>(1)</sup>
Catherine B Livingstone	170,000
Andrew R Penn	394,979
Geoffrey A Cousins	101,765
Peter R Hearl	45,000
Russell A Higgins	88,404
Chin Hu Lim	10,000
John P Mullen	26,159
Nora L Scheinkestel	84,154
Margaret L Seale	212,500
Steven M Vamos	40,000
John D Zeglis	103,993
David I Thodey <sup>(2)</sup>	4,668,739

(1) The number of shares held refers to shares held either directly or indirectly by Directors as at 13 August 2015. 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 (Table 5.8) for total shares held by Directors, representing those shares held directly, indirectly and beneficially as at 30 June 2015. For Margaret Seale includes 175,000 shares held by a related party in which she has relevant interest.

(2) The number of shares disclosed is the number held as at the date of cessation as a Director.

#### Board and Committee meeting attendance

Details of the number of meetings held by the Board and its Committees during financial year 2015, and attendance by Board members, are set out below:

	Board		Committees <sup>(1)</sup>					
	a	b	Audit & Risk		Nomination		Remuneration	
			a	b	a	b	a	b
C B Livingstone	11	11	6	5	8	8	7	7
A R Penn <sup>(2)</sup>	2	2	-	(1)	-	-	-	(1)
G A Cousins	11	11	-	(1)	8	8	7	6
P R Hearl <sup>(3)(4)</sup>	9	9	-	-	3	3	3	2(1)
R A Higgins	11	11	6	6	-	(7)	-	(1)
C H Lim	11	11	-	(1)	-	(7)	-	-
J P Mullen	11	11	-	-	8	8	7	7
N L Scheinkestel	11	10	6	6	-	(7)	-	(1)
M L Seale	11	11	6	6	-	(7)	-	(1)
S M Vamos	11	11	-	-	8	8	7	7
J D Zeglis	11	11	-	-	-	(7)	-	(1)
D I Thodey <sup>(5)</sup>	9	9	-	(5)	-	-	-	(5)
<b>Total number of meetings held during the year</b>	11	11	6	6	8	8	7	7

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) Appointed as Chief Executive Officer and Managing Director effective 1 May 2015.

(3) Appointed as non-executive Director effective 15 August 2014.

(4) Appointed as a member of the Nomination Committee effective 11 February 2015 and as a member of the Remuneration Committee effective 4 February 2015.

(5) Retired as Chief Executive Officer and Managing Director effective 30 April 2015.

### Company Secretary

#### (a) Damien Coleman B Ec, LLB (Hons), FCIS

Damien Coleman was appointed Company Secretary of Telstra Corporation Limited effective 1 January 2012.

Mr Coleman joined Telstra in 1998 and has served in senior legal roles across the company, including in Sensis, Mergers and Acquisitions and Telstra Operations. Most recently, he was General Counsel, Finance and Administration, Office of the Company Secretary and National Broadband Network (NBN). In that role he was responsible for Telstra's continuous disclosure compliance and all legal aspects of the Annual Report preparation and Annual General Meeting, as well as annual financial results announcements. Mr Coleman also played a key role in the negotiation of the Definitive Agreements for Telstra's participation in the rollout of the NBN. Before joining Telstra, Mr Coleman was a senior lawyer at a leading Australian law firm. He holds a Bachelor of Economics and a Bachelor of Laws (Hons) from the Australian National 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. This indemnity applies only if the liability was incurred in the officer's or employee's 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 and employees

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

- Directors of Telstra (including past Directors)
- secretaries and senior managers of Telstra and directors, secretaries and senior managers of Telstra's wholly owned subsidiaries (other than Telstra Super Pty Ltd)
- directors, secretaries and senior managers of a related body corporate of Telstra (other than a wholly owned subsidiary) while the director, secretary or senior manager was also an employee of Telstra or a director or employee of a wholly owned subsidiary of Telstra (other than Telstra Super Pty Ltd)
- the officers listed above (other than Telstra Directors) and certain employees of Telstra or a related body corporate of Telstra who are appointed as directors or secretaries of a company which is not a related body corporate of Telstra, at the request of Telstra
- certain employees of non-wholly owned subsidiaries of Telstra who are appointed as directors of such non-wholly owned subsidiaries at the request of Telstra.

Each of these deeds provides an indemnity as permitted under Telstra's constitution and the Corporations Act 2001 (Corporations Act). The term "senior manager" is defined in the Corporations 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.

Telstra has also executed a deed of indemnity in favour of certain employees (including certain officers) in respect of liabilities and legal costs that may be incurred as part of the NBN transaction. The indemnity is to the maximum extent permitted by law and is subject to the employee performing his or her duties, such as acting in good faith and complying with all applicable laws.

Telstra also has in place other indemnities that have been granted in the past (and disclosed in previous Directors' Reports) that are ongoing but relate to matters that Telstra considers historical.

#### (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. 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

Information on Telstra's environmental and sustainability performance is included in the Sustainability section on pages 27 to 34 of this Annual Report and on the Telstra website.

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 procedures further require that the relevant governmental authorities are notified of any environmental incidents (where applicable) in compliance with statutory requirements.

Telstra has not been prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year. On 6 July 2015, Telstra received an infringement notice penalty of \$8,538 for contravention of the Environmental Protection Act 1994 (Qld) as a result of a diesel spill from a fuel storage tank at a Telstra site in Cape Kimberly that occurred in April 2015. Telstra subsequently undertook clean up work to remediate the site.

In Australia, Telstra is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

On the 4th September 2014, the Commonwealth Government repealed the Energy Efficiency Opportunities Act 2006. The repeal applied retrospectively effective from 29 June 2014. Telstra has no outstanding reporting obligations relating to this legislation.

The Commonwealth National Greenhouse and Energy Reporting Act 2007 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 2015 and will again be supported with an independent assurance audit to a reasonable assurance standard.



### Non-audit services

During financial year 2015, 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 8 to the financial statements.

The Directors are satisfied, based on advice provided by the Audit & Risk Committee, that the provision of non-audit services during financial year 2015 is consistent with the general standard of independence for auditors imposed by the Corporations Act and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Corporations 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
- fees earned from non-audit work undertaken by EY are capped at 1.0 times the total audit and audit related fees
- 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 on page 68 and forms part of this report.

### Auditor

On 11 February 2015, the Board granted approval under section 324DAA of the Corporations Act for Mr Stephen John Ferguson to continue, as lead auditor, to play a significant role in the audit of the Company for one additional successive financial year, being the financial year ending 30 June 2016. The approval was granted in accordance with a recommendation from the Audit & Risk Committee which was satisfied the approval:

- is consistent with maintaining the quality of the audit provided to the Company
- would not give rise to a conflict of interest situation (as defined in section 324CD of the Corporations Act).

Reasons supporting this decision include:

- Mr Ferguson's appointment as lead auditor for Telstra occurred during the second half of FY2011 and whilst he had full carriage of the audit in relation to Telstra's FY2011 reporting, in practical terms he has been involved in the audit for only approximately 4 calendar years
- the Audit & Risk Committee has been satisfied with the quality of Ernst & Young and Mr Ferguson's work as auditor
- the Company maintains, and will continue to maintain, robust auditor independence policies and controls to ensure the independence of the auditor is maintained.

A copy of the Board resolution granting approval has been lodged with ASIC in accordance with section 324DAC of the Corporations Act. This is available from the corporate governance section of our website ([www.telstra.com/governance](http://www.telstra.com/governance)). The statutory disclosures required under section 300(11AA) of the Corporations Act in relation to this approval will appear in the Directors' Report for financial year 2016, being the year in which Mr Ferguson will play a significant role in the audit of the Company in reliance on the approval granted under section 324DAA of the Corporations Act.

# REMUNERATION REPORT

## Executive Summary

This report details the remuneration framework and outcomes for Key Management Personnel (KMP) of the Telstra Group for the year ended 30 June 2015 (FY15).

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). The information in this report has been audited as required by section 308(3C) of the Corporations Act.

## Remuneration outcomes in FY15

The overall structure and philosophy of Telstra's approach to remuneration remained consistent throughout FY15. Telstra continued to perform well in FY15 across key measures, including financial results, growth and customer service.

Our remuneration philosophy is based on linking financial rewards directly to employee contributions and company performance. The remuneration outcomes for FY15 therefore reflect the strong performance of the business and the value created for shareholders over the past four years.

### THE KEY OUTCOMES UNDER OUR INCENTIVE PLANS THIS YEAR WERE



#### Short term incentives

Senior Executives received an average of 61.0% of the maximum opportunity available based on the assessment of financial, customer advocacy and individual performance.



#### Long term incentives

The FY13 LTI plan was tested on 30 June 2015. The outcome was that 85.5% of the maximum opportunity vested as Restricted Shares. The results of the two plan measures were that the Telstra Relative Total Shareholder Return (RTSR) ranked at the 72nd percentile of the comparator group and Telstra achieved a Free Cash Flow Return on Investment (FCF ROI) outcome of 20.5%, which exceeded the target of 19.3% for the FY13 LTI plan. The value of these Restricted Shares reflects the fact that Telstra's share price increased by more than 66% over the three year performance period.

## Key changes in FY15

During the year there were significant changes to our Senior Executive team, with the Chief Executive Officer (CEO) announcing his retirement, appointment of a new CEO and a new Chief Financial Officer (CFO), and the Group Executive (GE) Business Support and Improvement (BS&I) announcing his retirement. In FY15 Telstra also reviewed its non-executive Director fees relative to the ASX20.

### The remuneration implications of these changes are:

- Since David Thodey ceased to be CEO on 30 April 2015, he has continued to receive his ordinary fixed remuneration throughout his six month notice period which ends on 21 August 2015. Upon ceasing employment Mr Thodey will receive his accrued statutory entitlements. He will receive a cash STI payment of \$3,402,600 based on actual company performance and individual performance at target for FY15. For FY16, he will receive a pro rata STI payment of \$377,534 up to 21 August 2015 based on performance at target. These are both in accordance with the STI plan policy. The Board exercised its discretion to permit Mr Thodey to retain 274,083 of the 939,716 performance rights allocated to him under the FY15 LTI plan. He will also receive his entitlements under the FY12, FY13 and FY14 LTI plans. All of these are subject to the original performance conditions and restriction periods of the relevant plan terms. He will forfeit half of his FY14 STI Restricted Shares (62,432 shares) consistent with the plan rules.
- Andrew Penn commenced in the role of CEO on 1 May 2015. His reported remuneration includes 10 months where he held the role of CFO and GE International and two months as CEO. Mr Penn's fixed remuneration as CEO of \$2,325,000 was set between the 25th percentile and median of the ASX20 which the Board considered appropriate for a new CEO, with maximum annual STI and LTI opportunities set at 200 per cent of fixed remuneration respectively.
- Warwick Bray was appointed CFO effective 1 May 2015, moving from the role of Group Managing Director Products. Mr Bray's fixed remuneration as CFO of \$1,100,000 was set between the 25th percentile and median of the ASX20 which the Board considered appropriate for a new CFO, with maximum annual STI and LTI opportunities set at 200 per cent and 160 per cent of fixed remuneration respectively.
- Robert Nason announced his retirement from the role of GE BS&I on 17 April 2015. Mr Nason continued in his role until 30 June 2015 and will continue to provide transition support and other assistance within the business until his cessation date of 30 September 2015. He will receive his accrued entitlements as well as his entitlements under relevant incentive plans. He will forfeit the FY15 LTI allocation and half of FY14 STI Restricted Shares (23,768 shares) consistent with the plan rules.
- Following a review, the Board (other than the Chairman) decided to increase the Chairman's fee, to position it appropriately against the ASX20. The increase was 9.9 per cent to \$775,000, effective 1 October 2014. Prior to this, the last change to the Chairman's fee was made in 2012. No other changes were made to any of the Committee or non-executive Director fees.

The overall structure of our Remuneration Report remains consistent with the way in which it has been presented for the last few years. We hope you find it helpful and informative in evaluating our performance and the effectiveness of our governance framework.



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<b>1. Remuneration snapshot</b>			
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1.3	Looking forward	Provides an overview of remuneration changes proposed for FY16.	50
<b>2. Setting Senior Executive remuneration</b>			
2.1	Remuneration policy, strategy and governance	Explains Telstra's remuneration policy and strategy, and how the Board and Remuneration Committee make decisions, including the use of external consultants.	51
2.2	Policy and practice	Provides examples of how we implement our policy in practice, explaining the executive remuneration mix as well as our shareholding, trading and hedging policies.	51
2.3	Remuneration components	Shows how executive remuneration is structured to support business objectives and how it aligns with company performance, and explains the FY15 Short Term Incentive (STI) plan and Long Term Incentive (LTI) grants made in FY15.	52
<b>3. Executive remuneration outcomes</b>			
3.1	Financial performance	Provides a breakdown of our performance, share price and dividends over the past five years.	54
3.2	Short Term Incentive outcomes	Details the STI outcomes, including payments as a percentage of the maximum opportunity, achievement by key performance indicators (KPI) and a comparison of payments to the previous year.	54
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3.4	Senior Executive contract details	Lists the key contract terms governing the employment of Senior Executives (including termination entitlements where relevant).	56
<b>4. Non-executive director remuneration</b>			
4.1	Remuneration structure	Provides details of the fee structure for Board and Committee roles.	56
4.2	Remuneration policy and strategy	Provides a summary of our approach to non-executive Director fees, together with a summary of our shareholding policy for non-executive Directors.	57
4.3	Remuneration components	Describes how non-executive Directors can allocate their remuneration between cash and superannuation components.	57
<b>5. Remuneration tables and glossary</b>			
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5.9	Glossary	Explains abbreviations and key terms used in the Report.	67

## 1. REMUNERATION SNAPSHOT

### 1.1 Key Management Personnel

Telstra's KMP 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. The Senior Executives disclosed in this report are:

Name	Most recent Senior Executive role in FY15
Andrew Penn	CEO effective 1 May 2015 CFO and GE International until 30 April 2015
Gordon Ballantyne	GE Telstra Retail
Warwick Bray	CFO effective 1 May 2015
Stuart Lee	GE Telstra Wholesale
Kate McKenzie	Chief Operations Officer
Robert Nason	GE Business Support and Improvement
Brendon Riley	GE Global Enterprise and Services
David Thodey	CEO until 30 April 2015

## Remuneration Report

### 1.2 Actual pay and benefits which crystallised in FY15

The table below details actual pay and benefits for Senior Executives who were employed as at 30 June 2015. This is a voluntary disclosure and some of the figures in this table have not been prepared in accordance with the Australian Accounting Standards, as explained below.

We have continued to include this table in our remuneration report because we believe it is helpful to assist shareholders in understanding the cash and other benefits actually received by Senior Executives from the various components of their remuneration during FY15.

Our approach to presenting this table has been as follows:

- The amounts shown in this table include Fixed Remuneration, STI payable as cash under the FY15 STI plan, 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 that ended in either June 2015 or August 2015. We believe that including amounts in this table, even though they may not be paid (or the relevant Restriction Period for equity may not end) until early FY16, is an effective way of showing the link between executive remuneration outcomes and the relevant performance year.
- The pay and benefits for Mr Thodey and Mr Bray are shown for the full duration of FY15 even though they were only Senior

Executives for part of FY15. We believe this is the most effective way to show pay and benefits actually received as they were both employed by Telstra for the whole of FY15.

- Our sustained share price growth over the past three years has driven much of the value in the table below. The Telstra share price at the time of allocation for the FY12 LTI plan that will become unrestricted on 19 August 2015 was \$3.11. On 30 June 2015 the closing share price was \$6.14. This increase of 97.4 per cent is reflected in the value of the equity that will become unrestricted, demonstrating the link between executive remuneration and shareholder returns.

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. The Corporations Act and Australian Accounting Standards also require that pay and benefits be disclosed for the period that a person is a Senior Executive. This may not reflect what Senior Executives actually received or became entitled to during FY15.

The figures in this table have not been prepared in accordance with the Australian Accounting Standards. They provide additional and different disclosures to Table 5.1 (which provides a breakdown of Senior Executive remuneration in accordance with statutory requirements and the Australian Accounting Standards).

Name	Fixed Remuneration (\$)	Non-monetary benefits (\$) (2)	Short Term Incentive payable as cash (\$) (3)	Value of STI Restricted Shares that became unrestricted (\$) (4)(5)	Value of LTI that became unrestricted (\$) (6)(7)(8)(9)(10)	FY15 Total (\$)
Andrew Penn	1,625,274	32,612	1,638,696	489,880	296,255	4,082,717
Gordon Ballantyne	1,350,000	214,591	975,038	423,107	-	2,962,736
Warwick Bray (1)	820,951	11,280	537,961	274,556	368,400	2,013,148
Stuart Lee	1,040,000	13,229	569,205	361,014	714,518	2,697,966
Kate McKenzie	1,200,000	14,209	1,181,850	366,134	2,345,204	5,107,397
Robert Nason	1,080,000	20,709	1,386,720	356,034	2,468,630	5,312,093
Brendon Riley	1,350,000	9,443	1,337,550	387,139	3,085,792	6,169,924
David Thodey (1)	2,650,000	11,669	3,402,600	913,577	7,523,170	14,501,016

(1) For Mr Thodey and Mr Bray we have included remuneration for the entire FY15 even though they were not Senior Executives for the full year. This is different from the statutory disclosures in Section 5 which only reflects the period for which they were Senior Executives. The values disclosed under Fixed Remuneration, Non-monetary benefits and Short Term Incentive payable as cash for the remaining Senior Executives are as detailed in Table 5.1.

(2) Includes the value of personal home security services provided by Telstra, provision of car parking and in the case of Gordon Ballantyne, return flight benefits to the United Kingdom and assistance with taxation services provided under the terms of his service agreement.

(3) Amount relates to the cash component (75 per cent) of STI earned for FY15, which will be paid in September 2015. The remaining 25 per cent will be provided as Restricted Shares. The Restriction Period for half of the shares will end on 30 June 2016 and the other half on 30 June 2017. For Mr Thodey and Mr Nason the amount reflects 100 per cent of the STI earned as none will be deferred as per the STI policy in the event of retirement.

(4) Amount relates to the value of STI earned in prior financial years, which was provided as Restricted Shares and the Restriction Period for these shares ends on 30 June 2015. These represent 50 per cent of the Restricted Shares relating to each of the FY13 and FY14 performance periods. Equity in this table has been valued based on the Telstra closing share price on 30 June 2015 of \$6.14.

(5) Mr Bray's Restricted Shares include an allocation from an FY12 STI Deferral plan that had a three year restriction period ending August 2015.

(6) Amount relates to Performance Rights with a final test date of 30 June 2014, which vested as Restricted Shares under the FY12 LTI plan. The Restriction Period for these shares ends in August 2015. Equity in this table has been valued based on the Telstra closing share price on 30 June 2015 of \$6.14.

(7) The LTI value for Mr Penn represents 48,250 shares vesting on 14 December 2014 from his initial allocation of 96,500 Performance Shares disclosed in the FY12 remuneration report. The equity valued is based on the Telstra closing share price on 30 June 2015 of \$6.14.

(8) Both Mr Penn and Mr Ballantyne did not participate in the FY12 LTI plan.

(9) Mr Bray was allocated a retention share plan on 2 July 2012, which included 60,000 Performance Rights that vested in July based on performance in FY15.

(10) Mr Thodey retained 1,225,272 shares from his FY12 LTI plan as his employment continues until after the restriction period ends.

### 1.3 Looking forward

For FY16, we do not anticipate any change in our approach to Senior Executive remuneration. In particular, there will be no Fixed Remuneration increases and no changes to the STI and the LTI opportunities as a percentage of Fixed Remuneration for the Senior Executives.

## 2. SETTING SENIOR EXECUTIVE REMUNERATION

### 2.1 Remuneration policy, strategy and governance

Our remuneration policy is designed to:

- support the business 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 to 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 monitoring 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 strategy, policies and practices, and monitors the effectiveness of Telstra's remuneration framework in achieving Telstra's remuneration policy objectives.

The governance of Senior Executives' remuneration outcomes remains a key focus of the Board generally and the Remuneration Committee in particular. We regularly review our policies to ensure that remuneration outcomes for our executives continue to be aligned with company performance.

#### b) Annual remuneration review

The Remuneration Committee reviews 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) 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.

STI and LTI performance measures are set at the beginning of each year. The performance measures in the STI plan and LTI plan have been selected as the Board believes they are the most relevant measures to reflect our business strategy and increase shareholder value.

Telstra uses a volume weighted average share price (VWAP) to determine the number of Restricted Shares to be allocated under the STI plan (see 2.3c STI deferral), and the number of Performance Rights to be allocated under the LTI plans.

The calculation is based on the VWAP for the 5 trading days after the full year results announcement in the year in which the relevant allocation is made.

If performance targets are achieved we award 50 per cent of the total maximum potential, which is set between 150 per cent to 200 per cent of Fixed Remuneration. 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 STI and LTI 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.

#### d) Engagement with consultants

External consultants are required to engage directly with the Remuneration Committee Chairman as the first point of contact whenever market data for Senior Executive positions is supplied to Telstra. To assess market competitiveness in FY15, the Committee engaged Guerdon Associates for the provision of ASX20 market data but did not require a remuneration recommendation.

## 2.2 Policy and practice

### a) Plan variation guidelines

The Board may, in its absolute discretion, amend the terms or targets of the STI and LTI plan where an event occurs that means the targets of the relevant plan are no longer appropriate.

Situations where this discretion can be applied include:

- Board approved material change to the strategic business plan
- material regulatory or legislative change
- significant out of plan business development such as acquisitions and divestments.

In these circumstances the Board may also exercise discretion to determine the outcome under the STI plan and LTI plan to take account of the relevant events.

During FY15 no plan terms were amended, however the Board did exercise its discretion in determining the outcome of the FY15 STI plan and the FY13 LTI plan as outlined in 3.2 b) and 3.3 respectively.

### b) NBN 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 related cash flows.

Performance measures for future STI and LTI 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 2.2 a) if, due to external factors, the NBN rollout does not proceed according to NBN Co's published business plan at the time the measures are developed. The Board's objective in considering the exercise of this discretion is to avoid windfall gains and losses.

An NBN adjustment was made for the FY15 STI plan for the GE Telstra Wholesale as outlined in 3.2 b). No NBN adjustments were made in determining the outcome for the FY15 STI plan in which the other Senior Executives participate. The NBN adjustment in determining the FY13 LTI plan outcome is outlined in 3.3.

# Remuneration Report

## c) Executive Share Ownership Policy

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, Senior Executives are required to hold Telstra shares to the value of 100 per cent of their Fixed Remuneration by the later of 30 June 2015, or within five years of first appointment to Senior 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 by the Board on an ongoing basis. All Senior Executives met the policy's shareholding requirement as at 30 June 2015.

## d) 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.

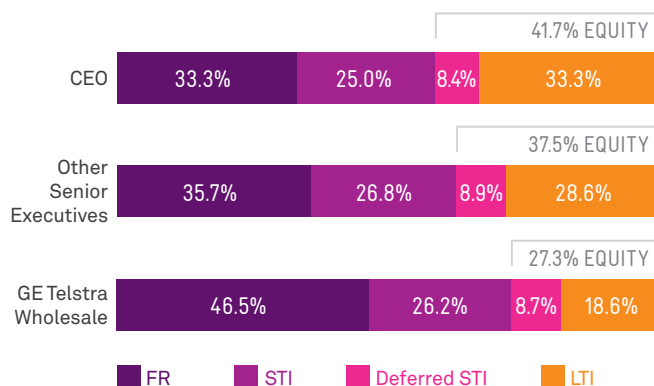
KMP are prohibited from entering into any hedging arrangement that limits the economic risk of holding Telstra securities under Telstra equity plans. This helps align executives' and shareholders' interests.

KMP are required to confirm on an annual basis that they comply with our Securities Trading Policy, which thereby enables Telstra to monitor and enforce our policy.

## 2.3 Remuneration components

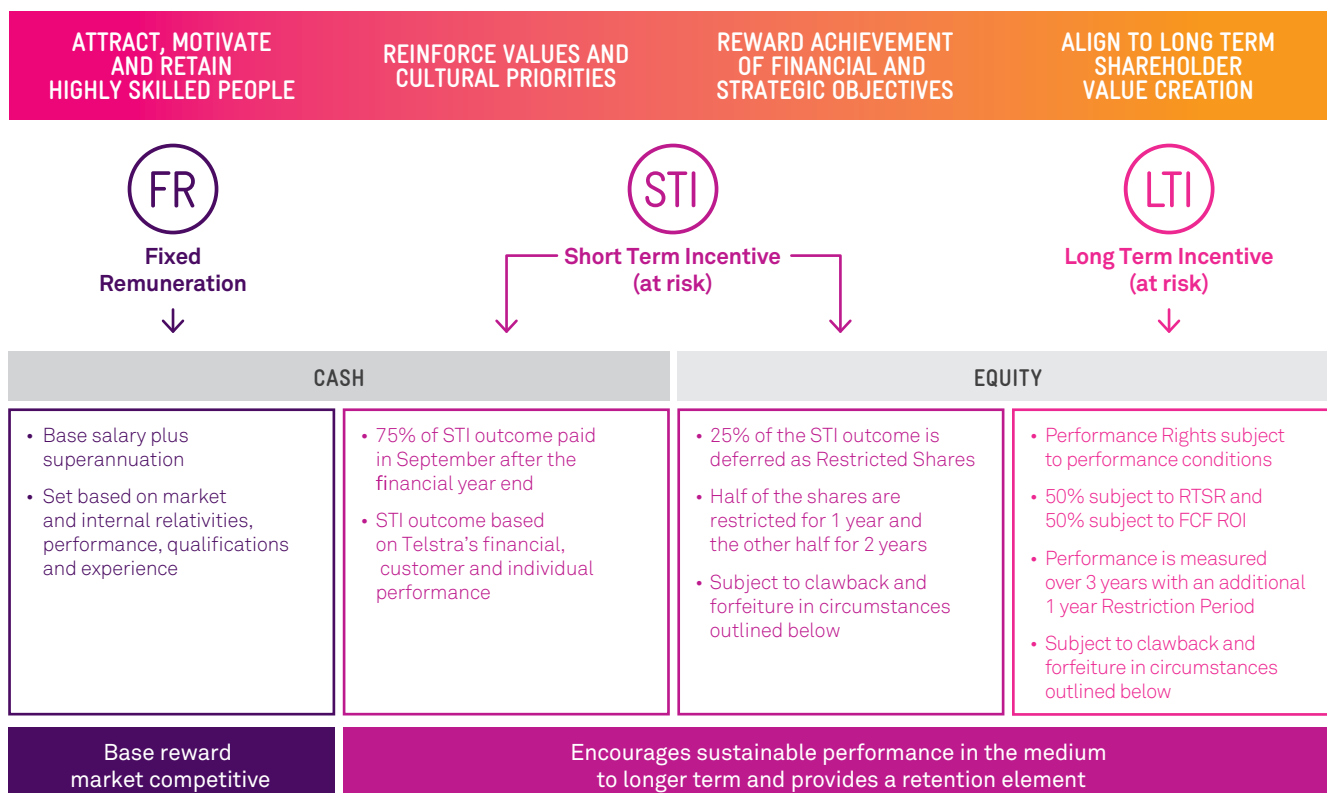
### a) Remuneration mix of senior executives

The graph below shows the FY15 remuneration mix for Senior Executives. The variable components of STI (including any potential Restricted Shares) and LTI are expressed at target (which is 50 per cent of the maximum opportunity as explained in 2.1).



Our remuneration structure is designed to support our remuneration strategy and is consistent for our Senior Executives. The remuneration mix for the Senior Executives reflects the nature of, and the appropriate market benchmark for, their roles. The GE Telstra Wholesale has different STI and LTI plans to comply with Telstra's Structural Separation Undertaking (SSU).

## Remuneration structure



**b) FY15 STI Plan**

For FY15, all Senior Executives participated in the same STI plan with the exception of the GE Telstra Wholesale who participates in a standalone plan for regulatory reasons. The performance measures of the FY15 STI plan were FCF for STI, EBITDA, Total Income, our customer advocacy measure, which is our Net Promoter Score (NPS), and individual performance objectives. The Board selected these performance measures as it believes they are a critical link between achieving the outcomes of Telstra's business strategy and increasing shareholder value. In relation to these performance measures:

- the financial measures were set in accordance with our FY15 financial plan and strategy
  - the NPS supports Telstra's strategy of creating customer advocates. An explanation of the way in which NPS is calculated is included in 3.2 b)
  - the individual performance objectives were set at the beginning of FY15 and were based on each Senior Executive's expected individual contribution to the achievement of our strategy.
- The performance measures of the STI plan operate independently of each other and each measure has a defined performance threshold, target and maximum. Each Senior Executive has a maximum STI opportunity ranging from 150 per cent to 200 per cent of their Fixed Remuneration depending on the role they perform.

The FY15 STI plan 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 Wholesale business unit. The performance measures for the FY15 STI plan applicable to the GE Telstra Wholesale were Wholesale Total Income, Wholesale EBITDA, Wholesale NPS and individual performance.

Details of the STI outcomes for Senior Executives for FY15 are provided in 3.2.

**c) STI deferral**

Twenty five per cent of Senior Executives' actual STI award is provided as Restricted Shares. Half the shares are restricted for one year, and the other half are restricted for two years.

During the Restriction Period, Senior Executives are entitled to dividends and can vote their Restricted Shares, as all performance hurdles of the STI plan have been met. They are, however, restricted from dealing with the shares during this period.

If a Senior Executive leaves Telstra for any reason, other than a Permitted Reason, before the end of the relevant Restriction Period, the Restricted Shares are forfeited.

Restricted Shares may also be forfeited if a clawback event occurs during the Restriction Period. A clawback event includes circumstances where a Senior Executive has engaged in fraud, dishonesty or gross misconduct, or where the financial results that led to the Restricted Shares being granted are subsequently shown to be materially misstated, and also situations where the behaviour of a Senior Executive brings Telstra into disrepute or has an impact on Telstra's long term financial strength.

**d) FY15 LTI Plan****Participation**

The FY15 LTI plan is limited to 17 executives, being Telstra's Executive Committee members, including the Senior Executives whose remuneration is included in this report (with the exception of the GE Telstra Wholesale).

Performance Rights form the basis of the reward under the LTI plan. Senior Executives are not required to pay for the Performance Rights. However, for any Performance Rights to vest as Restricted Shares, a minimum threshold performance against the relevant measure must be satisfied.

The LTI plan has two separate performance measures, being RTSR and FCF ROI.

Details of the Performance Rights granted to Senior Executives in relation to the FY15 LTI plan are provided in Section 5.

**Plan structure**

Plan component	Detail
Performance Measure Weighting	50% to RTSR; 50% to FCF ROI
Performance Period	1 July 2014 to 30 June 2017
Restriction Period End Date	30 June 2018
Minimum Threshold for RTSR Vesting	50th percentile of peer group
RTSR Vesting Schedule	25% vests at 50th percentile, straight-line vesting to 75th percentile where 100% vests
Minimum Threshold for FCF ROI Vesting	15.0%
FCF ROI Vesting Schedule	50% vests at target of 15.0%, straight line vesting to stretch target of 16.6% where 100% vests
Retesting	No

**Relative Total Shareholder Return (RTSR)**

RTSR measures the performance of an ordinary Telstra share (including the value of any cash dividends 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 global peers.

The comparator group for the FY15 LTI plan included the following large market capitalisation telecommunication firms: AT&T Inc; Belgacom Group; Bell Canada Enterprises Inc; BT Group plc; Deutsche Telekom AG; Orange SA; Koninklijke KPN N.V.; KT Corporation; Nippon Telegraph & Telephone Corp; NTT DoCoMo Inc; Portugal Telecom SGPS SA; Singapore Telecommunications Ltd; SK Telecom Co Ltd; Swisscom AG; Telekom Austria AG; Telecom Italia S.p.A.; Spark NZ Ltd (formerly Telecom Corporation of NZ Ltd until 8 August 2014); Telefonica S.A.; Telenor ASA; TeliaSonera AB; Verizon Communications Inc and Vodafone Group Plc.

The FY15 LTI comparator group is consistent with previous LTI plans except that Sprint Nextel Corporation has been removed due to a prior acquisition by Softbank Corporation. Telecom Corporation of New Zealand Ltd, part of the FY14 comparator group changed to Spark NZ Ltd on 8 August 2014 and remains in the FY15 comparator group under its new name.

The Board has discretion to change members of the comparator group under the LTI plan terms.

## Remuneration Report

### Free Cashflow Return On Investment (FCF ROI)

FCF ROI as determined by the Board is calculated by dividing the average annual FCF for LTI over the three year performance period by Telstra's Average Investment over the same period.

The Board selected the FCF ROI measure as an absolute LTI target on the basis that cash generation by the business over the longer term is central to the creation of shareholder value.

### Vesting of Performance Rights as Restricted Shares

At the end of FY17, the Board will review Telstra's audited financial results for FCF ROI and RTSR to determine the percentage of Performance Rights that vest as Restricted Shares under the FY15 LTI plan.

Until the Performance Rights vest as Restricted Shares, a Senior Executive has no legal or beneficial interest in any Telstra shares to be granted under the FY15 LTI plan, no entitlement to receive dividends and no voting rights in relation to those shares.

If a Senior Executive leaves Telstra for any reason, other than a Permitted Reason, any unvested Performance Rights lapse unless the Board exercises its discretion otherwise. If they leave Telstra for a Permitted Reason, a pro rata number of Performance Rights will lapse based on the proportion of time remaining until 30 June 2018. The pro rata portion relating to the Senior Executive's completed service may still vest subject to achieving the performance measures of the FY15 LTI plan on 30 June 2017.

Performance Rights that vest as Restricted Shares are subject to a Restriction Period expiring on 30 June 2018. If a Senior Executive leaves Telstra for any reason other than a Permitted Reason before the end of the Restriction Period, the Restricted Shares are forfeited, unless the Board exercises its discretion otherwise.

Similar to the clawback provisions for STI deferral under 2.3 c), the Performance Rights may lapse and Restricted Shares may be forfeited if a clawback event occurs during the performance period or Restriction Period.

### Group Executive Telstra Wholesale

Due to the requirements of the SSU, the GE Telstra Wholesale participates in a separate equity plan.

In FY15, the GE Telstra Wholesale was allocated 117,277 Restricted Shares in lieu of the FY14 LTI plan for other Senior Executives based on performance against the FY14 STI measures. They are subject to a Restriction Period that will end on 30 June 2017, during which time the GE Telstra Wholesale is entitled to earn dividends on, and exercise voting rights attached to those shares.

If the GE Telstra Wholesale leaves Telstra before the end of the three year Restriction Period for any reason, other than a Permitted Reason, the Restricted Shares will be forfeited. If he leaves for a Permitted Reason he will retain a pro rata number of Restricted Shares that remain subject to the original Restriction Period.

In lieu of participation in the Senior Executive FY15 LTI plan, the GE Telstra Wholesale will be allocated Restricted Shares in FY16 based on his performance against his FY15 STI plan measures, namely Wholesale Total Income, Wholesale EBITDA, Wholesale NPS and individual performance.

Both of these plans contain the same clawback provisions as the FY15 STI Deferral plan for other Senior Executives.

## 3. EXECUTIVE REMUNERATION OUTCOMES

The table in 3.1 provides a summary of the key financial results for Telstra over the past five financial years. The tables in 3.2 and 3.3 provide a summary of how those results have been reflected in the remuneration outcomes for Senior Executives.

### 3.1 Financial performance

Details of Telstra's performance, share price and dividends over the past five years are summarised in the table below:

Performance measures	FY15 \$m	FY14 \$m	FY13(1) \$m	FY12 \$m	FY11 \$m
<b>Earnings</b>					
Total Income (2)	26,607	26,296	24,776	25,503	25,304
EBITDA (2)	10,745	11,135	10,168	10,234	10,151
Net Profit (3)	4,231	4,275	3,739	3,405	3,231
<b>Shareholder value</b>					
Share price (\$) (4)	6.14	5.21	4.77	3.69	2.89
Total dividends paid per share (cents)	30.0	28.5	28.0	28.0	28.0

(1) FY13 results have been restated due to the retrospective adoption of changes to AASB 119: "Employee Benefits".

(2) Following the disposal of a 70 per cent stake in our Sensis directories business in FY14, our FY15, FY14 and FY13 Total Income and EBITDA include only continuing operations.

(3) FY15, FY14 and FY13 Net Profit attributable to equity holders of the Telstra entity include continuing and discontinued operations (Sensis Group).

(4) Share prices are as at 30 June for the respective year. The closing share price for FY10 was \$3.25

### 3.2 Short Term Incentive outcomes

#### a) Average STI payment as a percentage of STI opportunity

The average STI payment for Senior Executives as a percentage of the maximum potential payout is shown in the following table:

Performance year	FY15	FY14	FY13	FY12	FY11
STI received as % of maximum	61.0	53.6	66.0	65.6	48.4

#### b) Overall FY15 STI Plan outcomes

At the end of FY15, the Board reviewed Telstra's audited financial results and the results of the other performance measures for the FY15 STI plan and the FY15 STI plan for the GE Telstra Wholesale. The Board has assessed performance against each measure and determined the percentage of STI that is payable, of which 25 per cent will be provided through Restricted Shares.

The Board determined the outcomes of the financial measures to ensure there were no windfall gains or losses due to the timing of the NBN rollout, spectrum purchases and material acquisitions and divestments.

The calculation of the NPS measure was based on asking Telstra's customers to rate their likelihood of recommending Telstra, out of a score of 10. The overall NPS result for Telstra was the weighted average of the surveys from Telstra's Consumer (50 per cent), Small Business (15 per cent), Telstra Managed Business (10 per cent) and Global Enterprise and Services (25 per cent) customers. The surveys were undertaken by third party research companies.



The FY15 outcome was based on the three month average from 1 April 2015 to 30 June 2015 for Consumer and Business, and the six month consolidated result from 1 January 2015 to 30 June 2015 for Global Enterprise and Services.

The Wholesale NPS measure that applied to the GE Telstra Wholesale, was calculated based on a survey of Wholesale customers only, undertaken by a third party research company from 28 April 2015 through to 16 May 2015. The final result was audited by Telstra's Group Internal Audit team.

The Board believes the methods of calculating the financial and NPS outcomes are appropriate, and a rigorous assessment of Telstra's performance.

Senior Executive STI (excluding Group Executive Telstra Wholesale)

Measure	Outcome (% of maximum)
Total Income	100.0
EBITDA	82.0
Free Cashflow	77.5
NPS	50.0

Group Executive Telstra Wholesale STI

Measure	Outcome (% of maximum)
Wholesale Total Income	94.5
Wholesale EBITDA	98.0
Wholesale NPS	-

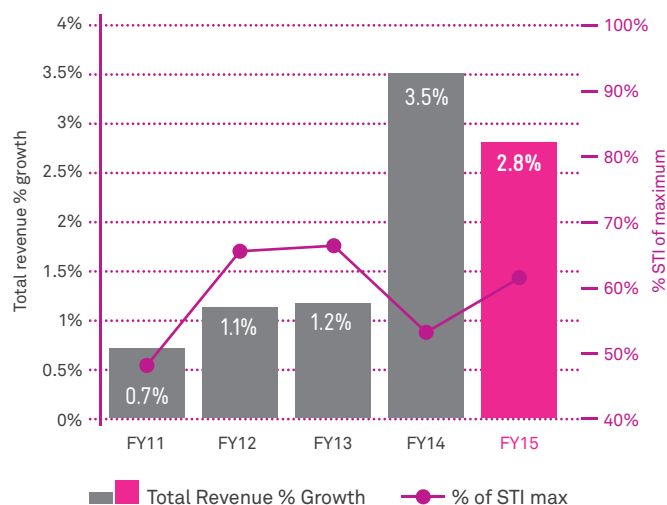
Definitions for the STI financial measures of Total Income, EBITDA and Free Cashflow are provided in the Glossary at the end of this remuneration report.

c) FY15 STI plan payment results

The table below displays FY15 STI payments as a percentage of Fixed Remuneration and also as a percentage of the maximum opportunity for both FY15 and FY14 STI plans for current Senior Executives:

Name	FY15 % of FR	FY15 % of max	FY14 % of max
Andrew Penn	133.4	66.7	53.2
Gordon Ballantyne	96.3	48.2	49.7
Warwick Bray	128.4	64.2	-
Stuart Lee	73.0	48.7	79.5
Kate McKenzie	131.3	65.7	53.2
Robert Nason	128.4	64.2	49.7
Brendon Riley	132.1	66.1	37.2
David Thodey	128.4	64.2	53.2
<b>Senior Executive Average:</b>	<b>118.9</b>	<b>61.0</b>	<b>53.6</b>

The graph below shows the STI payments as a percentage of the maximum opportunity relative to total revenue growth over four of the past five years. Telstra's incentive plans measure performance against a range of financial and non financial metrics with varied weightings. Accordingly, 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, as was the case for FY14, where the lower STI payment reflected that we did not achieve our NPS target. The higher STI payout in FY15 is in part reflective of the NPS outcome for that year.



3.3 Long Term Incentive outcomes

The performance period for the FY13 LTI plan concluded on 30 June 2015.

The results of Telstra's RTSR was calculated by an external provider and audited by Telstra's Group Internal Audit team. The RTSR vesting result was based on Telstra ranking at the 72nd percentile of the global peer group. As Sprint Nextel Corporation was acquired by Softbank Corporation during the performance period, the Board exercised its discretion under the LTI plan terms to remove it from the comparator group prior to calculation of the results.

Consistent with prior years, the Board determined the FCF ROI outcome to ensure there were no windfall gains or losses due to the timing of the NBN roll out. Accordingly, the FCF and Average Investment has been adjusted for the impacts of NBN.

The Board also adjusted for non recurring items including spectrum purchases, acquisitions and divestments (for example CSL and the Sensis advertising and directories business) as well as the impact of a change in the timing of tax instalments during FY14.

The outcome was reviewed by Telstra's Group Internal Audit team and our external auditor EY. The Board approved the vesting outcomes in accordance with the LTI plan rules.

## Remuneration Report

### a) FY13 LTI Plan testing as at 30 June 2015

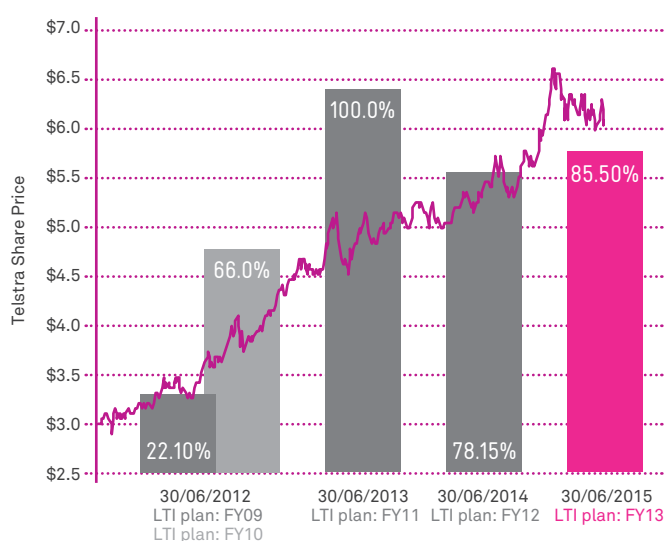
The vesting table for the FY13 LTI plan is detailed below, reflecting performance up to 30 June 2015 against the two performance measures of RTSR and FCF ROI.

Test date	Performance measure	% of total plan vested
30 June 2015	RTSR (91% vesting)	45.5
	FCF ROI (80% vesting)	40.0
<b>Total:</b>		<b>85.5</b>

Upon vesting, each participant was allocated Restricted Shares which are subject to a Restriction Period that ends on 17 August 2016.

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

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



In FY12 Telstra had two LTI plans with a final performance test as the FY09 LTI was the last LTI plan where performance testing was done in years 2, 3 and 4. This was different from the current structure where there is a 3 year performance period plus 1 year Restriction Period.

### 3.4 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 payment if termination is a result of serious misconduct or redundancy (in which case Telstra's redundancy policy overrides the termination provisions of a Senior Executive's service contract).

Name	Fixed Remuneration at the end of FY15	Notice period	Termination payment
Andrew Penn	2,325,000	6 months	6 months
Gordon Ballantyne	1,350,000	6 months	6 months
Warwick Bray	1,100,000	6 months	6 months
Stuart Lee	1,040,000	6 months	12 months
Kate McKenzie	1,200,000	6 months	6 months
Robert Nason	1,080,000	6 months	6 months
Brendon Riley	1,350,000	6 months	12 months

As detailed in Table 1.1, Mr Thodey ceased to be a Senior Executive after 30 April 2015, therefore, he is not included in the table above.

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 6 month termination payment in executive contracts.

## 4. NON-EXECUTIVE DIRECTOR REMUNERATION

### 4.1 Remuneration structure

The Telstra Board and Committee fee structure (inclusive of superannuation) during FY15 was:

Board fees	Chairman	Non-executive Director
Board	775,000	235,000
Committee fees	Committee Chair	Committee member
Audit & Risk Committee	70,000	35,000
Remuneration Committee	50,000	25,000
Nomination Committee	-	7,000

The Chairman of the Board does not receive Committee fees in respect of her role as a Chair or a member of any Board Committee.

In FY15, Telstra reviewed its non-executive Director fees relative to other major companies in the ASX20. Following the review, the Board, (other than the Chairman), decided to increase the Chairman's fee by 9.9 per cent to \$775,000, effective 1 October 2014, to position it more appropriately against other companies in the ASX20. No other changes were made to any of the Committee or non-executive Director fees.

Telstra's 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 Annual General Meeting (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 FY15 remained within the approved fee pool.

## 4.2 Remuneration policy and strategy

Telstra's 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.

To align the non-executive Directors' interests with the interests of our shareholders, the Board has established a policy which encourages non-executive Directors to hold Telstra shares equivalent to at least 50 per cent of the annual non-executive Director base fee. This holding requirement should be met by the end of the five year period from the date of appointment.

Progress is monitored on an ongoing basis. Directors' shareholdings as at 13 August 2015 are set out in the Directors' Report on page 45 of this Annual Report.

## 4.3 Remuneration components

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.

Table 5.7 provides full details of non-executive Director remuneration for FY15.

Section 2.2 d) of this report provides details on the Telstra securities trading restrictions that apply to all KMP, including non-executive Directors.

## 5. REMUNERATION TABLES AND GLOSSARY

The tables in this section disclose KMP information. As such, all remuneration related to Mr Thodey is representative of his time as Senior Executive ending 30 April 2015. Similarly, Mr Bray's remuneration is reflective of his time as Senior Executive effective 1 May 2015.

### 5.1 Senior Executives 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 FY15.

Name and Title	Year	Short term employee benefits		Post-employment benefits	Termination benefits	Other long term benefits		Equity settled share-based payments		Total (\$)
		Salary and fees (\$)(1)	Short term incentives (cash) (\$)(2)			Non-monetary benefits (\$)(3)	Super-annuation (\$)(4)	Termination benefits (\$)(5)	Accrued leave benefits (\$)	
<b>Andrew Penn</b>	<b>2015</b>	<b>1,606,491</b>	<b>1,638,696</b>	<b>32,612</b>	<b>-</b>	<b>40,075</b>	<b>-</b>	<b>465,562</b>	<b>1,029,028</b>	<b>4,831,247</b>
Chief Executive Officer	2014	1,419,621	1,156,013	6,480	-	35,935	-	386,923	820,089	3,842,837
<b>Gordon Ballantyne</b>	<b>2015</b>	<b>1,311,249</b>	<b>975,038</b>	<b>214,591</b>	<b>-</b>	<b>33,288</b>	<b>-</b>	<b>341,572</b>	<b>690,276</b>	<b>3,604,765</b>
GE Telstra Retail	2014	1,287,051	1,005,413	57,754	-	33,120	4,579,548	377,843	323,575	7,702,048
<b>Warwick Bray (9)</b>	<b>2015</b>	<b>180,697</b>	<b>177,034</b>	<b>1,885</b>	<b>-</b>	<b>4,533</b>	<b>-</b>	<b>30,272</b>	<b>33,289</b>	<b>430,849</b>
Chief Financial Officer	2014	-	-	-	-	-	-	-	-	-
<b>Stuart Lee</b>	<b>2015</b>	<b>1,021,217</b>	<b>569,205</b>	<b>13,229</b>	<b>-</b>	<b>25,644</b>	<b>-</b>	<b>261,370</b>	<b>595,326</b>	<b>2,504,774</b>
GE Telstra Wholesale	2014	1,012,142	930,150	12,452	-	25,748	-	296,639	510,601	2,805,508
<b>Kate McKenzie</b>	<b>2015</b>	<b>1,181,217</b>	<b>1,181,850</b>	<b>14,209</b>	<b>-</b>	<b>29,589</b>	<b>-</b>	<b>350,229</b>	<b>978,139</b>	<b>3,754,016</b>
Chief Operations Officer	2014	1,039,194	956,700	11,557	-	27,085	-	318,977	744,371	3,142,087
<b>Robert Nason</b>	<b>2015</b>	<b>1,061,217</b>	<b>1,386,720</b>	<b>20,709</b>	<b>-</b>	<b>26,630</b>	<b>-</b>	<b>80,399</b>	<b>682,493</b>	<b>3,276,951</b>
GE Business Support and Improvement	2014	1,054,662	804,330	17,544	-	26,811	-	312,728	768,547	3,002,398
<b>Brendon Riley</b>	<b>2015</b>	<b>1,331,217</b>	<b>1,337,550</b>	<b>9,443</b>	<b>-</b>	<b>33,288</b>	<b>-</b>	<b>359,672</b>	<b>1,217,553</b>	<b>4,307,506</b>
GE Global Enterprise and Services	2014	1,319,621	754,059	8,172	-	33,435	-	347,501	796,861	3,277,425
<b>David Thodey</b>	<b>2015</b>	<b>2,175,479</b>	<b>2,833,946</b>	<b>9,719</b>	<b>-</b>	<b>54,422</b>	<b>-</b>	<b>170,914</b>	<b>2,502,936</b>	<b>7,779,060</b>
Former Chief Executive Officer	2014	2,620,224	2,112,713	8,286	-	66,250	-	793,931	2,580,070	8,211,250
<b>TOTAL CURRENT AND FORMER KMP</b>	<b>2015</b>	<b>9,868,784</b>	<b>10,100,039</b>	<b>316,397</b>	<b>-</b>	<b>247,469</b>	<b>-</b>	<b>2,059,990</b>	<b>7,729,040</b>	<b>30,489,168</b>
	2014	9,752,515	7,719,378	122,245	-	248,384	4,579,548	2,834,542	6,544,114	31,983,553

## Footnotes to Table 5.1:

The total for FY14 of \$31,983,553 in this table is less than the total for FY14 in the FY14 Remuneration Report of \$33,516,660 as it does not include the \$1,533,107 for the former GE Telstra Media, Rick Ellis 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.
- (2) Short term incentives (cash) relates to performance in FY15 and FY14 respectively and is based on actual performance for Telstra and the individual.
- (3) Includes the value of personal home security services provided by Telstra, provision of car parking and in the case of Mr Ballantyne, return flight benefits to the United Kingdom and the provision of taxation assistance as per the terms of his service agreement. Also 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 International Financial Reporting Standards"). The value of the non-monetary benefits include the FBT gross up rate of \$2,0647 for FY14 and \$2,0802 for FY15.
- (4) Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives.
- (5) No termination benefits were paid in FY15.
- (6) In accordance with AASB 2, the accounting value represents a portion of the fair value of Performance Rights, Restricted Shares and Performance Shares that had not yet fully vested as at the commencement of the financial year. This value includes an assumption that Performance Rights, Restricted Shares and Performance Shares will vest at the end of the vesting period. The amount included as remuneration is not related to, nor indicative of the benefit (if any) that may ultimately be realised by each Senior Executive should the Performance Rights, Restricted Shares and Performance Shares vest. Refer to footnote (8) and Table 5.4 for further information.
- (7) This includes the amortised value of Restricted Shares allocated under the FY12 (only applicable to FY14 comparatives), FY13, FY14 and FY15 STI plans whereby 25 per cent of the STI payment was provided as Restricted Shares which are subject to a Restriction Period.
- (8) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in both FY15 and FY14. For FY15, this occurred for a portion of the FY13 plan that failed to satisfy the FCF ROI performance target at 30 June 2015, a non-market (i.e. non-RTSR) measure, resulting in equity instruments lapsing. Similarly for FY14, this occurred for a portion of the FY12 LTI plan that failed to satisfy the FCF ROI performance target at 30 June 2014, resulting in equity instruments lapsing. Refer to 3.3 on LTI outcomes for FY15 for further information.
- (9) On 2 July 2012, Mr Bray (in his role as Executive Director - Mobility Products) was granted a retention plan that included performance rights, 60,000 of which were provided to him as shares in July 2015 after he became a Senior Executive. The performance conditions were remaining continuously employed and achieving a satisfactory level of performance as assessed by Telstra relating to the period from 1 July 2014 until 30 June 2015.

## Remuneration Report

### 5.2 STI Payments (cash and shares)

Name	Year	Maximum potential STI opportunity (\$) (1)	Current year grant of STI \$(2)		% of the maximum potential opportunity earned	% of the maximum potential opportunity forfeited	Total grant of STI (\$)
			75% cash component (3)	25% deferred shares component (3) (4)			
<b>Andrew Penn</b>	<b>2015</b>	<b>3,275,753</b>	<b>1,638,696</b>	<b>546,232</b>	<b>66.7%</b>	<b>33.3%</b>	<b>2,184,928</b>
	2014	2,900,000	1,156,013	385,337	53.2%	46.8%	1,541,350
<b>Gordon Ballantyne</b>	<b>2015</b>	<b>2,700,000</b>	<b>975,038</b>	<b>325,013</b>	<b>48.2%</b>	<b>51.8%</b>	<b>1,300,051</b>
	2014	2,700,000	1,005,413	335,137	49.7%	50.3%	1,340,550
<b>Warwick Bray</b>	<b>2015</b>	<b>367,671</b>	<b>177,034</b>	<b>59,011</b>	<b>64.2%</b>	<b>35.8%</b>	<b>236,045</b>
	2014	-	-	-	-	-	-
<b>Stuart Lee</b>	<b>2015</b>	<b>1,560,000</b>	<b>569,205</b>	<b>189,735</b>	<b>48.7%</b>	<b>51.3%</b>	<b>758,940</b>
	2014	1,560,000	930,150	310,050	79.5%	20.5%	1,240,200
<b>Kate McKenzie</b>	<b>2015</b>	<b>2,400,000</b>	<b>1,181,850</b>	<b>393,950</b>	<b>65.7%</b>	<b>34.3%</b>	<b>1,575,800</b>
	2014	2,400,000	956,700	318,900	53.2%	46.8%	1,275,600
<b>Robert Nason (3)</b>	<b>2015</b>	<b>2,160,000</b>	<b>1,386,720</b>	<b>-</b>	<b>64.2%</b>	<b>35.8%</b>	<b>1,386,720</b>
	2014	2,160,000	804,330	268,110	49.7%	50.3%	1,072,440
<b>Brendon Riley</b>	<b>2015</b>	<b>2,700,000</b>	<b>1,337,550</b>	<b>445,850</b>	<b>66.1%</b>	<b>33.9%</b>	<b>1,783,400</b>
	2014	2,700,000	754,059	251,354	37.2%	62.8%	1,005,413
<b>David Thodey (3)</b>	<b>2015</b>	<b>4,414,247</b>	<b>2,833,946</b>	<b>-</b>	<b>64.2%</b>	<b>35.8%</b>	<b>2,833,946</b>
	2014	5,300,000	2,112,713	704,237	53.2%	46.8%	2,816,950

(1) Represents the maximum potential STI specific to FY15 and FY14 respectively, adjusted for any variation in Fixed Remuneration throughout FY15 and FY14 that impacts the maximum potential STI available. If the minimum threshold performance is not met, the minimum possible STI payment is nil.

(2) The STI plan outcomes for FY15 and FY14 were approved by the Board on 12 August 2015 and 13 August 2014 respectively.

(3) In accordance with the provisions for retirement of Telstra's policy for the FY15 STI plan, no STI deferral will be made for Mr Thodey and Mr Nason. Their FY15 STI payment will be paid as 100 per cent cash.

(4) The Restricted Shares awarded are expected to be allocated in November 2015 and are subject to a Restriction Period. Half are restricted for one year and half for two years ending 30 June 2016 and 30 June 2017 respectively, subject to the Senior Executive's continued employment. Refer to 2.3 c) for further details.

## 5.3 Summary of LTI plans and other equity plans as at 30 June 2015

Name (*)	Plan	Type of instrument granted	Performance period	Restriction Period end date (1)	Future financial years in which grants may Vest	Accounting value yet to vest (2)	
						Min (\$)	Max (\$)
Andrew Penn	FY13	Performance Rights	1/07/12 - 30/06/15	17-08-2016	FY17	nil	350,110
	FY14	Performance Rights	1/07/13 - 30/06/16	30-06-2017	FY17	nil	695,089
	FY15	Performance Rights	1/07/14 - 30/06/17	30-06-2018	FY18	nil	1,222,341
Gordon Ballantyne	FY14	Performance Rights	1/07/13 - 30/06/16	30-06-2017	FY17	nil	647,149
	FY15	Performance Rights	1/07/14 - 30/06/17	30-06-2018	FY18	nil	1,100,104
Warwick Bray	FY14	Performance Rights	1/07/13 - 30/06/16	30-06-2017	FY17	nil	122,997
	FY15	Performance Rights	1/07/14 - 30/06/17	30-06-2018	FY18	nil	244,467
Stuart Lee (3)	FY13	Restricted Shares	n/a	17-08-2015	FY16	nil	-
	FY14	Restricted Shares	n/a	01-07-2016	FY17	nil	226,666
	FY15	Restricted Shares	n/a	30-06-2017	FY17	nil	440,962
Kate McKenzie	FY12	Performance Rights	1/07/11 - 30/06/14	19-08-2015	FY16	nil	-
	FY13	Performance Rights	1/07/12 - 30/06/15	17-08-2016	FY17	nil	250,080
	FY14	Performance Rights	1/07/13 - 30/06/16	30-06-2017	FY17	nil	498,547
	FY15	Performance Rights	1/07/14 - 30/06/17	30-06-2018	FY18	nil	977,874
Robert Nason	FY12	Performance Rights	1/07/11 - 30/06/14	19-08-2015	FY16	nil	-
	FY13	Performance Rights	1/07/12 - 30/06/15	17-08-2016	FY17	nil	262,582
	FY14	Performance Rights	1/07/13 - 30/06/16	30-06-2017	FY17	nil	64,715
	FY15	Performance Rights	1/07/14 - 30/06/17	30-06-2018	FY18	nil	-
Brendon Riley	FY12	Performance Rights	1/07/11 - 30/06/14	19-08-2015	FY16	nil	-
	FY13	Performance Rights	1/07/12 - 30/06/15	17-08-2016	FY17	nil	325,103
	FY14	Performance Rights	1/07/13 - 30/06/16	30-06-2017	FY17	nil	647,149
	FY15	Performance Rights	1/07/14 - 30/06/17	30-06-2018	FY18	nil	1,100,104
<b>Total</b>						<b>nil</b>	<b>9,176,039</b>

(1) Restriction period end date refers to the end of the Restriction Period for Performance Rights and Restricted Shares.

(2) The values included in the table above have been calculated by applying valuation methodologies or are based on the market value of Telstra shares at the grant date, as described in note 27 to the financial statements.

(3) The FY15 Restricted Shares grant to Mr Lee was made in lieu of participation in the FY14 LTI plan. See 2.3 d) for more information. Mr Lee was granted TESOP99 shares in 1999, with an interest free loan. The loan 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. As these instruments 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", no expense has been recognised therefore there is no minimum or maximum accounting value yet to vest to be disclosed. Refer to note 27 of the financial statements for further information.

(\*) As Mr Thodey ceased to be a Senior Executive as at 30 April 2015, he has been excluded from the table above. As per the FY12 LTI plan outcome, 1,225,272 shares will be released from restriction to him on 19 August 2015. In accordance with the FY13 LTI plan outcome, Mr Thodey has 1,189,371 Restricted Shares. Following retirement, he will retain 564,013 of the 1,041,256 FY14 LTI Performance Rights allocation and 274,083 of the 939,716 FY15 LTI Performance Rights allocation. The FY13 Restricted Shares and both the FY14 and FY15 LTI Performance Rights remain subject to the original performance conditions and restriction period of the respective plan terms.

## Remuneration Report

### 5.4 Accounting value of all LTI and other equity instruments (\*)

Name	Year	Accounting value of all LTI equity allocations (1) (2)			Total (\$)
		Performance Rights (\$)	Performance Shares (\$)	Restricted Shares (\$)	
Andrew Penn	2015	1,008,683	20,345	-	1,029,028
	2014	745,864	74,225	-	820,089
Gordon Ballantyne	2015	690,276	-	-	690,276
	2014	323,575	-	-	323,575
Warwick Bray	2015	33,289	-	-	33,289
	2014	-	-	-	-
Stuart Lee	2015	-	-	595,326	595,326
	2014	135,756	-	374,845	510,601
Kate McKenzie	2015	978,139	-	-	978,139
	2014	744,371	-	-	744,371
Robert Nason	2015	682,493	-	-	682,493
	2014	768,547	-	-	768,547
Brendon Riley	2015	1,217,553	-	-	1,217,553
	2014	796,861	-	-	796,861
David Thodey	2015	2,502,936	-	-	2,502,936
	2014	2,580,070	-	-	2,580,070

(1) 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 27 to the financial statements and is then amortised, based on the maximum achievable allocation, over the relevant vesting period. The values included in the table relate to the current year amortised value of all LTI instruments detailed in the Equity Settled share-based payments in the remuneration Table 5.1.

(2) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in both FY15 and FY14. For FY15, this occurred for a portion of the FY13 plan that failed to satisfy the FCF ROI performance target at 30 June 2015, a non-market (i.e. non-RTSR) measure, resulting in equity instruments lapsing. Similarly for FY14, this occurred for a portion of the FY12 LTI plan that failed to satisfy the FCF ROI performance target at 30 June 2014, resulting in equity instruments lapsing. Refer to 3.3 on LTI outcomes for FY15 for further information.

(\*) STI Restricted Shares are excluded from this table, refer to tables 5.2 and 5.8 for further information.



## 5.5 Number of equity instruments granted, vested and exercised during FY 15 (LTI and other equity)

Name	Instrument	Equity movements					Equity outcomes	
		Total held at 30 June 2014 (*)	Granted during FY15 (1)	Vested / exercised during FY15 (2)	Other changes (3)	Total held at 30 June 2015 (*)	Achieved performance target during FY15 (4)	Achieved performance target as at 30 June 2015 (5)
Andrew Penn	Performance Rights	1,043,722	425,532	-	(85,248)	1,384,006	502,678	502,678
	Performance Shares	48,250	-	(48,250)	-	-	-	-
Gordon Ballantyne	Performance Rights	424,360	382,978	-	-	807,338	-	-
	Performance Rights	225,760	-	-	-	225,760	-	-
Stuart Lee	Performance Rights	311,188	-	(311,188)	-	-	-	-
	Restricted Shares	249,966	117,277	-	-	367,243	-	-
	TESOP99	400	-	-	-	400	-	-
Kate McKenzie	Performance Rights	1,431,363	340,426	(302,544)	(60,891)	1,408,354	359,057	741,012
	Performance Rights	1,476,389	306,382	(293,900)	(63,936)	1,424,935	377,008	779,065
Brendon Riley	Performance Rights	1,472,864	382,978	-	(79,159)	1,776,683	466,773	969,345
David Thodey (7)	Performance Rights	5,013,536	939,716	(1,355,932)	-	4,597,320	-	1,225,272

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 Restricted Share has been released from restriction and provided to the executive. Table 5.8 includes details of such Restricted Shares provided during FY15.

All service and performance conditions for rights granted in previous financial years and that have vested or been exercised in FY15 are summarised in the remuneration report for each relevant year of grant. Each equity instrument granted, vested or exercised in FY15 (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.

(1) Performance Rights granted relate to the FY15 LTI plan which was allocated on 11 November 2014. Restricted Shares granted relate to the FY15 GE Telstra Wholesale Restricted Share LTI plan, made in lieu of participation in the FY14 LTI plan and was allocated on 11 November 2014. See 2.3 d) for more information.

(2) Relates to Performance Shares coming out of restriction or Performance Rights vesting as defined above. Performance Rights vested during FY15 relate to the FY11 LTI plan. Performance Shares vested in FY15 are the second and final tranche of the Performance Shares allocated in FY12 for Mr Penn. For more information on our KMP interests in Telstra Shares refer to Table 5.8.

(3) Relates to Performance Rights lapsing due to the specified performance hurdles not being achieved. Performance rights in this column relate to the FY13 LTI plan that was performance tested at the end of FY15 and resulted in 14.5% of the plan lapsing.

(4) Relates to instruments that have been performance tested for the performance period ending on 30 June 2015 and met the specified performance hurdles. Performance Rights in this column relate to the FY13 LTI plan that was performance tested at the end of FY15 and resulted in 85.5% of the plan to be provided as Restricted Shares early in FY16. Mr Thodey's details have not been included in this column as he ceased to be a Senior Executive on 30 April 2015.

(5) Relates to instruments that have met the specified performance hurdles as at 30 June 2015. Performance Rights in this column include the FY13 LTI plan that were performance tested at the end of FY15 and will be provided as Restricted Shares in the next financial year. This balance also includes Performance Rights that were performance tested under the FY12 LTI plan at the end of FY14 and have been provided as Restricted Shares during FY15. For more information on our KMP interests in Telstra Shares refer to Table 5.8.

(6) Mr Bray's balance as reported for 30 June 2014 reflects his holding as at his appointment date as a Senior Executive, being 1 May 2015 and includes 60,000 Performance Rights that were allocated as a part of a retention share plan on 2 July 2012. Refer to footnote (9) of Table 5.1 for further information.

(7) Mr Thodey's balance as reported for 30 June 2015 reflects his holding as at the date he retired as a Senior Executive, being 30 April 2015. As per the FY12 LTI plan outcome, 1,225,272 shares will be released from restriction to him on 19 August 2015.

(\*) STI Restricted Shares are excluded from this table, refer to tables 5.2 and 5.8 for further information.

(\*) There are no Performance Rights or options held indirectly or beneficially by our KMP or their related parties.

(\*\*) As at 30 June 2015, there were no options or Performance Rights vested, vested and exercisable or vested and unexercisable.

## Remuneration Report

### 5.6 Value of LTI and other equity instruments granted, exercised and expired/forfeited in FY15 (\*)

Name	Granted during period (\$) (1) (2)		Vested/exercised (\$) (3)	
	Performance Rights	Restricted Shares	Performance Rights	Performance Shares
Andrew Penn	1,629,788	-	-	275,025
Gordon Ballantyne	1,466,806	-	-	-
Warwick Bray	325,956	-	811,214	-
Stuart Lee	-	661,442	1,761,324	-
Kate McKenzie	1,303,832	-	1,712,399	-
Robert Nason	1,173,443	-	1,663,474	-
Brendon Riley	1,466,806	-	-	-
David Thodey	3,599,112	-	7,674,575	-

(1) The fair value of the RTSR and FCF ROI Performance Rights granted in FY15 at the grant date of 15 October 2014 is \$3.07 and \$4.59 respectively. The fair value reflects the valuation approach required by AASB 2 using an option pricing model, as explained in note 27 to the financial statements.

(2) The FY15 Restricted Share grant to Stuart Lee was made in lieu of participation in the FY14 LTI plan, see 2.3 d) for more information. The fair value of the Restricted Shares granted during FY15 at the grant date of 15 August 2014 was \$5.64 and was based on the market value of Telstra shares.

(3) The value of the equity instruments vested/exercised reflects the market value at the date the instruments vested and were released from restriction.

(\*) STI Restricted Shares are excluded from this table, refer to tables 5.2 and 5.8 for further information.

## 5.7 Non-executive Director remuneration

Name	Year	Short term employee benefits		Post-employment benefits	Total (\$)
		Salary and fees (\$) (1)	Non-monetary benefits (\$) (2)	Superannuation (\$)	
<b>Catherine B Livingstone</b>	<b>2015</b>	<b>738,573</b>	<b>7,304</b>	<b>18,783</b>	<b>764,660</b>
Chairman	2014	687,225	4,425	17,775	709,425
<b>Geoffrey A Cousins (3)</b>	<b>2015</b>	<b>248,217</b>	<b>-</b>	<b>18,783</b>	<b>267,000</b>
Director	2014	267,000	-	4,444	271,444
<b>Peter R Hearl (4)</b>	<b>2015</b>	<b>202,314</b>	<b>-</b>	<b>16,467</b>	<b>218,781</b>
Director	2014	-	-	-	-
<b>Russell A Higgins</b>	<b>2015</b>	<b>251,217</b>	<b>-</b>	<b>18,783</b>	<b>270,000</b>
Director	2014	252,225	-	17,775	270,000
<b>Chin Hu Lim (5) (6)</b>	<b>2015</b>	<b>230,923</b>	<b>-</b>	<b>4,077</b>	<b>235,000</b>
Director	2014	199,033	-	5,701	204,734
<b>John P Mullen</b>	<b>2015</b>	<b>273,217</b>	<b>-</b>	<b>18,783</b>	<b>292,000</b>
Director	2014	274,225	-	17,775	292,000
<b>Nora L Scheinkestel (7)</b>	<b>2015</b>	<b>292,327</b>	<b>-</b>	<b>18,783</b>	<b>311,110</b>
Director	2014	287,225	-	17,775	305,000
<b>Margaret L Seale</b>	<b>2015</b>	<b>251,217</b>	<b>-</b>	<b>18,783</b>	<b>270,000</b>
Director	2014	252,225	-	17,775	270,000
<b>Steven M Vamos</b>	<b>2015</b>	<b>248,217</b>	<b>-</b>	<b>18,783</b>	<b>267,000</b>
Director	2014	249,225	-	17,775	267,000
<b>John D Zeglis (6)</b>	<b>2015</b>	<b>231,022</b>	<b>-</b>	<b>3,978</b>	<b>235,000</b>
Director	2014	230,672	-	4,328	235,000
<b>Total</b>	<b>2015</b>	<b>2,967,244</b>	<b>7,304</b>	<b>156,003</b>	<b>3,130,551</b>
	2014	2,699,055	4,425	121,123	2,824,603

(1) Includes fees for membership on Board Committees.

(2) For FY14 and FY15, Telstra has applied the exemption for transactions with KMP that are not remuneration and are trivial or domestic in nature (Corporations Regulation 2M.3.03 (3B)) such as Foxtel or the provision of phones or computers. The non-monetary value of \$7,304 for FY15 is the value of a car parking benefit. The value of the non-monetary benefits include the FBT gross up rate of \$2.0647 for FY14 and \$2.0802 for FY15.

(3) As noted in the FY14 remuneration report, the insufficient superannuation contribution of \$13,331 and salary and fees overpayment of \$4,444 for Geoffrey Cousins were rectified in FY15 via a payment by Mr Cousins to Telstra Corporation Limited.

(4) Peter Hearl qualifies as a KMP from 15 August 2014, when he was appointed as a non-executive Director of the Company.

(5) As noted in the FY14 remuneration report, the excess superannuation contribution of \$2,274 for Chin Hu Lim was rectified in FY15 via a payment by Mr Lim to Telstra Corporation Limited.

(6) As Mr Lim and John Zeglis are overseas residents, their superannuation contributions for FY15 are less than the contributions for Australian resident non-executive Directors.

(7) Nora Scheinkestel's fees for FY15 includes additional fees of \$6,110 for services provided in relation to the 2014 Telstra off-market share buy-back.

## Remuneration Report

### 5.8 KMP interests in Telstra Shares

During FY15, our KMP and their related parties held Telstra shares directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2014 (1)(2)	Equity instruments vested/ exercised	STI Restricted Shares granted (3)	LTI Restricted Shares received during FY15 (4)	Net shares acquired or disposed of and other changes	Total shares held at 30 June 2015 (1)(5)	Shares held nominally at 30 June 2015 (6)
<b>Non-Executive Directors</b>							
Catherine B Livingstone	185,816	-	-	-	10,000	195,816	189,379
Geoffrey A Cousins	101,765	-	-	-	-	101,765	21,765
Peter R Hearl	-	-	-	-	45,000	45,000	-
Russell A Higgins	88,404	-	-	-	-	88,404	88,404
Chin Hu Lim	-	-	-	-	10,000	10,000	-
John P Mullen	26,159	-	-	-	-	26,159	26,159
Nora L Scheinkestel	74,115	-	-	-	12,389	86,504	86,504
Margaret L Seale	240,641	-	-	-	46,000	286,641	286,641
Steven M Vamos	40,000	-	-	-	-	40,000	40,000
John D Zeglis	103,993	-	-	-	-	103,993	37,493
<b>Total</b>	<b>860,893</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>123,389</b>	<b>984,282</b>	<b>776,345</b>
<b>Senior Executives</b>							
Andrew Penn	278,407	48,250	68,322	-	-	394,979	172,746
Gordon Ballantyne	274,958	-	59,420	-	-	334,378	98,620
Warwick Bray	87,578	-	-	-	-	87,578	87,578
Stuart Lee	1,082,861	-	54,972	117,277	-	1,255,110	548,593
Kate McKenzie	806,940	-	56,542	381,955	(607,882)	637,555	469,857
Robert Nason	621,587	-	47,536	402,057	(415,000)	656,180	483,811
Brendon Riley	383,310	-	44,566	502,572	-	930,448	930,448
David Thodey	3,319,003	-	124,864	1,225,272	-	4,669,139	4,669,139
<b>Total</b>	<b>6,854,644</b>	<b>48,250</b>	<b>456,222</b>	<b>2,629,133</b>	<b>(1,022,882)</b>	<b>8,965,367</b>	<b>7,460,792</b>
	<b>7,715,537</b>	<b>48,250</b>	<b>456,222</b>	<b>2,629,133</b>	<b>(899,493)</b>	<b>9,949,649</b>	<b>8,237,137</b>

Each equity instrument exercised or granted in FY15 (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 granted.

(1) Total shareholdings include shares held by our KMP and their related parties. Unless related to our employee share plans, shares acquired or disposed by our KMP during FY15 were on an arm's length basis at market price.

(2) For Mr Hearl, the total shares held at 30 June 2014, was the balance held when he commenced as a non-executive Director on 15 August 2014. Similarly for Mr Bray, the total shares held at 30 June 2014, was the balance held when he commenced as a Senior Executive on 1 May 2015.

(3) STI Restricted Shares granted during FY15 relate to the FY14 STI plan which were allocated on 11 November 2014. However, the allocation of Restricted Shares under the FY15 STI plan will be made after the reporting date of 30 June 2015, 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 FY15, this relates to the FY12 LTI plan that was performance tested last financial year. However, for Stuart Lee only, this relates to the FY15 GE Wholesale Restricted Share LTI plan.

(5) For Mr Thodey, the total shares held at 30 June 2015 was the balance held when he ceased as a Senior Executive on 30 April 2015.

(6) Nominally refers to shares held either indirectly or beneficially, including (for non-executive Directors) those acquired under Directshare, as well as (for Senior Executives) certain Restricted Shares. These shares are subject to a restriction period, such that the non-executive Director or Senior Executive is restricted from dealing with the shares until the restriction period ends. Refer to note 27 to the financial statements for further details.

## 5.9 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
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBITDA for STI	Earnings Before Interest, Tax, Depreciation and Amortisation (excluding profit/loss on land & building disposals)
FCF for LTI	Annual FCF adjusted for interest paid and non-recurring factors such as spectrum licence purchases, acquisitions, divestments and material regulatory adjustments
FCF ROI	The average of the annual FCF for LTI over the period of the scheme expressed as a percentage of the Average Investment over the period of the scheme
FCF for STI	FCF adjusted for spectrum license purchases, acquisitions and divestments
Fixed Remuneration	Base salary plus company and private salary sacrificed superannuation contributions.
FCF	Free Cashflow from operating and investing activities
GE	Group Executive
GMD	Group Managing Director
KMP	Key Management Personnel
LTI	Long Term Incentive
NBN	National Broadband Network
NBN Transaction	Agreements with NBN Co and the Government in relation to Telstra's participation in the rollout of the NBN
NPS	Net Promoter Score. A non financial measure in Telstra's STI plan. Refer to 3.2 b) for further information
Performance Right	A right to a Restricted Share at the end of a performance period, subject to the satisfaction of certain performance measures
Permitted Reason	For both LTI plans and STI Deferral plans death, total and permanent disablement, certain medical conditions, redundancy, or retirement (where notice of retirement is given six months after the actual date of allocation) are permitted reasons. For LTI plans (other than GE Wholesale) separation by mutual agreement is also considered as permitted reason. For STI plans, fixed term contract expiry more than six months after the actual date of allocation is a permitted reason.
Performance Share	A right to a Telstra share at the end of a performance period, subject to the satisfaction of certain performance measures
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
STI Deferral plan	Senior Executives are provided with a percentage of their actual STI payment in the form of Restricted Shares
Straight-line Vesting	Describes the vesting calculation between target and stretch of an LTI plan, where the payout between two levels is based on equal increments determined by performance
Total Income	Total Telstra income excluding profit/loss on land & building disposals
Total Remuneration	The sum of all the fixed and variable components of remuneration as detailed in Table 5.1 for Senior Executives, and all the remuneration components as detailed in Table 5.7 for non-executive Directors



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### Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998 and issued pursuant to section 341(1) of the Corporations Act. As a result, amounts in this Directors' Report and the accompanying financial report have been rounded to the nearest million dollars (\$m), except where otherwise indicated.

This report is made on 13 August 2015 in accordance with a resolution of the Directors.

Catherine B Livingstone AO  
Chairman  
13 August 2015

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

In relation to our audit of the financial report of Telstra Corporation Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Andrew R Penn  
Chief Executive Officer and Managing Director  
13 August 2015

SJ Ferguson  
Partner  
Sydney  
13 August 2015

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# FINANCIAL REPORT

# TELSTRA CORPORATION LIMITED AND CONTROLLED ENTITIES

Australian Business Number (ABN): 33 051 775 556

## Financial Report

As at 30 June 2015

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# INCOME STATEMENT

For the year ended 30 June 2015

		Telstra Group	
		Year ended 30 June	
		2015	2014
		\$m	\$m
	Note		
<b>Continuing operations</b>			
<b>Income</b>			
Revenue (excluding finance income)	6	26,023	25,320
Other income	6	584	976
		<b>26,607</b>	26,296
<b>Expenses</b>			
Labour		4,921	4,732
Goods and services purchased		6,847	6,465
Other expenses	7	4,113	3,988
		<b>15,881</b>	15,185
Share of net profit from joint ventures and associated entities	26	19	24
		<b>15,862</b>	15,161
<b>Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)</b>			
		<b>10,745</b>	11,135
Depreciation and amortisation	7	3,983	3,950
<b>Earnings before interest and income tax expense (EBIT)</b>		<b>6,762</b>	7,185
<b>Finance income</b>			
Finance income	6	157	156
<b>Finance costs</b>			
Finance costs	7	846	1,113
<b>Net finance costs</b>		<b>689</b>	957
<b>Profit before income tax expense</b>		<b>6,073</b>	6,228
Income tax expense	9	1,787	1,679
<b>Profit for the year from continuing operations</b>		<b>4,286</b>	4,549
<b>Discontinued operation</b>			
Profit/(loss) for the year from discontinued operation	12	19	(204)
<b>Profit for the year from continuing and discontinued operations</b>		<b>4,305</b>	4,345
<b>Attributable to</b>			
Equity holders of Telstra Entity		4,231	4,275
Non-controlling interests		74	70
		<b>4,305</b>	4,345
<b>Earnings per share from continuing operations (cents per share)</b>		<b>cents</b>	cents
Basic	3	34.3	36.1
Diluted	3	34.3	36.0
<b>Earnings per share (cents per share)</b>			
Basic	3	34.5	34.4
Diluted	3	34.5	34.3

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

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Profit for the year from continuing and discontinued operations</b>		
Attributable to equity holders of Telstra Entity	4,231	4,275
Attributable to non-controlling interests	74	70
	<b>4,305</b>	4,345
<b>Items that will not be reclassified to the income statement</b>		
Retained profits:		
- actuarial gain on defined benefit plans attributable to equity holders of Telstra Entity	233	116
- income tax on actuarial gain on defined benefit plans	(69)	(34)
- actuarial gain on defined benefit plans attributable to non-controlling interests	-	1
Fair value of equity instruments reserve:		
- gains from investments in equity instruments designated at fair value through other comprehensive income	7	-
- income tax on gains from investments in equity instruments	(1)	-
Foreign currency translation reserve:		
- translation differences of foreign operations attributable to non-controlling interests	48	(4)
	<b>218</b>	79
<b>Items that may be subsequently reclassified to the income statement</b>		
Foreign currency translation reserve:		
- translation differences of foreign operations attributable to equity holders of Telstra Entity	196	39
- income tax on movements in the foreign currency translation reserve	9	(13)
- translation differences transferred to the income statement on disposal of controlled entities	2	239
- income tax on translation differences transferred to the income statement on disposal of controlled entities	-	48
- translation differences transferred to the income statement for controlled entities deregistered or in liquidation	-	100
Cash flow hedging reserve:		
- changes in fair value of cash flow hedges	91	(116)
- changes in fair value transferred to other expenses	(277)	(140)
- changes in fair value transferred to goods and services purchased	(13)	(17)
- changes in fair value transferred to finance costs	212	228
- changes in fair value transferred to property, plant and equipment	(2)	-
- income tax on movements in the cash flow hedging reserve	(3)	15
Foreign currency basis spread reserve:		
- changes in the value of the foreign currency basis spread	72	-
- income tax on movements in the foreign currency basis spread reserve	(22)	-
	<b>265</b>	383
<b>Total other comprehensive income</b>	<b>483</b>	462
<b>Total comprehensive income for the year</b>	<b>4,788</b>	4,807
Total comprehensive income attributable to equity holders of Telstra Entity	4,666	4,740
Total comprehensive income attributable to non-controlling interests	122	67

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

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	Telstra Group	
		As at 30 June	
		2015	2014
		\$m	\$m
<b>Current assets</b>			
Cash and cash equivalents	20	1,396	5,527
Trade and other receivables	10	4,721	4,172
Inventories	11	491	362
Derivative financial assets	17	7	23
Current tax receivables		9	2
Prepayments		346	329
Assets classified as held for sale		-	23
<b>Total current assets</b>		<b>6,970</b>	<b>10,438</b>
<b>Non current assets</b>			
Trade and other receivables	10	1,171	973
Inventories	11	32	29
Investments - accounted for using the equity method	26	201	196
Investments - other		137	127
Property, plant and equipment	13	20,450	19,842
Intangible assets	14	9,332	6,382
Derivative financial assets	17	1,790	1,322
Deferred tax assets	9	66	7
Defined benefit asset	24	296	44
<b>Total non current assets</b>		<b>33,475</b>	<b>28,922</b>
<b>Total assets</b>		<b>40,445</b>	<b>39,360</b>
<b>Current liabilities</b>			
Trade and other payables	15	4,045	3,834
Provisions	16	970	932
Borrowings	17	1,496	2,277
Derivative financial liabilities	17	214	400
Current tax payables		291	296
Revenue received in advance		1,113	926
Liabilities classified as held for sale		-	19
<b>Total current liabilities</b>		<b>8,129</b>	<b>8,684</b>
<b>Non current liabilities</b>			
Other payables	15	74	66
Provisions	16	284	261
Borrowings	17	14,138	13,547
Derivative financial liabilities	17	911	1,169
Deferred tax liabilities	9	1,558	1,286
Defined benefit liability	24	4	-
Revenue received in advance		837	387
<b>Total non current liabilities</b>		<b>17,806</b>	<b>16,716</b>
<b>Total liabilities</b>		<b>25,935</b>	<b>25,400</b>
<b>Net assets</b>		<b>14,510</b>	<b>13,960</b>
<b>Equity</b>			
Share capital	19	5,198	5,719
Reserves		372	(228)
Retained profits		8,533	8,331
<b>Equity available to Telstra Entity shareholders</b>		<b>14,103</b>	<b>13,822</b>
Non-controlling interests		407	138
<b>Total equity</b>		<b>14,510</b>	<b>13,960</b>

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

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

		Telstra Group	
		Year ended 30 June	
		2015	2014
		\$m	\$m
	Note		
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax (GST))		29,521	28,950
Payments to suppliers and to employees (inclusive of GST)		(19,621)	(18,710)
Government grants received		166	147
Net cash generated by operations		10,066	10,387
Income taxes paid		(1,755)	(1,774)
<b>Net cash provided by operating activities</b>	20	<b>8,311</b>	<b>8,613</b>
<b>Cash flows from investing activities</b>			
Payments for:			
- property, plant and equipment		(2,845)	(2,868)
- intangible assets		(2,257)	(894)
Capital expenditure (before investments)		(5,102)	(3,762)
- shares in controlled entities (net of cash acquired)	20	(984)	(165)
- payments for joint ventures and associated entities	26	(48)	(3)
- payments for businesses and other investments		(72)	(88)
Total capital expenditure (including investments)		(6,206)	(4,018)
Proceeds from:			
- sale of property, plant and equipment		94	94
- sale of shares in controlled entities (net of cash disposed) and other investments		4	2,397
Proceeds from finance lease principal amounts		92	98
Interest received		167	150
Settlement of hedges in net investments		(31)	(21)
Term deposits		4	4
Distributions received from joint ventures and associated entities		184	166
<b>Net cash used in investing activities</b>		<b>(5,692)</b>	<b>(1,130)</b>
<b>Operating cash flows less investing cash flows</b>		<b>2,619</b>	<b>7,483</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,714	1,572
Proceeds from borrowings from joint ventures and associated entities	20	79	-
Repayment of borrowings		(3,368)	(1,387)
Repayment of borrowings to joint ventures and associated entities	20	(45)	-
Repayment of finance lease principal amounts		(47)	(91)
Share buy-back		(1,004)	-
Staff repayments of share loans		2	3
Purchase of shares for employee share plans		(54)	(61)
Proceeds received from exercise of equity instruments		-	29
Proceeds from sale of controlled entity shares	20	333	-
Finance costs paid		(916)	(947)
Issue of equity by controlled entities	20	121	160
Payment for share buy-back of non-controlling interests	20	-	(149)
Proceeds from sale of controlled entity shares on behalf of non-controlling interests		57	8
Payments to non-controlling interests for sale of their shares in controlled entity (including tax paid on their behalf)		(54)	-
Dividends paid to equity holders of Telstra Entity	4	(3,699)	(3,545)
Dividends paid to non-controlling interests		(1)	(22)
<b>Net cash used in financing activities</b>		<b>(6,882)</b>	<b>(4,430)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,263)</b>	<b>3,053</b>
Cash and cash equivalents at the beginning of the year		5,527	2,479
Effects of exchange rate changes on cash and cash equivalents		132	(5)
<b>Cash and cash equivalents at the end of the year</b>	20	<b>1,396</b>	<b>5,527</b>

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

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

## Telstra Group

	Reserves						Retained profits	Total	Non-controlling interests	Total equity
	Share capital	Foreign currency translation (a)	Cashflow hedging (b)	Foreign currency basis spread (c)	Fair value of equity instruments (d)	General reserve (e)				
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2013</b>	5,711	(499)	(92)	-	-	(28)	7,519	12,611	264	12,875
Profit for the year	-	-	-	-	-	-	4,275	4,275	70	4,345
Other comprehensive income	-	413	(30)	-	-	-	82	465	(3)	462
Total comprehensive income for the year	-	413	(30)	-	-	-	4,357	4,740	67	4,807
Dividends	-	-	-	-	-	-	(3,545)	(3,545)	(22)	(3,567)
Non-controlling interests on acquisitions	-	-	-	-	-	-	-	-	6	6
Non-controlling interests on disposals	-	-	-	-	-	-	-	-	(198)	(198)
Transactions with non-controlling interests (g)	-	-	-	-	-	8	-	8	13	21
Amounts repaid on share loans provided to employees	3	-	-	-	-	-	-	3	-	3
Additional shares purchased	(61)	-	-	-	-	-	-	(61)	-	(61)
Exercise of employee share options	29	-	-	-	-	-	-	29	-	29
Share-based payments	37	-	-	-	-	-	-	37	8	45
<b>Balance at 30 June 2014</b>	5,719	(86)	(122)	-	-	(20)	8,331	13,822	138	13,960
Profit for the year	-	-	-	-	-	-	4,231	4,231	74	4,305
Other comprehensive income	-	207	8	50	6	-	164	435	48	483
Total comprehensive income for the year	-	207	8	50	6	-	4,395	4,666	122	4,788
Dividends	-	-	-	-	-	-	(3,699)	(3,699)	(1)	(3,700)
Share buy-back (net of income tax) (f)	(509)	-	-	-	-	-	(494)	(1,003)	-	(1,003)
Non-controlling interests on acquisitions	-	-	-	-	-	-	-	-	22	22
Non-controlling interests on disposals	-	-	-	-	-	-	-	-	(13)	(13)
Transfers to income statement (e)	-	-	-	-	-	(27)	-	(27)	-	(27)
Transactions with non-controlling interests (g)	-	-	-	-	-	356	-	356	113	469
Amounts repaid on share loans provided to employees	2	-	-	-	-	-	-	2	-	2
Additional shares purchased	(54)	-	-	-	-	-	-	(54)	-	(54)
Share-based payments	40	-	-	-	-	-	-	40	26	66
<b>Balance at 30 June 2015</b>	5,198	121	(114)	50	6	309	8,533	14,103	407	14,510

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

# STATEMENT OF CHANGES IN EQUITY (CONTINUED)

## For the year ended 30 June 2015

(a) The foreign currency translation reserve is 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.

(b) The 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.

The closing balance of the cash flow hedging reserve at 30 June relates to continuing hedges, which are used to hedge the foreign currency and interest rate risk of a portion of our borrowing portfolio and highly probable forecast transactions settled in a foreign currency.

(c) The foreign currency basis spread reserve is 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.

The closing balance of the foreign currency basis spread reserve at 30 June represents amounts deferred in relation to hedges of foreign currency risk of a portion of our borrowings. During financial year 2015, \$6m has been recognised within finance costs.

Foreign currency basis is not separately accounted for in transaction related hedges such as hedges of forecast transactions.

(d) 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.

(e) The general reserve represents other items we have taken directly to equity.

On 10 December 2013, Telstra Octave Holdings Limited acquired the remaining 33 per cent interest in Octave Investments Holdings Limited in exchange for selling the net assets of the five variable interest entities controlled by Sharp Point Group Limited. Subsequently, on 12 December 2014, we liquidated Octave Investments Holdings Limited and Telstra Octave Holdings Limited and as a result a \$27 million gain was transferred from the general reserve to the income statement.

(f) On 6 October 2014, we completed an off-market share buy-back of 217,418,521 ordinary shares as part of our capital management program. Refer to note 19 for further details.

(g) Our ownership of Autohome Inc. decreased from 63.2 per cent at 30 June 2014 (this percentage takes into account shares that Autohome Inc. has reserved but not granted, pursuant to Autohome Inc.'s employee equity compensation plans) to 54.3 per cent at 30 June 2015 due to employee share issues, sale of a portion of our Autohome Inc. shares and Autohome Inc.'s on-market share issue. None of these transactions resulted in a change of control and we recognised a \$356 million increase in general reserve.

During the comparative period, we acquired the minority interests of the Octave Group and we decreased our ownership of Autohome Inc. from 66.0 per cent at 30 June 2013 to 63.2 per cent at 30 June 2014, via share buy-back, subsequent initial public offering (IPO) and employee share issues. Neither of these transactions resulted in a change of control. Changes in valuation of non-controlling interests resulting from these transactions are recorded in the general reserve.

Refer to note 20 for further details.

## NOTE 1. BASIS OF PREPARATION

In this financial report, we, us, our, Telstra, the Telstra Group and the Group all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited. Telstra Entity, the Company, is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

Our financial year ends on 30 June. Unless we state differently, the following applies:

- year or financial year means the year ended 30 June
- reporting date means 30 June
- 2015 means financial year 2015 and similarly for other financial years.

The financial report of the Telstra Group for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 13 August 2015. The Directors have the power to amend and reissue the financial report.

The principal accounting policies used in preparing the financial report of the Telstra Group are set out in note 2 to our financial statements.

### 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). This financial report also complies with International Financial Reporting Standards (IFRS) and Interpretations published by the International Accounting Standards Board (IASB).

Both the functional and presentation 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. As a result, the results of these entities are translated into Australian dollars for presentation in the Telstra Group financial report.

This financial report is prepared in accordance with historical cost, except for some categories of financial instruments, which are recorded at fair value; and assets held for sale, which are measured at fair value less costs to sell. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this financial report, we are required to make judgements and estimates that affect:

- income and expenses for the year
- the reported amounts of assets and liabilities
- the disclosure of off-balance sheet arrangements, including contingent assets and contingent liabilities.

We continually evaluate our judgements and estimates. We base our judgements and estimates on historical experience, various other assumptions we believe to be reasonable under the circumstances and, where appropriate, practices adopted by international telecommunications companies. Actual results may differ from our estimates.

### 1.2 Clarification of terminology used in our income statement

Under the requirements of AASB 101: "Presentation of Financial Statements", we must classify all of our expenses (apart from any finance costs and our share of net profit/loss from joint ventures and associated entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. Depreciation and amortisation are calculated in accordance with AASB 116: "Property, Plant and Equipment" and AASB 138: "Intangible Assets" respectively. We believe that EBITDA is a relevant and useful financial measure used by management to measure the Company's operating performance.

Our management uses EBITDA and earnings before interest and income tax expense (EBIT), in combination with other financial measures, primarily to evaluate the Company's operating performance before financing, income tax and non-cash capital related expenses. In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

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

### 1.3 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars (\$m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998, issued under section 341(1) of the Corporations Act 2001. Telstra is an entity to which this class order applies.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

#### 2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2015:

##### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013))

In December 2013, the AASB issued AASB 2013-9: "Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments" which consolidated a series of amendments to AASB 9: "Financial Instruments" (AASB 9 (2013)). AASB 9 (2013) replaces the relevant sections of AASB 139: "Financial Instruments: Recognition and Measurement" (AASB 139) and applies to annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. We early adopted AASB 9 (2013) on a retrospective basis, with the exception of hedge accounting, from 1 July 2014 without restatement of prior periods. Hedge accounting must be applied on a prospective basis. No material differences were identified on the adoption of AASB 9 (2013).

AASB 9 (2013) simplifies the classification and recognition of financial instruments and aligns hedge accounting more closely with common risk management practices.

##### (i) Changes to classification and measurement of financial assets and financial liabilities

###### Financial assets

AASB 9 (2013) requires that an entity classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and the contractual characteristics of the financial assets.

A financial asset is measured at amortised cost if two criteria are met:

- the objective of the business model is to hold the financial asset for the collection of the contractual cash flows
- the contractual cash flows under the instrument solely represent payments of principal and interest.

The new standard removes a requirement to separate embedded derivatives from financial asset hosts. Instead, a hybrid contract should be classified in its entirety at either amortised cost or fair value.

An election can be made to designate a financial asset as measured at fair value through profit or loss on initial recognition if this significantly reduces an accounting mismatch. The designation at fair value through profit or loss is irrevocable.

AASB 9 (2013) prohibits reclassifications, except in rare circumstances when the entity's business model changes, in which case, the entity is required to reclassify affected financial assets prospectively.

All equity investments in the scope of AASB 9 (2013) should be measured at fair value. The new standard provides the option to present separately in other comprehensive income unrealised and realised fair value gains and losses on equity investments that are not held for trading. Such designation is only available on initial recognition on an instrument by instrument basis and it is irrevocable. There is no subsequent recycling of fair value gains and losses to profit or loss; however, dividends from such investments will continue to be recognised in profit or loss. AASB 9 (2013) removes the exemption that allowed unquoted equity instruments to be recognised at historical cost but provides guidance on when cost may be an appropriate estimate of fair value.

###### Financial liabilities

The requirements in AASB 139 regarding classification and measurement of financial liabilities have been retained, including the related application and implementation guidance. Financial liabilities continue to be measured at either fair value through profit or loss or amortised cost. The criteria for designating a financial liability at fair value through profit or loss also remain unchanged.

Where financial liabilities are designated at fair value through profit or loss, changes in the fair value due to changes in our own credit risk can be recognised in other comprehensive income and there is no subsequent recycling of these amounts to profit or loss (accumulated gains or losses may be transferred within equity). Where this creates an accounting mismatch in profit or loss, all fair value movements must be recognised in profit or loss.

###### Impact of changes

On adoption of AASB 9 (2013) we have classified our financial assets as subsequently measured at either amortised cost or fair value, depending on the business model for those assets and on the assets' contractual cash flow characteristics.

As at 1 July 2014, we elected to measure our existing investments in securities, previously held at cost as available-for-sale, at fair value through other comprehensive income, with the exception of our investment in Ooyala Inc., which was measured at fair value through profit or loss prior to obtaining control via a step acquisition (refer to note 20 for further details). The fair value of all the investments approximated their carrying value at 30 June 2014.

There were no changes in classification or measurement of our financial liabilities.

There was no impact on the statement of comprehensive income or the statement of changes in equity on adoption of AASB 9 (2013) in relation to classification and measurement of financial assets and financial liabilities.



## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

### 2.1 Changes in accounting policy (continued)

#### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013)) (continued)

##### (i) Changes to classification and measurement of financial assets and financial liabilities (continued)

###### Impact of changes (continued)

The following table summarises the impact on the classification and measurement of our financial assets as at 1 July 2014:

				Telstra Group	
				As at 1 July 2014	
				Reported	Restated
Presented in statement of financial position	Financial asset	AASB 139	AASB 9 (2013)	\$m	\$m
Cash and cash equivalents	Bank deposits and negotiable certificates of deposit	Available-for-sale	Amortised cost	5,222	5,222
Trade and other receivables – current	Loans and receivables – current	Loans and receivables	Amortised cost	4,172	4,172
Trade and other receivables – non current	Loans and receivables – non current	Loans and receivables	Amortised cost	973	973
Investments other – non current	Equity investments not held for trading	Available-for-sale	Fair value through profit or loss / other comprehensive income	127	127

For more details on the classification of financial assets see note 17.

##### (ii) Changes to hedge accounting

AASB 9 (2013) aligns hedge accounting more closely with common risk management practices. Hedge ineffectiveness will continue to be recognised in profit or loss. An entity is still required to prepare contemporaneous documentation; however, the information to be documented under AASB 9 (2013) differs.

The following summarises the key changes:

- risk components that are separately identifiable and reliably measurable will be eligible as hedged items, including non-financial items
- effectiveness measurement testing is required only on a prospective basis and new hedge effectiveness criteria include existence of an economic relationship between the hedged item and the hedging instrument
- certain requirements must be met for discontinuing a hedge relationship. Changes to the hedge relationship may result in rebalancing of the hedge ratio rather than de-designation
- hedging of groups of net positions is permitted subject to certain criteria.

The accounting and presentation requirements for hedge accounting remain largely unchanged, however additional disclosures are required under the new standard.

##### Hedge relationships

Transactions previously de-designated from fair value hedge relationships relating to a portion of our borrowing portfolio have been re-instated in fair value hedges with effect from 1 July 2014. These transactions were and continue to be in effective economic relationships based on contractual amounts and cash flows over the life of the transaction, however previously they did not satisfy the requirements for hedge accounting. We have also redefined our hedge relationships relating to the portion of our offshore borrowing portfolio in fair value hedges to exclude borrowing margins from the hedged risk. This has resulted in de-designating our existing fair value hedge relationships and re-designating from 1 July 2014 without any change to the underlying economic objective of the hedging, i.e. to convert foreign currency borrowings to floating Australian dollar borrowings. The above changes did not result in any market transactions.

##### Foreign currency basis spreads and forward element of forward contracts

We have the option to exclude the forward element of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related or time-period related hedged items.

We have elected to separate and exclude foreign currency basis spreads from financial instruments that are designated hedging instruments of our foreign currency overseas borrowings. The cumulative change in fair value of the foreign currency basis spreads is recognised in a separate component of equity. Cross currency basis spreads are included in interest on borrowings in the income statement over the life of the borrowing.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 2.1 Changes in accounting policy (continued)

##### (a) Financial Instruments: classification and measurement of financial assets and financial liabilities and hedge accounting (AASB 9 (2013)) (continued)

###### (ii) Changes to hedge accounting (continued)

###### Foreign currency basis spreads and forward element of forward contracts (continued)

For designated hedge relationships of forecast transactions we may choose to separate the forward element of forward contracts that hedge transaction related items such that only the change in the spot element of the forward contract is designated as the hedging instrument. Where this is the case, the cumulative change in fair value of the forward elements of forward contracts is recognised in a separate component of equity. These amounts are reclassified from equity to profit or loss in the same period as the hedged items affect profit or loss.

Upon transition to AASB 9 (2013), the balance of foreign currency basis spread was a loss of \$69m. We have elected not to retrospectively apply the provisions in relation to the accounting treatment of foreign currency basis spread. Accordingly, this amount will be unwound partly to the income statement and partly to the cash flow hedging reserve over the remaining life of the borrowing to which the amount relates to.

###### (iii) Accounting policies

The following accounting policies have been updated and are applicable from 1 July 2014:

- Foreign currency transactions and balances
- Cash and cash equivalents
- Trade and other receivables
- Investments in listed securities and other corporations
- Impairment of financial assets
- Fair value hedges
- Derivatives and borrowings de-designated from fair value hedge relationships or not in a designated hedging relationship
- Embedded derivatives.

###### (b) Other

In addition to the above changes in accounting policy, we note the following new accounting standards that are applicable to us from 1 July 2014:

- AASB 1031: "Materiality"
- AASB 2012-3: "Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities [AASB 132]"
- AASB 2013-9: "Amendments to Australian Accounting Standards - Part B: Materiality"
- AASB 2014-1: "Amendments to Australian Accounting Standards - Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles, Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119), Part C: Materiality"
- Interpretation 21: "Levies".

These new accounting standards do not have any material impact on our financial results.

#### 2.2 Principles of consolidation

The consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the year and the consolidated results and cash flows for the year. The effect of all intra-group transactions and balances are eliminated in full from our consolidated financial statements.

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.

Where we do not control an entity for the entire year, results and cash flows for those entities are only included from the date on which control commences, or up until the date on which there is a loss of control.

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

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.

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.

#### 2.3 Foreign currency translation

##### (a) Transactions and balances

Foreign currency transactions are converted into the relevant functional currency at market exchange rates applicable at the date of each transaction. Amounts payable or receivable in foreign currencies at reporting date are converted 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. Where we enter into a hedge for a specific expenditure commitment or for the construction of an asset, hedging gains and losses are accumulated in other comprehensive income over the period of the hedge and are transferred to the carrying value of the asset upon completion, or included in the income statement at the same time as the discharge of the expenditure commitment.

Non-monetary items 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 with the translation differences reported as part of the fair value gain or loss. The fair value changes presented in other comprehensive income in accordance with AASB 9 (2013) include any related foreign exchange component.

##### (b) Financial reports of foreign operations that have a functional currency that is not Australian dollars

Our operations include controlled entities, associates and joint ventures, whose activities and operations are in an economic environment where the functional currency is not Australian dollars.

The financial statements of these entities are translated into Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at reporting date
- equity at the date of investment is translated into Australian dollars at the exchange rate current at the date. Movements post-acquisition (other than retained profits/accumulated losses) are translated at exchange rates current at the dates of those movements

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

### 2.3 Foreign currency translation (continued)

#### (b) Financial reports of foreign operations that have a functional currency that is not Australian dollars (continued)

- income statements are translated into Australian dollars at average exchange rates, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction
- current translation gains and losses are recorded in other comprehensive income.

Refer to note 2.22(c) for details regarding our accounting policy for derivative financial instrument items that are used to hedge our net investment in entities whose functional currency is not Australian dollars.

### 2.4 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 for the purposes of meeting short term cash commitments rather than investment purposes.

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

### 2.5 Trade and other receivables

Trade and other receivables are financial assets. They are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

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. The allowance for doubtful debts is based on historical trends and management's assessment of general economic conditions. An allowance for doubtful debts is raised when management considers there is a credit risk, an insolvency risk or an incapacity to pay a legally recoverable debt.

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

### 2.6 Inventories

Our finished goods include goods available for sale and material and spare parts to be used for less than one year in constructing and maintaining the telecommunications network. We also purchase strategic inventories for use in maintenance of network assets beyond one year. We value inventories 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 in the ordinary course of business less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less cost of disposal. We calculate net realisable value of inventories by making certain price assumptions to project selling prices into the future and assumptions about technologies at reporting date.

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.

### 2.7 Construction contracts

#### (a) Valuation

We record construction contracts in progress at cost, include any profits recognised less progress billings and any provision for foreseeable losses. 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, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.

#### (b) Recognition of revenue and profit

Revenue and profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion. Refer to note 2.17(c) for further details.

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.

#### (c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting 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.

### 2.8 Investments

#### (a) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control involves the contractually agreed sharing of control over an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or joint venture depends on the rights and obligations of the parties to the arrangement.

#### (i) 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. In the Telstra Group financial statements our interests in joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, we adjust the initial recorded amount of the investment for our share of:

- profits or losses after tax for the year since the date of investment
- reserve movements since the date of investment
- unrealised profits or losses
- dividends or distributions received
- deferred profit brought to account.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 2.8 Investments (continued)

##### (a) Joint arrangements (continued)

###### (i) Joint ventures (continued)

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior years' share of losses and reserve reductions. Where we have long term assets that in substance form part of our investment in equity accounted interests and the equity accounted amount of the investment falls below zero, we reduce the value of these long term assets in proportion to our cumulative losses.

###### (ii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. We recognise our own, and our share of any jointly held or incurred, assets, liabilities, revenue and expenses under the appropriate headings. We are not party to any joint operations at present.

##### (b) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20 per cent and 50 per cent, and are able to significantly influence the decisions of the entity, that entity is an associated entity. In the Telstra Group financial statements associated entities are accounted for using the equity method of accounting.

##### (c) Investments in listed securities and other corporations

Our investments in listed securities and in other corporations where we do not have control, joint control or significant influence, are initially measured at fair value. The subsequent changes in fair value of investments held for trading are recognised in the income statement. For the investments not held for trading we can elect to present the subsequent changes in fair value in the income statement or in other comprehensive income. The election is made on initial recognition, is irrevocable and is made on an investment by investment basis.

Fair values are calculated on the following basis:

- for listed securities traded in an active market, we use the current quoted market bid price at reporting date
- for investments in unlisted entities whose securities are not traded in an active market, we establish fair value by using other valuation techniques, including reference to discounted cash flows and fair values of recent orderly transactions between market participants involving instruments that are substantially the same, maximising the use of observable (market) inputs and minimising the use of unobservable (non-market) inputs.

We remeasure the fair value of our investments in listed securities and other corporations. Purchases and sales of investments are recognised on settlement date, being the date on which we receive or deliver an asset.

#### 2.9 Impairment

##### (a) Non-financial assets

Our tangible and intangible assets (excluding inventories, assets arising from construction contracts, current and deferred tax assets, defined benefit assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested for impairment on an annual basis or whenever an indication of impairment exists. 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. 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.

Fair value less cost of disposal is measured with reference to quoted market prices in an active market. In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

The expected net cash flows included in determining recoverable amounts of our assets are discounted to present values using a market determined, risk adjusted discount rate. When determining an appropriate discount rate, we use the weighted average cost of capital (WACC) as an initial point of reference, adjusted for specific risks associated with each different category of assets assessed.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. In addition, when goodwill is allocated to a CGU, the unit cannot be larger than an operating segment. Our CGUs are determined according to the lowest level of aggregation for which an active market exists and the assets involved generate largely independent cash inflows.

We apply management judgement to establish our CGUs. We have determined that assets forming part of our ubiquitous telecommunications network work together to generate net cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, we have determined that the ubiquitous telecommunications network is a single CGU. In our financial report we have referred to this CGU as the Telstra Entity CGU.

The Telstra Entity CGU excludes the hybrid fibre coaxial (HFC) cable network, which we consider not to be integrated with the rest of our telecommunications network for the purposes of generating independent cash flows. Refer to note 21 for further details.

##### (b) Financial assets

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets, other than investments in equity instruments, are impaired. Our investments in securities are measured at fair value and are not tested for impairment.

For financial assets held at amortised cost, we consider the financial asset to be impaired when there is objective evidence, as a result of one or more events, that the present value of estimated discounted future cash flows is lower than the carrying value. Any impairment losses are recognised immediately in the income statement.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

### 2.10 Property, plant and equipment

#### (a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 2.10(b) below. The cost of our constructed property, plant and equipment is directly attributable in bringing the asset to the location and condition necessary for its intended use and includes:

- the cost of material and direct labour
- an appropriate proportion of direct and indirect overheads
- where we have an obligation for removal of the asset or restoration of the site, an estimate of the cost of restoration or removal if that cost can be reliably estimated.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of our property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed. We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

We review our property, plant and equipment assets and property, plant and equipment under construction on a regular basis to ensure that the assets are still in use and that the projects are still expected to be completed. Refer to note 7 for details of impairment losses recognised on our property, plant and equipment.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The unwinding of this discount is recorded within finance costs.

We account for our assets individually where this is practical, feasible and in line with commercial practice. Where it is not practical and feasible to do so, we account for assets in groups. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained. This is the case for certain communication assets as we assess our technologies to be replaced by a certain date.

#### (b) Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated on a straight line basis to the income statement over their estimated service lives. We start depreciating assets when they are installed and ready for use. The service lives of our significant items of property, plant and equipment are as follows:

	Telstra Group	
	As at 30 June	
	2015	2014
	Service life	Service life
	(years)	(years)
<b>Property, plant and equipment</b>		
<b>Buildings</b>		
Buildings	31 - 52	32 - 52
Fitouts (a)	-	10 - 20
Leasehold improvements	4 - 40	4 - 40
<b>Communication assets</b>		
Network land and buildings	10 - 53	10 - 58
Network support infrastructure	3 - 49	3 - 51
Access fixed	2 - 30	4 - 30
Access mobile	3 - 16	3 - 16
Content/IP products - core	3 - 10	3 - 10
Core network - data	4 - 10	4 - 10
Core network - switch	3 - 18	3 - 18
Core network - transport	3 - 32	3 - 30
Specialised premise equipment	3 - 7	3 - 7
International connect	7 - 25	9 - 21
Managed service	4 - 12	4 - 12
Network control layer	2 - 13	2 - 13
Network product	4 - 7	4 - 7
<b>Other plant and equipment</b>		
IT equipment	4 - 7	3 - 7
Motor vehicles/trailer/caravan/huts	11 - 15	5 - 15
Other plant and equipment	8 - 20	8 - 20

(a) From financial year 2015, fitouts are included as part of buildings and have an immaterial impact on the buildings service life.

The service lives and residual values of our assets are reviewed each year. We apply management judgement in determining the service lives of our assets. This assessment includes a comparison with international trends for telecommunications companies and, in relation to communication assets, includes a determination of when the asset may be superseded technologically or made obsolete.

The net effect of the assessment of service lives within the ranges above for financial year 2015 was a decrease in depreciation expense of \$166 million (2014: \$200 million) for the Telstra Group.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network. We charge to operating expenses the cost of repairs and maintenance, including the cost of replacing minor items that are not substantial improvements.

### 2.11 Leased plant and equipment

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 is dependent 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.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 2.11 Leased plant and equipment (continued)

##### (a) Telstra as a lessee

Where we acquire non current assets via a finance lease, the lower of the fair value of the asset and the present value of future minimum lease payments is capitalised as equipment under finance leases at the beginning of the lease term. Capitalised lease assets are depreciated on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

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

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.

##### (b) Telstra as a lessor

Where we lease non current assets via a finance lease, a lease receivable equal to 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 is recognised at the beginning 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.

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

#### 2.12 Intangible assets

Intangible assets are assets that have value but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

##### (a) Goodwill

On the acquisition of investments in controlled entities, joint ventures and associated entities, when we pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is considered to be goodwill. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a joint venture or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment on an annual basis or when an indication of impairment exists in accordance with note 2.9(a).

##### (b) Internally generated intangible assets

Research costs are recorded as an expense as incurred.

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

We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

##### (i) Software assets

We record direct costs associated with the development of business software for internal use as software assets if the development costs satisfy the criteria for capitalisation described above.

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project.

We review our software assets and software assets under development on a regular basis to ensure the assets are still in use and projects are still expected to be completed. Refer to note 7 for details of impairment losses recognised on our intangible assets.

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives to us. Amortisation commences once the software is ready for use.

##### (c) Acquired intangible assets

We acquire other intangible assets either as part of a business combination or through 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 specific acquisition are recorded at cost. We apply management judgement to determine the appropriate fair value of identifiable intangible assets.

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 in accordance with note 2.9(a).

##### (d) 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 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. Handset subsidies are considered to be separate units of accounting and are expensed as incurred.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

### 2.12 Intangible assets (continued)

#### (e) Amortisation

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

	Telstra Group	
	As at 30 June	
	2015	2014
	Expected benefit (years)	Expected benefit (years)
Identifiable intangible assets		
Software assets	8	9
Patents and trademarks	-	5
Mastheads	-	5
Licences	15	15
Brand names	15	14
Customer bases	9	8
Deferred expenditure	4	4

The service lives of our identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense through to the end of the reassessed useful life for both that of current year and future years.

The net effect of the reassessment for financial year 2015 was a decrease in our amortisation expense of \$51 million (2014: \$72 million) for the Telstra Group.

In relation to acquired intangible assets, we apply management judgement to determine the amortisation period based on the expected useful lives of the respective assets. In some cases, the useful lives of certain acquired intangible assets are supported by external valuation advice on acquisition. In addition, we apply management judgement to assess annually the indefinite useful life assumption applied to certain acquired intangible assets.

### 2.13 Trade and other payables

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 carried at amortised cost.

### 2.14 Provisions

Provisions are recognised when:

- the 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.

#### (a) Employee benefits

We accrue liabilities for employee benefits relating to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement 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), which is included in our employee benefits provision.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of reporting date, including long service leave, 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.

We calculate present values using rates based on high quality corporate bonds (2014: government guaranteed securities) with due dates similar to those of our liabilities.

We apply management judgement in estimating the following key assumptions used in the calculation of our long service leave provision at reporting date:

- weighted average projected increases in salaries
- discount rate.

As at 30 June 2015 we have used a 10 year high quality corporate bond rate (2014: State and Commonwealth blended 10 year Australian government bond rate) to determine the discount rate. This change resulted in a \$71 million decrease in our long service leave expense and long service leave provision.

Refer to note 16 for further details on the key management judgements used in the calculation of our long service leave provision.

#### (b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates (determined by reference to a State and Commonwealth blended Australian government bond rate) based on the risks specific to the liability with a similar due date.

Certain controlled entities do not self insure but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

#### (c) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation in those affected by the restructuring that it will be carried out.

### 2.15 Borrowings

Borrowings are included as non current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

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

We recognise borrowings initially on the trade date, which is the date on which we become a party to the contractual provisions of the instrument. We derecognise borrowings when our contractual obligations are discharged or cancelled or expire.

Our borrowings fall into two categories: borrowings in a designated hedging relationship and borrowings not in a designated hedging relationship.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 2.15 Borrowings (continued)

##### (a) Borrowings in a designated hedging relationship

Our offshore borrowings that are designated as hedged items are either in fair value or cash flow hedges. The method by which they are hedged determines their accounting treatment.

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges is adjusted for fair value movements attributable to the hedged risk (being changes in value due to interest rate and currency movements).

Fair value is calculated using valuation techniques that utilise data from observable markets. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve that is independently derived and representative of Telstra's cost of borrowing. These borrowings are remeasured each reporting period and the gains or losses are recognised in the income statement along with the associated gains or losses on the hedging instrument.

Borrowings subject to cash flow hedges are recognised initially at fair value plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost and translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

When currency gains or losses on the borrowings are recognised in the income statement, the associated gains or losses on the hedging instrument are also transferred from the cash flow hedging reserve to the income statement.

##### (b) Borrowings not in a designated hedging relationship

Such borrowings are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

As a result of the adoption of AASB 9 (2013) all offshore borrowings previously ineligible for hedge accounting were re-designated into hedge relationships.

##### (c) Statement of cash flows presentation

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

#### 2.16 Share capital

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 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 tax, are also deducted from contributed equity. We also record the purchase of Telstra Entity shares by our employee share plan trusts as a reduction in share capital.

Share-based remuneration associated with our employee share plans is recognised as additional share capital. Non-recourse loans provided to employees to participate in these employee share plans are recorded as a reduction in share capital.

Refer to note 2.21 for further details on our accounting for employee share plans.

#### 2.17 Revenue recognition

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, discounts, sales incentives, duties and taxes.

##### (a) Services revenue

Services revenue includes the provision of telecommunication services, rent of our fixed and mobile networks to retail and wholesale customers and provision of advertising services.

##### (i) Telecommunication services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

We record revenue earned from:

- telephone calls on completion of the call
- other services generally at completion, or on a straight line basis over the period of service provided, unless another method better represents the stage of completion.

Installation and connection fee revenues that are not considered to be separate units of accounting are deferred and recognised over the average estimated customer life. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life in accordance with note 2.12(d). In relation to basic access installation and connection revenue, we apply management judgement to determine the estimated customer contract life.

Based on our reviews of historical information and customer trends, we have determined that our average estimated customer life is 5 years (2014: 5 years).

##### (ii) 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.

##### (iii) Advertising services

Revenue from online advertising services is recognised when the advertisements are published over the stated display period in the case of websites or when the services have been rendered in the case of promotional activities. The amount recognised is limited to the amount that is not contingent upon delivery of additional deliverables or meeting other specified performance conditions.

Voice directory revenues are recognised at the time of providing the service to customers.



## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

### 2.17 Revenue recognition (continued)

#### (b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

#### (c) 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. Our construction contracts are classified according to their type. There are two types of construction contracts: material intensive and short duration. Revenue and profit are recognised on a percentage of completion basis using the appropriate measures as follows:

- for material intensive projects: (actual costs divided by planned costs) multiplied by planned revenue, including profit
- for short duration projects (those that are expected to be completed within a month): revenues, profit and costs are recognised on completion.

#### (d) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

#### (e) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

#### (f) 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 be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

A separate unit of accounting exists where the deliverable has value to the customer on a stand-alone basis and any undelivered items cannot be terminated by the customer without incurring penalties if the delivered item was returned.

We allocate the consideration from the revenue arrangement to its separate units based on the relative selling prices of each unit. If there is neither vendor specific objective evidence nor third party evidence for the selling price, then the item is measured based on the best estimate of the selling price of that unit. When allocating revenue to the separate units within an arrangement, 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). The non-contingent revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above.

#### (g) 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 (being the gross amount billed less the amount paid to the supplier acting as a principal in the arrangement). We review the facts and circumstances of each sales arrangement to determine if we are acting as an agent or as a principal.

Indicators supporting that we are the principal include:

- Telstra is primarily responsible for the fulfilment of the customer order
- Telstra has risks of ownership of the product or delivery of the services
- Telstra is involved in price setting
- Telstra is involved in determining the product or service specifications
- Telstra bears the credit risk.

#### (h) Sales incentives

Sales incentives are provided by Telstra to customers in the form of either cash consideration or non-cash consideration and are accrued for up to the point where it is probable that the customer will earn the incentives.

A cash consideration (for example, cash payment, credit or rebate) provided to a customer is generally recorded as a reduction in revenue.

A sales incentive provided to a customer in the form of non-cash consideration (for example, in the form of a free product or service or a gift voucher) is considered to be a separate deliverable in a multiple deliverable arrangement, regardless of whether it is provided to customers at the commencement of a contract or is an amount that can be used to purchase future products and services. A portion of the total revenue under the arrangement is allocated to the non-cash consideration in accordance with note 2.17(f). The sales revenue allocated to the incentive is recognised when the customer redeems or utilises the award (i.e. when Telstra provides the product or service).

Cash sales incentives are generally paid to customers in cases where Telstra provides a number of different products and services to the customer under a single arrangement. If this is the case then the reduction in revenue must be allocated to each product/service that contributed towards the customer earning the incentive. The allocation should be based on the relative amounts of revenue earned for each product and service, unless a more appropriate methodology is available.

#### (i) Government grants

Grants from the government are recognised at their fair value where there is a 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.

Government grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is measured at amortised cost. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan, which is measured at amortised cost, and the actual proceeds received. The benefit is accounted for in accordance with our accounting policy for government grants described above.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 2.18 Taxation

##### (a) Income taxes

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

Our current and deferred tax is recognised as an expense in the income statement, except when it relates to items directly debited or credited to other comprehensive income or equity, in which case our current and deferred tax is also recognised directly in other comprehensive income or equity.

We apply the balance sheet method for calculating our deferred tax. 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.

In respect of our investments in controlled entities, joint ventures and associated entities, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Management judgement is required to determine the amount of deferred tax assets that can be recognised. 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 carry forward of unused tax losses and tax credits, can be utilised.

The carrying amount of our deferred tax asset is reviewed at each reporting date. We reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

The Telstra Entity and its Australian resident wholly owned entities have formed a tax consolidated group. The Telstra Entity is the head entity and recognises, in addition to its transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. The Telstra Entity and the entities in the tax consolidated group account for their own current tax expense and deferred tax amounts arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a separate taxpayer.

We offset deferred tax assets and deferred tax liabilities 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. Our deferred tax assets and deferred tax liabilities are netted within the tax consolidated group, as these deferred tax balances relate to the same taxation authority. We do not net deferred tax balances between controlled entities unless they are within the tax consolidated group.

##### (b) 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 under payables.

#### 2.19 Earnings per share

Basic earnings per share are determined by dividing the profit attributable to ordinary shareholders after tax, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the profit attributable to ordinary shareholders after tax by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of the instruments in the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans).

#### 2.20 Post employment benefits

##### (a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions 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. If the fair value of the plan assets exceeds the present value of the defined benefit obligations, the net surplus is recognised as an asset. We recognise the asset as 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. Fair value is used to determine the value of the plan assets at reporting date and is calculated by reference to the net market values of the plan assets.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

### 2.20 Post employment benefits (continued)

#### (b) Defined benefit plan (continued)

##### (i) Telstra Superannuation Scheme (continued)

Defined benefit obligations are based on the expected future payments required to settle the obligations arising from current and past employee services. These obligations are influenced by many factors, including final salaries and employee turnover. We engage qualified actuaries to calculate the present value of the defined benefit obligations which are measured gross of tax.

The actuaries use the projected unit credit method to determine 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 (2014: government guaranteed securities) with similar due dates to these expected cash flows.

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. Components of defined benefit costs include current and past service cost, interest cost and return on assets. Past service cost is recognised immediately.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at 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.

We apply judgement in estimating the following key assumptions used in the calculation of our defined benefit liabilities and assets at reporting date:

- discount rates
- salary inflation rate.

As at 30 June 2015 we have used a nine year high quality corporate bond rate (2014: State and Commonwealth blended 10 year Australian government bond rate) to determine the discount rate. This change resulted in a \$247 million increase in other comprehensive income and the defined benefit asset, and contributed to a \$233 million actuarial gain recognised in other comprehensive income for the financial year 2015.

The estimates applied in the actuarial calculation have a significant impact on the reported amount of our defined benefit plan liabilities and assets. If the estimates prove to be incorrect, the carrying value may be materially affected in the next reporting period. Additional volatility may also potentially be recorded in other comprehensive income to reflect differences between actuarial assumptions of future outcomes applied at the current reporting date and the actual outcome in the next annual reporting period.

We account for our proportionate share of assets, liabilities and costs of our defined benefit divisions and our contributions to the defined contribution divisions.

Refer to note 24 for details on the key management judgements used in the calculation of our defined benefit liabilities and assets.

##### (ii) Other defined benefit schemes

Our controlled entities also participate in both funded and unfunded defined benefit schemes, which are individually and in aggregate immaterial.

### 2.21 Employee Share Plans

We own 100 per cent of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

The Telstra Growthshare Trust (Growthshare) was established to allocate equity based instruments as required. Current equity based instruments include options, performance rights, restricted shares, incentive shares and Ownshare instruments. Restricted shares and incentive shares are subject to a specified period of service. Options and performance rights can be subject to performance hurdles or a specified period of service.

We own 100 per cent of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also consolidate the results, position and cash flows of Growthshare.

We recognise an expense for all share-based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is recognised in the income statement over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

### 2.22 Derivative financial instruments

We use derivative financial instruments such as forward exchange contracts, cross currency swaps and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations.

The use of hedging instruments is governed by the guidelines set by our Board of Directors (the Board).

Derivative financial instruments are included as non current assets or liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current assets or liabilities.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Refer to note 17 for details on the basis used to estimate fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as "held for trading" financial instruments. All our derivative financial instruments are stated at fair value.

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, are cancelled or expire.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract. 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.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 2.22 Derivative financial instruments (continued)

Where we have a legally recognised right to offset the derivative asset and the derivative liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we 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, we also include this position on a net basis in our statement of financial position.

Our derivative financial instruments that are held to hedge exposures can be classified into three different types, according to the reason we are holding them: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Hedge accounting can only be utilised where effectiveness tests are met on a prospective basis. For all our hedging instruments, except where we are hedging equity instruments when we have elected to measure changes in their fair value through other comprehensive income, any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective are recognised directly in the income statement for the period in which they incur.

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions, together with the methods that will be used to assess the effectiveness of the hedge relationship. We also document, both at hedge inception and on an ongoing basis, our assessment of whether the hedging instruments that are used in hedging transactions are and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Purchases and sales of derivative financial instruments are recognised on the date on which we commit to purchase or sell an asset or liability.

#### (a) Fair value hedges

Where fair value hedges qualify for hedge accounting, the gains or losses on the hedging instruments are recognised in the income statement, except where those hedging instruments hedge investments in equity instruments where we have elected to present changes in fair value in other comprehensive income, in which case the gains or losses on the hedging instrument will be recognised within other comprehensive income. The hedging gain or loss on the hedged item will adjust the carrying amount of the hedged item and is recognised in the income statement except where the hedged item is an equity instrument where we have elected to present fair value in other comprehensive income, in which case the hedging gain or loss on the hedged item shall remain in other comprehensive income.

When a hedged item is an unrecognised firm commitment, the cumulative change in its fair value subsequent to designation is recognised as an asset or a liability with a corresponding gain or loss recognised in the income statement.

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period. Where these fair value hedges qualify for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains or losses in relation to the hedged item where those gains or losses relate to the risk intended to be hedged.

If the hedged item is an equity instrument where we have elected to present changes in fair value in other comprehensive income, and the hedged exposure is one that could affect other comprehensive income, recognised hedge ineffectiveness is presented in other comprehensive income.

#### (b) Cash flow hedges

We use cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period associated with our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies. We also use cash flow hedges to hedge variability in cash flows due to interest rate movements associated with some of our domestic borrowings.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument is recognised directly in other comprehensive income in the cash flow hedging reserve until such time as the hedged item affects profit or loss, and then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment or inventory), the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in other comprehensive income at that time remain in other comprehensive income and are recognised when the hedged item is ultimately recognised in the income statement.

If a forecast hedged transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that were reported in other comprehensive income are transferred immediately to the income statement.

#### (c) Hedges of a net investment in a foreign operation

Our investments in foreign operations are exposed to foreign currency risk, which arises when we translate the net assets of our foreign investments from their functional currency to Australian dollars. We hedge our net investments to mitigate exposure to this risk by using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

Gains and losses on remeasurement of our derivative instruments designated as hedges of foreign investments are recognised in the foreign currency translation reserve in equity to the extent that they are considered to be effective.

The cumulative amount of the recognised gains or losses included in equity is transferred to the income statement when the foreign operation is sold.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

### 2.22 Derivative financial instruments (continued)

#### (d) Derivatives and borrowings de-designated from fair value hedge relationships or not in a designated hedging relationship

We will discontinue hedge accounting prospectively only when the hedging relationship, or part of the hedging relationship, no longer qualifies for hedge accounting, which includes where there has been a change to our risk management objective and strategy for undertaking the hedge and instances when the hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such a replacement or rollover is consistent with our documented risk management objective.

Derivatives associated with borrowings de-designated from fair value hedge relationships or not in a designated hedge relationship for hedge accounting purposes are classified as “held for trading”.

For borrowings de-designated from fair value hedge relationships, from the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are accounted for on an amortised cost basis consistent with a revised effective interest rate as at the de-designation date. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives. The cumulative gains or losses previously recognised from the remeasurement of these borrowings as at the date of de-designation are unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs.

For borrowings not in designated hedge relationships for hedge accounting purposes, the derivatives are recognised at fair value and the borrowings are accounted for on an amortised cost basis. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives.

Any gains or losses on remeasuring to fair value forward exchange contracts that are not in a designated hedging relationship are recognised directly in the income statement in the period in which they occur within other expenses or other income.

#### (e) 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.

### 2.23 Contingent liabilities

A contingent liability is a liability of sufficient uncertainty that it does not qualify for recognition as a liability, or a liability whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Telstra. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

We first determine whether an obligation should be recorded as a liability or a contingent liability. This requires management to assess the probability that Telstra will be required to make payment as well as an estimate of that payment.

This assessment is made based on the facts and circumstances, factoring in past experience and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Refer to note 23, note 26 and note 30 for further details on contingent liabilities.

### 2.24 Non current assets (or disposal groups) held for sale and discontinued operations

Non current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use, and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non current asset (or disposal group) is recognised at the date of derecognition.

Non current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

Refer to note 12 for further details.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

#### 2.25 New accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the year ended 30 June 2015 but will be applicable to the Telstra Group in future reporting periods are detailed below.

Apart from these standards, we have considered other accounting standards that will be applicable in future periods but are considered insignificant to Telstra.

##### (a) Financial Instruments

In December 2014, AASB issued the final version of AASB 9: "Financial Instruments" (AASB 9 (2014)), AASB 2014-7: "Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)" and AASB 2014-8: "Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) - Application of AASB 9 (December 2009) and AASB 9 (December 2010)".

AASB 9 (2014) is the final version of a new principal standard that consolidates requirements on the classification and measurement of financial assets and liabilities; hedge accounting and an expected credit losses model for impairment of financial assets that replaces the incurred loss impairment model used today. It supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 issued in December 2010.

AASB 9 (2014) and AASB 2014-7 apply to Telstra from 1 July 2018, with early adoption permitted.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015. We have early adopted the previous version of the standard, AASB 9 (2013), from 1 July 2014. This version excludes the impairment section.

We are currently assessing the impact of the new impairment model on our financial results.

##### (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".

AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. AASB 15 and AASB 2014-5 apply to Telstra from 1 July 2017, with early application permitted. The International Accounting Standards Board (IASB) has confirmed a one-year deferral of the effective date of IFRS 15. As a result, we anticipate that AASB will follow and AASB 15 will only apply to Telstra from 1 July 2018. We are currently assessing the impact of AASB 15 on our financial results.

##### (c) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards that are applicable in future years:

- AASB 2014-3: "Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]"
- AASB 2014-4: "Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]"
- AASB 2014-9: "Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements [AASB 127]"
- AASB 2014-10: "Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 128]"
- AASB 2015-1: "Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle"
- AASB 2015-2: "Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101"
- AASB 2015-3: "Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality".

We do not expect these accounting standards will have any material impact on our financial results upon adoption.

## NOTE 3. EARNINGS PER SHARE

	Telstra Group	
	Year ended 30 June	
	2015	2014
	cents	cents
<b>Earnings per share from continuing operations</b>		
Basic	34.3	36.1
Diluted	34.3	36.0
	\$m	\$m
<b>Earnings used in the calculation of basic and diluted earnings per share</b>		
Profit for the year from continuing operations attributable to equity holders of Telstra Entity	4,212	4,479
<b>Earnings per share</b>	cents	cents
Basic	34.5	34.4
Diluted	34.5	34.3
	\$m	\$m
<b>Earnings used in the calculation of basic and diluted earnings per share</b>		
Profit for the year attributable to equity holders of Telstra Entity	4,231	4,275
	Number of shares (millions)	
<b>Weighted average number of ordinary shares</b>		
Weighted average number of ordinary shares on issue (a)	12,284	12,443
Effect of shares held by employee share plan trusts (b)(c)	(20)	(25)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	12,264	12,418
Effect of dilutive employee share instruments (d)	16	27
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	12,280	12,445

(a) On 6 October 2014 we completed an off-market share buy-back of 217,418,521 ordinary shares as a part of our capital management program. The effects of this off-market buy-back have been included in the calculation of the weighted average number of ordinary shares on issue. Refer to note 19 for further details.

(b) In order to underpin the equity instruments issued under the Growthshare plan, the Telstra Growthshare Trust purchases Telstra shares already on issue. These shares are not considered to be outstanding for the purposes of calculating basic and diluted earnings per share.

(c) Loan shares held under the Telstra Employee Share Ownership Plan Trust II (TESOP99) are not considered outstanding for the purpose of calculating basic earnings per share.

(d) The following equity instruments are considered dilutive to earnings per share:

- restricted shares granted under the Growthshare short term incentive (STI) scheme
- certain restricted shares granted under the Growthshare long term incentive (LTI) scheme, which have satisfied the relevant performance hurdles and are expected to vest
- certain loan shares held under TESOP99, which are considered to be issued at no consideration.

Refer to note 27 for details of equity instruments issued under the Growthshare and TESOP99 share plans.

## NOTE 4. DIVIDENDS

	Telstra Entity	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Dividends paid</b>		
Previous year final dividend paid	1,866	1,742
Interim dividend paid	1,833	1,803
Total dividends paid	3,699	3,545
<b>Dividends paid per ordinary share</b>	cents	cents
Previous year final dividend paid	15.0	14.0
Interim dividend paid	15.0	14.5
Total dividends paid	30.0	28.5

Dividends paid are fully franked at a tax rate of 30 per cent.

Dividends per share in respect of each financial year are detailed below.

During the financial year 2015, we have also completed an off-market share buy-back, which comprised a fully franked dividend component of \$494 million. Refer to note 19 for further details.

	Telstra Entity	
	Year ended 30 June	
	2015	2014
	cents	cents
<b>Dividends per ordinary share</b>		
Interim dividend paid	15.0	14.5
Final dividend to be paid (a)	15.5	15.0
Total dividends	30.5	29.5

	Telstra Entity	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Franking credits available for use in subsequent reporting periods</b>		
Franking account balance	32	111
Franking credits that will arise from the payment of income tax payable as at 30 June (b)	232	253
	264	364

(a) As the final dividend for financial year 2015 was not determined or publicly recommended by the Board as at 30 June 2015, no provision for dividend has been raised in the statement of financial position. The final dividend has been reported as an event subsequent to reporting date. Refer to note 31 for further details.

(b) Franking credits that will arise from the payment of income tax are expressed at the 30 per cent tax rate on a tax paid basis.

We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our final 2015 dividend.



## NOTE 5. SEGMENT INFORMATION

### 5.1 Operating segments

We report segment information on the same basis as our internal management reporting structure, which determines how our Company is organised and managed.

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparatives reflect the organisational changes that have occurred since the prior reporting period to present a like-for-like view.

In our segment results, the "All Other" category consists of various business units that do not qualify as reportable segments in their own right. The comparative period also includes the results of entities fully or partially divested in prior periods, namely CSL New World Mobility Limited and its controlled entities (CSL Group) and Sensis Pty Ltd and its controlled entities (Sensis Group).

Following the disposal of the CSL Group in May 2014, our Telstra International Group (TIG) operating segment mainly consists of the results of Autohome Inc., our controlled entity listed on the New York Stock Exchange (NYSE). The results of the TIG operating segment have been disclosed in the "All Other" category.

There have been no other changes to our operating segments during the year ended 30 June 2015.

For the financial year 2015 the Telstra Group is organised for internal management reporting purposes into the following reportable segments:

**Telstra Retail (TR)** is responsible for:

- supporting consumer customers and small to medium enterprises in Australia
- providing a full range of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV
- the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network
- delivering self-care capabilities for Telstra customers, across all phases of the customer experience, from browsing to buying, billing and service requests
- the supply of Hybrid Fibre Coaxial (HFC) cable services to our Foxtel joint venture and the distribution of Foxtel products
- providing a connected health IT ecosystem and delivering transformative change in the healthcare sector.

**Global Enterprise and Services (GES)** is responsible for:

- sales and contract management support for business and government customers in Australia and globally
- management of Telstra's networks outside Australia
- product management for advanced technology solutions, including data and Internet Protocol (IP) networks and Network Applications and Services (NAS) services such as managed network, unified communications, cloud, industry solutions and integrated services in Australia and globally
- development of industry vertical solutions based on Telstra's networks and technology
- development and management of Telstra's software assets.

**Telstra Operations (TOPs)** is responsible for:

- overall planning, design, engineering and architecture of Telstra networks, technology and information technology
- construction of infrastructure for our Australian fixed, mobile, IP and data networks
- delivery of customer services across these networks
- operation, assurance and maintenance (including activation and restoration of these networks)

- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs
- provision of network services to NBN Co under the NBN Definitive Agreements or separate commercial contracts
- provision of various telecommunication services to meet our Telecommunication Universal Service Management Agency (TUSMA) obligations. Going forward this will be known as the Telstra Universal Service Obligation Performance Agreement (TUSOPA).

**Telstra Wholesale (TW)** is responsible for:

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

### 5.2 Segment results

The measurement of segment results is in line with information presented to management for internal management reporting purposes. The result of each segment is measured based on its "earnings before interest, income tax expense, depreciation and amortisation (EBITDA) contribution". EBITDA contribution excludes the effects of all inter-segment balances and transactions (with the exception of transactions referred to in footnote (a)). As such, only transactions external to the Telstra Group are reported.

We have no reconciling items between segment results and Telstra Group's reported EBITDA. The reconciliation of segment results to Telstra Group's reported EBIT and profit before income tax expense in the financial statements includes only depreciation and amortisation expenses and net finance costs.

Certain items of income and expense are recorded by our corporate areas, 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.

In addition, the following narrative further explains 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 GES segment is allocated to the TR segment along with the associated costs of goods and services purchased, as the TR segment manages our supplier, delivery and dealership arrangements. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage services are recorded in the TR and GES segments depending on the type of customer serviced
- NAS costs associated with revenue from the Telstra Business (TB) customers, included in the TR segment, are reported in the GES segment
- the TOPs segment result includes network service delivery costs for the TR, GES and TW customers
- the TOPs segment recognises certain expenses in relation to the installation and running of the HFC cable network
- domestic promotion and advertising expenses for the Telstra Entity are recorded centrally in the TR head office function
- call centre costs associated with the GES segment are included in the TR segment
- the TW segment result includes revenue from rental under the NBN Definitive Agreements, while the associated costs are reported in the TOPs segment.

## Notes to the Financial Statements (continued)

### NOTE 5. SEGMENT INFORMATION (continued)

#### 5.2 Segment results (continued)

The following tables detail our segment results based on our reporting structure as at 30 June 2015:

Telstra Group						
Year ended 30 June 2015						
	TR	GES	TOps	TW	All Other (c)	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue from external customers (a)	17,192	5,658	266	2,444	463	26,023
Other income	60	16	158	142	208	584
<b>Total income</b>	<b>17,252</b>	<b>5,674</b>	<b>424</b>	<b>2,586</b>	<b>671</b>	<b>26,607</b>
Labour expenses	1,256	1,118	1,584	75	888	4,921
Goods and services purchased (a)	5,390	1,586	7	86	(222)	6,847
Other expenses	1,158	531	1,605	27	773	4,094
Share of equity accounted profits/(losses) (b)	1	-	-	-	18	19
<b>EBITDA contribution</b>	<b>9,449</b>	<b>2,439</b>	<b>(2,772)</b>	<b>2,398</b>	<b>(750)</b>	<b>10,764</b>

Telstra Group						
Year ended 30 June 2014						
	TR	GES	TOps	TW	All Other (c)	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue from external customers (a)	16,308	5,252	127	2,262	1,923	25,872
Other income	75	5	162	66	668	976
<b>Total income</b>	<b>16,383</b>	<b>5,257</b>	<b>289</b>	<b>2,328</b>	<b>2,591</b>	<b>26,848</b>
Labour expenses	1,179	888	1,601	72	1,203	4,943
Goods and services purchased (a)	4,676	1,389	11	78	378	6,532
Other expenses	1,159	499	1,577	51	1,052	4,338
Share of equity accounted profits/(losses) (b)	-	-	-	-	24	24
<b>EBITDA contribution</b>	<b>9,369</b>	<b>2,481</b>	<b>(2,900)</b>	<b>2,127</b>	<b>(18)</b>	<b>11,059</b>

(a) Revenue from external customers in the GES segment includes \$187 million (2014: \$168 million) of inter-segment revenue treated as external expenses in the TR and TW segments, which is eliminated in the "All Other" category.

External expenses in the GES segment also include \$23 million (2014: \$22 million) of inter-segment expenses treated as external revenue in the TW segment and eliminated in the "All Other" category.

(b) The "All Other" category includes a \$22 million share of net profit (2014: \$24 million share of net profit) from our 30 per cent investment in Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. Refer to note 26 for further details.

(c) Following the disposal of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) on 26 November 2014, the current period includes only four months of the Sequel Media Group results. The comparative period includes 12 months, as well as a \$12 million goodwill impairment recorded in other expenses. Refer to note 12 for further details.

As a result of the Octave Group entering into voluntary liquidation, the comparative period includes a \$98 million loss reclassified from the foreign currency translation reserve.

Following the sale of the CSL Group in May 2014, the comparative period includes 10 months of the CSL Group results, including a \$561 million profit on disposal. Refer to note 20 for further details.

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in the Sensis Group and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. Following the disposal of the Sensis Group, the current period includes \$19 million net profit (reduction in other expenses) related to the discontinued operation. The comparative period includes eight months of the Sensis Group results, including the total income from the discontinued operation of \$552 million and a net loss of \$204 million. Refer to notes 12 and 20 for further details.

## NOTE 5. SEGMENT INFORMATION (continued)

## 5.2 Segment results (continued)

A reconciliation of EBITDA contribution for reportable segments to Telstra Group's EBITDA, EBIT and profit before income tax expense is provided below:

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
EBITDA contribution	11,514	11,077
All other	(750)	(18)
<b>Telstra Group EBITDA from continuing and discontinued operations</b>	<b>10,764</b>	<b>11,059</b>
Depreciation and amortisation	(3,983)	(4,042)
<b>Telstra Group EBIT from continuing and discontinued operations</b>	<b>6,781</b>	<b>7,017</b>
Net finance costs	(689)	(957)
<b>Telstra Group profit before income tax expense</b>	<b>6,092</b>	<b>6,060</b>
<b>Telstra Group profit before income tax expense, including:</b>		
Profit before income tax expense from continuing operations	6,073	6,228
Profit/(loss) before income tax expense from discontinued operation	19	(168)
<b>Telstra Group profit before income tax expense</b>	<b>6,092</b>	<b>6,060</b>

	Telstra Group	
	Year ended/As at	
	30 June	
	2015	2014
	\$m	\$m
<b>Information about our geographic operations (d)</b>		
<b>Revenue from external customers</b>		
Australian customers	24,770	24,011
Offshore customers	1,253	1,861
	<b>26,023</b>	<b>25,872</b>
<b>Carrying amount of non current assets (e)</b>		
Located in Australia	27,225	25,953
Located offshore	2,758	467
	<b>29,983</b>	<b>26,420</b>

(d) Our geographical operations are split between our Australian and offshore operations. Our offshore operations include Autohome Inc. (China), Telstra Limited (United Kingdom), Telstra International Limited (Hong Kong), Telstra Inc. (United States), Ooyala Inc. (United States), Videoplaza (Sweden/United Kingdom), Pacnet Group (Asia), Nativ Holdings (United Kingdom) and Sequel Media Group (China) up to the date of disposal. The comparative period also includes the CSL Group (Hong Kong) up to the date of disposal. No individual geographical area, other than our Australian operations, forms a significant part of our operations.

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

	Note	Telstra Group	
		Year ended 30 June	
		2015	2014
		\$m	\$m
<b>Income from our products and services</b>			
Fixed		6,944	7,076
Mobile		10,651	9,668
Data & IP		2,883	2,968
Network applications and services		2,418	1,963
Media		931	900
CSL Group		-	1,045
Global connectivity		780	611
Other sales revenue (f)		1,238	888
Other revenue (g)	6	178	201
Other income	6	584	976
Sensis Group	12	-	552
<b>Total income (excluding finance income)</b>	6	<b>26,607</b>	<b>26,848</b>

(f) Other sales revenue includes China Digital Media, NBN rental of our infrastructure, late payment fees and miscellaneous revenue. Financial year 2014 also includes revenue for the build of the NBN related infrastructure.

(g) Other revenue primarily consists of distributions from our Foxtel Partnership and rental income.

## NOTE 6. INCOME

		Telstra Group	
		Year ended 30 June	
		2015	2014
Note		\$m	\$m
<b>Continuing operations</b>			
<b>Sales revenue</b>			
Rendering of services		23,022	22,497
Sale of goods		2,426	2,358
Construction contracts		397	264
		<b>25,845</b>	25,119
<b>Other revenue (excluding finance income)</b>			
Distribution from Foxtel Partnership		125	165
Rent from property		53	36
		<b>178</b>	201
<b>Total revenue (excluding finance income)</b>		<b>26,023</b>	25,320
<b>Other income</b>			
Net gain on disposal of:			
- property, plant and equipment and intangibles (a)		156	76
- investments (b)	20	(2)	561
Fair value gain on equity investments		6	-
Net foreign currency translation gains		21	-
Government grants (c)		138	175
NBN disconnection fees		163	66
Other miscellaneous income		102	98
		<b>584</b>	976
<b>Total income (excluding finance income)</b>		<b>26,607</b>	26,296
<b>Finance income</b>			
Interest on cash and cash equivalents		62	85
Interest on finance lease receivables		18	14
Interest on loans to joint ventures and associated entities		54	54
Interest on receivables		18	3
Interest on defined benefit plan	24	5	-
		<b>157</b>	156
<b>Total income from continuing operations</b>		<b>26,764</b>	26,452
<b>Total income from discontinued operation</b>	12	-	552

(a) Net gain on disposal of property, plant and equipment includes a net gain on sale of assets to NBN Co under the NBN Definitive Agreements.

(b) The 2014 net gain on disposal of investments relates to the \$561 million net gain on disposal of the CSL Group. Refer to note 20 for further details.

(c) We recognised income from government grants under the Telecommunications Universal Services and Management Agency National Broadband Network (NBN) Definitive Agreement, which replaced the Universal Services Obligation (USO), the Retraining Fund Deed NBN Definitive Agreement (which was received in financial year 2012 and is being used to retrain certain employees over a period of eight to 10 years) and other individually immaterial contracts accounted for as government grants.

There are no unfulfilled conditions or other contingencies attached to these grants.

## NOTE 7. EXPENSES

		Telstra Group	
		Year ended 30 June	
		2015	2014
		\$m	\$m
	Note		
<b>Continuing operations</b>			
<b>Labour</b>			
Included in our labour expenses are the following:			
Employee redundancy		113	251
Share-based payments		66	45
Defined contribution plan expense		202	199
Defined benefit plan expense	24	61	107
<b>Cost of goods sold</b>		<b>3,079</b>	2,906
<b>Other expenses</b>			
Impairment losses			
- impairment in value of inventories		23	30
- impairment in value of trade and other receivables		189	220
- impairment in value of property, plant and equipment	13	10	15
- impairment in value of intangibles (a)	14	5	1
- impairment in value of goodwill (a)	14	-	12
- impairment in investments	26	2	2
		<b>229</b>	280
Reversal of impairment in value of trade and other receivables	10	(12)	(20)
Rental expense on operating leases		587	632
Net foreign currency translation losses (b)		-	111
Service contracts and other agreements		1,556	1,468
Promotion and advertising		421	346
General and administration		1,007	977
Other operating expenses		325	194
<b>Other expenses</b>		<b>4,113</b>	3,988
<b>Depreciation of property, plant and equipment</b>	13	<b>2,922</b>	2,896
<b>Amortisation of intangible assets</b>		<b>1,061</b>	1,054
		<b>3,983</b>	3,950
<b>Finance costs</b>			
Interest on borrowings	17	875	961
Net interest on defined benefit plan	24	-	10
Loss on fair value hedges - effective (c)		6	128
Loss/(gain) on cash flow hedges - ineffective		1	(11)
Loss on borrowing transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (c)		-	64
Other		28	19
		<b>910</b>	1,171
Less: interest on borrowings capitalised (d)		(64)	(58)
		<b>846</b>	1,113
<b>Research and development expenses</b>		<b>2</b>	4
<b>Total expenses from discontinued operation</b>	12	<b>(19)</b>	720

## Notes to the Financial Statements (continued)

### NOTE 7. EXPENSES (continued)

(a) We have recognised a \$5 million impairment loss relating to intangible assets (2014: \$13 million relating to goodwill and other intangible assets). Refer to note 14 for further details.

(b) During the financial year 2014, we recognised \$111 million net foreign currency translation losses, including a \$98 million foreign currency translation reserve written off as a result of the Octave Group entering into voluntary liquidation.

(c) On adoption of AASB 9 (2013) "Financial Instruments" we de-designated existing fair value hedge relationships and re-designated them in new fair value hedge relationships to exclude borrowing margins from the hedged risk. Also, transactions previously de-designated from fair value hedge relationships relating to a portion of our borrowings portfolio have been reinstated in fair value hedges with effect from 1 July 2014. The resulting cumulative fair value adjustment as at the date of de-designation is unwound and amortised to the income statement and included within other finance costs over the remaining life of the borrowings. There has been no change to the underlying economic objective of this hedging which is to convert fixed rate borrowings to floating Australian dollar borrowings.

The current year revaluation impacts of our offshore debt portfolio and associated hedges that are in fair value hedges have been reduced. This is partly due to changes implemented in the way we designate fair value hedges for accounting purposes and the adoption of AASB 9 (2013), which allows a component of Telstra's borrowing margin associated with cross currency swaps to be treated as a cost of hedging and deferred to equity. Residual volatility from market movements has also not been significant.

In general, it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly, unrealised revaluation gains and losses will be recognised in finance costs over the life of the financial instrument and for each transaction will progressively unwind to nil at maturity.

(d) Interest on borrowings has been capitalised using a capitalisation rate of 6.2 per cent (2014: 6.2 per cent).

## NOTE 8. REMUNERATION OF AUDITORS

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Audit fees</b>		
Ernst & Young (EY) has charged for auditing and reviewing the financial reports	<b>8.104</b>	9.138
<b>Other services</b>		
Audit related (a)	<b>1.324</b>	1.338
Non-audit services		
- Tax services	<b>0.015</b>	0.011
- Advisory services	<b>0.105</b>	0.100
<b>Total other services provided by EY</b>	<b>1.444</b>	1.449

Other services comprise audit related fees and non-audit services.

(a) Audit related fees charged by EY are for services that are reasonably related to the performance of the audit or review of our financial statements and other assurance engagements. These services include assurance 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 level of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

The Audit & Risk Committee approves the recurring audit and non-audit fees. The provision of additional audit and non-audit services by EY must always be approved by either the Chief Financial Officer, the Chairman of the Audit & Risk Committee or the Audit & Risk Committee, unless covered by the Audit & Risk Committee pre-approval. The level of approval will depend upon the nature of the services provided and fees involved, subject to confirmation by both management and EY that the provision of these services does not compromise auditor independence. Our auditor independence guidelines clearly identify prohibited services. All additional approved EY engagements are reported to the Audit & Risk Committee at the next meeting.

## NOTE 9. INCOME TAXES

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Major components of income tax expense</b>		
Current tax expense	1,722	1,799
Deferred tax resulting from the origination and reversal of temporary differences	67	(90)
(Over)/under provision of tax in prior years	(2)	6
	<b>1,787</b>	<b>1,715</b>
Effective income tax rate (a)	<b>29.3%</b>	28.3%
<b>Reconciliation of notional income tax expense to actual income tax expense:</b>		
Profit/(loss) before income tax expense from discontinued operation	19	(168)
Profit before income tax expense from continuing operations	6,073	6,228
<b>Profit before income tax expense</b>	<b>6,092</b>	<b>6,060</b>
Notional income tax expense calculated at the Australian tax rate of 30%	1,828	1,818
<b>Notional income tax expense differs from actual tax income expense due to the tax effect of:</b>		
Impact of different tax rates in overseas jurisdictions	14	(44)
Non assessable and non deductible items (b)	(39)	(56)
Amended assessments	(14)	(9)
(Over)/under provision of tax in prior years	(2)	6
<b>Income tax expense on profit</b>	<b>1,787</b>	<b>1,715</b>
<b>Comprising:</b>		
Income tax expense from continuing operations	1,787	1,679
Income tax expense from discontinued operation	-	36
Income tax expense/(benefit) recognised directly in other comprehensive income or equity during the year	85	(16)

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Deferred tax (liabilities)/assets</b>		
<b>Deferred tax items recognised in the income statement (including impact of foreign exchange movements in deferred tax items recognised in the income statement)</b>		
Property, plant and equipment	(1,175)	(1,110)
Intangible assets	(953)	(881)
Borrowings and derivative financial instruments	(17)	(14)
Provision for employee entitlements	342	307
Revenue received in advance	55	103
Allowance for doubtful debts	29	34
Defined benefit (asset)/liability (c)	99	105
Trade and other payables	140	95
Provision for workers' compensation and other provisions	27	47
Income tax losses	34	1
Other	(9)	13
	<b>(1,428)</b>	<b>(1,300)</b>
<b>Deferred tax items recognised in other comprehensive income or equity (d)</b>		
Defined benefit (asset)/liability (c)	(188)	(120)
Financial instruments	123	141
Other	1	-
	<b>(64)</b>	<b>21</b>
<b>Net deferred tax liability</b>	<b>(1,492)</b>	<b>(1,279)</b>
<b>Our net deferred tax liability is split as follows:</b>		
Deferred tax assets recognised in the statement of financial position	66	7
Deferred tax liabilities recognised in the statement of financial position	(1,558)	(1,286)
	<b>(1,492)</b>	<b>(1,279)</b>



## NOTE 9. INCOME TAXES (continued)

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Deferred tax assets not recognised (e)</b>		
Income tax losses	316	48
Capital tax losses	549	349
Deductible temporary differences	311	306
	<b>1,176</b>	<b>703</b>

(a) The effective income tax rate is calculated as income tax expense divided by profit before income tax expense from continuing and discontinued operations.

(b) Non assessable and non deductible items in the current period include non assessable capital distributions, franked dividends received, estimated research and development tax offset, tax losses not recognised and various other items.

Non assessable and non deductible items in the prior period included a non assessable gain on disposal of the CSL Group, a non deductible goodwill impairment loss on disposal of the Sensis Group, a non deductible write off of Octave foreign currency translation reserve and various other items.

(c) Our net deferred tax liability on our net defined benefit asset for the Telstra Group is \$89 million (2014: \$15 million).

(d) When the underlying transactions to which our deferred tax relates are recognised directly in other comprehensive income or equity, the temporary differences associated with these adjustments are also recognised directly in other comprehensive income or equity.

(e) Our deferred tax assets not recognised in the statement of financial position may be used in future years if the following criteria are met:

- our controlled entities have sufficient future taxable profit to enable the income tax losses and temporary differences to be offset against that taxable profit
- we have sufficient future capital gains to be offset against the above capital losses
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

As at 30 June 2014 and 30 June 2015, our deferred tax assets not recognised in the statement of financial position include an estimate of the capital loss on disposal of the Sensis Group in February 2014, and impact of acquisitions and divestments of other controlled entities.

### 9.1 Tax consolidation

The Telstra Entity and its Australian resident wholly owned entities previously elected to form a tax consolidated group. As a consequence of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes.

The Telstra Entity, as the head entity in the tax consolidated group, recognises, in addition to its own transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the group. However, the Telstra Entity and its Australian resident wholly owned entities account for their own current tax expense and deferred tax amounts.

Current tax expense includes an estimate of the tax payable on 2015 taxable income for the Australian tax consolidated group of \$1,711 million (2014: \$1,763 million).

Upon tax consolidation, the entities within the tax consolidated group entered into a tax sharing agreement. The terms of this agreement specified the methods of allocating any tax liability in the event of default by the Telstra Entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains with the Telstra Entity for tax purposes.

For entities within the tax consolidated group, a tax funding arrangement is also in place under which:

- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any current tax receivable assumed
- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any deferred tax assets relating to unused tax losses and tax credits
- Australian resident wholly owned entities compensate the Telstra Entity for any current tax payable assumed.

The funding amounts are based on the amounts recorded in the financial statements of the wholly owned entities.

Amounts receivable by the Telstra Entity of \$41 million (2014: \$35 million) and amounts payable by the Telstra Entity of \$73 million (2014: \$74 million) under the tax funding arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

NOTE 10. TRADE AND OTHER RECEIVABLES

10.1 Current and non current trade and other receivables

		Telstra Group	
		As at 30 June	
		2015	2014
		\$m	\$m
		Note	
<b>Current</b>			
Trade receivables (a)		3,438	2,950
Allowance for doubtful debts (a)		(113)	(120)
		3,325	2,830
Finance lease receivable (b)		102	93
Accrued revenue		1,172	1,155
Other receivables		122	94
		1,396	1,342
		4,721	4,172
<b>Non current</b>			
Trade receivables (a)		476	317
Amounts owed by joint ventures and associated entities	29	459	457
Allowance for amounts owed by joint ventures and associated entities - loans	29	(7)	(6)
		452	451
Finance lease receivable (b)		201	184
Other receivables		42	21
		243	205
		1,171	973

(a) Trade receivables and allowance for doubtful debts

The ageing of current and non current trade receivables is detailed below.

Telstra Group				
As at 30 June				
	2015		2014	
	Gross	Allowance	Gross	Allowance
	\$m	\$m	\$m	\$m
Not past due	2,727	(13)	2,297	(25)
Past due 0 - 30 days	732	(13)	631	(12)
Past due 31 - 60 days	197	(6)	135	(8)
Past due 61 - 90 days	75	(7)	62	(12)
Past due 91 - 120 days	62	(12)	49	(10)
Past 120 days	121	(62)	93	(53)
	3,914	(113)	3,267	(120)

## NOTE 10. TRADE AND OTHER RECEIVABLES (continued)

## 10.1 Current and non current trade and other receivables (continued)

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

Movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Opening balance</b>	<b>(120)</b>	<b>(180)</b>
- additional allowance from continuing operations	<b>(49)</b>	(34)
- additional allowance from discontinued operation	-	(6)
- amount used	<b>52</b>	51
- amount reversed from continuing operations	<b>12</b>	20
- amount reversed from discontinued operation	-	9
- foreign currency exchange differences	<b>(2)</b>	-
- acquisition of controlled entities	<b>(6)</b>	-
- disposal of controlled entities	-	20
<b>Closing balance</b>	<b>(113)</b>	<b>(120)</b>

Our policy requires customers to pay us in accordance with agreed payment terms. Depending on the customer segment, our settlement terms are generally 14 to 30 days from date of invoice. All credit and recovery risk associated with trade receivables has been provided for in the statement of financial position.

## (b) Finance lease receivable

We enter into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The weighted average term of finance leases entered into is 5.3 years (2014: 3.8 years).

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Amounts receivable under finance leases</b>		
Within 1 year	<b>116</b>	106
Within 1 to 5 years	<b>182</b>	178
After 5 years	<b>55</b>	30
Total minimum lease receivables	<b>353</b>	314
Less unearned finance income	<b>(50)</b>	(37)
Present value of minimum lease receivables	<b>303</b>	277
<b>Included in the financial statements as:</b>		
Current finance lease receivables	<b>102</b>	93
Non current finance lease receivables	<b>201</b>	184
	<b>303</b>	277

Our trade receivables include our customer deferred debt. Our customer deferred debt program allows eligible customers the opportunity to repay the cost of their mobile handset, other hardware and approved accessories monthly over 12, 24 or 36 months. The loan is provided interest free to our mobile postpaid customers.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

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 financial year 2015, the securities we called upon were insignificant.

We have used the following basis to assess the allowance for doubtful debts for trade receivables:

- a statistical approach to apply risk segmentation to the debt and applying the historical impairment rate to each segment at the end of the reporting period
- an individual account by account assessment based on past credit history
- any prior knowledge of debtor insolvency or other credit risk.

As at 30 June 2015, trade receivables with a carrying amount of \$1,087 million (2014: \$875 million) for the Telstra Group were past due but not impaired.

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.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is 6.0 per cent (2014: 6.1 per cent) per annum.

## NOTE 11. INVENTORIES

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Current</b>		
Finished goods recorded at cost	234	201
Finished goods recorded at net realisable value	77	78
Total finished goods	311	279
Raw materials and stores recorded at cost	40	11
Construction contracts (a)	140	72
	491	362
<b>Non current</b>		
Finished goods recorded at net realisable value	32	29
	32	29
<b>(a) Construction contract disclosures are shown as follows</b>		
Contract costs incurred and recognised profits	701	589
Progress billings	(561)	(517)
	140	72

## NOTE 12. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

## 12.1 Current Year

There were no non current assets held for sale or discontinued operations as at and for the financial year ended 30 June 2015.

## 12.2 Prior Year

## (a) Sensis disposal group and discontinued operation

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in the Sensis Group for a total cash consideration of \$454 million and acquisition of 30 per cent shareholding in Project Sunshine I Pty Ltd, the new holding company of Sensis Pty Ltd and its controlled entities (Sensis Group). The sale excluded voice services (including the 1234 and 12456 services) which are a part of our core telecommunication offering and continue to be operated by us.

On disposal we deconsolidated 100 per cent of the balance sheet of the Sensis Group and recorded, at fair value of \$157 million, our 30 per cent interest in Project Sunshine I Pty Ltd. From 1 March 2014, the investment in the associate is equity accounted.

Adjustments of \$19 million shown below (reduction in other expenses) related to the discontinued operation in the current period and eight months of the Sensis Group results to the date of disposal in the comparative period are reported in the "All Other" category in our segment disclosures in note 5. This adjustment is distinct from our share of profits in the current year of \$22 million from our 30 per cent investment in Project Sunshine I Pty Ltd which is included in the total share of equity accounted profits of \$19 million (2014: \$24 million), after share of losses from other associated investments.

Financial information related to the discontinued operation is set out below.

	Sensis Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
Revenue	-	552
Expenses	(19)	570
<b>Profit/(loss) before income tax expense</b>	<b>19</b>	<b>(18)</b>
Income tax expense	-	36
<b>Profit/(loss) after income tax expense from discontinued operation</b>	<b>19</b>	<b>(54)</b>
(Loss) on disposal of discontinued operation (a)	-	(150)
<b>Profit/(loss) after tax on disposal of discontinued operation</b>	<b>-</b>	<b>(150)</b>
<b>Profit/(loss) for the year from discontinued operation</b>	<b>19</b>	<b>(204)</b>
Net cash provided by operating activities	-	339
Net cash provided by investing activities (includes proceeds from sale)	-	414
Net cash (used in) financing activities	-	(2)
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>751</b>
<b>Earnings per share for profit/(loss) from discontinued operation (cents per share)</b>	<b>cents</b>	cents
Basic	<b>0.2</b>	(1.7)
Diluted	<b>0.2</b>	(1.7)

## NOTE 12. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (continued)

## 12.2 Prior year (continued)

## (a) Sensis disposal group and discontinued operation (continued)

The effect of the disposal of the Sensis Group is detailed below:

	Sensis Group	
	Year ended 30 June	
	2014	
	\$m	
<b>Consideration on disposal</b>		
Cash consideration	454	
Fair value of investment in the associate	157	
<b>Total consideration on disposal</b>	<b>611</b>	
<b>Assets/(liabilities) at disposal date</b>		
Assets classified as held for sale (a)	1,002	
Liabilities classified as held for sale (a)	(391)	
Net assets classified as held for sale (a)	611	
<b>Loss on disposal after impairment (a)</b>	<b>-</b>	

(a) In accordance with AASB 5: "Non current Assets Held for Sale and Discontinued Operations", the carrying value of assets and liabilities of the Sensis Group were classified as held for sale. Based on the sale price of \$454 million, \$157 million fair value of the 30 per cent shareholding in Project Sunshine I Pty Ltd, and final completion adjustments, on the re-measurement of assets and liabilities of the disposal group the carrying value of the Sensis Group goodwill was impaired by \$150 million and recognised in the loss for the year from the discontinued operation.

	Telstra Entity	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Profit/(loss) attributable to equity holders of Telstra Entity</b>		
Profit for the year from continuing operations	4,212	4,479
Profit/(loss) for the year from discontinued operation	19	(204)
	<b>4,231</b>	4,275

## (b) Sequel Media disposal group

On 2 July 2014 we signed a binding term sheet to dispose of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) for total consideration of \$3 million subject to completion adjustments. In accordance with AASB 5: "Non Current Assets held for Sale and Discontinued Operations", as at 30 June 2014, the assets and liabilities of the Sequel Media Group (with the exception of cash balances) were classified as held for sale and measured at the lower of the carrying amount and fair value less costs to sell.

Based on the agreed sale price, subject to completion adjustments, the carrying value of the Sequel Media Group goodwill was impaired by \$12 million in the prior financial year. The disposal was completed on 26 November 2014. Refer to note 20 for further details.

The Sequel Media Group is included in "All Other" category in our segment disclosures in note 5, with four months of its results reported in the current period to the date of disposal and 12 months in the comparative period.

## NOTE 13. PROPERTY, PLANT AND EQUIPMENT

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Land and site improvements</b>		
At cost	52	51
<b>Buildings (including leasehold improvements)</b>		
At cost	1,267	1,209
Accumulated depreciation and impairment	(620)	(606)
	647	603
<b>Communication assets</b>		
At cost	62,156	59,761
Accumulated depreciation and impairment	(42,974)	(41,055)
	19,182	18,706
<b>Other plant, equipment and motor vehicles</b>		
At cost	1,854	1,647
Accumulated depreciation and impairment	(1,285)	(1,165)
	569	482
<b>Total property, plant and equipment</b>		
At cost	65,329	62,668
Accumulated depreciation and impairment	(44,879)	(42,826)
	20,450	19,842

	Telstra Group				
	Land and site improvements	Buildings (a)	Communication assets (b)	Other plant, equipment and motor vehicles	Total property, plant and equipment (c)
	\$m	\$m	\$m	\$m	\$m
<b>Written down value at 1 July 2013</b>	52	580	19,179	515	20,326
- additions	-	106	2,584	159	2,849
- additions due to acquisitions of controlled entities	-	1	1	5	7
- disposals	(1)	(7)	(12)	(20)	(40)
- disposals through the sale of controlled entities	-	(9)	(334)	(47)	(390)
- impairment losses from continuing operations	-	-	(14)	(1)	(15)
- depreciation expenses from continuing operations	-	(73)	(2,696)	(127)	(2,896)
- depreciation expenses from discontinued operation	-	-	-	(3)	(3)
- transfer to non current asset held for sale	-	-	-	(1)	(1)
- net foreign currency exchange differences	-	5	(2)	2	5
<b>Written down value at 30 June 2014</b>	51	603	18,706	482	19,842
- additions	-	82	2,322	201	2,605
- additions due to acquisitions of controlled entities	5	9	776	27	817
- disposals	(2)	(2)	(3)	(2)	(9)
- impairment losses from continuing operations	-	(3)	(7)	-	(10)
- depreciation expenses from continuing operations	-	(64)	(2,721)	(137)	(2,922)
- net foreign currency exchange differences	-	12	40	15	67
- transfers	(2)	10	69	(17)	60
<b>Written down value at 30 June 2015</b>	52	647	19,182	569	20,450

(a) Includes leasehold improvements and the \$58 million (2014: \$53 million) net book value of buildings under finance lease.

(b) Includes certain network land and buildings which are essential to the operation of our communication assets.

(c) Includes \$40 million (2014: \$39 million) of capitalised borrowing costs directly attributable to qualifying assets.

## Notes to the Financial Statements (continued)

### NOTE 13. PROPERTY, PLANT AND EQUIPMENT (continued)

#### 13.1 Work in progress

As at 30 June 2015, the Telstra Group has property, plant and equipment under construction amounting to \$598 million (2014: \$550 million). As the assets are not installed and ready for use, there is no depreciation being charged on these amounts.



## NOTE 14. INTANGIBLE ASSETS

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Goodwill</b>		
At cost	1,652	489
Accumulated impairment	-	(94)
	1,652	395
<b>Internally generated intangible assets</b>		
Software assets developed for internal use	9,518	8,733
Accumulated amortisation and impairment	(5,053)	(4,468)
	4,465	4,265
<b>Acquired intangible assets</b>		
Mastheads	-	447
Accumulated amortisation and impairment	-	(447)
	-	-
Patents and trademarks	12	12
Accumulated amortisation and impairment	-	-
	12	12
Licences	2,441	1,168
Accumulated amortisation and impairment	(399)	(352)
	2,042	816
Customer bases	288	129
Accumulated amortisation and impairment	(104)	(87)
	184	42
Brand names	30	14
Accumulated amortisation and impairment	(8)	(5)
	22	9
<b>Total acquired intangible assets</b>	2,260	879
<b>Deferred expenditure</b>		
Deferred expenditure	1,823	1,667
Accumulated amortisation and impairment	(868)	(824)
	955	843
<b>Total intangible assets</b>		
At cost	15,764	12,659
Accumulated amortisation and impairment	(6,432)	(6,277)
	9,332	6,382

## NOTE 14. INTANGIBLE ASSETS (continued)

## Telstra Group

	Goodwill	Software assets developed (a)(b)	Mast-heads	Patents and trade-marks (c)	Licences (d)	Customer bases	Brand names	Deferred expenditure (e)	Total intangible assets
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Written down value at 1 July 2013</b>	1,382	4,740	67	18	1,053	11	76	855	8,202
- additions	-	907	-	-	1	2	-	840	1,750
- acquisition of controlled entities	116	38	-	-	-	42	3	-	199
- disposal through sale of controlled entities (f)	(944)	(459)	-	(5)	(145)	(2)	(55)	(33)	(1,643)
- impairment losses from continuing operations (g)	(12)	(1)	-	-	-	-	-	-	(13)
- impairment losses from discontinued operation (h)	(150)	-	-	-	-	-	-	-	(150)
- amortisation expense from continuing operations	-	(877)	(67)	-	(93)	(11)	(6)	(819)	(1,873)
- amortisation expense from discontinued operation	-	(85)	-	(1)	-	-	(2)	-	(88)
- net foreign currency exchange differences	3	2	-	-	-	-	(1)	-	4
- transfers to non current assets held for sale (g)	-	-	-	-	-	-	(6)	-	(6)
<b>Written down value at 30 June 2014</b>	395	4,265	-	12	816	42	9	843	6,382
- additions	-	1,035	-	1	1,336	-	-	950	3,322
- acquisition of business	-	2	-	-	-	2	-	-	4
- acquisition of controlled entities (i)	1,173	130	-	-	12	151	13	-	1,479
- impairment losses from continuing operations	-	(4)	-	(1)	-	-	-	-	(5)
- amortisation expense from continuing operations	-	(919)	-	-	(128)	(12)	(2)	(838)	(1,899)
- net foreign currency exchange differences	84	21	-	-	1	1	2	-	109
- transfers	-	(65)	-	-	5	-	-	-	(60)
<b>Written down value at 30 June 2015</b>	1,652	4,465	-	12	2,042	184	22	955	9,332

(a) As at 30 June 2015, we had software assets under development amounting to \$335 million (2014: \$214 million). As these assets were not installed and ready for use, there is no amortisation being charged on the amounts.

(b) Includes \$24 million (2014: \$19 million) of capitalised borrowing costs directly attributable to software assets.

(c) The patents have an indefinite life and they are reviewed on an annual basis for impairment.

(d) During financial year 2015, we recognised \$1,321 million for the 700MHz, 1800MHz and 2.5GHz spectrum licences won at auction in the previous financial year.

(e) The deferred expenditure relates mainly to:

- the deferral of direct incremental costs of establishing a customer contract, which are amortised to goods and services purchased in the income statement
- basic access installation and connection fees for in place and new services
- deferred costs related to the NBN Definitive Agreements.

(f) During financial year 2014, we disposed of our interests in the Sensis Group and the CSL Group. Refer to notes 12 and 20 for further details.

(g) As at 30 June 2014, Sequel Media Group's assets and liabilities were classified as held for sale and subsequently disposed of in November 2014. Impairment loss of \$12 million was recognised against goodwill for the Sequel Media cash generating unit (CGU). Refer to notes 12 and 20 for further details.

(h) During financial year 2014, we recognised an impairment charge of \$150 million against goodwill for the Sensis Group and Location Navigation CGUs disposed of in that period. Refer to note 12 for further details.

(i) During financial year 2015, on acquisition of controlled entities we recognised goodwill of \$1,173 million, including \$317 million for Ooyala, \$72 million for Videoplaza, \$614 million for Pacnet and \$58 million for Nativ. Refer to note 20 for further details.

## NOTE 15. TRADE AND OTHER PAYABLES

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Current</b>		
Trade creditors (a)	1,256	1,164
Accrued expenses	1,675	1,519
Accrued capital expenditure	271	257
Accrued interest	313	386
Contingent consideration	20	10
Other creditors (a)	510	498
	<b>4,045</b>	<b>3,834</b>
<b>Non current</b>		
Contingent consideration	4	-
Other creditors	70	66
	<b>74</b>	<b>66</b>

(a) Trade creditors and other creditors are non-interest bearing liabilities. Our payment terms vary but we generally process payments within 30 to 45 days from the invoice date.

NOTE 16. PROVISIONS

16.1 Current and non current provisions

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Current</b>		
Employee benefits (a)	844	838
Workers' compensation (b)	21	22
Redundancy (a)(b)	11	40
Other (b)	94	32
	970	932
<b>Non current</b>		
Employee benefits (a)	147	135
Workers' compensation (b)	117	121
Other (b)	20	5
	284	261

(a) Aggregate employee benefits

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
Current provision for employee benefits	844	838
Non current provision for employee benefits	147	135
Current provision for redundancy	11	40
Accrued labour and on-costs (a)	553	440
	1,555	1,453

Employee benefits are measured at their present value. Refer to note 2.14 for further details. The following assumptions were adopted in measuring this amount.

	Telstra Group	
	As at 30 June	
	2015	2014
	%	%
Weighted average projected increase in salaries, wages and associated on-costs	4.8	4.8
Discount rates	4.4	3.7

(a) Accrued labour and related on-costs are included within our current trade and other payables (note 15).

Provision for employee benefits consists of amounts for annual leave and long service leave accrued by employees.

For long service leave, these amounts cover all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The amounts of the current provision are presented as current, since 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.

The following amounts 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:

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
Leave obligations expected to be settled after 12 months	524	521

## NOTE 16. PROVISIONS (continued)

## 16.1 Current and non current provisions (continued)

## (b) Movement in provisions other than employee benefits

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Workers' compensation (i)</b>		
<b>Opening balance</b>	<b>143</b>	149
- additional provisions	<b>8</b>	8
- amount used	<b>(23)</b>	(22)
- unwinding of discount on liabilities recognised at present value	<b>5</b>	5
- effect of any change in the discount rate	<b>5</b>	3
<b>Closing balance</b>	<b>138</b>	143
<b>Redundancy (ii)</b>		
<b>Opening balance</b>	<b>40</b>	6
- additional provisions	<b>1</b>	42
- reversal of amounts unused	<b>(2)</b>	(1)
- amount used	<b>(28)</b>	(7)
<b>Closing balance</b>	<b>11</b>	40
<b>Other (iii)</b>		
<b>Opening balance</b>	<b>37</b>	55
- additional provisions	<b>92</b>	22
- foreign currency exchange differences	<b>1</b>	-
- acquisition of controlled entities	<b>9</b>	-
- disposal of controlled entities	<b>-</b>	(9)
- amount used	<b>(21)</b>	(30)
- reversal of amounts unused	<b>(4)</b>	(1)
<b>Closing balance</b>	<b>114</b>	37

## (iii) Other

Other provisions include provision for legal claims, lease incentives, reinstatement costs, and other provisions.

## (i) Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The average time for which these payments are expected to be made is eight years (2014: eight years).

Certain controlled entities do not self insure but pay annual premiums to third party insurance companies for their workers' compensation.

## (ii) Redundancy

A provision exists only for those redundancy costs for which a detailed formal plan has been approved and we have raised a valid expectation in those affected that the plan will be carried out. Only those costs that are not associated with the ongoing activities of the Company have been included. The costs included in the redundancy provision are based on current estimates of the likely amounts to be incurred and include an estimate of the termination benefits that affected employees will be entitled to. The execution of these detailed formal plans, for which the redundancy provision has been raised, is expected to be completed during financial year 2016.

## NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

This note includes information on our gross and net debt positions including carrying values as disclosed in the statement of financial position, fair values and contractual face values of our financial instruments.

We also provide details on our interest costs and yields.

Our exposures to market, credit and liquidity risks and our risk management strategies are disclosed in note 18.

### 17.1 Capital management

Our objectives when managing capital are to safeguard our ability to continue as a going concern and to maintain an optimal capital structure and cost of capital that provides flexibility for strategic investments whilst continuing to provide returns for shareholders and benefits for other stakeholders.

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

During financial year 2015, we paid dividends of \$3,699 million (2014: \$3,545 million). Refer to note 4 for further details.

During the year we completed an off-market share buy-back at a price of \$4.60 per share for a total cost of \$1,003 million (including associated transaction costs net of income tax). This comprised a capital component of \$2.33 per share and a fully franked dividend component of \$2.27 per share. Refer to note 19 for further details.

We are not subject to any externally imposed capital requirements.

#### (a) Agreement with lenders

During the current and prior years there were no defaults or breaches on any of our agreements with our lenders.

#### (b) Gearing and net debt

A parameter used to monitor capital management is the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial liabilities and derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

Our target for the net debt gearing ratio is currently 50 to 70 per cent (2014: 50 to 70 per cent). Refer to section 17.2(d) for information on net debt and gearing.

### 17.2 Financial instruments

#### (a) Derivative financial instruments

We enter into derivative transactions in accordance with Board approved policies 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.

Derivative financial instruments used to hedge interest rate and foreign currency risk include:

- cross currency swaps
- interest rate swaps
- forward foreign currency contracts.

All of our derivatives are in effective economic relationships based on contractual face value amounts and cash flows over the life of the contract.

The fair value of our derivative instruments equates to the carrying amounts in the statement of financial position, which differs from the face values that are also provided in Table E.

#### (b) Borrowings

Our borrowings comprise debt issued offshore and in the domestic market. Offshore borrowings comprise the major component of our total debt portfolio and are denominated in various currencies. The carrying amount of the offshore borrowings are shown in Table A. Our policy is to swap these foreign currency denominated borrowings into Australian dollars using cross currency and interest rate swaps.

Table A	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
Australian dollar	189	190
Euro	8,920	9,533
United States dollar	2,786	1,210
British pound sterling	-	361
Japanese yen	396	494
New Zealand dollar	88	236
Swiss franc	336	282
Hong Kong dollar	58	47
Indian rupee	10	4
	12,783	12,357

Borrowings issued in the domestic market as at 30 June 2015 amounted to \$2,353 million (2014: \$2,793 million) and were denominated in Australian dollars.

Our borrowings are unsecured, except for finance leases, which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us. No assets are pledged as security for our borrowings. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities and other organisations.

Table B shows the carrying amount of the components of our gross debt, including derivatives, which totals to the applicable line item in the statement of financial position. We also have potential financial liabilities not included in the table below which may arise from certain contingencies disclosed in note 23 and note 30.

## NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

## 17.2 Financial instruments (continued)

## (b) Borrowings (continued)

	Telstra Group							
	Face value	Carrying value			Face value	Carrying value		
		Current	Non-current	Total		Current	Non-current	Total
	As at 30 June 2015				As at 30 June 2014			
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Borrowings by hedge designation</b>								
<b>Fair value hedges (a)</b>								
Offshore borrowings	(4,829)	(966)	(4,349)	(5,315)	(3,774)	-	(4,211)	(4,211)
Domestic borrowings	(950)	-	(979)	(979)	(950)	-	(964)	(964)
Commercial paper	-	-	-	-	(265)	(265)	-	(265)
<b>Cash flow hedges</b>								
Offshore borrowings	(7,360)	(245)	(7,077)	(7,322)	(6,105)	(894)	(5,178)	(6,072)
Domestic borrowings	(275)	-	(275)	(275)	(275)	-	(274)	(274)
<b>Not in a hedge relationship</b>								
Finance leases payable	(488)	(93)	(251)	(344)	(444)	(78)	(231)	(309)
Commercial paper	(155)	(154)	-	(154)	(100)	(100)	-	(100)
Offshore borrowings	(150)	-	(146)	(146)	(2,098)	(440)	(1,634)	(2,074)
Domestic borrowings	(1,109)	(38)	(1,061)	(1,099)	(1,568)	(500)	(1,055)	(1,555)
<b>Total borrowings</b>	<b>(15,316)</b>	<b>(1,496)</b>	<b>(14,138)</b>	<b>(15,634)</b>	<b>(15,579)</b>	<b>(2,277)</b>	<b>(13,547)</b>	<b>(15,824)</b>
<b>Derivative assets by hedge designation</b>								
<b>Fair value hedges</b>								
Cross currency swaps	399	-	386	386	326	-	272	272
Interest rate swaps	-	2	381	383	-	-	294	294
<b>Cash flow hedges</b>								
Cross currency swaps	546	-	608	608	286	20	250	270
Interest rate swaps	-	-	415	415	-	1	414	415
Forward contracts	1	2	-	2	-	-	-	-
<b>Not in a hedge relationship</b>								
Cross currency swaps	-	-	-	-	36	-	36	36
Interest rate swaps	-	-	-	-	-	1	56	57
Forward contracts	3	3	-	3	-	1	-	1
<b>Total derivative assets</b>	<b>949</b>	<b>7</b>	<b>1,790</b>	<b>1,797</b>	<b>648</b>	<b>23</b>	<b>1,322</b>	<b>1,345</b>
<b>Derivative liabilities by hedge designation</b>								
<b>Fair value hedges</b>								
Cross currency swaps	(73)	(60)	(9)	(69)	(19)	-	(18)	(18)
Forward contracts	-	-	-	-	(12)	(12)	-	(12)
<b>Cash flow hedges</b>								
Cross currency swaps	(419)	(141)	(291)	(432)	(626)	(238)	(431)	(669)
Interest rate swaps	-	(11)	(611)	(622)	-	(2)	(545)	(547)
Forward contracts	(4)	(2)	-	(2)	(7)	(5)	-	(5)
<b>Not in a hedge relationship</b>								
Cross currency swaps	-	-	-	-	(290)	(141)	(140)	(281)
Interest rate swaps	-	-	-	-	-	-	(35)	(35)
Forward contracts	-	-	-	-	(1)	(2)	-	(2)
<b>Total derivative liabilities</b>	<b>(496)</b>	<b>(214)</b>	<b>(911)</b>	<b>(1,125)</b>	<b>(955)</b>	<b>(400)</b>	<b>(1,169)</b>	<b>(1,569)</b>
<b>Net derivative assets/(liabilities)</b>	<b>453</b>	<b>(207)</b>	<b>879</b>	<b>672</b>	<b>(307)</b>	<b>(377)</b>	<b>153</b>	<b>(224)</b>
<b>Gross debt</b>	<b>(14,863)</b>	<b>(1,703)</b>	<b>(13,259)</b>	<b>(14,962)</b>	<b>(15,886)</b>	<b>(2,654)</b>	<b>(13,394)</b>	<b>(16,048)</b>

(a) The carrying amount is adjusted for fair value movements attributable to the hedged risk.

NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

17.2 Financial instruments (continued)

(c) Valuation and disclosure within fair value hierarchy

Our derivatives are measured at fair value in the statement of financial position. We also disclose fair value for all of our financial instruments in Table E. A portion of our borrowing portfolio that is in fair value hedges is also remeasured for fair value movements attributable to hedged risks, including interest rate and foreign currency risk. Changes in fair value from movements in exchange rates are minimal as we swap our foreign currency denominated borrowings into Australian dollars. Refer to note 18 for further details.

In determining fair value we use observable and unobservable inputs. We classify the inputs used in the valuation of our financial instruments according to the following three level hierarchy. The highest ranking is given to market quoted prices for identical instruments. The classification is determined based on the lowest level input that is significant to the fair value measurement as a whole.

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

The classification of our financial instruments within the fair value hierarchy is shown in Table E.

There were no changes in valuation techniques during the year. Assumptions are based on market conditions existing at each reporting date.

(i) Borrowings, cross currency and interest rate swaps

The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. Yield curves are sourced from readily available market data quoted for all major currencies.

Pricing data used to estimate Telstra's borrowing margins is not directly observable. Sensitivity analysis on changes to this unobservable input does not result in a significant change to the valuation.

Accordingly, we have classified these financial instruments as Level 2.

(ii) Forward contracts

The fair value of forward exchange contracts is calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. These market rates are observable and therefore these derivatives have been classified as Level 2.

(iii) Investments in equity instruments

We hold a number of securities not listed on any stock exchange and where a quoted market price in an active market is not available. We establish the fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent orderly sell transactions between market participants involving instruments that are substantially the same.

The fair value of these unlisted securities is classified as Level 3 and shown in Table C.

As at 1 July 2014 (upon adoption of AASB 9 (2013): "Financial Instruments") we elected to present subsequent changes resulting from remeasurement of fair values of our investments in equity instruments, with the exception of our investment in Ooyala Inc., in other comprehensive income. This presentation basis is considered appropriate as these investments are not held for short term trading purposes.

Our investment in Ooyala Inc. was measured at fair value through profit or loss prior to obtaining control during the year and subsequently consolidating its results (refer to note 20 for further details).

Table C	Unlisted securities
	Level 3
	\$m
<b>Opening balance 1 July 2014 (a)</b>	126
Purchases (b)	53
Remeasurement recognised in other comprehensive income (c)	10
Remeasurement recognised in the income statement (d)	6
Disposals (d)	(73)
Transfers out of Level 3 (e)	(9)
<b>Closing balance 30 June 2015 (f)</b>	113

(a) As at 30 June 2014 and under AASB 139: "Financial Instruments: Recognition and Measurement", our available-for-sale investments comprising unlisted securities were measured at historical cost. On adoption of AASB 9 (2013): "Financial Instruments" fair value estimates were determined and accordingly these investments were restated into Level 3 of the fair value hierarchy on 1 July 2014 (refer to note 2.1 for further details). These fair value estimates approximated the carrying value at 30 June 2014.

(b) During the financial year we acquired a number of individually insignificant investments in unlisted securities.

(c) During the financial year, we have recognised in other comprehensive income a \$10 million net gain on remeasurement of our unlisted equity instruments.

(d) \$6 million gain on remeasurement of our equity investment and \$70 million included in disposals related to Ooyala Inc. in which we obtained control during the year. Refer to note 20.3(a)(i) for further details.

(e) During the financial year Box Inc. listed its shares on NASDAQ stock exchange. These shares are currently actively traded in that market. The equity shares now have a published price quotation in active market, the fair value measurement was transferred from Level 3 to Level 1 of the fair value hierarchy at 30 June 2015.

(f) During the financial year, we have not received any dividends from our investments in equity instruments.



## NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

## 17.2 Financial instruments (continued)

## (c) Valuation and disclosure within fair value hierarchy (continued)

## (iv) Contingent consideration payable

Trade and other payables as shown in the statement of financial position include contingent consideration liabilities arising on a number of business combinations and related to additional consideration payable for acquisitions of our controlled entities if certain future conditions are met. Amounts classified as a financial liability are recognised at fair value at the date of acquisition and subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

Table D	Contingent consideration
	Level 3
	\$m
<b>Opening balance 1 July 2013</b>	-
Additions	10
<b>Closing balance 30 June 2014</b>	10
Additions (a)	<b>24</b>
Remeasurement recognised in the income statement	<b>(2)</b>
Amounts used	<b>(8)</b>
<b>Closing balance 30 June 2015</b>	<b>24</b>

(a) During the year we acquired the following controlled entities where total consideration included a contingent consideration amount:

- Videoplaza AB and its controlled entities
- Nativ Holdings Limited
- Other individually immaterial entities.

Refer to note 20 for further details.

On initial recognition the fair value of contingent consideration was estimated based on our expectations of future performance of the businesses. Subsequent measurement is based on the present value of the future expected cash flows.

## (d) Net debt and gearing

The carrying amounts, fair values and face values of each category of our financial instruments are shown in Table E. For foreign denominated balances face value equates to the face value in the underlying currency converted at the spot exchange rate as at 30 June. Face value represents contractual obligations excluding the effect of fair value measurements. Fair values are provided for each category of financial instruments including those not recognised at fair value for accounting purposes.

## NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

## 17.2 Financial instruments (continued)

## (d) Net debt and gearing (continued)

	Fair value hierarchy	As at 30 June 2015			As at 30 June 2014		
		Carrying value	Fair value	Face value	Carrying value	Fair value	Face value
		\$m	\$m	\$m	\$m	\$m	\$m
Commercial paper	Level 2	(154)	(154)	(155)	(365)	(365)	(365)
Offshore borrowings	Level 2	(12,783)	(13,932)	(12,339)	(12,357)	(13,041)	(11,977)
Domestic borrowings	Level 2	(2,353)	(2,545)	(2,334)	(2,793)	(2,952)	(2,793)
Finance lease payable		(344)	(344)	(488)	(309)	(309)	(444)
<b>Total borrowings</b>		<b>(15,634)</b>	<b>(16,975)</b>	<b>(15,316)</b>	<b>(15,824)</b>	<b>(16,667)</b>	<b>(15,579)</b>
Derivative assets	Level 2	1,797	1,797	949	1,345	1,345	648
Derivative liabilities	Level 2	(1,125)	(1,125)	(496)	(1,569)	(1,569)	(955)
<b>Gross debt</b>		<b>(14,962)</b>	<b>(16,303)</b>	<b>(14,863)</b>	<b>(16,048)</b>	<b>(16,891)</b>	<b>(15,886)</b>
Cash and cash equivalents		1,396	1,396	1,396	5,527	5,527	5,557
<b>Net debt</b>		<b>(13,566)</b>	<b>(14,907)</b>	<b>(13,467)</b>	<b>(10,521)</b>	<b>(11,364)</b>	<b>(10,329)</b>
<b>Other interest bearing financial assets at amortised cost</b>							
Finance lease receivable		303	303	353	277	277	314
Amounts owed by joint ventures and associated entities		451	451	451	451	451	451
Other receivables (a)		4	4	4	3	3	3
<b>Net interest bearing financial liabilities</b>		<b>(12,808)</b>	<b>(14,149)</b>	<b>(12,659)</b>	<b>(9,790)</b>	<b>(10,633)</b>	<b>(9,561)</b>
<b>Equity investments at fair value</b>							
Listed securities	Level 1	24	24	n/a	1	1	n/a
Unlisted securities (b)	Level 3	113	113	n/a	126	n/a	n/a
<b>Loans and receivables at amortised cost</b>							
Trade/other receivables and accrued revenue (a)		5,133	5,133	5,247	4,414	4,414	4,534
Amounts owed by joint ventures and associated entities		1	1	7	-	-	6
<b>Financial liabilities at amortised cost</b>							
Trade/other creditors and accrued expenses (a)		(4,095)	(4,095)	(4,095)	(3,890)	(3,890)	(3,890)
<b>Financial liabilities at fair value through profit or loss</b>							
Contingent consideration		(24)	(24)	n/a	(10)	(10)	n/a
<b>Net financial liabilities</b>		<b>(11,656)</b>	<b>(12,997)</b>		<b>(9,149)</b>	<b>(10,118)</b>	

(a) For financial assets and financial liabilities with a short term to maturity, the carrying amount is considered to approximate fair value.

(b) As at 30 June 2014 and under AASB 139: "Financial Instruments: Recognition and Measurement", our available-for-sale investments comprising unlisted securities were measured at historical cost. On adoption of AASB 9 (2013): "Financial Instruments" fair value estimates were determined and accordingly these investments were restated into Level 3 of the fair value hierarchy on 1 July 2014.

The movement in the carrying amount of our net debt and our gearing ratio is shown in Table F.

## NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

## 17.2 Financial instruments (continued)

## (d) Net debt and gearing (continued)

	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Opening net debt</b>	<b>10,521</b>	13,149
Debt issuance	1,398	498
Net commercial paper	(220)	252
Debt repayments	(2,798)	(565)
Finance lease repayments	(47)	(91)
<b>Net cash (outflow)/inflow</b>	<b>(1,667)</b>	94
<b>Fair value (gains)/losses impacting:</b>		
Equity	(85)	(19)
Other expenses	(22)	23
Finance costs	26	200
<b>Other movements:</b>		
Borrowings on acquisition of domestic controlled entity	-	1
Debt on acquisition of Pacnet Limited	580	-
Finance lease additions	82	121
<b>Total (decrease)/increase in gross debt</b>	<b>(1,086)</b>	420
Net decrease/(increase) in cash and cash equivalents (a)	4,131	(3,048)
<b>Total increase/(decrease) in net debt</b>	<b>3,045</b>	(2,628)
<b>Closing net debt</b>	<b>13,566</b>	10,521
<b>Total equity</b>	<b>14,510</b>	13,960
<b>Total capital</b>	<b>28,076</b>	<b>24,481</b>
	%	%
<b>Gearing ratio</b>	<b>48.3</b>	43.0

(a) Includes foreign exchange differences

Debt issuances during the year comprised:

- \$1,308 million United States public bond maturing on 7 April 2025
- \$79 million loan from associated entities
- \$11 million other controlled entity loans.

Our commercial paper is used principally to support working capital and short term liquidity. Commercial paper will continue to be supported by liquid financial assets and ongoing committed bank facilities.

We repaid the following long term debt during the year (Australian dollar equivalent):

- \$858 million Euro public bond, matured 15 July 2014
- \$584 million British pound public bond, matured 6 August 2014
- \$65 million Japanese yen private placement, matured 29 September 2014
- \$62 million Japanese yen private placement, matured 4 November 2014
- \$123 million New Zealand dollar public bond, matured 24 November 2014
- \$500 million domestic public bond, matured 15 April 2015
- \$561 million repayment of the whole debt acquired on acquisition of Pacnet Limited (including foreign exchange differences)
- \$45 million repayment of loan from associated entities.

Long term debt of \$1,453 million will mature during financial year 2016. This represents the contractual face value amount after hedging including offshore borrowings that were swapped into Australian dollars from the date of issuance.

This amount differs from the carrying amount of \$1,249 million that is included in current borrowings (along with commercial paper of \$154 million and finance leases of \$93 million) in the statement of financial position. The carrying amount reflects the amount of our borrowings due to mature within 12 months prior to netting offsetting risk positions of associated derivative financial instruments hedging these borrowings. The carrying amount reflects a mixed measurement basis, with part of the borrowing portfolio recorded at amortised cost and part adjusted for fair value movements attributable to hedged risks.

## (e) Interest and yields

The gross interest on borrowings is shown in Table G below. Where applicable, finance costs are assigned to categories on the basis of the hedged item.

	Note	Year ended 30 June	
		2015	2014
		\$m	\$m
<b>Interest on borrowings (a)</b>			
<b>Financial instruments in hedge relationships (b)</b>			
Domestic borrowings in cash flow and fair value hedges		53	51
Offshore borrowings in cash flow and fair value hedges		662	633
Commercial paper in fair value hedges		11	21
Derivatives hedging net investments in foreign operations		-	(9)
<b>Other financial instruments</b>			
Commercial paper		5	7
Offshore borrowings not in a hedge relationship		8	117
Domestic borrowings not in a hedge relationship		98	114
Finance leases		21	20
Other		17	7
<b>Total interest on borrowings</b>	7	<b>875</b>	961

(a) The interest expense is categorised based on the classification of financial instruments applicable as at 30 June.

(b) Interest expense is a net amount after offsetting interest income and interest expense on associated derivative instruments.

NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

17.2 Financial instruments (continued)

(f) Offsetting and netting arrangements

The following tables present our financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements:

**Table H** Telstra Group

			Gross amounts not offset in the statement of financial position (a)			Net amounts that are not subject to offsetting arrangements
	Gross amounts of recognised financial instruments	Amounts that are offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Financial instruments (b)	Collateral received or pledged	
	\$m	\$m	\$m	\$m	\$m	
As at 30 June 2015						
	A	B	C=A-B	D	E	F=C-D+E
Trade and other receivables	801	96	705	181	(8)	516
Trade and other payables	(520)	(96)	(424)	(181)	-	(243)
Derivative financial assets	1,797	-	1,797	781	-	1,016
Derivative financial liabilities	(1,125)	-	(1,125)	(781)	-	(344)
<b>Total</b>	<b>953</b>	<b>-</b>	<b>953</b>	<b>-</b>	<b>(8)</b>	<b>945</b>

**Table I** Telstra Group

			Gross amounts not offset in the statement of financial position (a)			Net amounts that are not subject to offsetting arrangements
	Gross amounts of recognised financial instruments	Amounts that are offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Financial instruments (b)	Collateral received or pledged	
	\$m	\$m	\$m	\$m	\$m	
As at 30 June 2014						
	A	B	C=A-B	D	E	F=C-D+E
Trade and other receivables	500	73	427	156	(3)	268
Trade and other payables	(463)	(73)	(390)	(156)	-	(234)
Derivative financial assets	1,345	-	1,345	748	-	597
Derivative financial liabilities	(1,569)	-	(1,569)	(748)	-	(821)
<b>Total</b>	<b>(187)</b>	<b>-</b>	<b>(187)</b>	<b>-</b>	<b>(3)</b>	<b>(190)</b>

## NOTE 17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

**17.2 Financial instruments (continued)****(f) Offsetting and netting arrangements (continued)**

(a) Reflects amounts subject to conditional offsetting arrangements.

(b) Below is a description of our material rights of set-off that are not otherwise included in column B in Tables H and I above:

- for our inter operative tariff arrangements with some of our international roaming partners, we have executed agreements that allow the netting of amounts payable and receivable by us on cessation of the contract
- for our wholesale customers we have executed Customer Relationship Agreements which 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
- for all our derivative financial instruments, we have executed master netting arrangements under our International Swaps and Derivatives Association agreements. These arrangements 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.

### NOTE 18. FINANCIAL RISK MANAGEMENT

Our underlying business activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk and 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 that cover foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and liquidity management.

We undertake the following transactions in relation to the management of 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 exchange contracts to hedge foreign currency and interest rate risk.

In addition we have financial instruments that result from our underlying business activities, including receivables, payables, listed and unlisted investments.

Section 18.1 of this note sets out the key financial risk factors that arise from our activities, including our policies for managing these risks.

Sections 18.2 and 18.3 provide details of our hedging strategies and hedge relationships that are used for financial risk management.

#### 18.1 Risk and mitigation

##### (a) Interest rate risk

Our risk exposure to changes in market interest rates arises primarily as a result of our debt obligations. Borrowings issued at fixed rates expose us to fair value interest rate risk. Variable rate borrowings give rise to cash flow interest rate risk; this is partially offset by cash and cash equivalents balances held at variable rates.

We manage interest rate risk on our net debt portfolio by:

- adjusting 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 in accordance with target maturity profiles
- entering into cross currency and interest rate swaps (refer sections 18.2 and 18.3 for further information).

The weighted average interest rates on our financial instruments as at 30 June, and the principal/notional balances on which interest is calculated, are shown in Table A. Principal/notional amounts shown are net of discounts and therefore may differ from the face values disclosed in note 17.

The reported balances represent our economic residual position after netting offsetting risks of our derivative and non-derivative financial instruments in a hedge relationship. It is our policy to swap foreign currency borrowings into Australian dollars using derivative financial instruments, therefore the amounts predominantly reflect our Australian dollar end positions.

## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.1 Risk and mitigation (continued)

## (a) Interest rate risk (continued)

Table A	Telstra Group			
	As at 30 June 2015		As at 30 June 2014	
	Principal/ notional	Weighted average (c)	Principal/ notional	Weighted average (c)
	\$m	%	\$m	%
<b>Australian interest rates</b>				
<b>Fixed rate instruments</b>				
Post hedge borrowings (a)	(7,124)	6.66	(6,200)	7.26
Finance lease payable	(272)	5.79	(250)	6.14
Domestic borrowings	(1,061)	7.12	(1,056)	7.14
Offshore borrowings	(140)	6.10	(140)	6.10
<b>Variable rate instruments</b>				
Cash and cash equivalents (b)	502	2.32	5,162	3.15
Post hedge borrowings (a)	(5,837)	4.00	(7,145)	4.58
Domestic borrowings	(3)	4.90	(499)	6.50
Loans from associates	(34)	8.00	-	-
Commercial paper	(154)	2.28	(100)	2.84
Net forward contract liability (d)	-	-	(285)	2.41
<b>Total Australian dollar instruments</b>	<b>(14,123)</b>		<b>(10,513)</b>	
<b>Foreign interest rates</b>				
<b>Fixed rate instruments</b>				
Finance lease payable	(72)	8.92	(59)	9.41
Offshore borrowings	(10)	11.00	(4)	11.06
<b>Variable rate instruments</b>				
Cash and cash equivalents (b)	894	1.44	365	1.84
<b>Total foreign dollar instruments</b>	<b>812</b>		<b>302</b>	
<b>Other interest bearing financial assets</b>				
<b>Fixed rate instruments - Australian interest rates</b>				
Finance lease receivable	303	6.02	277	6.13
Amounts owed by joint ventures	451	12.00	451	12.00
<b>Floating rate instruments - foreign interest rate</b>				
Other receivables	4	4.33	3	2.86
<b>Total other financial assets</b>	<b>758</b>		<b>731</b>	

(a) Refer to Table I, which details the use of cross currency and interest rate swaps used to hedge offshore and domestic borrowings.

(b) Weighted average rates earned on net positive cash balances after taking into account bank set-off arrangements and excluding non-interest bearing balances.

(c) Weighted average effective interest rate based on principal/notional value as at reporting date.

(d) Includes final pay legs \$654 million (2014: \$603 million) as described in Table J. The balances offset by receive legs relating to hedges of forecast purchases, trade and other non-interest bearing liabilities of \$654 million (2014: \$318 million).

## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.1 Risk and mitigation (continued)

## (a) Interest rate risk (continued)

## (i) Sensitivity analysis - interest rate risk

The sensitivity analysis in Table B is based on the interest rate risk exposures of our net debt portfolio as at 30 June. In accordance with our policy to swap foreign currency borrowings into Australian dollars, interest rate sensitivity relates primarily to movements in Australian interest rates.

The analysis shows the impact that a 10 per cent shift in interest rates would have on our profit after tax and on equity. A sensitivity 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 are driven by the following main assertions:

- the analysis takes into account all underlying exposures and related hedges and does not include the impact of any management action that might take place if a 10 per cent shift were to occur
- our net unhedged floating rate position will directly impact profit or loss as a result of interest rate movements
- there is a parallel shift in all components of interest rates including credit and foreign currency basis spreads with all other variables held constant
- changes in the fair value of derivatives which are in effective cash flow hedge relationships are assumed to be reported solely in equity
- there is no material net impact to finance costs 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
- changes in the fair value of foreign currency basis spreads, a component of interest rates, associated with our cross currency swaps are reported in equity.

Table B Telstra Group

	As at 30 June 2015		As at 30 June 2014	
	Net profit or loss	Equity	Net profit or loss	Equity
	Gain/(loss)	Gain/(loss)	Gain/(loss)	Gain/(loss)
	\$m	\$m	\$m	\$m
Interest rates (+10%)	(24)	53	(7)	47
Interest rates (-10%)	24	(55)	7	(49)

## (b) Foreign currency risk

We are exposed to foreign exchange risk from various currencies, however, our largest concentration of risk is attributable to the Euro and the United States dollar. Foreign currency risk is the risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign exchange rates. Our 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.

Borrowings denominated in foreign currency are converted to Australian dollar borrowings using derivative financial instruments, unless the borrowing is held to offset the translation of a foreign controlled entity.

Our policy for managing foreign exchange transaction risk arising from firm commitments or highly probable forecast transactions denominated in foreign currencies is to hedge a proportion of the exposure in accordance with our risk management policy. We also economically hedge a proportion of foreign currency risk associated with trade and other liability and asset balances.

Our controlled entities may also be exposed to transactions, both forecast and committed, in currencies other than their functional currency. These risks are managed through the use of forward foreign exchange contracts in accordance with our overall risk management policy.

We may choose to hedge foreign currency risk arising from the translation of the net assets of our foreign controlled entities.

Refer to section 18.2 "Hedging strategies" and section 18.3 "Hedge relationships" in this note for further information, including the various instruments used to hedge our exposures.

## (i) Sensitivity analysis - foreign currency risk

The sensitivity analysis included in Table C is based on foreign currency risk exposures arising from both our financial instruments and forecast transactions (transaction risk) and net foreign investment balances (translation risk) as at 30 June.

The analysis shows the impact that a 10 per cent shift in applicable exchange rates against the Australian dollar would have on our profit after tax and on equity. This sensitivity is considered reasonable taking into account the current level of exchange rates and the volatility observed both on an historical basis and on market expectations for future movements; it is not a forecast or prediction.



## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.1 Risk and mitigation (continued)

## (b) Foreign currency risk (continued)

## (i) Sensitivity analysis - foreign currency risk (continued)

The results are driven by the following main assertions:

- we are exposed to equity impacts from foreign currency movements associated with our investments in foreign controlled entities and our derivatives in cash flow hedges of offshore borrowings. This foreign currency risk is spread over a number of currencies and accordingly we have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency
- any unhedged foreign exchange positions associated with our transactional exposures will directly impact profit or loss as a result of foreign currency movements
- there is no material net impact to finance costs as a result of foreign currency movements associated with 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 in foreign exchange rates were to occur.

	As at 30 June 2015		As at 30 June 2014	
	Net profit or loss	Equity	Net profit or loss	Equity
	Gain/(loss)	Gain/(loss)	Gain/(loss)	Gain/(loss)
	\$m	\$m	\$m	\$m
<b>Foreign exchange rates (+10%)</b>				
Translation of foreign controlled entities (a)	-	(159)	-	(38)
Transaction exposures (b)	25	(31)	4	(44)
<b>Foreign exchange rates (-10%)</b>				
Translation of foreign controlled entities (a)	-	193	-	46
Transaction exposures (b)	(30)	38	(5)	54

(a) The higher sensitivity in the current year reflects the acquisition during the year of foreign controlled entities, Ooyala Inc. and Pacnet Limited.

At 30 June 2015 we had no hedges of foreign controlled entities in place (2014: no hedges).

(b) Where net exposures relate to forecast purchases of property, plant and equipment, profit and loss will be impacted as the assets are depreciated over their useful lives.

## (c) Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations and will cause us to incur a financial loss. We are exposed to credit risk from our operating activities (primarily customer credit risk) and financing activities. To help manage this risk we:

- have a policy for performing credit risk assessments on new and existing customers and, where required, establishing credit limits and payment terms for entities we deal with
- monitor exposure to high risk debtors on a predictive and proactive basis
- may require collateral where appropriate
- assign credit limits to all financial counterparties with whom we transact or enter into derivative contracts.

We may also be exposed 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 notes 23 and 30.

## (i) Customer credit risk

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. 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 to ensure that our exposure to bad debts is not significant. Refer to note 10 for further details about our trade and other receivables.

## (ii) Treasury credit risk

We are exposed to credit risk from investments in money market instruments (primarily deposits) and from the use of derivatives. We have policies that limit the amount of credit exposure to individual counterparties, and these risk limits are regularly monitored. Our policy minimises the concentration of risk by spreading our financial instruments across a number of financial institutions.

We also manage our credit exposure using a value at risk (VaR) methodology. This measures the maximum potential exposure of risk positions in the future as a result of movements in market rates over a specified time horizon, given a specified confidence level (which is statistically determined). This helps to ensure that we do not underestimate credit exposure with any single counterparty.

All money market instruments and derivative contracts are held with counterparties of investment grade credit rating. At 30 June 2015, no material credit risk exposure existed in relation to potential counterparty failure on our financial instruments.

## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.1 Risk and mitigation (continued)

**(d) Liquidity risk**

Liquidity risk refers to the risk that we will be unable to meet our financial obligations as they fall due. To address this risk, we have established an appropriate liquidity risk policy that targets a minimum and average level of cash and cash equivalents to be maintained, and that ensures we have readily accessible committed bank facilities in place. Our objective is to maintain a balance between continuity of funding and flexibility through the use of liquid instruments, borrowings and available committed bank facilities.

We monitor rolling forecasts of liquidity reserves on the basis of expected cash flow. We also endeavour to use instruments that trade in highly liquid markets and have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments.

We believe that our contractual obligations can be met through existing cash and cash equivalents, business cash flows, and other funding arrangements we reasonably expect to have available to us, including the use of committed bank facilities if required.

Table D shows our financial liabilities categorised into relevant maturity periods based on contractual maturity date. The contractual maturity amounts represent the future undiscounted cash flows and therefore do not necessarily equate to the carrying values as disclosed in the statement of financial position. For all line items, the amounts shown are based on the earliest date at which we can be required to pay. Floating rate interest is estimated using a forward interest rate curve as at 30 June.

	<b>Contractual maturity (nominal cash flows)</b>									
	<b>As at 30 June 2015</b>					<b>As at 30 June 2014</b>				
	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Non – Derivative financial liabilities</b>										
Borrowings, excluding finance lease liabilities	(1,405)	(1,846)	(3,241)	(8,336)	(14,828)	(2,199)	(1,167)	(3,511)	(8,258)	(15,135)
Interest payments on borrowings	(583)	(534)	(1,230)	(777)	(3,124)	(627)	(528)	(1,211)	(887)	(3,253)
Finance leases	(113)	(87)	(93)	(195)	(488)	(99)	(82)	(109)	(154)	(444)
Other (a)	(4,045)	(16)	(19)	(39)	(4,119)	(3,843)	(3)	(21)	(33)	(3,900)
<b>Derivative Financial instruments (b)</b>										
Cross currency swaps payable	(1,856)	(2,090)	(3,082)	(7,719)	(14,747)	(2,172)	(1,866)	(3,294)	(8,136)	(15,468)
Cross currency swaps receivable	1,407	1,647	2,519	8,235	13,808	1,522	1,338	2,378	8,144	13,382
Forward foreign exchange contracts payable	(696)	-	-	-	(696)	(651)	-	-	-	(651)
Forward foreign exchange contracts receivable	695	-	-	-	695	631	-	-	-	631
Net interest rate swaps payable (c)	(218)	(204)	(274)	(58)	(754)	(208)	(176)	(274)	(74)	(732)
Net interest rate swaps receivable (c)	268	231	348	105	952	284	229	348	109	970
<b>Total</b>	<b>(6,546)</b>	<b>(2,899)</b>	<b>(5,072)</b>	<b>(8,784)</b>	<b>(23,301)</b>	<b>(7,362)</b>	<b>(2,255)</b>	<b>(5,694)</b>	<b>(9,289)</b>	<b>(24,600)</b>

(a) Includes trade and other creditors, accrued expenses, and contingent consideration.

(b) Includes derivative assets as they have a direct relationship to an underlying financial liability.

(c) Interest rate swaps are net settled.

## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.1 Risk and mitigation (continued)

## (d) Liquidity risk (continued)

## (i) Financing arrangements

We have commercial paper facilities in place in the United States and Australia. As at 30 June 2015 we had on issue \$155 million (2014: \$365 million) under these facilities. We also have committed bank facilities in place, as back up to our borrowings. Table E shows the lines of credit that are available to us at 30 June. During the current and prior years there were no defaults or breaches under any of our facility agreements.

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
Unsecured committed cash standby facilities (a)	195	559
Unsecured syndicated bank loan facility	1,500	-
Unsecured bank term loan facility (b)	300	-
<b>Amount of credit unused</b>	<b>1,995</b>	<b>559</b>

(a) Cancelled in full effective 27 July 2015

(b) Fully drawn down on 24 July 2015

## 18.2 Hedging strategies

Hedging refers to the way in which we use financial instruments, primarily derivatives, to manage our exposure to financial risks (described in 18.1). 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 is a technique that enables the matching of the gains and losses on associated hedging instruments and hedged items in the same accounting period to minimise volatility in the income statement.

The applicable accounting standard (AASB 9 (2013): "Financial Instruments") requires that certain criteria be met in order for hedge accounting to be applied. We are also required, under AASB 7: "Financial Instruments: Disclosures", to provide a number of specific disclosures in regards to our hedging activities.

## (a) Hedge accounting

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.

Table F

	Telstra Group					
	As at 30 June 2015			As at 30 June 2014		
	Commer- cial paper	Offshore borrow- ings (a)	Domestic borrow- ings	Commer- cial paper	Offshore borrow- ings (a)	Domestic borrow- ings
\$m	\$m	\$m	\$m	\$m	\$m	
Face value as at 30 June (a)	-	4,829	950	265	3,774	950
Unamortised discounts/premiums	-	(23)	(5)	-	(26)	(6)
<b>Amortised cost</b>	-	<b>4,806</b>	<b>945</b>	265	3,748	944
Cumulative fair value hedge adjustments (b)	-	509	34	-	463	20
<b>Carrying amount</b>	-	<b>5,315</b>	<b>979</b>	265	4,211	964

We enter into cross currency swaps, interest rate swaps, and forward foreign exchange contracts to offset these risks. To the extent permitted by AASB 9 (2013), we formally designate and document these financial instruments as fair value, cash flow or net investment hedges for accounting purposes. In order to qualify for hedge accounting, AASB 9 (2013) requires that prospective hedge effectiveness testing 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.

Each hedge accounting method is described below:

## (b) Fair value hedges

The objective of our fair value hedging is to convert fixed interest rate borrowings to floating interest rate borrowings.

We enter into interest rate and cross currency swaps to mitigate our exposure to changes in the fair value of our long term borrowings. Changes in the fair value of the hedging instrument, and changes in the fair value of the hedged item that is attributable to the hedged risk ("fair value hedge adjustment") are recognised in the income statement. Ineffectiveness reflects the extent to which the fair value movements do not offset and is primarily driven by movements in Telstra's borrowing margins.

AASB 9 (2013) allows a component of Telstra's borrowing margin associated with cross currency swaps ("foreign currency basis spread") to be deferred in equity. This component is included in interest on borrowings in the income statement over the remaining maturity of the borrowing. Refer to note 7 for the impact on finance costs relating to borrowings in fair value hedges.

Our fair value hedges have an economic relationship on the basis that the critical terms of the hedging instrument and hedged item (including face value, cash flows, and maturity date) are aligned. The relationship between the hedged risk and the corresponding value of the hedging derivatives results in a hedge ratio of one.

The cumulative amount of fair value hedge adjustments which are included in the carrying amount of our borrowings in the statement of financial position is shown in Table F:

## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.2 Hedging strategies (continued)

## (b) Fair value hedges (continued)

(a) For offshore borrowings, face value equates to the face value in the underlying currency converted at the spot exchange rate as at 30 June. Revaluation impacts since inception of the borrowing due to foreign exchange movements are reflected in the amortised cost balance.

(b) Fair value revaluation impacts arising from movements in foreign currency exchange rates and market interest rates (that relate to the hedged risk) are effectively hedged. We use cross currency and interest rate swaps as fair value hedges to convert fixed rate borrowings into Australian dollar floating rate borrowings.

## (c) Cash flow hedges

The objective of our cash flow hedging is to hedge the exposure arising from variability in future interest and foreign currency cash flows arising from borrowings that bear interest at variable rates, or are denominated in foreign currency. Cash flow hedging is also used to mitigate the foreign currency exposure arising from anticipated future transactions.

We enter into interest rate and cross currency swaps as hedges of future cash flows arising from our borrowings. Ineffectiveness is recognised in the income statement if the change in the fair value of the hedging instrument exceeds the change in fair value of the underlying borrowing. The portion of fair value movement qualifying as effective movement is recognised in the cash flow hedging reserve in equity.

Forward foreign exchange contracts are used to hedge a portion of highly probable forecast transactions denominated in foreign currency. These contracts hedge foreign currency risk arising from spot rate changes. During the year, there has been no material impact on profit or loss as a result of discontinuing hedge accounting for forecast transactions no longer expected to occur.

All our cash flow hedges are in effective economic relationships on the basis that the critical terms of the hedging instrument and hedged item are aligned (including face values, cash flows and currency). During the year, there has been no material ineffectiveness attributable to our cash flow hedges.

## (i) Cash flow profile

Table G shows the maturities of the payments in our cash flow hedges (i.e. when the cash flows are expected to occur). These amounts represent the undiscounted cash flows reported in Australian dollars based on the applicable exchange rate as at 30 June and represent the identified foreign currency exposures at reporting date.

Table G	Telstra Group	
	Nominal cash outflows	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Highly probable forecast transactions</b>		
<b>Non-capital items (a)</b>		
Within 1 year	(801)	(306)
<b>Capital items (b)</b>		
Within 1 year	(135)	-
After 1 year	(2)	-
<b>Borrowings (c)</b>		
Within 1 year	(539)	(1,156)
Within 1 to 5 years	(4,168)	(2,485)
After 5 years	(4,559)	(4,055)
	<b>(10,204)</b>	<b>(8,002)</b>

(a) These amounts will affect our income statement in the same period in which the cash flows are expected to occur.

(b) For purchases of property, plant and equipment, the gains and losses on the associated hedging instrument are included in the measurement of the initial cost of the assets. The hedged assets affect profit or loss as the assets are depreciated over their useful lives.

(c) The impact on our income statement from foreign currency movements associated with these hedged borrowings will affect profit or loss over the life of the borrowing, however the impact on profit or loss is expected to be nil as the borrowings are effectively hedged.

## (d) Hedges of net investments in foreign operations

Foreign exchange exposure arises from our investments in foreign operations. This risk arises from the translation of the net assets of these entities from their functional currency into Australian dollars. We may designate forward foreign currency contracts, cross currency swaps and/or foreign currency borrowings as hedges of this risk. By applying hedge accounting, foreign exchange gains or losses on the hedging instruments are transferred to the foreign currency translation reserve in equity to offset gains or losses on translation of the net investment. No material ineffectiveness arises from our net investment hedges as we designate on a spot to spot basis only the nominal amount of hedging instruments required to match the desired hedge percentage of the investment, in accordance with our risk management policy.

As at 30 June 2015, we had no hedges of net investments in foreign controlled entities in place.

## (e) Derivatives not in a designated hedge relationship

We hold some derivative financial instruments that are not formally designated in hedging relationships as natural offset achieves substantially the same accounting results. This primarily includes forward foreign currency contracts that are used to economically hedge fair value movements attributable to exchange rate fluctuations associated with trade creditors and other liability and asset balances denominated in foreign currency.

On adoption of AASB 9 (2013), we were able to reinstate a portion of fair value hedges which were previously ineligible for hedge accounting; refer note 2.1(a) for further details. All other financial liabilities that do not meet the strict criteria for hedge accounting are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction. Refer to note 7 for the impact on finance costs relating to transactions not in designated hedge relationships.

## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.2 Hedging strategies (continued)

## (f) Hedge effectiveness

Refer to note 17 Table B for a detailed breakdown of the carrying amounts and face values of designated financial instruments.

The adoption of AASB 9 (2013) has resulted in less ineffectiveness being recognised as certain costs of hedging may now be excluded from designated hedge relationships. We have utilised the option to exclude foreign currency basis spreads from our designated fair value and cash flow hedge relationships, refer to note 2.1(a) for further details.

Table H shows the ineffectiveness relating to financial instruments in designated fair value hedges that are included in net debt.

	Telstra Group	
	Year ended 30 June	
	2015	2014
	(Gain)/ loss	(Gain)/ loss
	\$m	\$m
Re-measurement of hedged item used to measure ineffectiveness	184	331
Change in value of hedging instruments	(178)	(203)
<b>Net loss before tax</b>	<b>6</b>	<b>128</b>
<b>Net loss after tax</b>	<b>4</b>	<b>90</b>

The cash flow hedge reserve is adjusted to the lower of (in absolute amounts) the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. This adjustment did not result in any material ineffectiveness.

For hedge gains or losses transferred to and from the cash flow hedging reserve refer to the statement of comprehensive income.

For cash flow hedges of highly probable forecast transactions settled in a foreign currency and hedges of net investments in foreign operations, the change in value of the hedged item was not materially different to the change in value of the hedging instruments with no resulting material ineffectiveness.

## 18.3 Hedge relationships

The following tables give context to our hedge transactions and shows our economic residual risk position as a result of the hedges executed. It should be noted that the economic residual position in each of the tables will not be equal to the carrying values.

Table I describes each of our hedge relationships which use cross currency and interest rate swaps. The post hedge position represents our net final currency and fixed/float positions.

	Telstra Group					
	As at 30 June 2015			As at 30 June 2014		
	Pre hedge exposure	Post hedge position: (pay) float	Post hedge position: (pay) fixed	Pre hedge exposure	Post hedge position: (pay) float	Post hedge position: (pay) fixed
	Local currency	Australian dollar		Local currency	Australian dollar	
	m	\$m	\$m	m	\$m	\$m
<b>In hedge relationships</b>						
<b>Offshore borrowings - fixed</b>						
Swiss francs	(225)	(252)	-	(225)	(251)	-
Euros	(5,325)	(3,059)	(4,447)	(5,825)	(3,841)	(4,447)
Hong Kong dollar	(330)	(50)	-	(330)	(50)	-
Japanese yen	(10,000)	(62)	(60)	(37,000)	(108)	(444)
United States dollar	(2,000)	-	(2,263)	(1,150)	(203)	(955)
New Zealand dollar	(100)	-	(79)	(100)	-	(79)
Australian dollar	(50)	(50)	-	(50)	(50)	-
<b>Offshore borrowings - floating (a)</b>						
Euros	(500)	(781)	-	(500)	(858)	-
British pounds sterling	-	-	-	(200)	(584)	-
New Zealand dollar	-	-	-	(155)	(123)	-
United States dollar	(150)	(203)	-	-	-	-
Japanese yen	(27,000)	(430)	-	(10,000)	(127)	-
<b>Domestic borrowings - fixed</b>						
Australian dollar	(950)	(950)	-	(950)	(950)	-
<b>Domestic borrowings - floating</b>						
Australian dollar	(275)	-	(275)	(275)	-	(275)
		(5,837)	(7,124)		(7,145)	(6,200)

(a) Borrowings due to mature within 12 months are classified as floating.

## NOTE 18. FINANCIAL RISK MANAGEMENT (continued)

## 18.3 Hedge relationships (continued)

## (a) Forward foreign exchange contracts

Table J summarises the impact of outstanding forward contracts based on contractual face value amounts, which are formally designated as hedging instruments or act as an economic hedge of currency exposures as at 30 June. Hedged exposures include commercial paper liabilities, highly probable forecast transactions and foreign currency trade and other liabilities.

The fair value of forward contracts outstanding as at 30 June 2015 was \$3 million asset (2014: (\$18) million liability).

	Pre hedge exposure		Forward contract (pay)/receive		Pre hedge exposure		Forward contract (pay)/receive	
	As at 30 June 2015				As at 30 June 2014			
	Local currency		Australian dollars	Average exchange rate	Local currency		Australian dollars	Average exchange rate
	m	m	\$m	\$	m	m	\$m	\$
<b>Forward contracts hedging interest bearing debt</b>								
<b>Commercial paper</b>								
United States dollars	-	-	-	-	(250)	250	(278)	0.8998
<b>Loans to and from wholly owned controlled entities</b>								
British pounds sterling	(13)	13	(24)	0.5217	(28)	55	(98)	0.5548
Japanese yen	240	(313)	3	94.15	83	(136)	1	94.59
United States dollars	(80)	58	(75)	0.7727	(68)	47	(50)	0.9268
New Zealand dollars	(1)	1	(1)	1.1079	(1)	1	(1)	1.0871
Hong Kong dollars	(26)	26	(4)	5.9997	(8)	4	(1)	7.1738
<b>Forward contracts hedging forecast payments and other liabilities</b>								
<b>Forecast transactions</b>								
United States dollars	(569)	274	(358)	0.7646	(289)	138	(154)	0.8993
Euro	(4)	2	(3)	0.6851	-	-	-	-
Philippine peso	(5,848)	4,600	(134)	34.28	-	-	-	-
New Zealand dollars	(16)	8	(7)	1.1316	-	-	-	-
British pounds sterling	(1)	1	(1)	0.5007	-	-	-	-
Indonesian rupiah	(166)	166	(4)	48.93	-	-	-	-
Japanese yen	(345)	172	(2)	94.69	-	-	-	-
<b>Other assets and liabilities - non-interest bearing</b>								
United States dollars	(34)	34	(44)	0.7714	(21)	21	(22)	0.9487
<b>Total in Australian dollars</b>			(654)				(603)	

## NOTE 19. SHARE CAPITAL

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
Contributed equity	5,284	5,793
Share loan to employees	(15)	(17)
Shares held by employee share plans	(93)	(107)
Net services received under employee share plans	22	50
	<b>5,198</b>	5,719

**19.1 Contributed equity**

Our contributed equity represents our authorised and issued fully paid ordinary shares. 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 dividends 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.

As part of our capital management program, on 6 October 2014 we completed an off-market share buy-back of 217,418,521 ordinary shares (or 1.75 per cent of our total shares on issue). The ordinary shares were bought back at \$4.60 per share, which represented a 14 per cent discount to the Telstra market price and comprised a fully franked dividend component of \$2.27 per share (or \$494 million in total) and a capital component of \$2.33 per share (or \$506 million in total). The shares bought back were subsequently cancelled. The total cost of the share buy-back amounted to \$1,003 million, including \$3 million of associated transaction costs (net of income tax).

We have 12,225,655,836 (2014: 12,443,074,357) authorised fully paid ordinary shares on issue.

**19.2 Share loan to employees**

The share loan to employees represents the outstanding balance of the non recourse loans provided to our employees under the Telstra Employee Share Ownership Plan Trust II (TESOP99). Refer to note 27 for further details regarding this plans.

**19.3 Shares held by employee share plans**

The shares held by employee share plans represent the cost of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded with contributions and intercompany loans from Telstra Corporation Limited. As at 30 June 2015, the number of shares totalled 17,584,122 (2014: 21,550,102). These shares are excluded from the calculation of basic and diluted earnings per share. Refer to note 3 for further details.

The total number of shares acquired on market during the financial year by Growthshare for employee incentive schemes was 9,484,108 shares. The average price per share at which the shares were acquired during the financial year was \$5.68.

**19.4 Net services received under employee share plans**

The net services received under employee share plans represents the cumulative value of our options, performance rights, restricted shares, Directshare and Ownshare issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account.

NOTE 20. NOTES TO THE STATEMENT OF CASH FLOWS

20.1 Reconciliation of profit to net cash provided by operating activities

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
Profit for the year from continuing operations	4,286	4,549
Profit/(loss) for the year from discontinued operation	19	(204)
Profit for the year	4,305	4,345
<b>Add/(subtract) the following transactions</b>		
Depreciation and amortisation	3,983	4,042
Finance income	(157)	(156)
Finance costs	846	1,113
Distribution from Foxtel Partnership	(125)	(165)
Share based payments	66	45
Defined benefit plan expense	61	107
Consideration in kind	(11)	(23)
Net gain on disposal of property, plant and equipment	(156)	(76)
Fair value gain on equity instruments	(6)	-
Net loss/(gain) on disposal of controlled entities	2	(561)
Share of net (profit) from joint ventures and associated entities	(19)	(24)
Impairment losses (excluding inventories, trade and other receivables)	17	180
Foreign exchange (gain)/loss	(21)	111
Other miscellaneous income	(28)	-
<b>Cash movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)</b>		
Increase in trade and other receivables	(457)	(164)
(Increase)/decrease in inventories	(122)	35
Increase in prepayments and other assets	(208)	(49)
Increase/(decrease) in trade and other payables	165	(192)
Increase in revenue received in advance	143	54
Increase/(decrease) in net taxes payable	32	(59)
Increase in provisions	1	50
<b>Net cash provided by operating activities</b>	<b>8,311</b>	<b>8,613</b>

20.2 Cash and cash equivalents

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
Cash at bank and on hand	581	305
Bank deposits and negotiable certificates of deposit	815	5,222
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>1,396</b>	<b>5,527</b>



## NOTE 20. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

## 20.3 Acquisitions

## (a) Current year

## (i) Ooyala Inc.

On 30 September 2014, our newly incorporated controlled entity, Ooyala Holdings Inc., in which we held a 98.9 per cent shareholding, acquired additional shares in our existing investment, Ooyala Inc. (Ooyala). Ooyala Holdings Inc. now owns all of the shares in Ooyala, which has a number of controlled entities.

Ooyala enables broadcasters, operators, and media organisations to deliver digital TV and video content across any device to mass audiences, using analytics to provide recommendations, personalised content and advertising to the end user.

The goodwill arising from the Ooyala acquisition is to create an integrated software business. None of the goodwill recognised is expected to be deductible for income tax purposes.

As at 30 June 2014, we owned 27 per cent (undiluted) of equity in Ooyala Inc. valued at \$64 million. The investment was accounted for as an available-for-sale investment because it did not meet the AASB 128: "Investments in Associates and Joint Ventures" criteria for equity accounting as an associate. On 1 July 2014, i.e. the first time adoption date of AASB 9 (2013): "Financial Instruments", the existing investment was remeasured at fair value with subsequent changes to be recorded through profit or loss. The investment was revalued immediately before the acquisition of the additional shares resulting in a \$6 million gain recognised in the income statement.

The total consideration for Ooyala amounted to \$364 million, including a non cash consideration of \$72 million (\$70 million representing the fair value of our existing investment in Ooyala and \$2 million representing the portion of an employee cash incentive plan replacing the existing shared based payments plan at the date of acquisition).

The costs incurred in completing this transaction amounted to \$1 million and are included in "Other expenses" in the income statement.

The effect of the acquisition is detailed below:

	Ooyala	
	Year ended 30 June	
	2015	2015
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration	292	
Non cash consideration	72	
<b>Total purchase consideration</b>	<b>364</b>	
Cash balances acquired	(18)	
Non cash consideration	(72)	
<b>Outflow of cash on acquisition</b>	<b>274</b>	
	<b>Fair value</b>	<b>Carrying value (a)</b>
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents	18	18
Trade and other receivables	39	39
Property, plant and equipment	5	5
Intangible assets	60	3
Other assets	3	3
Trade and other payables	(34)	(34)
Revenue received in advance	(22)	(28)
Other liabilities	(1)	(1)
Deferred tax liabilities	(20)	-
Net assets	48	5
Adjustment to reflect non-controlling interests	(1)	
<b>Goodwill on acquisition</b>	<b>317</b>	
<b>Total purchase consideration</b>	<b>364</b>	

## (a) Carrying value in entity's financial statements

The fair value of trade and other receivables amounted to \$39 million and equalled the gross contractual amount which is expected to be collectible.

The \$1 million non-controlling interest recognised at the acquisition date was measured as a proportionate share of identifiable net assets.

Since the date of acquisition, Ooyala has contributed income of \$49 million and a loss before income tax expense of \$65 million.

NOTE 20. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

20.3 Acquisitions (continued)

(a) Current year (continued)

(ii) Videoplaza AB

On 20 October 2014, our controlled entity Ooyala Holdings Inc., in which we held a 98.9 per cent shareholding, acquired 100 per cent shareholding in Videoplaza AB and its controlled entities (Videoplaza) for a total consideration of \$79 million, including \$3 million contingent on the entities achieving predetermined financial and non-financial targets by 30 June 2016.

Videoplaza is a leader in video advertising technology and monetization. It operates premium video advertising serving platforms and programmatic trading solutions, delivering advertising to viewers across all devices. It is used by broadcasters and media companies in Europe and the Asia Pacific region to maximise video monetisation.

Goodwill arising from the acquisition relates to Ooyala gaining access to the fast growing video advertising market and build out of a new business dimension in advertising. None of the goodwill recognised is expected to be deductible for income tax purposes.

The costs incurred in completing this transaction amounted to \$1 million and are included in "Other expenses" in the income statement.

The effect of the acquisition is detailed below:

	Videoplaza	
	Year ended 30 June	
	2015	2015
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration	76	
Contingent consideration	3	
<b>Total purchase consideration</b>	<b>79</b>	
Cash balances acquired	(5)	
Contingent consideration	(3)	
<b>Outflow of cash on acquisition</b>	<b>71</b>	
	Fair value	Carrying value (a)
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents	5	5
Trade and other receivables	2	2
Intangible assets	4	-
Other assets	1	1
Trade and other payables	(4)	(4)
Deferred tax liabilities	(1)	-
Net assets	7	4
<b>Goodwill on acquisition</b>	<b>72</b>	
<b>Total purchase consideration</b>	<b>79</b>	

(a) Carrying value in entity's financial statements

The fair value of trade and other receivables amounted to \$2 million and equalled the gross contractual amount which is expected to be collectible.

Since the date of acquisition, Videoplaza has contributed income of \$7 million and a loss before income tax expense of \$8 million.

(iii) Nativ Holdings Limited

On 29 June 2015, our controlled entity Videoplaza Limited, in which we held 98.9 per cent, acquired 100 per cent shareholding in Nativ Holdings Limited and its controlled entities (Nativ) for a total consideration of \$77 million, including equity consideration of \$12 million in Ooyala Holdings Inc. and \$13 million contingent consideration on the entity achieving predetermined revenue targets by 30 June 2016. The acquisition price is subject to completion adjustments.

Nativ is a provider of TV and video management solutions for content owners, broadcasters and brands. Goodwill arising from the acquisition relates to Nativ in conjunction with Ooyala and Videoplaza, allowing content distributors to leverage audience, content and advertising data to create personalised viewing experiences. None of the goodwill recognised is expected to be deductible for income tax purposes.

The costs incurred in completing this transaction amounted to \$1 million and are included in "Other expenses" in the income statement.

The effect of the acquisition is detailed below:

	Nativ	
	Year ended 30 June	
	2015	2015
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration	52	
Equity consideration	12	
Contingent consideration	13	
<b>Total purchase consideration</b>	<b>77</b>	
Cash balances acquired	(3)	
Equity consideration	(12)	
Contingent consideration	(13)	
<b>Outflow of cash on acquisition</b>	<b>49</b>	
	Fair value	Carrying value (a)
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents	3	3
Trade and other receivables	3	3
Intangible assets	20	-
Goodwill	-	2
Trade and other payables	(1)	(1)
Revenue received in advance	(2)	(1)
Deferred tax liabilities	(4)	-
Net assets	19	6
<b>Goodwill on acquisition</b>	<b>58</b>	
<b>Total purchase consideration</b>	<b>77</b>	

(a) Carrying value in entity's financial statements

The fair value of trade and other receivables amounted to \$3 million and equalled the gross contractual amount which is expected to be collectible.

Since the date of acquisition, Nativ has contributed nil income and nil profit before income tax expense.

## NOTE 20. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

## 20.3 Acquisitions (continued)

## (a) Current year (continued)

## (iv) Pacnet Limited

On 15 April 2015, our controlled entity Telstra Holdings Pty Ltd acquired a 100 per cent shareholding in Pacnet Limited and its wholly and partly owned controlled entities (Pacnet) for a total consideration of \$454 million. The acquisition included \$580 million of gross debt which has been repaid before 30 June 2015.

Pacnet is an Asian telecommunications and services provider of connectivity, managed services and data centre services to carriers, multinational corporations and governments in the Asia Pacific region.

The goodwill comprises the value of Pacnet's infrastructure, technology and expertise and the operational and cost synergies expected to be achieved from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

The costs incurred in completing this transaction amounted to \$4 million and are included in "Other expenses" in the income statement.

The effect of the acquisition is detailed below:

	Pacnet	
	Year ended 30 June	
	2015	2015
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration	454	
<b>Total purchase consideration</b>	<b>454</b>	
Cash balances acquired	(31)	
<b>Outflow of cash on acquisition</b>	<b>423</b>	
	<b>Fair value</b>	<b>Carrying value (a)</b>
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents	31	31
Trade and other receivables	151	151
Property, plant and equipment	803	803
Intangible assets	129	3
Goodwill	-	127
Other assets	85	85
Trade and other payables	(75)	(75)
Revenue received in advance	(438)	(769)
Other liabilities	(756)	(684)
Deferred tax liabilities	(91)	(8)
Net assets	(161)	(336)
Adjustment to reflect non-controlling interests	1	
<b>Goodwill on acquisition</b>	<b>614</b>	
<b>Total purchase consideration</b>	<b>454</b>	

(a) Carrying value in entity's financial statements

The fair value of trade and other receivables amounted to \$151 million. Of the \$157 million gross contractual amount, \$6m is expected to be uncollectable.

Since the date of acquisition, Pacnet has contributed income of \$104 million and a loss before income tax expense of \$22 million.

## (v) Other acquisitions

On 15 July 2014, we acquired a 100 per cent shareholding in Medinexus Pty Ltd (Medinexus). Medinexus provides a cloud based solution to diagnostic imaging providers that enables them to receive e-referrals from healthcare providers and deliver digitised images and reports back to the referrer via the internet.

On 1 August 2014, we acquired a controlling 51 per cent shareholding in Telstra SNP Monitoring Pty Ltd (TSM). TSM provides back-to-base monitoring of alarm systems from two monitoring centres and delivers security installation projects.

On 13 October 2014, our controlled entity O2 Networks Pty Ltd (O2 Networks) acquired a 100 per cent shareholding in Bridge Point Communications Pty Ltd (Bridge Point). Bridge Point is a provider of information security, networks and data management solutions.

On 13 November 2014, we acquired a 100 per cent shareholding in iCareHealth Pty Ltd (iCareHealth). iCareHealth provides e-health solutions for residential aged care.

On 28 November 2014, we acquired a controlling 50.1 per cent shareholding in AFN Solutions Pty Ltd (AFN). AFN provides products, services and consulting in the security sector.

On 1 December 2014, we acquired a 100 per cent shareholding in Emerging Holdings Pty Ltd and its controlled entities (Emerging Holdings). Emerging Holdings provides e-health solutions to hospitals.

On 15 December 2014, our controlled entity CloudMed Pty Ltd (CloudMed) acquired the assets of Cloud 9 Software Pty Ltd and IdeaObject Software Private Limited. CloudMed provides eHealth cloud software solutions to general practitioners in Australia and hospitals in Asia.

On 25 March 2015, our controlled entity Telstra Limited acquired a 100 per cent shareholding in Dr Foster Intelligence Ltd and its controlled entities (Dr Foster). Dr Foster provides health service benchmarking data and quality improvement services for hospitals in various countries.

On 31 May 2015, we acquired a controlling 51 per cent shareholding in Neto E-Commerce Solutions Pty Ltd (Neto). We also subscribed to capital of \$10 million as part of this transaction. Neto produces a SaaS e-commerce solution.

On 16 June 2015, we acquired a 100 per cent shareholding in Globecast Australia Pty Ltd (Globecast) and its controlled entity. Globecast is a leading provider of media services for broadcasters in Australasia.

On 25 June 2015, we acquired a 100 per cent shareholding in Cygnus Satellite Pty Ltd (Cygnus). Cygnus operates as a wholesale satellite managed service provider.

The aggregate consideration paid for the above acquisitions amounted to \$182 million, including \$8 million contingent consideration and \$9 million deferred consideration.

During the financial year 2015 total cash consideration paid for shares in controlled entities (net of cash acquired) amounted to \$984 million, as disclosed in the Statement of Cash Flows.

The aggregate non-controlling interests amounting to \$22 million recognised at the acquisition dates of the above acquisitions were measured as a proportionate share of identifiable net assets.

NOTE 20. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

20.3 Acquisitions (continued)

(a) Current year (continued)

(v) Other acquisitions (continued)

The costs incurred in completing these transactions amounted to \$6 million and are included in "Other expenses" in the income statement.

The effect of all these acquisitions on payments for shares in controlled entities is detailed below:

	Other acquisitions	
	Year ended 30 June	
	2015	2015
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration	165	
Contingent consideration	8	
Deferred consideration (a)	9	
<b>Total purchase consideration</b>	<b>182</b>	
Cash balances acquired	(15)	
Contingent consideration	(8)	
Deferred consideration (a)	(9)	
<b>Outflow of cash on acquisition</b>	<b>150</b>	
	<b>Fair value</b>	<b>Carrying value (b)</b>
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents	15	15
Trade and other receivables	35	35
Property, plant and equipment	9	9
Intangible assets	93	1
Goodwill	-	36
Other assets	11	11
Trade and other payables	(35)	(35)
Revenue received in advance	(16)	(16)
Other	(5)	(5)
Deferred tax liabilities	(15)	-
<b>Net assets</b>	<b>92</b>	<b>51</b>
Adjustment to reflect non-controlling interests	(22)	
<b>Goodwill on acquisition</b>	<b>112</b>	
<b>Total purchase consideration</b>	<b>182</b>	

(a) Deferred consideration of \$9 million was paid for iCareHealth during the financial year 2015.

(b) Carrying value in entities' financial statements

The fair value of trade and other receivables amounted to \$35 million and equalled the gross contractual amount which is expected to be collectible.

Since the dates of acquisition, all these acquired entities have contributed income of \$101 million and a loss before income tax expense of \$10 million.

The goodwill comprises the value of expected synergies arising from the acquisitions. There is no goodwill that is expected to be deductible for tax purposes.

If all the acquisitions made in the financial year had occurred on 1 July 2014, our adjusted consolidated income and consolidated profit before income tax expense for the year ending 30 June 2015 for the Telstra Group would have been \$27,116 million and \$5,957 million, respectively.

(b) Prior year

(i) Acquisitions

We acquired the following controlled entities during the financial year 2014:

NSC Group Pty Ltd and its controlled entities

DCA eHealth Solutions Pty Ltd and its controlled entities

Fred IT Group Pty Ltd and its controlled entities (Fred IT Group)

O2 Networks via an acquisition of three holding entities: Prentice Management Consulting Pty Ltd, Kelzone Pty Ltd and Goodwin Enterprises (Vic) Pty Ltd.

The effect of these acquisition is detailed below:

	Total acquisitions	
	Year ended 30 June	
	2014	2014
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration	166	
Contingent consideration	10	
<b>Total purchase consideration</b>	<b>176</b>	
Cash balances acquired	(5)	
Contingent consideration	(10)	
Loan	4	
<b>Outflow of cash on acquisition</b>	<b>165</b>	
	<b>Fair value</b>	<b>Carrying value (a)</b>
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents	5	5
Trade and other receivables	28	28
Property, plant and equipment	7	7
Intangible assets	82	54
Other assets	11	11
Trade and other payables	(25)	(25)
Revenue received in advance	(15)	(15)
Other liabilities	(12)	(12)
Deferred tax liabilities	(15)	(2)
<b>Net assets</b>	<b>66</b>	<b>51</b>
Adjustment to reflect non-controlling interests	(6)	
<b>Goodwill on acquisition</b>	<b>116</b>	
<b>Total purchase consideration</b>	<b>176</b>	

(a) Carrying value in entities' financial statements

During the financial year 2015, contingent consideration of \$6 million and \$2 million was paid for Fred IT Group and O2 Networks, respectively, for targets achieved by 30 June 2014.

The remaining \$2 million of O2 Networks contingent consideration has been reversed to the income statement.

## NOTE 20. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

## 20.4 Disposals

## (a) Current Year

## (i) Sequel Media Inc.

On 26 November 2014, our controlled entity Telstra Holdings Pty Ltd disposed of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) for a total consideration of \$18 million (including cash balances), resulting in a \$2 million net loss on sale, largely representing the \$2 million foreign currency translation loss reclassified on the disposal from reserves to the income statement. On completion of the sale we deconsolidated the Sequel Media Inc. balance sheet, including \$26 million of cash balances disposed.

## (b) Prior Year

## (i) Sensis Group and CSL Group

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) for total consideration of \$454 million and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of Sensis Pty Ltd and its controlled entities. The Sensis Group was classified as a discontinued operation and, on the remeasurement of assets of the disposal group, the carrying value of its goodwill was impaired by \$150 million. Refer to note 12 for further details.

On 14 May 2014, we disposed of our entire 76.4 per cent shareholding in CSL New World Mobility Limited and its controlled entities (CSL Group). The effect of the disposal is detailed below:

	CSL Group
	Year ended 30 June
	2014
	\$m
<b>Consideration on disposal</b>	
Cash consideration	2,107
Cash and cash equivalents disposed	(164)
<b>Total inflow of cash on disposal</b>	<b>1,943</b>
Contingent consideration	33
<b>Total consideration on disposal</b>	<b>1,976</b>
<b>Assets/(liabilities) at disposal date</b>	
Assets classified as held for sale (including cash disposed)	1,957
Liabilities classified as held for sale	(473)
<b>Net assets classified as held for sale</b>	<b>1,484</b>
Foreign currency translation reserve disposed (net of income tax)	287
Adjustments for non-controlling interests	(198)
Other adjustments	6
<b>Profit on disposal</b>	<b>561</b>

Unlike the Sensis Group, the CSL Group does not meet the criteria of a discontinued operation under AASB 5: "Non Current Assets Held for Sale and Discontinued Operations".

## 20.5 Other transactions

## (a) Current year

## (i) Share buy back

On 6 October 2014, we completed an off-market share buy-back of 217,418,521 ordinary shares as part of our capital management program. Refer to note 19 for further details.

## (ii) Changes in Autohome ownership

Our ownership interest in Autohome Inc. decreased from 63.2 per cent at 30 June 2014 (this percentage takes into account shares that Autohome has reserved but not granted, pursuant to Autohome's employee equity compensation plans) to 62.9 per cent following employee share issues. Following this on 25 November 2014, our controlled entity Telstra Holdings Pty Ltd disposed of a 6.4 per cent interest in Autohome Inc. for a total consideration of \$333 million (net of underwriting commissions). At the same time Autohome Inc. completed an on-market share issue for total consideration of \$116 million. The combined effect of the two transactions decreases Telstra Holdings Pty Ltd ownership in Autohome Inc. from 62.9 per cent to 55.3 per cent. A further employee share issue has decreased our ownership to 54.3 per cent at 30 June 2015. None of these transactions resulted in a change of control. Changes in valuation of non-controlling interests resulting from these transactions are recorded in the general reserve.

## (iii) Other

On 12 December 2014, we contributed \$5 million cash to incorporate PT Teltranet Aplikaski Solusi, with an additional \$5 million contributed by other shareholders. We own 49 per cent shareholding in the entity, however, we control it through our decision making ability on the board.

During the period we borrowed \$79 million (2014: nil) under a loan agreement with an associated entity, Project Sunshine I Pty Ltd. The loan interest is eight per cent per annum and has a maturity date of 31 December 2015. As at 30 June 2015 the loan payable is \$34 million.

During the financial year 2015, Project Sunshine I Pty Ltd returned capital of \$45 million and paid dividends of \$14 million (2014: nil).

## (b) Prior year

## (i) Changes in Autohome ownership

On 4 November 2013, Telstra Holdings Pty Ltd acquired an additional 2.8 per cent interest in Autohome Inc. from minority shareholders for total consideration of \$60 million. At the same time Autohome Inc. completed a share buy-back from minority shareholders for total consideration of \$84 million. The combined effect of the two transactions increased Telstra Holdings Pty Ltd ownership in Autohome Inc. from 66.0 per cent at 30 June 2013 to 71.5 per cent immediately prior to the initial public offering (IPO).

Following this, on 11 December 2013 Autohome Inc. was listed on the New York Stock Exchange with gross proceeds to Autohome Inc. of \$160 million. Immediately following the IPO, our ownership interest decreased from 71.5 per cent to 65.4 per cent. Our ownership interest further decreased to 63.2 per cent at 30 June 2014 resulting from employee share issues.

## (ii) Other

On 10 December 2013, Telstra Octave Holdings Limited acquired the remaining 33 per cent interest in Octave Investments Holdings Limited for a total consideration of \$5 million, including \$1 million of cash disposed, in exchange for selling the net assets of the five variable interest entities controlled by Sharp Point Group Limited.

## NOTE 21. IMPAIRMENT

## 21.1 Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

## (a) Cash generating units with allocated goodwill

The carrying amount of goodwill has been allocated to the CGUs as detailed below:

	Telstra Group	
	Goodwill	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>CGUs</b>		
Telstra UK Group (a)	74	65
1300 Australia Group	16	16
Autohome Group (a)	130	108
O2 Networks Group	57	47
HealthConnex Group (previously DCA Health Group)	16	16
Fred IT Group	21	21
Telstra Enterprise & Services Group (c)	122	122
Ooyala Group (a)	361	-
Videoplaza Group (a) (b)	73	-
Pacnet Group (a) (b)	619	-
Nativ Group (a) (b)	58	-
Other	105	-
	1,652	395

(a) These CGUs operate in overseas locations, therefore the goodwill allocated to these CGUs will fluctuate in line with movements in applicable foreign exchange rates during the period.

(b) Refer to note 20 for further details on acquisitions during the year. There are no indicators of impairment in relation to these assets since their acquisition dates.

(c) The Telstra Enterprise & Services Group includes goodwill from past acquisitions integrated into our business.

## (b) Ubiquitous telecommunications network and Hybrid Fibre Coaxial (HFC) cable network

In addition to the aforementioned CGUs, we have two further significant CGUs that are reviewed for impairment. These are:

- the Telstra Entity CGU, excluding the HFC cable network
- the CGU comprising the HFC cable network.

The Telstra Entity CGU consists of our ubiquitous telecommunications network in Australia, excluding the HFC cable network as we consider it not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network, comprising the customer access network and the core network, are considered to be working together to generate our cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

## 21.2 Impairment testing

## (a) Cash generating units with allocated goodwill

Our impairment testing compares the carrying amount of an individual asset or CGU with its recoverable amount as determined using a value in use calculation, with the exception of Autohome whose recoverable amount was determined using fair value less cost of disposal as an observable market price is available for Autohome following its listing on the New York Stock Exchange (NYSE).

Our assumptions for determining the recoverable amount using value in use of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on a maximum five year management approved forecasts unless a longer period is justified. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

## (i) Value in use

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite useful life intangible assets have been allocated:

	Telstra Group			
	Discount rate (a)		Terminal value growth rate (b)	
	As at 30 June		As at 30 June	
	2015	2014	2015	2014
	%	%	%	%
Telstra UK Group	6.6	7.5	3.0	3.0
1300 Australia Group	10.4	11.7	3.0	3.0
O2 Networks Group	11.1	12.4	3.0	3.0
HealthConnex Group (previously DCA Health Group)	10.6	11.7	3.0	3.0
Fred IT Group	10.4	11.5	3.0	3.0
Telstra Enterprise & Services Group	13.7	14.3	3.0	3.0
Ooyala Group	11.1	n/a	3.0	n/a

(a) 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 which is adjusted for specific risks relating to the CGU and the countries in which it operates.

(b) 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 respective markets.

Sensitivity analysis was undertaken to examine the effect of a change in a variable on each CGU. The discount rate would need to increase by 210 basis points (2014: 431 basis points) or the terminal value growth rate would need to be 0.5 per cent (2014: negative 3.0 per cent) before the recoverable amount of any of the CGUs would be equal to the carrying value.

## NOTE 21. IMPAIRMENT (continued)

## 21.2 Impairment testing (continued)

## (a) Cash generating units with allocated goodwill (continued)

## (ii) Fair value less cost of disposal

From 30 June 2014 onwards and following the Autohome Inc. listing on 11 December 2013, the recoverable amount calculation for this CGU was based on fair value less cost of disposal measured with reference to quoted market prices in an active market (Level 1). Our assumption for determining the fair value less cost of disposal for the Autohome CGU was based on the NYSE 30 June 2015 closing share price of US\$50.54 (2014: US\$34.43). Telstra holds 61,824,328 shares (2014: 68,788,940 shares) valued at \$4,070 million (US\$3,125 million) (2014: \$2,514 million (US\$2,368 million)).

## (b) Ubiquitous telecommunications network and Hybrid Fibre Coaxial (HFC) cable network ("the networks")

On 14 December 2014 we signed revised Definitive Agreements (DAs) with NBN Co and the Commonwealth Government to enable the rollout of the Government's Optimised Multi-Technology Mix (OMTM) National Broadband Network (NBN). The agreements came into effect on 26 June 2015 when all conditions precedent had been satisfied, including approval by the Australian Competition and Consumer Commission (ACCC) of our varied Migration Plan and an acceptable ruling from the Australian Taxation Office.

The main change to the original agreements relates to the approach taken to our copper and HFC networks. Under the original agreements, we were required to progressively disconnect premises connected to our copper and HFC broadband networks as the NBN is rolled out. Under the revised agreements, we will continue to disconnect premises. However, where NBN Co uses the copper and HFC networks to deliver an NBN service, we will progressively transfer ownership, and the operational and maintenance responsibilities for the relevant copper and HFC assets to NBN Co. The payment structure remains linked to the rollout of the NBN. We will also continue to deliver Foxtel Pay TV services through continued access to the HFC network negotiated with NBN Co and NBN Co has agreed to reimburse us for any direct, reasonable, substantiated and incremental costs we incur as a result of the move by NBN Co to the OMTM rollout.

The estimated net present value (NPV) that the revised agreements are expected to deliver is equivalent, on a like for like basis, to the estimated NPV of the original agreements and is based on a range of dependencies and assumptions over the long term life of the agreements.

Our discounted expected future cash flows support the carrying amount of the networks. This is based on:

- forecast cash flows from continuing to:
  - use the core network
  - provide Pay TV services through continued access to the HFC network negotiated with NBN Co into the future
- the consideration we expect to receive under the NBN DAs for:
  - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (excluding Pay TV services on the HFC cable network) provided to premises in the NBN footprint
  - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts
  - the sale of our copper and HFC network assets and lead-in-conduits within scope of the revised agreements.

Given the above, the results of our impairment testing for the networks show that the carrying amounts are recoverable at 30 June 2015.

We will reassess our network CGUs going forward in light of the terms of the revised NBN DAs to determine if our ubiquitous network CGU should include the HFC assets.

## NOTE 22. EXPENDITURE COMMITMENTS

### 22.1 Capital expenditure commitments

Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
Property, plant and equipment commitments (a)	684	880
Intangible assets commitments (b)	174	1,350

(a) This includes the Telstra Entity capital expenditure commitments of \$666 million (2014: \$847 million). Refer to note 30 for further details.

(b) During financial year 2015, we paid \$1,302 million for the 700MHz and 2.5GHz spectrum licences which we were committed to in the prior financial year. Refer to note 14 for further details.

### 22.2 Operating lease commitments

Future lease payments for non-cancellable operating leases not recorded in the financial statements:

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
Within 1 year	570	476
Within 1 to 5 years	1,368	1,273
After 5 years	1,003	1,029
	2,941	2,778

We have operating leases for the following types of assets:

- rental of land and buildings
- rental of motor vehicles, caravan huts and trailers, mechanical aids and heavy excavation equipment
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The weighted average lease term is:

- 16 years for land and buildings
- 2 years for motor vehicles, 4 to 5 years for light commercial vehicles, and 7 to 12 years for trucks and mechanical aids and heavy excavation equipment
- 3 years for personal computers and related equipment.

The majority of our operating leases relate to land and buildings. We have several subleases with total minimum lease payments of \$36 million (2014: \$39 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3 and 5 per cent, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

### 22.3 Finance lease commitments

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Finance lease commitments</b>		
Within 1 year	113	99
Within 1 to 5 years	180	191
After 5 years	195	154
Total minimum lease payments	488	444
Future finance charges on finance leases	(144)	(135)
Present value of net future minimum lease payments	344	309
<b>The present value of finance lease liabilities is as follows:</b>		
Within 1 year	93	78
Within 1 to 5 years	139	155
After 5 years	112	76
Total finance lease liabilities	344	309

We have finance leases for the following types of assets:

- property lease in our controlled entity, Telstra Limited
- computer mainframes, computer processing equipment and other related equipment.

The weighted average lease term is:

- 25 years for the property lease, with a remaining average life of 22 years
- 5 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:

- property lease interest rate of 9.5 per cent
- computer mainframes, computer processing equipment associated equipment weighted average interest rate of 5.8 per cent.

We sublease computer mainframes, computer processing equipment and other related equipment as part of the solutions management and outsourcing services that we provide to our customers. Refer to note 10 for further details on these finance subleases.

During financial year 2013, we restructured the property head leases held by Telstra Limited and entered into a lease back transaction, whereby a finance lease asset and finance lease liability of \$52 million were recognised. The lease term is 25 years, with two 10 year options to extend. There is no purchase option. Rent is based on market prices, reviewed on an annual basis and subject to a cap and collar of 5 per cent and 2 per cent respectively.

Information on our share of our joint ventures' commitments is included in note 26.



## NOTE 23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

We have no significant contingent assets as at 30 June 2015. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

### 23.1 Telstra Entity

Refer to note 30 for Telstra Entity contingent liabilities.

### 23.2 Other

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 our deed of cross guarantee is included in note 25. 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. Refer to note 25 for further details.

## NOTE 24. POST EMPLOYMENT BENEFITS

We participate in or sponsor defined benefit and defined contribution schemes. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans is calculated by an actuary using the projected unit credit method. This method determines each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to calculate the final obligation.

Details of our defined benefit plans are set out below.

### 24.1 Net defined benefit plan asset/(liability)

#### (a) Historical summary

Our net defined benefit plan asset/(liability) recognised in the statement of financial position for the current and previous periods is as follows:

	Telstra Group				
	As at 30 June				
	2015	2014	2013	2012	2011
	\$m	\$m	\$m	\$m	\$m
Fair value of defined benefit plan assets	2,694	2,953	2,944	2,559	2,599
Present value of the defined benefit obligation	2,402	2,909	2,983	3,390	2,793
<b>Net defined benefit asset/(liability) at 30 June</b>	<b>292</b>	44	(39)	(831)	(194)
<b>Attributable to:</b>					
Telstra Super Scheme	296	44	(42)	(825)	(205)
Other	(4)	n/a	3	(6)	11
	<b>292</b>	44	(39)	(831)	(194)

#### (b) Amounts recognised in the income statement and in other comprehensive income

	Telstra Group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Components of the defined benefit plan expense recognised in the income statement</b>		
Service cost (including settlement gain)	61	107
Net interest (income)/expense on net defined benefit (asset)/liability	(5)	10
<b>Total expense from continuing operations recognised in the income statement</b>	<b>56</b>	117
Actuarial gain recognised directly in other comprehensive income	233	117
Cumulative actuarial gains recognised directly in other comprehensive income	312	79

### 24.2 Telstra Superannuation Scheme (Telstra Super)

The Telstra Entity participates in Telstra Super, a regulated fund in accordance with Superannuation Industry Supervision Act governed by the Australian Prudential Regulatory Authority.

Responsibility for governance of the plan, including investment decisions and plan rules, rests solely with the board of directors of Telstra Super. Contribution levels are determined by Telstra after obtaining the advice of the actuary and consulting with the Trustee. The board of directors comprises of an equal number of member and employer representatives and an independent chair.

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.

Contribution levels made to the defined benefit divisions are designed to ensure that benefits accruing to members and beneficiaries are fully funded as the benefits 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.

## NOTE 24. POST EMPLOYMENT BENEFITS (continued)

**24.2 Telstra Superannuation Scheme (Telstra Super) (continued)**

We engage qualified actuaries on an annual basis to calculate the present value of the defined benefit obligations. Furthermore, an actuarial investigation of this scheme is carried out at least every three years to comply with the legislative requirement. The purpose of the investigation is to assess the scheme's financial position and to recommend the rate at which Telstra should contribute to the scheme.

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 across equities, alternative investments, fixed interest securities and cash to generate sufficient growth to match the projected liabilities of the defined benefit plan while providing appropriate liquidity to meet the expected timing of such liabilities, in line with the fund's actuarial reviews.

**(a) Measurement dates**

For Telstra Super, we use actual membership data as at 30 April, details of assets, benefit payments and other cash flows as at 31 May and contributions as at 30 June to value the defined benefit plan. The April and May figures were rolled forward to 30 June to allow for changes in the membership and actual asset return.

The fair value of the defined benefit plan assets and the present value of the defined benefit obligations are determined by our actuaries. The details of the defined benefit divisions are set out in the following pages.

**(b) Defined benefit scheme settlement event**

On 6 November 2014, 708 members covered by the defined benefit scheme accepted a voluntary offer from Telstra Super to transfer from the defined benefit scheme to a defined contribution scheme. As a result, we settled all defined benefit obligations relating to these employees and recognised a \$28 million gain on settlement. This is reflected in the settlement/curtailment (gain) movement for the year.

**(c) Reconciliation of changes in fair value of defined benefit plan assets**

	Telstra Super	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Fair value of defined benefit plan assets at beginning of year</b>	<b>2,953</b>	2,862
Employer contributions	75	86
Member contributions	54	44
Benefits paid (including contributions tax)	(554)	(327)
Plan expenses after tax	(19)	(19)
Interest income on plan assets	119	104
Actual asset gain	66	203
<b>Fair value of defined benefit plan assets at end of year</b>	<b>2,694</b>	2,953

The actual return on defined benefit plan assets was 6.5 per cent (2014: 10.6 per cent).

**(d) Reconciliation of changes in the present value of the wholly funded defined benefit obligation**

	Telstra Super	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Present value of defined benefit obligation at beginning of year</b>	<b>2,909</b>	2,903
Current service cost	101	127
Interest cost	114	114
Member contributions	21	15
Benefits paid	(554)	(327)
Actuarial (gain)/loss due to change in financial assumptions	(144)	124
Actuarial gain due to change in demographic assumptions	(29)	-
Actuarial loss/(gain) due to experience	6	(34)
Settlement/curtailment (gain)	(26)	(13)
<b>Present value of wholly funded defined benefit obligation at end of year</b>	<b>2,398</b>	2,909

**(e) Amounts recognised in the income statement and in other comprehensive income**

	Telstra Super	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Components of the defined benefit plan expense recognised in the income statement</b>		
Service cost (including settlement gain)	61	104
Net interest (income)/expense on net defined benefit (asset)/liability	(5)	10
<b>Total expense from continuing operations recognised in the income statement</b>	<b>56</b>	114
Actuarial gain recognised directly in other comprehensive income	233	113
Cumulative actuarial gains recognised directly in other comprehensive income	312	79

NOTE 24. POST EMPLOYMENT BENEFITS (continued)

24.2 Telstra Superannuation Scheme (Telstra Super) (continued)

(f) Categories of plan assets

The weighted average asset allocation as a percentage of the fair value of total plan assets for defined benefit divisions as at 30 June is as follows:

	Telstra Super	
	As at 30 June	
	2015	2014
	%	%
<b>Asset allocations</b>		
Equity instruments		
- Australian equity (a)	15	14
- International equity (a)	15	15
- Private equity	8	8
Debt instruments		
- Fixed Interest (a)	39	36
Property	1	1
Cash and cash equivalents (a)	16	19
International hedge funds	6	5
Opportunities (a)	-	2
	100	100

(a) These assets have quoted prices in active markets.

Telstra Super's investments in debt and equity instruments include bonds issued by, and shares in Telstra Corporation Limited. Refer to note 29 for further details.

(g) Principal actuarial assumptions

We used the following major annual assumptions to determine our defined benefit obligations for the year ended 30 June:

	Telstra Super	
	Year ended 30 June	
	2015	2014
	%	%
Discount rate	4.3	3.7
Expected rate of increase in future salaries	3.5	3.5

(h) Sensitivity analysis of actuarial assumptions

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. The following table summarises how the defined benefit obligation as at 30 June would have increased/(decreased) as a result of a change in the respective assumptions by 1 percentage point (1pp):

	Telstra Super	
	Defined benefit obligation	
	1pp increase	1pp decrease
	\$m	\$m
Discount rate (a)	(195)	223
Expected rate of increase in future salaries (b)	202	(180)

(a) The present value of our defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on high quality corporate bond securities (2014: government guaranteed securities) with due dates similar to those of these expected cash flows.

For Telstra Super we have used a nine year high quality corporate bond rate (2014: blended 10-year Australian government bond rate) as the term matches the closest to the term of the defined benefit obligations. Refer to note 2.20(b) for further information.

(b) Our assumption for the salary inflation rate for Telstra Super is 3.5 per cent, which is reflective of our long term expectation for salary increases.

(i) Employer contributions

Our employer contributions are currently determined by the funding deed we have with Telstra Super. Under the terms of the deed, contributions are required to be made with reference to the average vested benefits index (VBI). Our actual contribution rates are also influenced by the actuary's recommendations and legislative requirements. At VBI levels greater than 103 per cent, we are not required to pay any contributions under the funding deed.

For the quarter ended 30 June 2015, the VBI was 112 per cent (2014: 109 per cent). While no contributions are required under the funding deed, consistent with the actuarial recommendation, we have continued to contribute at a rate of 15 per cent of defined benefit members' salaries effective June 2015 (2014: 15 per cent).

During the year we paid contributions totalling \$75 million (2014: \$86 million).

## NOTE 24. POST EMPLOYMENT BENEFITS (continued)

**24.2 Telstra Superannuation Scheme (Telstra Super) (continued)****(i) Employer contributions (continued)**

We expect to continue to contribute at the rate of 15 per cent to our defined benefit divisions for financial year 2016, although this is subject to review in the actuarial investigation of Telstra Super as at 30 June 2015 (to be completed by 31 March 2016 and conducted every three years). This contribution rate could also change depending on market conditions during financial year 2016.

The following table shows the expected proportion of benefits paid from the defined benefit obligation in future years:

	Telstra Super	
	Year ended 30 June	
	2015	2014
	%	%
Less than 1 year	7	4
Between 2 and 4 years	21	16
Between 5 and 10 years	22	23
Between 11 and 19 years	41	45
Beyond 20 years	9	12
	<b>100</b>	100

The average duration of the defined benefit plan obligation at the end of the reporting period is 9 years (2014: 10 years).

**24.3 Other defined benefit schemes**

Our controlled entities also participate in both funded and unfunded defined benefit schemes, which are individually and in aggregate immaterial.

NOTE 25. INVESTMENTS IN CONTROLLED ENTITIES

25.1 List of our investments in controlled entities

Telstra Group		Telstra Entity's recorded amount of investment (\$)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2015	2014	2015	2014
Name of entity	Country of incorporation	\$m	\$m	%	%
<b>Parent entity</b>					
Telstra Corporation Limited (a)	Australia				
<b>Controlled entities</b>					
Chief Entertainment Pty Ltd	Australia	-	-	100.0	100.0
Research Resources Pty Ltd	Australia	-	-	100.0	100.0
Telstra 3G Spectrum Holdings Pty Ltd	Australia	302	302	100.0	100.0
Telstra Communications Limited (a)	Australia	29	29	100.0	100.0
Telstra ESOP Trustee Pty Ltd	Australia	-	-	100.0	100.0
Telstra Finance Limited (a)	Australia	-	-	100.0	100.0
Telstra Foundation Limited	Australia	-	-	100.0	100.0
Telstra Foundation (Philippines) Inc.	Philippines	-	-	100.0	100.0
Telstra Growthshare Pty Ltd	Australia	-	-	100.0	100.0
Telstra SNP Monitoring Pty Ltd (f)	Australia	20	-	51.0	-
Telstra International (Aus) Limited (a)	Australia	5	2	100.0	100.0
Telstra Media Pty Ltd	Australia	393	393	100.0	100.0
Telstra Multimedia Pty Ltd (a)	Australia	2,678	2,678	100.0	100.0
Telstra OnAir Holdings Pty Ltd	Australia	478	478	100.0	100.0
Telstra Pay TV Pty Ltd (a)	Australia	-	-	100.0	100.0
Telstra Plus Pty Ltd (a)	Australia	-	-	100.0	100.0
Telstra Services Solutions Holdings Limited (a)	Australia	303	303	100.0	100.0
Telstra Ventures Pty Ltd (a)	Australia	173	-	100.0	100.0
Telstra ReadyCare Pty Ltd	Australia	2	-	87.5	-
CloudMed Pty Ltd (f)	Australia	19	-	100.0	-
AFN Solutions Pty Ltd (e) (f)	Australia	6	-	50.1	-
Medinexus Pty Ltd (f)	Australia	4	-	100.0	-
iCareHealth Pty Ltd (f)	Australia	26	-	100.0	-
Network Design and Construction Limited (a)	Australia	20	20	100.0	100.0
Fred IT Group Pty Ltd (d) (e)	Australia	27	27	50.0	50.0
• ERX Script Exchange Pty Ltd (e)	Australia	-	-	100.0	100.0
Telstra iVision Pty Ltd (a)	Australia	41	41	100.0	100.0
Cygnus Satellite Pty Ltd (f)	Australia	5	-	100.0	-
Globecast Australia Pty Ltd (c) (f)	Australia	37	-	100.0	-
• Mediasat Pty Ltd (c) (f)	Australia	-	-	100.0	-
Neto E-Commerce Solutions Pty Ltd (f)	Australia	18	-	51.0	-
• Neto (Hong Kong) Limited (f)	Hong Kong	-	-	100.0	-
1300 Australia Pty Ltd	Australia	20	20	85.0	85.0
• Alpha Phone Words Pty Ltd	Australia	-	-	100.0	100.0
DCA eHealth Solutions Pty Ltd (a)	Australia	44	44	100.0	100.0
• Argus Connecting Care Pty Ltd	Australia	-	-	100.0	100.0
• Communicare EHealth Solutions Pty Ltd	Australia	-	-	100.0	100.0
• DCA Direct Health Pty Ltd (a)	Australia	-	-	100.0	100.0
• KCS Solutions Pty Ltd	Australia	-	-	100.0	100.0
Emerging Holdings Pty Ltd (f)	Australia	14	-	100.0	-
• Emerging Systems Pty Ltd (f)	Australia	-	-	100.0	-
• R&R Holdings Asia Pacific Pty Ltd (f)	Australia	-	-	100.0	-
Goodwin Enterprises (Vic) Pty Ltd (a)	Australia	16	16	100.0	100.0
• O2 Networks Pty Ltd (a)	Australia	-	-	31.6	31.6

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## NOTE 25. INVESTMENTS IN CONTROLLED ENTITIES (continued)

## 25.1 List of our investments in controlled entities (continued)

		Telstra Group			
Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (\$)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2015	2014	2015	2014
		\$m	\$m	%	%
Kelzone Pty Ltd (a)	Australia	16	16	100.0	100.0
• O2 Networks Pty Ltd (a)	Australia	-	-	31.7	31.7
Prentice Management Consulting Pty Ltd (a)	Australia	16	16	100.0	100.0
• O2 Networks Pty Ltd (a)	Australia	-	-	31.7	31.7
O2 Networks Pty Ltd (a)	Australia	22	9	5.0	5.0
• Bridge Point Communications Pty Ltd (a) (f)	Australia	-	-	100.0	-
NSC Group Pty Ltd (a)	Australia	45	45	100.0	100.0
• NSC Enterprise Solutions Pty Ltd (a)	Australia	-	-	100.0	100.0
• NSC NZ Limited	New Zealand	-	-	100.0	100.0
Telstra Holdings Pty Ltd (a)	Australia	8,012	7,474	100.0	100.0
• Pacnet Limited (c) (f) (i)	Bermuda	-	-	100.0	-
• Asia Communications Investment Holdings (Taiwan) Ltd (c) (f) (i)	Taiwan	-	-	100.0	-
• Pacnet Services Corporation Limited (c) (f) (i)	Bermuda	-	-	100.0	-
• Pacnet Internet (S) Pte Ltd (c) (e) (f) (i)	Singapore	-	-	100.0	-
• Pacnet Network Limited (c) (f) (i)	Bermuda	-	-	100.0	-
• Pacnet Cable Group Limited (c) (f) (i)	Bermuda	-	-	100.0	-
• Autohome Inc.(c)(d)(g)	Cayman Islands	-	-	54.3	63.2
• Cheerbright International Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Beijing Cheerbright Technologies Co. Ltd (c)	China	-	-	100.0	100.0
• Autohome (Tianjin) Automobile Sales Co. Ltd (c) (f)	China	-	-	100.0	-
• Autohome (Hong Kong) Limited (c)	Hong Kong	-	-	100.0	100.0
• Autohome Media Limited (c)	Hong Kong	-	-	100.0	100.0
• Autohome Shanghai Advertising Co. Ltd (c)	China	-	-	100.0	100.0
• Beijing Prbrownies Software Co. Ltd (c)	China	-	-	100.0	100.0
• Beijing Autohome Technologies Co. Ltd (c)	China	-	-	100.0	100.0
• Tianjin Autohome Technologies Co. Ltd (c) (f)	China	-	-	100.0	-
• Beijing Autohome Advertising Co. Ltd (c)	China	-	-	100.0	100.0
• Guangzhou Autohome Advertising Co. Ltd (c)	China	-	-	100.0	100.0
• Beijing Australia Telecommunications Technical Consulting Services Co. Ltd	China	-	-	100.0	100.0
• Reach Holdings Limited (c)	Mauritius	-	-	100.0	100.0
• Reach Network India Private Limited (c)	India	-	-	99.9	99.9
• Reach Data Services India Private Limited (c)	India	-	-	99.9	99.9
• Sequel Media Inc. (h)	Cayman Islands	-	-	-	55.0
• China Topside Limited (h)	British Virgin Islands	-	-	-	100.0
• Beijing Topside Technologies Co. Ltd (h)	China	-	-	-	100.0
• Norstar Advertising Media Holdings Limited (h)	Cayman Islands	-	-	-	100.0
• Shengtuo Shidai (Beijing) Information Technology Co. Ltd (h)	China	-	-	-	100.0
• Union Tough Advertisement Limited (h)	Hong Kong	-	-	-	100.0
• Haochen Shidai (Beijing) Advertisement Co. Ltd (h)	China	-	-	-	30.0
• Telstra Asia Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Telstra Octave Holdings Limited (b)	British Virgin Islands	-	-	-	100.0
• Octave Investments Holdings Limited (b)	British Virgin Islands	-	-	-	100.0
• Sharp Point Group Limited (h)	British Virgin Islands	-	-	-	100.0
• Beijing Liang Dian Shi Jian Technology Co. Ltd (h)	China	-	-	-	100.0
• Telstra Robin Holdings Limited (b)	British Virgin Islands	-	-	-	100.0
• Telstra Asia Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Telstra SE Asia Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• PT Reach Network Services Indonesia	Indonesia	-	-	90.0	90.0

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NOTE 25. INVESTMENTS IN CONTROLLED ENTITIES (continued)

25.1 List of our investments in controlled entities (continued)

		Telstra Group			
		Telstra Entity's recorded amount of investment (\$)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2015	2014	2015	2014
Name of entity	Country of incorporation	\$m	\$m	%	%
• Telstra Asia Regional Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Telstra Malaysia Sdn. Bhd.	Malaysia	-	-	51.0	51.0
• Telstra (Thailand) Limited (d)	Thailand	-	-	49.0	49.0
• Telstra Network (Thailand) Limited	Thailand	-	-	68.0	68.0
• Telstra Network (Thailand) Limited	Thailand	-	-	32.0	32.0
• Telstra Philippines Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Incomgen Holdings Inc. (d)	Philippines	-	-	40.0	40.0
• Telstra Web Holdings Inc.	Philippines	-	-	60.0	60.0
• Telstra Philippines Inc.	Philippines	-	-	60.0	60.0
• Telstra Philippines Inc.	Philippines	-	-	40.0	40.0
• Telstra Web Holdings Inc.	Philippines	-	-	40.0	40.0
• Thai Cyber Web Co. Ltd (d)	Thailand	-	-	48.8	48.8
• Telstra Global Holdings Limited	British Virgin Islands	-	-	100.0	100.0
• Telstra International Limited	Hong Kong	-	-	100.0	100.0
• Telstra Global Limited	United Kingdom	-	-	100.0	100.0
• Telstra Limited	United Kingdom	-	-	100.0	100.0
• Dr Foster Intelligence Limited (c) (f)	United Kingdom	-	-	100.0	-
• Dr Foster Research Limited (c) (f)	United Kingdom	-	-	100.0	-
• Dr Foster Limited (c) (f)	United Kingdom	-	-	100.0	-
• Dr Foster Inc. (c) (f)	United States	-	-	100.0	-
• Telstra Holdings (Bermuda) No 1 Limited	Bermuda	-	-	100.0	100.0
• Telstra Holdings (Bermuda) No 2 Limited	Bermuda	-	-	100.0	100.0
• Telstra Holdings Singapore Pte. Ltd	Singapore	-	-	100.0	100.0
• PT Teltranet Aplikasi Solusi (d) (f)	Indonesia	-	-	49.0	-
• Telstra Inc.	United States	-	-	100.0	100.0
• Telstra India (Private) Limited (c)	India	-	-	100.0	100.0
• Telstra International HK Limited	Hong Kong	-	-	100.0	100.0
• Telstra International Holdings Limited	Bermuda	-	-	100.0	100.0
• Telstra International Philippines Inc.	Philippines	-	-	100.0	100.0
• Telstra International PNG Limited (c)	Papua New Guinea	-	-	100.0	100.0
• Telstra Japan K. K.	Japan	-	-	100.0	100.0
• Telstra Network Services NZ limited	New Zealand	-	-	100.0	100.0
• Telstra NZ Limited	New Zealand	-	-	100.0	100.0
• Telstra Services Korea Limited	Republic of Korea	-	-	100.0	100.0
• Telstra Singapore Pte. Ltd	Singapore	-	-	100.0	100.0
• Telstra Technology Services (Hong Kong) Limited	Hong Kong	-	-	100.0	100.0
• Telstra Telecommunications Private Limited (c)	India	-	-	74.0	74.0
• Willoughby (602) Limited	United Kingdom	-	-	100.0	100.0
• Telstra Software Group Pty Ltd (f)	Australia	-	-	100.0	-
• Ooyala Holdings Inc. (c) (f)	United States	-	-	97.3	-
• Ooyala Inc. (c) (f)	United States	-	-	100.0	-
• Ooyala International Inc. (c) (f)	United States	-	-	100.0	-
• Ooyala Mexico, S. De R.L.De C.V. (c) (f)	Mexico	-	-	100.0	-
• Ooyala Singapore Pte Ltd (c) (f)	Singapore	-	-	100.0	-
• Ooyala Australia Pty Ltd (c) (f)	Australia	-	-	100.0	-
• Ooyala UK Limited (c) (e) (f)	United Kingdom	-	-	100.0	-
• Videoplaza AB (c) (e) (f)	Sweden	-	-	100.0	-
• Videoplaza Limited (c) (e) (f)	United Kingdom	-	-	100.0	-

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## NOTE 25. INVESTMENTS IN CONTROLLED ENTITIES (continued)

## 25.1 List of our investments in controlled entities (continued)

		Telstra Group			
		Telstra Entity's recorded amount of investment (\$)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2015	2014	2015	2014
Name of entity	Country of incorporation	\$m	\$m	%	%
• Nativ Holdings Limited (c) (f)	United Kingdom	-	-	100.0	-
• Nativ Limited (c) (f)	United Kingdom	-	-	100.0	-
• Nativ Systems Limited (c) (f)	United Kingdom	-	-	100.0	-
• Aunia Publicidad Interactiva SLU (Spain) (c) (f)	Spain	-	-	100.0	-
• muru-D Pty Ltd (h)	Australia	-	3	100.0	-
<b>Investment in controlled entities</b>		<b>12,791</b>	11,916		
Allowance for impairment in value		(8,579)	(7,635)		
<b>Total Investment in controlled entities</b>		<b>4,212</b>	4,281		

\*We have not disclosed dormant entities.

**(a) ASIC deed of cross guarantee financial information**

A deed of cross guarantee, as defined in ASIC Class Order 98/1418 (Class Order), was entered into on 17 May 2010.

The following entities form part of the deed of cross guarantee:

- Telstra Corporation Limited
- Telstra Multimedia Pty Ltd
- Telstra International (Aus) Limited
- Telstra Pay TV Pty Ltd
- Telstra Ventures Pty Ltd
- Telstra iVision Pty Ltd
- Telstra Communications Limited
- Telstra Holdings Pty Ltd
- Network Design and Construction Limited
- Telstra Services Solutions Holdings Limited
- NSC Group Pty Ltd
- NSC Enterprise Solutions Pty Ltd
- DCA eHealth Solutions Pty Ltd
- DCA Direct Health Pty Ltd
- Kelzone Pty Ltd
- Goodwin Enterprises (Vic) Pty Ltd
- Prentice Management Consulting Pty Ltd
- O2 Networks Pty Ltd.

The following entities were added via an assumption deed on 22 June 2015:

- Telstra Plus Pty Ltd
- Bridge Point Communications Pty Ltd.

Telstra Finance Limited is trustee of the closed group. However, it is not a group entity under the deed.

The relevant group entities under the deed:

- form a closed group and extended closed group as defined in the ASIC Class Order 98/1418 (Class Order)
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

NOTE 25. INVESTMENTS IN CONTROLLED ENTITIES (continued)

25.1 List of our investments in controlled entities (continued)

(a) ASIC deed of cross guarantee financial information (continued)

The statement of financial position and statement of comprehensive income of the closed group are presented according to the Class Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Closed group statement of financial position	Closed group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Current assets</b>		
Cash and cash equivalents	485	5,156
Trade and other receivables	3,785	3,429
Inventories	479	361
Derivative financial assets	7	23
Current tax receivables	8	2
Prepayments	294	315
Total current assets	5,058	9,286
<b>Non current assets</b>		
Trade and other receivables	1,152	966
Inventories	32	29
Investments - accounted for using the equity method	196	196
Investments in controlled entities	2,674	1,536
Investments - other	136	126
Property, plant and equipment	19,162	19,391
Intangible assets	7,443	6,064
Deferred tax assets	-	1
Derivative financial assets	1,790	1,322
Defined benefit asset	296	44
Total non current assets	32,881	29,675
<b>Total assets</b>	<b>37,939</b>	<b>38,961</b>
<b>Current liabilities</b>		
Trade and other payables	3,558	3,525
Provisions	954	925
Borrowings	1,967	3,618
Derivative financial liabilities	214	400
Current tax payables	257	259
Revenue received in advance	890	852
Total current liabilities	7,840	9,579
<b>Non current liabilities</b>		
Other payables	66	63
Provisions	267	259
Borrowings	14,058	13,484
Derivative financial liabilities	911	1,169
Deferred tax liabilities	1,401	1,238
Revenue received in advance	402	375
Total non current liabilities	17,105	16,588
<b>Total liabilities</b>	<b>24,945</b>	<b>26,167</b>
<b>Net assets</b>	<b>12,994</b>	<b>12,794</b>
<b>Equity</b>		
Share capital	5,198	5,719
Reserves	(54)	(118)
Retained profits	7,850	7,193
<b>Equity available to the closed group</b>	<b>12,994</b>	<b>12,794</b>

## NOTE 25. INVESTMENTS IN CONTROLLED ENTITIES (continued)

## 25.1 List of our investments in controlled entities (continued)

## (a) ASIC deed of cross guarantee financial information (continued)

Closed group statement of comprehensive income	Closed group	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Continuing operations</b>		
<b>Income</b>		
Revenue (excluding finance income)	24,773	25,493
Other income	930	441
	25,703	25,934
<b>Expenses</b>		
Labour	4,428	4,349
Goods and services purchased	6,500	5,730
Other expenses	3,866	5,681
	14,794	15,760
Share of net profit from joint ventures and associated entities	19	24
	14,775	15,736
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	10,928	10,198
Depreciation and amortisation	3,822	3,798
Earnings before interest and income tax expense (EBIT)	7,106	6,400
Finance income	148	152
Finance costs	840	1,096
Net finance costs	692	944
<b>Profit before income tax expense</b>	<b>6,414</b>	<b>5,456</b>
Income tax expense	1,781	1,780
<b>Profit for the year from continuing operations</b>	<b>4,633</b>	<b>3,676</b>
<b>Profit for the year from continuing and discontinued operations available to the closed group</b>	<b>4,633</b>	<b>3,676</b>
<b>Items that will not be reclassified to the closed group income statement</b>		
Retained profits:		
- actuarial gain on defined benefit plans	233	114
- income tax on actuarial gain on defined benefit plans	(69)	(34)
Fair value of equity instruments reserve:		
- gains from investments in equity instruments designated at fair value through other comprehensive income	7	-
- income tax on gains from investments in equity instruments	(1)	-
	170	80
<b>Items that may be subsequently reclassified to the closed group income statement</b>		
- changes in fair value of cash flow hedging reserve	11	(45)
- income tax on movements in the cash flow hedging reserve	(3)	15
- changes in the value of the foreign currency basis spread reserve	72	-
- income tax on movements in the foreign currency basis spread reserve	(22)	-
	58	(30)
<b>Total other comprehensive income for the closed group</b>	<b>228</b>	<b>50</b>
<b>Total comprehensive income for the year for the closed group</b>	<b>4,861</b>	<b>3,726</b>
<b>Retained profits reconciliation</b>		
Retained profits at the beginning of the financial year available to the closed group	7,193	6,725
Effect on retained profits from removal of entities from the closed group	-	257
Effect on retained profits from addition of entities to the closed group	53	-
Share buy-back (net of income tax)	(494)	-
Total comprehensive income recognised in retained profits	4,803	3,756
Dividends	(3,699)	(3,545)
<b>Retained profits at the end of the financial year available to the closed group</b>	<b>7,856</b>	<b>7,193</b>

### NOTE 25. INVESTMENTS IN CONTROLLED ENTITIES (continued)

#### 25.1 List of our investments in controlled entities (continued)

##### (b) Liquidations

During the year the following entities were liquidated:

- Telstra Octave Holdings Limited (liquidated on 12 December 2014)
- Octave Investments Holdings Limited (liquidated on 12 December 2014)
- Telstra Robin Holdings Limited (liquidated on 28 November 2014).

##### (c) Controlled entities with different reporting dates

The following companies have reporting dates that differ from our reporting date of 30 June for the financial year 2015:

31 December:

- Autohome Inc. and its controlled entities
- Telstra Asia Holdings Limited
- Telstra Asia Limited
- Telstra SE Asia Holdings Limited
- Telstra Asia Regional Holdings Limited
- Telstra Philippines Holdings Limited
- Telstra International PNG Limited
- Reach Holdings Limited
- Dr Foster Intelligence Limited and its controlled entities
- Globecast Australia Pty Ltd and its controlled entity
- Ooyala Holdings Inc. and its controlled entities
- Pacnet Limited and its controlled entities.

31 March:

- Reach Network India Private Limited
- Reach Data Services India Private Limited
- Telstra India (Private) Limited
- Telstra Telecommunications Private Limited.

These entities have different reporting dates due to jurisdictional requirements. Financial reports prepared as at 30 June are used for consolidation purposes.

##### (d) Controlled entities in which our equity ownership is less than or equal to 50 per cent

We have no direct equity interest in the following entities within the Autohome Inc. (Autohome) group:

- Beijing Autohome Information Technology Co. Ltd
- Shanghai You Che You Jia Advertising Co. Ltd
- Guangzhou You Che You Jia Advertising Co. Ltd.

The purpose of these entities is to hold the licences and approvals required to operate Autohome's internet content provision and advertising business in China. Laws and regulations in the People's Republic of China (PRC) currently limit foreign ownership of such companies, therefore Autohome's operations in China are conducted primarily through contractual agreements between these entities and Beijing Cheerbright Technologies Co. Ltd. The contractual arrangements enable Autohome to exercise effective control over the entities, receive substantially all of the economic benefits of the entities and have exclusive options to purchase all of the equity interests in these entities when and to the extent permitted under PRC law. Based on this, we have consolidated the financial results, financial position and cash flows of these entities into our Telstra Group financial report.

We have effective control over the following entities through economic dependency and contractual arrangements with the majority shareholders and have consolidated them into our group:

- Telstra (Thailand) Limited
- Incomgen Holdings Inc.
- Thai Cyber Web Co. Ltd.

We have control over Fred IT Group Pty Ltd and PT Teltranet Aplikasi Solusi through our decision making ability on the board.

##### (e) Controlled entities not individually audited by EY

These companies are not audited by EY, our Australian statutory auditor.

##### (f) New incorporations and business combinations

On 8 August 2014 we incorporated Ooyala Holdings Inc. in which we held a 98.9 per cent shareholding. On 29 June 2015, our shareholding reduced to 97.3 per cent, following the issuance of equity as part of the consideration to acquire Nativ Holdings Limited. Refer to note 20.

On 12 December 2014 we incorporated PT Teltranet Aplikasi Solusi in which we own 49 per cent.

On 10 November 2014 we incorporated CloudMed Pty Ltd in which we own 100 per cent.

Refer to note 20 for details of business combinations for the financial year 2015.

##### (g) Changes in controlling interest

During the year we decreased our ownership of Autohome Inc. from 63.2 per cent at 30 June 2014 to 54.3 per cent at 30 June 2015, via share buy-back, subsequent initial public offering and employee share issues. None of these transactions resulted in a change of control. Changes in valuation of non-controlling interests resulting from these transactions are recorded in the general reserve. Refer to note 20 for further details.

##### (h) Sales and disposals

Refer to note 20 for details of sales and disposals of our controlled entities.

We transferred our 100 per cent shareholding in muru-D Pty Ltd to Telstra Software Group Pty Ltd during the financial year.

##### (i) Pacnet

We acquired Pacnet Limited and its wholly and partly owned controlled entities on 15 April 2015. Given the size of the Pacnet structure we have only disclosed the holding entities within this group. We have not disclosed all of the trading entities nor all of the holding and partly owned entities.

## NOTE 26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES

	Telstra Group	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Investments in joint ventures accounted for using the equity method</b>		
Investments in joint ventures	5	4
Carrying amount of investments in joint ventures	5	4
<b>Investments in associated entities accounted for using the equity method</b>		
Investments in associated entities	221	216
Allowance for impairment in value	(25)	(24)
Carrying amount of investments in associated entities	196	192
	201	196

## 26.1 List of our investments in joint ventures and associated entities

Name of Entity	Principal activities	Telstra Group	
		Ownership interest	
		As at 30 June	
		2015	2014
		%	%
<b>Joint ventures</b>			
Foxtel Partnership (e)(f)	Pay television	50.0	50.0
Foxtel Television Partnership (e)(f)	Pay television	50.0	50.0
Customer Services Pty Ltd (e)(f)	Customer service	50.0	50.0
Foxtel Management Pty Ltd (e)(f)	Management services	50.0	50.0
Foxtel Cable Television Pty Ltd (a)(e)(f)	Pay television	80.0	80.0
Reach Ltd (incorporated in Bermuda) (d)(e)(f)	International connectivity services	50.0	50.0
3GIS Pty Ltd (d)(e)	Management of former 3GIS Partnership (non-operating)	50.0	50.0
HealthEngine Pty Ltd (b)(e)	Online healthcare booking	34.8	33.3
<b>Associated entities</b>			
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (d)(e)(f)	Network cable provider	46.9	46.9
Telstra Super Pty Ltd (a)(e)(f)	Superannuation trustee	100.0	100.0
Mandoe Pty Ltd (e)	Signage software provider	28.4	26.7
IPscape Pty Ltd (e)	Cloud based call centre solution	27.3	24.9
Whispir Limited (c)(e)	Software as a solution provider	23.7	18.0
IP Health Pty Ltd (e)	Software development	32.1	32.1
Project Sunshine I Pty Ltd (c)(e)	Holding entity of Sensis Pty Ltd (directory services)	30.0	30.0
Adnear Pte Ltd (incorporated in Singapore)(c)(d)(e)	Advertiser focused demand side platform provider	12.3	-
Panviva Pty Ltd (e)	Cloud based business process guidance software	22.4	-
Gorilla Technology Group Inc (incorporated in the Cayman Islands, principal place of business in Taiwan)(c)(d)(e)	Video analytics software provider	9.3	-
Zimperium Inc (incorporated in the United States of America)(c)(d)(e)	Mobile security system provider	19.8	-
Dacom Crossing Inc (incorporated in Korea) (d)(e)(f)	Network cable provider	49.0	-
enepath Group Holdings Pte Ltd (incorporated in Singapore)(d)(e)	Voice software provider	13.4	-

Unless otherwise noted, all investments have a reporting date of 30 June, are incorporated in Australia and our voting power is the same as our ownership interest.

NOTE 26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES (continued)

**26.1 List of our investments in joint ventures and associated entities (continued)**

**(a) Joint ventures and associated entities in which we own more than 50 per cent equity**

- We own 80 per cent of the equity of Foxtel Cable Television Pty Ltd. This entity is disclosed as a joint venture because our effective voting power is restricted to 50 per cent due to the participative rights of the other equity shareholder and we have joint control
- We own 100 per cent of the equity of Telstra Super Pty Ltd, the 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.

**(b) Joint ventures in which we own less than or equal to 50 per cent equity**

We own 34.8 per cent (2014: 33.3 per cent) of HealthEngine Pty Ltd and we have joint control through our decision making ability on the board.

**(c) Associated entities in which we own less than or equal to 20 per cent equity**

We own less than 20 per cent of Adnear Pte Ltd, enepath Group Holdings Pte Ltd, Zimperium Inc. and Gorilla Technology Group Inc., however we have significant influence over these entities through our decision making ability on the board.

**(d) 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 2015, as follows:

- Reach Ltd - 31 December
- 3GIS Pty Ltd - 31 December
- Australia-Japan Cable Holdings Limited - 31 December
- Dacom Crossing Inc. - 31 December
- Gorilla Technology Group Inc - 31 December
- Zimperium Inc. - 31 December
- Adnear Pte Ltd - 31 December
- enepath Group Holdings Pte Ltd - 31 March

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.

**(e) Other disclosures for joint ventures and associated entities**

The movements in the consolidated equity accounted amount of our joint ventures and associated entities are summarised as follows:

	Telstra Group			
	Year ended/As at 30 June			
	Joint ventures		Associated entities	
	2015	2014	2015	2014
	\$m	\$m	\$m	\$m
<b>Carrying amount of investments at beginning of year</b>	4	5	192	13
Additional investments made during the year	2	2	46	158
Disposal of investments during the year	-	(2)	-	-
Investment reclassified to equity instruments during the year	-	-	-	(1)
Impairment loss recognised in the income statement	-	-	(2)	(2)
	6	5	236	168
Share of net profit/(loss) for the year (a)	(1)	(1)	20	25
Dividends received (b)	-	-	(15)	(1)
Capital return (b)	-	-	(45)	-
<b>Carrying amount of investments at end of year</b>	5	4	196	192
Our share of contingent liabilities of joint ventures and associated entities	4	5	-	-
Our share of capital commitments contracted for by our joint ventures and associated entities	6	4	-	-

(a) Share of the net profit/(loss) from associated entities includes a \$22 million profit (1 March 2014 to 30 June 2014: \$24 million) from our 30 per cent investment in Project Sunshine I Pty Ltd, the holding company of the Sensis Group.

(b) During the year, Project Sunshine I Pty Ltd returned capital of \$45 million and paid dividends of \$14 million (2014: nil).

## NOTE 26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES (continued)

**26.1 List of our investments in joint ventures and associated entities (continued)****(e) Other disclosures for joint ventures and associated entities (continued)****(i) Commitments**

Our joint venture Foxtel has other commitments amounting to approximately \$2,779 million (2014: \$4,658 million), with our share equal to 50 per cent. Majority of these commitments relate to broadcasting and minimum subscriber guarantees (MSG) for pay television programming agreements. The reduction in commitments resulted mainly from new agreements for pay television programming signed by Foxtel during the period. The agreements are for the periods of between one and five years and are based on current prices and costs under agreements entered into between the Foxtel Partnership and various other parties. The minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements.

**(ii) Other disclosures**

Our joint venture Foxtel includes Foxtel Partnership and its controlled entities, Foxtel Television Partnership, Customer Services Pty Ltd, Foxtel Cable Television Pty Ltd and Foxtel Management Pty Ltd and its controlled entities. Foxtel is not a publicly listed entity.

Telstra has a strategic partnership with Foxtel primarily delivering subscription television services over cable, satellite and broadband to our customers in Australian regional and metropolitan areas.

Equity accounting of our investment in Foxtel is currently suspended. Refer to section (f) for further details.

Full financial information of the Foxtel Partnership and its controlled entities is presented in the table below:

	Foxtel joint venture	
	Year ended 30 June	
	2015	2014
	\$m	\$m
Current assets	600	526
Non current assets	3,140	2,989
<b>Total assets</b>	<b>3,740</b>	3,515
Current liabilities	933	816
Non current liabilities	3,166	3,068
<b>Total liabilities</b>	<b>4,099</b>	3,884
<b>Net liabilities</b>	<b>(359)</b>	(369)
Cash and cash equivalents	41	34
Current financial liabilities (a)	8	37
Non current financial liabilities (a)	3,134	3,034
Revenue	3,165	3,107
Expenses	2,267	2,120
Depreciation and amortisation	387	394
Interest income	1	1
Interest expense	235	236
Other finance costs	2	11
Income tax expense	36	24
<b>Profit for the year</b>	<b>239</b>	323
Other comprehensive income	23	(40)
<b>Total comprehensive income for the year</b>	<b>262</b>	283

(a) Financial liabilities exclude trade and other payables and provisions.

NOTE 26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES (continued)

26.1 List of our investments in joint ventures and associated entities (continued)

(e) Other disclosures for joint ventures and associated entities (continued)

(ii) Other disclosures (continued)

We also have interests in a number of individually immaterial 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 the table below:

	Telstra Group			
	Year ended 30 June			
	Joint ventures		Associated entities	
	2015	2014	2015	2014
	\$m	\$m	\$m	\$m
<b>Profit/(loss) for the year</b>	<b>1</b>	<b>(2)</b>	<b>35</b>	<b>36</b>
Other comprehensive income	(18)	1	(9)	1
<b>Total comprehensive income</b>	<b>(17)</b>	<b>(1)</b>	<b>26</b>	<b>37</b>

(f) Suspension of equity accounting

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, is shown below:

	Telstra Group			
	Year ended 30 June			
	Period	Cumulative	Period	Cumulative
	2015	2015	2014	2014
	\$m	\$m	\$m	\$m
<b>Joint ventures</b>				
Foxtel	(6)	179	31	185
Reach Ltd	(2)	556	-	558
<b>Associated entities</b>				
Australia - Japan Cable Holdings Limited	(14)	101	(11)	115
	<b>(22)</b>	<b>836</b>	<b>20</b>	<b>858</b>

Equity accounting has been suspended for Telstra Super Pty Ltd. There is no significant unrecognised (profits)/losses in this entity.

A \$125 million (2014: \$165 million) distribution was received from Foxtel during the year. This has been recorded as revenue in the income statement. Our share of Foxtel's profit for the year of \$119 million together with our share of reserve movements of \$12 million exceeded the \$125 million distribution, resulting in a net decrease in our cumulative share of unrecognised losses in Foxtel.



## NOTE 27. EMPLOYEE SHARE PLANS

We have a number of employee share plans that are available for executives and employees of the Telstra Group. These include those conducted through the Telstra Growthshare Trust, the Telstra Employee Share Ownership Plan Trust (TESOP99) and our controlled entity Autohome Inc.

The nature of each plan, details of plan holdings, movements in holdings, and other relevant details are disclosed below.

## 27.1 Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in financial year 2000. Under the trust, we operate a number of different equity plans, including:

- short term incentive plans
- long term incentive plans
- other equity plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100 per cent owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares to underpin the equity instruments issued.

In financial year 2015, we recorded an expense of \$40 million (2014: \$37 million) for our share-based payment plans operated by the Telstra Growthshare Trust. As at 30 June 2015, we had an estimated total expense yet to be recognised of \$28 million (2014: \$29 million), which is expected to be recognised over a weighted average of 1.7 years (2014: 1.7 years).

**(a) Short term incentive (STI) plans**

The purpose of the STI is to link key executives' rewards to individual key performance indicators and to Telstra's financial performance. The STI is delivered in cash and restricted shares and the executive is paid an annual STI only when the threshold targets are met or exceeded.

**(i) Description of equity instruments****Restricted shares**

For financial years 2015, 2014, 2013 and 2012, the Board approved 25 per cent of executives' STI to be allocated as restricted shares. The effective allocation dates were 1 July 2015, 1 July 2014, 1 July 2013 and 17 August 2012 for financial years 2015, 2014, 2013 and 2012 respectively.

For Telstra's Executive Committee, half these shares are restricted for 12 months and half for 24 months. For other executives, these shares are restricted for three years from their effective allocation date.

The shares will be forfeited in certain circumstances where the executive ceases, before the end of the restriction period, to be employed by any entity in the Telstra Group. However, in certain other circumstances the shares may be retained if the executive ceases employment, for example in case of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits).

Restricted shares may also be retained if the executive ceases employment due to retirement or expiry of a fixed term contract, providing that notice of retirement or fixed term contract expiry is more than six months after the actual allocation date. Restricted shares allocated in financial years 2015, 2014 and 2013 may be forfeited if certain clawback events occur during the restriction period.

The executives are able to vote and receive dividends as and from the actual allocation date. Performance hurdles are applied in determining the number of restricted shares allocated and therefore restricted shares are not subject to any further performance hurdles.

**(ii) Summary of movements and other information**

Allocations of Telstra's shares have been made in the form of restricted shares under our STI plans and are detailed in the following table:

	Telstra Group	
	Restricted shares (a)	
	Number	Weighted average fair value (b)
<b>Outstanding at 30 June 2013</b>	4,048,652	3.10
Granted	3,156,996	3.96
Forfeited	(162,702)	2.98
Exercised (c)	(928,022)	3.67
<b>Outstanding at 30 June 2014</b>	6,114,924	3.46
Granted	<b>2,460,563</b>	<b>5.64</b>
Forfeited	<b>(378,465)</b>	<b>3.50</b>
Exercised (c)	<b>(923,108)</b>	<b>4.43</b>
<b>Outstanding at 30 June 2015 (d)</b>	<b>7,273,914</b>	<b>4.07</b>

(a) The weighted average share price for restricted shares exercised during the financial year was \$5.59 (2014: \$5.01).

(b) The fair value of restricted shares granted is based on the market value of Telstra shares on grant date.

(c) Exercise refers to restricted shares being released from restriction. As at 30 June 2015, there were no exercisable STI instruments.

(d) The number outstanding includes restricted shares that are subject to a restriction period.

**(b) Long term incentive (LTI) plans**

The purpose of LTI plans is to align key executives' rewards with shareholders' interests and reward performance improvement whilst supporting business plans and corporate strategies. Telstra Growthshare Pty Ltd administers the plans as trustee of the Telstra Growthshare trust, and the Remuneration Committee and the Board determine who is invited to participate in these plans.

Performance of the LTI plans is measured with respect to the relevant performance period and subject to subsequent verification, ratification and sign off by the Remuneration Committee and approval by the Board.

## NOTE 27. EMPLOYEE SHARE PLANS (continued)

## 27.1 Telstra Growthshare Trust (continued)

## (b) Long term incentive (LTI) plans (continued)

## (i) Outstanding equity based instruments

Allocations have been made over a number of years in the form of performance rights and restricted shares under our LTI plans. These represent a share or a right to acquire a share in Telstra subject to certain conditions. Further information regarding each type of LTI plan that was outstanding during the year is detailed in the following table:

	Telstra Group				
	Allocation date	Performance period		Exercise price	End date (a)
from		to			
<b>Growthshare 2011</b>					
RTSR performance rights	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014
FCF ROI performance rights	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014
<b>Growthshare 2012</b>					
ESP restricted shares	19 Apr 2012	n/a	n/a	nil	19 Apr 2015
RTSR performance rights	19 Aug 2011	1 Jul 2011	30 Jun 2014	nil	19 Aug 2015
FCF ROI performance rights	19 Aug 2011	1 Jul 2011	30 Jun 2014	nil	19 Aug 2015
<b>Growthshare 2013</b>					
ESP restricted shares	21 Feb 2013	n/a	n/a	nil	21 Feb 2016
RTSR performance rights	17 Aug 2012	1 Jul 2012	30 Jun 2015	nil	17 Aug 2016
FCF ROI performance rights	17 Aug 2012	1 Jul 2012	30 Jun 2015	nil	17 Aug 2016
GE Telstra Wholesale restricted shares	17 Aug 2012	n/a	n/a	nil	17 Aug 2015
<b>Growthshare 2014</b>					
ESP restricted shares	28 Feb 2014	n/a	n/a	nil	28 Feb 2017
RTSR performance rights	1 Jul 2013	1 Jul 2013	30 Jun 2016	nil	30 Jun 2017
FCF ROI performance rights	1 Jul 2013	1 Jul 2013	30 Jun 2016	nil	30 Jun 2017
GE Telstra Wholesale restricted shares	1 Jul 2013	n/a	n/a	nil	1 Jul 2016
<b>Growthshare 2015</b>					
ESP restricted shares	<b>27 Feb 2015</b>	<b>n/a</b>	<b>n/a</b>	<b>nil</b>	<b>27 Feb 2018</b>
RTSR performance rights	<b>1 Jul 2014</b>	<b>1 Jul 2014</b>	<b>30 Jun 2017</b>	<b>nil</b>	<b>30 Jun 2018</b>
FCF ROI performance rights	<b>1 Jul 2014</b>	<b>1 Jul 2014</b>	<b>30 Jun 2017</b>	<b>nil</b>	<b>30 Jun 2018</b>
GE Telstra Wholesale restricted shares	<b>1 Jul 2014</b>	<b>n/a</b>	<b>n/a</b>	<b>nil</b>	<b>1 Jul 2017</b>

(a) End date refers to end of the restriction period for Employee Share Plan (ESP) restricted shares or end of the service period for performance rights and Group Executive (GE) Telstra Wholesale restricted shares to vest.

Refer to section (b)(ii) for a description of the following equity instruments:

- Relative Total Shareholder Return (RTSR) performance rights
- Free-Cashflow Return-on-Investment (FCF ROI) performance rights
- ESP restricted shares
- GE Telstra Wholesale restricted shares.

In relation to these executive LTI plans, the Board may, in its discretion, reset the hurdles governing the financial year 2015, 2014 and 2013 equity instruments to make them consistent with the changed circumstances resulting from the occurrence of certain factors, including:

- a material change in strategic business plan
- a material regulatory change or
- a significant out-of-plan business development (this could include a major acquisition outside the current business plan, resulting in a significant change to the business of Telstra or the

Telstra Group that means (in the reasonable opinion of the Board) the targets for that class of equity instruments are no longer appropriate).

In financial year 2015, the Board did not reset the hurdles governing the equity instruments issued in financial years 2015, 2014 and 2013.

## (ii) Description of equity instruments

## Performance rights

Executive LTI performance rights

In respect of performance rights, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the performance rights become restricted shares.

## NOTE 27. EMPLOYEE SHARE PLANS (continued)

**27.1 Telstra Growthshare Trust (continued)****(b) Long term incentive (LTI) plans (continued)****(ii) Description of equity instruments (continued)****Performance rights (continued)**

## Executive LTI performance rights (continued)

In relation to performance rights issued, if the performance hurdle is satisfied during the applicable performance period, a specified number of performance rights, as determined in accordance with the trust deed and terms of issue, will become restricted shares.

Although the trustee holds the shares in trust, the executive will retain beneficial interest (dividends, voting rights, bonuses and rights issues) in the shares until they vest and are transferred to them following the end of the restriction period.

There are two types of Executive LTI performance rights that existed in financial year 2015:

- Relative Total Shareholder Return (RTSR) performance rights - the performance hurdle for these rights is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in a peer group
- Free Cashflow Return on Investment (FCF ROI) performance rights - the performance hurdle for these rights is based on Telstra's average annual free cashflow (less finance costs) paid over the performance period divided by the average investment over the performance period.

**Restricted shares**

## GE Telstra Wholesale restricted shares

Due to the Structural Separation Undertaking (SSU) arising from the National Broadband Network (NBN) transaction, GE Telstra Wholesale is prohibited from participating in the financial year 2015, 2014, 2013 and 2012 LTI plans. As a result, an alternative remuneration arrangement has been provided, which is a restricted share plan where the number of restricted shares allocated is based on the same performance measures as his financial year 2014, 2013 and 2012 STI plans.

## Employee Share Plan (ESP) restricted shares

Restricted shares provided under the ESP in financial years 2015, 2014, 2013 and 2012 were allocated at no cost to certain eligible employees (excluding executives). The shares are held by the Trustee on behalf of employees until the restriction period ends. During the restriction period, employees are entitled to exercise the voting rights attached to the shares and to receive dividends on the shares. The shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment.

**(iii) Performance hurdles****Performance rights**

Details of the relevant performance hurdles in relation to performance rights, are set out below.

## Relative Total Shareholder Return (RTSR) performance rights

For financial years 2015, 2014, 2013, 2012 and 2011 RTSR performance rights, the single performance period is the three year period ending on 30 June 2017, 30 June 2016, 30 June 2015, 30 June 2014 and 30 June 2013 respectively.

If Telstra achieves a result placing it in at least the 50th percentile for the performance period, then:

- the number of RTSR performance rights that will meet the hurdle for that performance period is scaled proportionately from the 50th percentile (which equates to 25 per cent of the allocation) to the 75th percentile (which equates to 100 per cent of the allocation)
- any performance rights that do not meet the hurdle will lapse.

If Telstra does not reach the 50th percentile, all of these RTSR performance rights will lapse.

Any RTSR performance rights that meet the hurdle become restricted shares and are held by the Trustee until transferred to the executive after the restriction period ends (four years after the effective allocation date of the performance rights).

## Free Cashflow Return on Investment (FCF ROI) performance rights

For financial years 2015, 2014, 2013, 2012 and 2011 FCF ROI performance rights, the single performance period is the three year period ending on 30 June 2017, 30 June 2016, 30 June 2015, 30 June 2014 and 30 June 2013 respectively.

The number of FCF ROI performance rights that will meet the hurdle is calculated as follows:

- if the threshold target is achieved, then 50 per cent of the allocation of FCF ROI performance rights will meet the hurdle
- if the result achieved is between the threshold and stretch targets, then the number of FCF ROI performance rights that will meet the hurdle is scaled proportionately between 50 per cent and 100 per cent
- if the stretch target is achieved or exceeded, then 100 per cent of the FCF ROI performance rights will meet the hurdle
- if the threshold target is not achieved, all of these FCF ROI performance rights will lapse.

Any FCF ROI performance rights that meet the hurdle become restricted shares and are held by the Trustee until transferred to the executive after the end of the restriction period (four years after the effective allocation date of the performance rights).

**Restricted shares**

Details of the relevant performance hurdles in relation to restricted shares are set out below.

## GE Telstra Wholesale restricted shares

As part of the financial year 2015, 2014 and 2013 GE Telstra Wholesale restricted share plans, the GE Telstra Wholesale was provided with restricted shares. Performance hurdles were applied in determining the number of restricted shares allocated and therefore the restricted shares are not subject to any further performance hurdles.

## Employee Share Plan (ESP) restricted shares

As part of the financial year 2015, 2014, 2013 and 2012 ESP, certain eligible employees were provided with restricted shares. There are no performance hurdles for these restricted shares.

## Notes to the Financial Statements (continued)

### NOTE 27. EMPLOYEE SHARE PLANS (continued)

#### 27.1 Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (iv) Summary of movements and other information

Telstra Group						
	Number of equity instruments					Outstanding at 30 June 2015
	Outstanding at 30 June 2014	Granted	Forfeited (a)	Exercised (b)	Expired (c)	
<b>Growthshare 2011</b>						
RTSR performance rights	4,915,419	-	(11,633)	(4,903,786)	-	-
FCF ROI performance rights	4,905,186	-	(11,633)	(4,893,553)	-	-
<b>Growthshare 2012</b>						
ESP restricted shares	1,923,900	-	-	(1,923,900)	-	-
RTSR performance rights	2,418,690	-	(174,141)	-	-	2,244,549
FCF ROI performance rights	1,361,722	-	(174,138)	-	-	1,187,584
<b>Growthshare 2013</b>						
ESP restricted shares	2,229,900	-	-	(194,400)	-	2,035,500
RTSR performance rights	2,275,378	-	(191,076)	-	(187,582)	1,896,720
FCF ROI performance rights	2,275,378	-	(191,076)	-	(416,856)	1,667,446
GE Telstra Wholesale restricted shares	116,371	-	-	-	-	116,371
<b>Growthshare 2014</b>						
ESP restricted shares	2,605,600	-	-	(237,800)	-	2,367,800
RTSR performance rights	2,560,235	-	(143,025)	-	-	2,417,210
FCF ROI performance rights	2,560,235	-	(143,025)	-	-	2,417,210
GE Telstra Wholesale restricted shares	133,595	-	-	-	-	133,595
<b>Growthshare 2015</b>						
ESP restricted shares	-	2,499,400	-	(56,900)	-	2,442,500
RTSR performance rights	-	1,938,147	-	-	-	1,938,147
FCF ROI performance rights	-	1,938,147	-	-	-	1,938,147
GE Telstra Wholesale restricted shares	-	117,277	-	-	-	117,277

(a) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(b) Exercised refers to performance rights and restricted shares released from restriction.

(c) Expired refers to the performance hurdle not being met.

There are no equity instruments exercisable as at 30 June 2015.

## NOTE 27. EMPLOYEE SHARE PLANS (continued)

## 27.1 Telstra Growthshare Trust (continued)

## (b) Long term incentive (LTI) plans (continued)

## (iv) Summary of movements and other information (continued)

	Telstra Group					
	Number of equity instruments					
	Outstanding at 30 June 2013	Granted	Forfeited (d)	Exercised (e)	Expired (f)	Outstanding at 30 June 2014
<b>Growthshare 2009</b>						
ESOP options	9,169,697	-	(4,734,733)	(4,434,964)	-	-
US ESOP options	29,000	-	(17,500)	(11,500)	-	-
RTSR options	2,329,659	-	(55,329)	(2,274,330)	-	-
<b>Growthshare 2010</b>						
RTSR performance rights	3,674,716	-	-	(3,674,716)	-	-
FCF ROI performance rights	2,116,894	-	-	(2,116,894)	-	-
<b>Growthshare 2011</b>						
ESRP performance rights	982,905	-	(13,400)	(969,505)	-	-
RTSR performance rights	5,069,579	-	(154,160)	-	-	4,915,419
FCF ROI performance rights	5,059,346	-	(154,160)	-	-	4,905,186
<b>Growthshare 2012</b>						
ESP restricted shares	2,138,600	-	-	(214,700)	-	1,923,900
RTSR performance rights	2,453,859	-	(35,169)	-	-	2,418,690
FCF ROI performance rights	2,453,859	-	(35,169)	-	(1,056,968)	1,361,722
<b>Growthshare 2013</b>						
ESP restricted shares	2,483,900	-	-	(254,000)	-	2,229,900
RTSR performance rights	2,469,604	-	(194,226)	-	-	2,275,378
FCF ROI performance rights	2,469,604	-	(194,226)	-	-	2,275,378
GE Telstra Wholesale restricted shares	116,371	-	-	-	-	116,371
<b>Growthshare 2014</b>						
ESP restricted shares	-	2,695,300	-	(89,700)	-	2,605,600
RTSR performance rights	-	2,705,618	(145,383)	-	-	2,560,235
FCF ROI performance rights	-	2,705,618	(145,383)	-	-	2,560,235
GE Telstra Wholesale restricted shares	-	133,595	-	-	-	133,595

(d) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(e) Exercised refers to performance rights and restricted shares released from restriction.

(f) Expired refers to the performance hurdle not being met.

There are no equity instruments exercisable as at 30 June 2014.

## Notes to the Financial Statements (continued)

### NOTE 27. EMPLOYEE SHARE PLANS (continued)

#### 27.1 Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (iv) Summary of movements and other information (continued)

	Telstra Group					
	Options (g)		Performance rights (h)		Restricted Shares (i)	
	Number	Weighted average fair value (j)	Number	Weighted average fair value (j)	Number	Weighted average fair value (k)
<b>Outstanding at 30 June 2013</b>	11,528,356	\$0.21	26,750,366	\$2.03	4,738,871	\$4.01
Granted	-	-	5,411,236	\$3.05	2,828,895	\$5.10
Forfeited	(4,807,562)	\$0.22	(1,071,276)	\$2.50	-	-
Exercised (l)	(6,720,794)	\$0.20	(6,761,115)	\$1.71	(558,400)	\$4.19
Expired	-	-	(1,056,968)	\$2.68	-	-
<b>Outstanding at 30 June 2014</b>	-	-	23,272,243	\$2.31	7,009,366	\$4.44
Granted	-	-	<b>3,876,294</b>	<b>\$3.83</b>	<b>2,616,677</b>	<b>\$6.46</b>
Forfeited	-	-	<b>(1,039,747)</b>	<b>\$2.68</b>	-	-
Exercised (m)	-	-	<b>(9,797,339)</b>	<b>\$1.74</b>	<b>(2,413,000)</b>	<b>\$3.70</b>
Expired	-	-	<b>(604,438)</b>	<b>\$2.93</b>	-	-
<b>Outstanding at 30 June 2015</b>	-	-	<b>15,707,013</b>	<b>\$3.00</b>	<b>7,213,043</b>	<b>\$5.42</b>
<b>Exercisable at 30 June 2015</b>	-	-	-	-	-	-

(g) Options include RTSR, ESOP and US ESOP options. For further information on these plans, refer to the 2014 financial report.

(h) Performance rights include RTSR, FCF ROI and ESRP performance rights. For further information on the ESRP performance rights, refer to the 2014 financial report.

(i) Restricted shares relate to GE Telstra Wholesale and ESP restricted shares.

(j) The fair value of these instruments is calculated using an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk free rate for the expected life of the instrument, and the expected average volatility of Telstra's peer group companies.

(k) The fair value of these instruments is based on the market value of Telstra shares at the allocation date.

(l) The weighted average share price for instruments exercised during financial year 2014 was \$5.03 for the financial year 2009 allocation of options, \$4.92 for the financial years 2010 and 2011 allocations of performance rights, and \$5.11 for financial years 2012, 2013 and 2014 allocations of ESP restricted shares respectively. These share prices were based on the closing market price on the exercise dates.

(m) The weighted average share price for instruments exercised during financial year 2015 was \$5.66 for the financial years 2011 allocations of performance rights, and \$6.10 for financial years 2012, 2013, 2014 and 2015 allocations of ESP restricted shares respectively. These share prices were based on the closing market price on the exercise dates.

## NOTE 27. EMPLOYEE SHARE PLANS (continued)

## 27.1 Telstra Growthshare Trust (continued)

## (b) Long term incentive (LTI) plans (continued)

## (v) Fair value of equity instruments granted

The fair value of LTI instruments granted during the financial year was calculated by an independent qualified valuer using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The following weighted average assumptions were used in determining the valuation:

	Telstra Group			
	Growthshare LTI FCF ROI performance rights	Growthshare LTI RTSR performance rights	Growthshare LTI FCF ROI performance rights	Growthshare LTI RTSR performance rights
	Oct 2014	Oct 2014	Oct 2013	Oct 2013
Share price	\$5.38	\$5.38	\$4.96	\$4.96
Risk free rate	2.60%	2.60%	3.17%	3.17%
Dividend yield	6.0%	6.0%	7.0%	7.0%
Expected stock volatility	15.0%	15.0%	17.0%	17.0%
Expected life	(a)	(a)	(a)	(a)
Expected rate of achievement of TSR performance hurdles	n/a	59.6%	n/a	39.4%

(a) The date on which the instruments become exercisable.

For financial year 2015 LTI FCF ROI and RTSR performance rights, the fair value was measured at a grant date of 15 October 2014 and has been allocated over the period for which the service is received, which commenced on 1 July 2014.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.

The fair value of financial year 2015 ESP restricted shares is based on the market value of Telstra shares at the grant date of 27 February 2015.

The fair value of financial year 2015 GE Telstra Wholesale restricted shares is based on the market value of Telstra shares at the grant date of 15 August 2014.

## (c) Telstra Directshare and Ownshare

## (i) Nature of Telstra Directshare and Ownshare

## Telstra Directshare

The Directshare plan, previously operated by the Company, was cancelled with effect from August 2012 as it is no longer in use. Under the Directshare plan, non-executive Directors could nominate to receive a percentage of their total remuneration package as Telstra shares (allocated to participating Directors at market price). As a result of its cancellation, no new grants may be made under the Directshare plan. Existing grants under the plan will remain on foot and, under the terms of the Directshare plan and the relevant trust deed, will continue to apply to such grants.

The restriction period on Directshares already allocated continues until the earliest of:

- 10 years from the date of allocation of the shares
- the time when the participating Director is no longer a Director of, or is no longer employed by, a company in the Telstra Group
- the time when the Trustee determines that an 'event' under the terms of Directshare has occurred.

## Telstra Ownshare

The Ownshare plan, previously operated by the Company, has not been offered since October 2013 and will not be offered in the future. Under the Ownshare plan, certain eligible employees could, at their election, be provided with part of their remuneration in Telstra shares. Shares were acquired by the trustee from time to time and allocated to these employees at the time when their application was accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at the expiration of the restriction period.

The restriction period continues until the earliest of:

- three years from the date of allocation
- the time when the participant ceases employment with the Telstra Group
- the time when the Board of Telstra determines that an 'event' has occurred

At the end of the restriction period, the Ownshare instruments will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

Existing grants under the plan will remain on foot under the terms of the Ownshare plan and the relevant trust deed will continue to apply to such grants.

## (ii) Instruments granted during the financial year

No instruments were granted under the Ownshare plan during financial year 2015 or 2014.

## NOTE 27. EMPLOYEE SHARE PLANS (continued)

## 27.1 Telstra Directshare and Ownshare (continued)

## (c) Telstra Directshare and Ownshare (continued)

## (iii) Summary of movements

The table below provides information about our Directshare and Ownshare plans.

	Telstra Group				
	Number of equity instruments				
	Outstanding at 30 June 2013	Distributed (a)	Outstanding at 30 June 2014	Distributed (a)	Outstanding at 30 June 2015
<b>Directshares</b>					
5 September 2003 allocation	1,877	(1,877)	-	-	-
20 February 2004 allocation	2,017	(2,017)	-	-	-
20 August 2004 allocation	543	-	543	(543)	-
19 February 2005 allocation	2,000	-	2,000	(2,000)	-
19 August 2005 allocation	2,373	-	2,373	-	2,373
17 February 2006 allocation	3,731	-	3,731	-	3,731
18 August 2006 allocation	6,646	-	6,646	-	6,646
23 February 2007 allocation	9,461	-	9,461	-	9,461
17 August 2007 allocation	10,507	-	10,507	-	10,507
29 February 2008 allocation	15,685	-	15,685	-	15,685
21 August 2008 allocation	19,367	-	19,367	-	19,367
6 March 2009 allocation	41,907	-	41,907	-	41,907
21 August 2009 allocation	6,313	-	6,313	-	6,313
19 February 2010 allocation	6,809	-	6,809	-	6,809
	129,236	(3,894)	125,342	(2,543)	122,799
<b>Ownshares</b>					
5 November 2010 allocation	138,382	(138,382)	-	-	-
21 October 2011 allocation	164,913	(20,945)	143,968	(143,968)	-
23 October 2012 allocation	154,793	(13,691)	141,102	(11,382)	129,720
	458,088	(173,018)	285,070	(155,350)	129,720

(a) Directshares and Ownshare instruments are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are transferred to the participants at the completion of the restriction period.

## (d) Other equity plans

In exceptional circumstances, Telstra has put in place structured retention incentive plans. These are designed to protect Telstra from the loss of employees who possess specific skill sets considered critical to the business and where Telstra is vulnerable to losing key personnel. The plans are granted on an ad hoc basis and the participants receive Telstra shares subject to satisfaction of certain conditions.

As part of his service agreement negotiated upon his appointment to the role of Chief Financial Officer (CFO), Andrew Penn was allocated 96,500 performance shares of which 50 per cent were eligible to vest after two years and the remaining 50 per cent were eligible to vest after three years from the date of commencement of his employment. During financial year 2015, the second and final tranche of 48,250 performance shares vested on 14 December 2014.

## 27.2 TESOP99

As part of the Commonwealth's sale of its shareholding in financial years 2000 and 1998, Telstra offered eligible employees the opportunity to buy ordinary shares of Telstra.

The applicable share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99)
- the Telstra Employee Share Ownership Plan (TESOP97), which no longer has any equity instruments outstanding.

Although the Telstra ESOP Trustee Pty Ltd (wholly owned subsidiary of Telstra) is the trustee for TESOP99 and holds the shares in the trust, a participating employee retains the beneficial interest in the shares (dividends and voting rights).

Generally, Telstra offered employees interest free loans to acquire certain shares and in some cases the employees became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.



## NOTE 27. EMPLOYEE SHARE PLANS (continued)

## 27.2 TESOP99 (continued)

While a participant remains an employee of an entity within the Telstra Group, there is no date by which the employee must repay the loan. However, a participant may, at any time:

- elect to repay the loan and have the shares transferred into their name or
- arrange through the trustee the sale of the shares where the proceeds of the sale (after deducting the costs of sale) will be enough to repay the loan.

There are no remaining restriction periods under the plan. If a participant ceases to be employed by an entity within the Telstra Group, the employee must repay their loan within two months of leaving to acquire the relevant shares. This is the case except where the employee ceases to be employed due to death or disablement (in which case the loan must be repaid within 12 months).

If the employee has ceased employment and does not repay the loan when required, the trustee must sell the shares if the sale proceeds (after deducting the costs of sale) will be enough to repay the loan. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. Telstra's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

The Telstra ESOP Trust Trustee continues to hold loan shares where the employee ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs of sale. The Trustee is then required to sell the shares. As at 30 June 2015, there were 83,800 (2014: 148,800) shares held for this purpose.

The following table provides information about our TESOP99 share plan.

	Telstra Group		
	TESOP99		
	Number	Weighted average fair value (a)	Total fair value (\$m)
<b>Equity instruments outstanding and exercisable at 30 June 2013</b>	4,149,800	\$4.77	20
Exercised (b)	(96,000)	\$5.09	-
Sold (c)	(236,400)	\$5.17	1
<b>Equity instruments outstanding and exercisable at 30 June 2014</b>	3,817,400	\$5.21	20
Exercised (b)	<b>(125,800)</b>	<b>\$5.85</b>	<b>1</b>
Sold (c)	<b>(217,000)</b>	<b>\$5.72</b>	<b>1</b>
<b>Equity instruments outstanding and exercisable at 30 June 2015</b>	<b>3,474,600</b>	<b>\$6.14</b>	<b>21</b>

(a) The fair value of these shares is based on the market value of Telstra shares at reporting date and exercise date.

(b) The amount exercised relates to the shares released from trust as a result of the interest free loan to employees being fully repaid during the year.

(c) The amount sold relates to loan shares disposed of to external third parties during the year.

The employee share loan balance as at 30 June 2015 was \$15 million (2014: \$17 million). For TESOP99, the weighted average loan still to be repaid was \$4.19 (2014: \$4.42) per instrument.

## 27.3 Autohome Inc.

Our subsidiary, Autohome Inc., operates two share incentive plans, the 2011 Plan and the 2013 Plan, which allows the company to grant equity-settled and cash-settled share-based awards to its employees, directors and consultants. Options, restricted shares, restricted share units and share appreciation rights (applicable to the 2011 plan only) may be granted under these plans. Since the implementation of the plans and, as at 30 June 2015 only options and restricted shares have been granted under the 2011 Plan and the 2013 Plan, respectively. Both awards are equity-settled.

The maximum aggregate number of Class A Autohome Inc. ordinary shares which may be issued for the awards is 7,843,100 shares under the 2011 Plan and 3,350,000 shares under the 2013 Plan.

## NOTE 28. KEY MANAGEMENT PERSONNEL COMPENSATION

In accordance with AASB 124: “Related Party Disclosures”, key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. Hence, 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.

### 28.1 KMP aggregate compensation

During financial years 2015 and 2014, the aggregate compensation provided to our KMP was as follows:

	As at 30 June	
	2015	2014
	\$	\$
Short term employee benefits	23,259,768	20,991,753
Post employment benefits	323,452	322,011
Other long term benefits	247,469	4,845,292
Termination benefits	-	1,020,456
Share-based payments	9,789,030	9,161,751
	<b>33,619,719</b>	36,341,263

Refer to the Remuneration Report, which forms part of the Directors’ Report for further details regarding KMP’s remuneration.

### 28.2 Other transactions with our KMP and their related parties

During financial year 2015, 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.

## NOTE 29. RELATED PARTY DISCLOSURES

## 29.1 Transactions involving our controlled entities

Interests in controlled entities are set out in note 25. Transactions with our controlled entities recorded in the income statement and statement of financial position were as follows.

	Telstra Entity	
	Year ended/As at	
	30 June	
	2015	2014
	\$m	\$m
<b>Income from controlled entities</b>		
Sale of goods and services (a)	399	541
Dividend revenue (b)	1,586	217
<b>Expenses to controlled entities</b>		
Purchase of goods and services (a)	634	713
Finance costs	3	9
<b>Total current amounts receivable at 30 June</b>		
Controlled entities - receivables (d)	71	60
Controlled entities - loans (e)(f)	3,493	3,466
Allowance for amounts owed by controlled entities (e)	(3,224)	(3,074)
	340	452
<b>Movement in allowance for amounts owed by controlled entities</b>		
Opening balance	(3,074)	(3,163)
Reversal of impairment loss (c)	-	89
Impairment loss (c)	(150)	-
Closing balance (e)	(3,224)	(3,074)
<b>Total current amounts payable at 30 June</b>		
Controlled entities - payables (a)(d)	87	77
Controlled entities - loans (e)	1,695	3,826
	1,782	3,903

(a) The Telstra Entity sold and purchased goods and services and received and paid interest to its controlled entities. These transactions are in the ordinary course of business and are on normal commercial terms and conditions.

Details of our individually significant transactions involving our controlled entities during financial year 2015 were as follows:

- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to \$375 million (2014: \$367 million) for access to ducts that store the hybrid fibre coaxial (HFC) cable network
- the Telstra Entity paid for international connectivity and management services to Telstra International Limited amounting to \$264 million (2014: \$249 million).

In February 2014, we divested 70 per cent of our directories business, Sensis Pty Ltd and its controlled entities (Sensis Group). As a result, the financial year 2014 included only eight months of transactions with the Sensis Group and any transactions subsequent to the date of disposal, have been included in transactions with our joint ventures and associated entities. The transactions with Sensis Group as a controlled entity were as follows:

- the Telstra Entity received procurement fees from Sensis Pty Ltd for the use of Yellow Pages\*\* and White Pages\*\* trademarks amounting to \$63 million

- the Telstra Entity paid management fees to Sensis Pty Ltd amounting to \$190 million for undertaking agency and contract management services for the national directory service.

(b) During financial year 2015, the Telstra Entity recorded dividend revenue, including mainly:

- \$240 million (2014: \$150 million) from Telstra Media Pty Ltd
- \$1,343 million (2014: \$64 million) from Telstra Holdings Pty Ltd.

(c) The profit before income tax expense of the Telstra Entity includes impairment loss of \$150 million (2014: \$89 million reversal of impairment loss) relating to a movement in allowance for amounts owed by controlled entities.

(d) The Telstra Entity and its Australian controlled entities have formed a tax consolidated group, with a tax funding arrangement currently in place. The amounts receivable or amounts payable to the Telstra Entity under this arrangement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. Refer to note 9 for further details.

NOTE 29. RELATED PARTY DISCLOSURES (continued)

**29.1 Transactions involving our controlled entities (continued)**

(e) The Telstra Entity operates a current account with some of its controlled entities, being an internal group bank account used to settle transactions with these controlled entities or between two controlled entities. Cash deposit balances in the current account owed to these controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. As at 30 June 2015, \$3,351 million (2014: \$3,324 million) related to loans owed by controlled entities, and \$1,695 million (2014: \$3,826 million) related to loans payable to controlled entities. We also have an allowance for amounts owed by controlled entities as at 30 June 2015 of \$3,224 million (2014: \$3,074 million).

(f) As at 30 June 2015, the Telstra Entity had a loan of \$142 million (2014: \$142 million) with Telstra OnAir Holdings Pty Ltd. This loan is an interest free loan.

**29.2 Transactions involving our joint ventures and associated entities**

Interests in our joint ventures and associated entities are set out in note 26. Transactions with our joint ventures and associated entities recorded in the income statement and statement of financial position were as follows.

	Telstra Group	
	Year ended/As at	
	30 June	
	2015	2014
	\$m	\$m
<b>Income from joint ventures and associated entities</b>		
Sale of goods and services (a)	231	177
Distribution from Foxtel Partnership (b)	125	165
Interest on loans to joint ventures and associated entities (c)	54	54
<b>Expenses to joint ventures and associated entities</b>		
Purchase of goods and services (a)	899	775
Finance cost on loans from joint ventures and associated entities (d)	1	-
<b>Total amounts receivable at 30 June</b>		
<b>Current</b>		
Joint ventures and associated entities - trade receivables (a)	4	3
	4	3
<b>Non current</b>		
Joint ventures and associated entities - loans (c)	459	457
Allowance for amounts owed by joint ventures and associated entities (c)	(7)	(6)
	452	451
<b>Movement in allowance for amounts owed by joint ventures and associated entities</b>		
Opening balance	(6)	(6)
Foreign currency exchange differences	(1)	-
Closing balance	(7)	(6)
<b>Total amounts payable at 30 June</b>		
<b>Current</b>		
Joint ventures and associated entities - payables (a)	77	58
Joint ventures and associated entities - loans (d)	34	-
	111	58

## NOTE 29. RELATED PARTY DISCLOSURES (continued)

**29.2 Transactions involving our joint ventures and associated entities (continued)**

(a) We sold and purchased goods and services, and received interest from 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 involving our joint ventures and associated entities during financial year 2015 are as follows:

- We purchased pay television services amounting to \$742 million (2014: \$668 million) from our joint venture Foxtel. The purchases were to enable the resale of Foxtel services, including pay television content, to our existing customers as part of our ongoing product bundling initiatives. In addition, we made sales to Foxtel for our broadband system services of \$117 million (2014: \$119 million)
- We sold telecommunication services to our associated entity Project Sunshine I Pty Ltd amounting to \$33 million (2014: \$12 million)
- We received \$27 million (2014: \$10 million) for the sub lease of property to our associated entity, Project Sunshine I Pty Ltd
- We made purchases of \$31 million (2014: \$23 million) from our joint venture Reach Ltd (Reach) in line with market prices. These were for the purchase of, and entitlement to, capacity and connectivity services.

(b) A \$125 million (2014: \$165 million) distribution was received from our joint venture Foxtel during the year.

(c) Loans provided to joint ventures and associated entities mainly relate to loans provided to Reach of \$7 million (2014: \$6 million) and Foxtel Management Pty Ltd of \$451 million (2014: \$451 million).

The loan provided to Reach 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 is in a position to be able to repay the loan amount in the medium term.

In April 2012, Telstra Corporation Limited provided a loan to Foxtel Management Pty Ltd to fund the acquisition of shares in AUSTAR. The loan is interest bearing and it has a minimum term of just over 10 years and a maximum of 15 years.

(d) During the period, we borrowed \$79 million (2014: nil) under a loan agreement with an associated entity, Project Sunshine I Pty Ltd. The loan interest rate is eight per cent per annum and the loan has a maturity date of 31 December 2015. After repayment of \$45 million during the year, the loan payable amount at 30 June 2015 was \$34 million.

**(i) Commitments with our joint ventures and associated entities**

Our purchase commitments to Project Sunshine I Pty Ltd, primarily for advertising services, amount to \$45 million over the remaining four year contract term (2014: \$69 million).

**29.3 Transactions involving other related entities****(i) Post employment benefits**

As at 30 June 2015, the Telstra Superannuation Scheme (Telstra Super) owned 39,737,735 shares in the Telstra entity (2014: 38,774,394) at a cost of \$152 million (2014: \$135 million) and a market value of \$243 million (2014: \$202 million). All of these shares were fully paid at 30 June 2015. In financial year 2015, we paid dividends to Telstra Super of \$11 million (2014: \$11 million). We own 100 per cent of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also holds bonds issued by the Telstra entity. These bonds had a cost of \$14 million (2014: \$16 million) and a market value of \$15 million (2014: \$16 million) at 30 June 2015.

All purchases and sales of Telstra shares and bonds by Telstra Super are on arm's length basis and are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

**(ii) Key management personnel (KMP)**

Refer to note 28 for further details on our KMP's remuneration and their other related parties transactions.

## NOTE 30. PARENT ENTITY INFORMATION

	Telstra Entity	
	As at 30 June	
	2015	2014
	\$m	\$m
<b>Statement of financial position</b>		
Total current assets	5,720	10,137
Total non current assets (a)	33,849	31,896
<b>Total assets</b>	<b>39,569</b>	<b>42,033</b>
Total current liabilities	8,970	12,077
Total non current liabilities	17,091	16,586
<b>Total liabilities</b>	<b>26,061</b>	<b>28,663</b>
Share capital	5,198	5,719
Cashflow hedging reserve	(114)	(122)
Foreign currency basis spread reserve	50	-
General reserve	194	194
Retained profits	8,180	7,579
<b>Total equity</b>	<b>13,508</b>	<b>13,370</b>

	Telstra Entity	
	Year ended 30 June	
	2015	2014
	\$m	\$m
<b>Statement of comprehensive income</b>		
Profit for the year (a)	4,631	3,407
Total comprehensive income	4,859	3,457

(a) Includes \$1,093 million of impairment losses (2014: \$595 million of reversal of impairment losses) 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.

Except for those noted below, our accounting policies for the Telstra Entity are consistent with those for the Telstra Group:

- under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed from our wholly owned entities are booked as current assets or liabilities
- investments in controlled entities, included within non current assets above, 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 2.22. Refer to note 25 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 in the table above.

### 30.1 Property, plant and equipment commitments

Total property, plant and equipment expenditure commitments contracted for at balance date but not recorded in the financial statements amounted to \$666 million (2014: \$847 million).

### 30.2 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 2015, 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.

## NOTE 30. PARENT ENTITY INFORMATION (continued)

**30.2 Contingent liabilities and guarantees (continued)****(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 \$241 million (2014: \$483 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. The maximum amount of our contingent liabilities for this purpose is \$141 million (2014: \$130 million)
- indemnities to financial institutions in respect of the obligations of TelstraClear to third parties of \$26 million (2014: \$27 million). We have, however, received an indemnity for an equal amount from the acquirer as part of the TelstraClear disposal in October 2012
- financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions, including individual monetary limits totalling \$72 million (2014: \$45 million) and a requirement that the entity remains our controlled entity
- during 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 financial year 2000 we issued a guarantee of \$68 million on behalf of IBMGSA. During 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 2015, this guarantee remains unchanged and \$142 million (2014: \$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.

## **NOTE 31. EVENTS AFTER REPORTING DATE**

We are not aware of any matter or circumstance that has occurred since 30 June 2015 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:

### **31.1 Final dividend**

On 13 August 2015, the Directors of Telstra Corporation Limited resolved to pay a fully franked final dividend of 15.5 cents per ordinary share. The record date for the final dividend will be 27 August 2015, with payment being made on 25 September 2015. Shares will trade excluding the entitlement to the dividend on 25 August 2015.

A provision for dividend payable amounting to \$1,894 million has been raised as at the date of resolution.

The final dividend will be fully franked at a tax rate of 30 per cent. The financial effect of the dividend resolution was not brought to account as at 30 June 2015.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the final ordinary dividend, except for \$812 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The board has determined that Dividend Reinvestment Plan (DRP) will operate for the final dividend for financial year 2015 to be paid in September 2015. The election date for participation in the DRP is 28 August 2015.



# 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 2015 set out on pages 70 to 174:
  - (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 2015 and of the performance of Telstra Corporation Limited and the Telstra Group, for the year ended 30 June 2015
  - (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 25.1(a) to the financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 25.1(a).

For and on behalf of the board



Catherine B Livingstone AO  
Chairman

Andrew R Penn  
Chief Executive Officer and  
Managing Director

13 August 2015  
Sydney, Australia

## Independent Auditor's report to the Members of Telstra Corporation Limited

### Report on the Financial Report

We have audited the accompanying financial report of Telstra Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated income statement, the 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 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

### Opinion

In our opinion:

- a. the financial report of Telstra Corporation Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 44 to 63 of the directors' report for the year ended 30 June 2015. 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.

### Opinion

In our opinion, the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



SJ Ferguson  
Partner  
Sydney  
13 August 2015

# SHAREHOLDER INFORMATION

## Stock Exchange Listings

We are listed, and our issued shares are quoted on the Australian Securities Exchange (ASX) and the New Zealand Stock Exchange (NZX).

As an overseas listed issuer on the NZX, Telstra is deemed to satisfy and comply with the NZX Listing Rules, so long as it remains listed on the ASX. The only NZX requirements applicable to the company are to give the NZX the same information and notices the company is required to give to the ASX and to include the statement appearing below in Telstra's Annual Report.

In compliance with NZX Listing Rule 5.1.8(d), Telstra notes that the ASX Corporate Governance Council's Corporate Governance Principles & Recommendations may materially differ from the NZX's corporate governance rules and principles in the NZX Corporate Governance Best Practice Code. More information about the corporate governance rules and principles of the ASX can be found at [www.asx.com.au](http://www.asx.com.au) and, in respect of the NZX, at [www.nzx.com](http://www.nzx.com). Further information in relation to Telstra's corporate governance practices are set out in the Governance At Telstra section of this Annual Report and in our 2015 Corporate Governance Statement which can be found at [www.telstra.com/governance](http://www.telstra.com/governance).

## Debt Listings

We also have debt securities listed on the London Stock Exchange, the Singapore Stock Exchange and the Swiss Stock Exchange.

## Distribution of securities and security holdings

The following table shows the number of listed shares on issue at 20 July 2015:

Title of class	Identity of person of group	Amount owned	%
Listed Shares	Listed shareholders	12,225,655,836	100

## Distribution of shares

The following table summarises the distribution of our listed shares as at 20 July 2015:

Size of Holding	Number of Shareholders	%	Number of Shares	%
1-1,000	650,394	46.86	362,155,727	2.96
1,001-5,000	507,488	36.56	1,221,827,337	9.99
5,001-10,000	123,513	8.90	881,485,973	7.21
10,001-100,000	103,016	7.42	2,462,993,913	20.15
100,001 and over	3,675	0.26	7,297,192,886	59.69
<b>Total</b>	<b>1,388,086</b>	<b>100.00</b>	<b>12,225,655,836</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel of shares was 9,802 holding 360,360 shares (based on the closing market price on 20 July 2015).

# SHAREHOLDER INFORMATION

## Substantial shareholders

As at 20 July 2015, we are not aware of any substantial shareholders.

## Twenty largest shareholders as at 20 July 2015

The following table sets out the Top 20 holders of our shares (when multiple holdings are grouped together):

	Shareholders	Number of shares	% of Issued Capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,880,929,148	15.39
2	J P MORGAN NOMINEES AUSTRALIA LTD	1,479,490,033	12.10
3	NATIONAL NOMINEES LIMITED	1,436,519,881	11.75
4	CITICORP NOMINEES PTY LIMITED	615,221,927	5.03
5	BNP PARIBAS NOMS PTY LTD	311,750,368	2.55
6	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	96,111,401	0.79
7	AMP LIFE LIMITED	88,332,388	0.72
8	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	52,445,000	0.43
9	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	46,158,887	0.38
10	ARGO INVESTMENTS LIMITED	43,004,800	0.35
11	UBS NOMINEES PTY LTD	38,395,736	0.31
12	NEWECONOMY COM AU NOMINEES	36,418,851	0.30
13	QUESTOR FINANCIAL SERVICES LIMITED	32,048,135	0.26
14	NAVIGATOR AUSTRALIA LTD	28,669,646	0.23
15	TELSTRA GROWTHSHARE PTY LTD	24,403,374	0.20
16	EQUITAS NOMINEES PTY LTD	23,218,179	0.19
17	NULIS NOMINEES (AUSTRALIA) LIMITED	21,485,155	0.18
18	NETWORK INVESTMENT HOLDINGS PTY LTD	17,309,017	0.14
19	MILTON CORPORATION LIMITED	14,672,253	0.12
20	NETWEALTH INVESTMENTS LIMITED	12,852,678	0.11
<b>Total for Top 20</b>		<b>6,299,436,857</b>	<b>51.53</b>

## Voting Rights

Shareholders (whether residents or non-residents of Australia) may vote at a meeting of shareholders in person, directly or by proxy, attorney or representative, depending on whether the shareholder is an individual or a company.

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present in person or by proxy, attorney or representative has one vote and, on a poll, has one vote for each fully paid share held. Presently, we have only one class of fully paid ordinary shares and these do not have any voting restrictions. If shares are not fully paid, on a poll the number of votes attaching to the shares is pro-rated accordingly.

# REFERENCE TABLES

## Five year summary – financial results

	2015 \$m	2014 \$m	2013 <sup>(3)</sup> \$m	2012 \$m	2011 \$m
Total income (excluding finance income)	26,607	26,296	24,776	25,503	25,304
EBITDA <sup>(1)</sup>	10,745	11,135	10,168	10,234	10,151
EBIT <sup>(2)</sup>	6,762	7,185	6,090	5,822	5,692
Profit for the period from continuing operations	4,286	4,549	3,640	n/a	n/a
Profit/(loss) for the period from discontinued operation	19	(204)	151	n/a	n/a
Profit for the period	4,305	4,345	3,791	3,424	3,250
Dividends declared per share (cents)	30.5	29.5	28.0	28.0	28.0
Total assets	40,445	39,360	38,527	39,525	37,913
Gross debt	14,962	16,048	15,628	17,222	16,232
Net debt	13,566	10,521	13,149	13,277	13,595
Total equity	14,510	13,960	12,875	11,689	12,292
Capital expenditure	3,589	3,661	3,689	3,591	3,410
Free cashflow from continuing and discontinued operations	2,619	7,483	5,024	5,197	5,477
Earnings per share (cents)	34.5	34.4	30.1	27.5	26.1
Dividend payout ratio (%)	88	86	93	102	107

(1) Operating profit before interest, depreciation and amortisation and income tax expense. EBITDA is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly relate to all financial aspects of the operations of the company. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to us.

(2) EBITDA less depreciation and amortisation.

(3) Restated for the retrospective adoption of AASB:119 "Employee Entitlements".

## Non financial results

Key performance indicator	FY15	FY14	FY13
Employee engagement – Score (%)	n/a	82	80 <sup>(i)</sup>
Health and safety <sup>(iii)</sup> – Lost Time Injury Frequency Rate (LTIFR)	0.98	1.12	1.36
Gender equality <sup>(iii)</sup> – Women in executive management (%)	25.6	25.9	25.4
Volunteering during Telstra time <sup>(iii)</sup> – Total (days)	7,225	5,122	4,248
Payroll giving – Participation rate (%)	5.8	5.3	3.6
Social and community investment <sup>(iv)</sup> – Value (\$m)	214	217	231
Everyone Connected – Targeted community programs (people reached) ('000s)	117 <sup>(v)</sup>	143	146
Carbon emissions <sup>(vi)</sup> – Tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) ('000s)	1,571	1,592	1,634
Carbon emissions intensity <sup>(vi)</sup> – tCO <sub>2</sub> e per terabyte of data	0.42	0.58	0.83
E-waste – Mobile phones (tonnes collected)	15.6	15.3	14.0

(i) Telstra Group, FY13 results adjusted to exclude CSL and Sensis Group (79% was previously reported).

(ii) This data relates to Telstra Corporation Limited only and does not include subsidiaries or contractors.

(iii) Includes full time, part time and casual staff in Telstra Corporation Limited and its wholly owned subsidiaries, excluding contractors and agency staff. It does not include staff in any other controlled entities within the Telstra Group. Executive management comprises persons holding roles within Telstra designated as Band A, B or C, or equivalent.

(iv) Our social and community investment covers four key focus areas: Everyone Connected (customer and community digital inclusion programs, comprising 87 per cent of total investment), employee volunteering and giving, sponsorship and disaster relief. Our contribution consists of revenue foregone, cash, in kind, time, management costs and leverage.

(v) This figure is a combination of actual and estimated data. The number of people reached has decreased in FY15 due to a stronger focus on delivering face to face training. Our Bigger Picture 2015 Sustainability Report provides more detail on our approach and methodology.

(vi) Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships.

# REFERENCE TABLES

## Guidance versus reported results

This schedule details the adjustments made to the reported results for the current year to reflect the performance of the business on the basis which we provided guidance to the market. This guidance assumed wholesale product price stability, no impairments to investments, excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.

	Reported			Adjustments FY15										FY14	Guidance Basis		
	FY15	FY14	Growth	Sensis <sup>(i)</sup>	M&A <sup>(ii)</sup> Controlled Entities	M&A <sup>(ii)</sup> JVs/ Associates	M&A <sup>(ii)</sup> Other Investments	Dimmi <sup>(iii)</sup>	CSL <sup>(iv)</sup>	Octave <sup>(v)</sup>	Sequel Media <sup>(vi)</sup>	Spectrum <sup>(vii)</sup>	CSL & Sensis <sup>(viii)</sup>	FY15	FY14	Growth	
	\$m	\$m	%	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	
Sales revenue	25,845	25,119	2.9	0	(255)	0	0	0	0	0	0	0	0	25,590	25,119	1.9	
Total revenue	26,023	25,320	2.8	0	(255)	0	0	0	0	0	0	0	25,768	25,320	1.8		
Total income (excl. finance income)	26,607	26,296	1.2	0	(261)	0	0	0	(27)	0	0	(561)	26,319	25,735	2.3		
Labour	4,921	4,732	4.0	0	(117)	0	0	0	0	0	0	0	4,804	4,732	1.5		
Goods and services purchased	6,847	6,465	5.9	0	(129)	0	0	0	0	0	0	0	6,718	6,465	3.9		
Other expenses	4,113	3,988	3.1	0	(62)	0	0	0	(15)	0	0	0	4,036	3,988	1.2		
Operating expenses	15,881	15,185	4.6	0	(308)	0	0	0	(15)	0	0	0	15,558	15,185	2.5		
Share of net profit from joint ventures and associated entities	19	24	(20.8)	0	0	2	0	0	0	0	0	0	21	24	(13.5)		
EBITDA	10,745	11,135	(3.5)	0	47	2	0	0	15	(27)	0	(561)	10,782	10,574	2.0		
Depreciation and amortisation	3,983	3,950	0.8	0	(54)	0	0	0	0	0	0	0	3,929	3,950	(0.5)		
EBIT	6,762	7,185	(5.9)	0	101	2	0	0	15	(27)	0	(561)	6,853	6,624	3.5		
Net finance costs	689	957	(28.0)	0	(4)	0	0	0	0	0	0	0	685	957	(28.4)		
Profit before income tax expense	6,073	6,228	(2.5)	0	105	2	0	0	15	(27)	0	(561)	6,168	5,667	8.8		
Income tax expense	1,787	1,679	6.4	0	3	0	0	0	0	0	0	0	1,790	1,679	6.6		
Profit for the year from continuing operations	4,286	4,549	(5.8)	0	102	2	0	0	15	(27)	0	(561)	4,378	3,988	9.8		
Profit/(loss) for the year from discontinued operation	19	(204)	n/m	0	0	0	0	0	0	0	0	0	19	(204)	n/m		
Profit for the year from continuing and discontinued operations	4,305	4,345	(0.9)	0	102	2	0	0	15	(27)	0	(561)	4,397	3,784	16.2		
Attributable to:																	
Equity holders of the Telstra Entity	4,231	4,275	(1.0)	0	101	2	0	0	15	(27)	0	0	4,322	4,275	1.1		
Non-controlling interests	74	70	5.7	0	1	0	0	0	0	0	0	0	75	70	7.1		
Free cashflow	2,619	7,483	(65.0)	(68)	1,031	48	72	(3)	10	0	8	1,302	(2,561)	5,019	4,922	2.0	

This table has been subject to review by our auditors.

**Note:**  
On a guidance basis, income growth on the prior period was 2.3% and EBITDA growth on the prior period was 2.0%. On a guidance basis and excluding CSL operating results from the prior period, income growth was 6.6% and EBITDA growth was 4.5%. Free cashflow in the prior period included \$205m M&A outlay related to DCA eHealth Solutions, Fred IT Group, NSC Group, O2 Networks and Ooyala. On a guidance basis and excluding the prior period M&A, FY15 free cashflow of \$5,019m represents a decline on the prior period of 2.1%.

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

**(i) Sensis adjustments:**  
Adjustments related to Sensis discontinued operation. Free cashflow adjustment of \$9m related to the receipt from completion adjustment on Sensis sale, and \$59m for capital return and dividends received for the year to 30 June 2015.

**(ii) Mergers & Acquisitions:**  
Adjustments relating to mergers and acquisition activities (including operating results). This includes Ooyala, VideoPlaza, Pacnet, Nativ Holdings, Medinexus, Telstra SNP Monitoring, Bridge Point Communications, iCareHealth, AFN Solutions, Emerging Holdings, Cloud 9 Software, Dr Foster Intelligence, Neto E-commerce Solutions, Cygnus Satellite, Globecast Australia, and Other investments to 30 June 2015.

**(iii) Dimmi disposal adjustments:**  
Dimmi Pty Ltd was disposed on 31 May 2015.

**(iv) CSL adjustments:**  
CSL tax indemnity paid (\$10m) and provided for (\$5m) as a result of regulatory events subsequent to the sale.

**(v) Octave adjustments:**  
On 10 December 2013, Telstra Octave Holdings Limited acquired the remaining 33 per cent interest in Octave Investments Holdings Limited in exchange for selling the net assets of the five variable interest entities controlled by Sharp Point Group Limited. As our control did not change in Octave Investments Holdings Limited, the associated gain of \$27m was held in our General Reserve in equity at June 2014. On 12 December 2014, we liquidated Octave Investments Holdings Limited and Telstra Octave Holdings Limited and as a result of us ceasing to own both the entities, the \$27m gain held in equity was transferred to the Income Statement in accordance with accounting standards.

**(vi) Sequel Media adjustments:**  
On 26 November 2014 our controlled entity Telstra Holdings Pty Ltd disposed of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) for a total consideration of \$18 million, resulting in a \$2 million net loss on sale, largely representing the \$2 million foreign currency translation loss reclassified on the disposal from reserves to the income statement. On completion of the sale we deconsolidated 100 per cent of the Sequel Media Inc. balance sheet, including \$26 million of cash balances disposed.

**(vii) Spectrum adjustments:**  
Adjustments relating to the impact of free cashflow associated with our spectrum purchases and renewals for the year (\$1,302m, 2 x 20MHz in the 700 MHz band (40 MHz in total) and 2 x 40 MHz in the 2.5 GHz band (80 MHz in total)).

**(viii) CSL and Sensis FY14 adjustments:**  
Adjustments relating to the impact of \$561m CSL profit on sale and free cashflow associated with the sale of CSL (\$2,107m) and Sensis (\$454m) in FY14 excluded for guidance purpose.

# GLOSSARY

## TECHNOLOGY TERMS

### 4G (or 4G-LTE)

Fourth generation of wireless networks. It gives users faster download and upload speeds and better response times than previous generations. 4G lets customers do things like downloading files, sending large attachments, web browsing and online multi-tasking faster than previous generations. 4G-LTE also provides more network capacity and thus delivers benefits for network operators. The faster you can deliver data, the greater the capacity you make available for other users on the network.

### 4GX™ (LTE + LTE A)

The next step in our 4G evolution. 4GX is based on 4G using our 20MHz (FDD) holding of 700MHz frequency band which, by itself, allows peak network speeds to 150Mbps and better 4G in-building coverage. 4GX also encompasses our LTE-Advanced capability where the new 4G700MHz is aggregated with our existing 4G on 1800MHz or new 4G on 2600MHz. 4GX using LTE-Advanced is capable of even greater peak network speeds of up to 300Mbps and adds another lane of capacity to the Telstra mobile broadband super highway.

### ADSL

Asymmetric Digital Subscriber Line. A broadband technology that provides access to the internet at fast speeds. Data is carried over the copper network phone lines. These data speeds can enable the delivery of voice, data and video services.

### ADSL 2+

Extends the capability of basic ADSL by increasing the potential speeds that customers experience. Telstra's ADSL 2+ service can deliver a maximum download speed of 20Mbps. (The actual customer download speed can vary depending on line conditions. Typical download speeds are 10Mbps.)

### Bundle

A product that has one or more base products.

### Cable

See HFC cable.

### Cloud

Can refer to the provision of services, software, storage and security over the internet, typically on a pay-for-use basis. In simple terms, it allows access to information and programs on multiple devices in multiple locations.

### Cyber safety

The safe use of information and telecommunications technology (including mobile phones) and the internet.

### eHealth

eHealth is the sharing of health resources and provision of health care by electronic means.

### Fixed wireless (NBN Co)

The NBN Co Fixed Wireless network uses advanced wireless technology such as LTE or 4G to deliver services to a fixed number of premises within each coverage area.

### Fibre to the Node (FTTN)

A broadband access solution that delivers fibre from a telco's exchange facility to a street cabinet (the "node"), with the final connections to a premises being the copper network phone lines.

### Fibre to the Premises (FTTP)

A broadband access solution that delivers fibre from a telco's exchange facility directly to the outside of a building. Because fibre can deliver faster data transfer speeds than copper, FTTP solutions, which do not depend on copper, offer potential internet speeds faster than FTTN solutions (see definition of FTTN).

### HFC

Hybrid Fibre Coax. A way of delivering video, voice and data using both coaxial cables (like the ones used for connecting your television to an antenna) and fibre optic cables. Optical fibre connects a telco's facility (called a headend) to hubs in suburban streets, and then coaxial cables connect the hubs and customer premises. Telstra uses an HFC network to deliver Foxtel and Big Pond Cable Internet services.

### IP

Internet Protocol. Part of the family of protocols describing software that tracks Internet addresses, directs outgoing messages, and recognises incoming messages. Used in gateways to connect networks at a high level.

### IPTV

Television, video signals or other multimedia services that are distributed to subscribers or viewers using Internet Protocol over a broadband connection. Examples include Telstra's T-Box and Foxtel on T-Box services.

### Live chat

Telstra LiveChat is an application which allows visitors to Telstra.com the opportunity to communicate 'Live' with a Telstra consultant. Customers can have their questions answered and/or purchase any number of products in one single web chat.

### Migration plan

The migration plan outlines how Telstra will progressively migrate voice and broadband services from its copper and HFC networks to the NBN as its fixed line network is rolled out across Australia. The migration plan was originally approved by the ACCC on 27 February 2012 and was varied by approval of the ACCC on 26 July 2015 to accommodate NBN Co's shift to a multi-technology approach to its rollout.

### Mobile data

Wireless internet access delivered over the mobile phone network to computers and other digital devices using portable modems.

### Points of presence (network)

An access point (port) that enables Internet Service Provider (ISP) customers to enter the internet network from outside the Telstra network.

### Post paid

Credit provided to a customer and billed in arrears.

### PSTN

Public switched telephone network. Generic term for public telephone networks. Often referred to as "fixed line", it is the standard home telephone service, delivered over copper wires.

### Roaming

A service which allows customers to use their mobile phone while in a service area of another carrier, for example overseas.

### Spectrum

All wireless communications signals travel through the air via radio frequency, known also as spectrum. The government grants telcos licences for dedicated use of portions (bands) of the spectrum. As people increase their use of wireless networks, more spectrum is required.

### Unified Communications

An integrated hardware and software offering that combines enterprise communications on a single platform. It is any communications system that encompasses a broad range of technologies and applications that have been designed as a single communications platform. A unified communications system generally enables companies to use integrated data, video and voice from multiple locations in one supported product.

### Wi-Fi

The most prevalent form of WLAN technology. Wireless local area networks (WLANs) are small-scale wireless networks with a typical radius of several hundred feet.

### Wi-Fi hotspot

A device that other devices can connect to wirelessly in order to access the Internet. (Wi-Fi refers to a set of wireless standards commonly used by devices for short-distance wireless communication).

## FINANCIAL TERMS

### Capex

Capital expenditure. This is expenditure on assets such as property, equipment, intangible assets, etc.

### DPS

Dividend per share.

### EBITDA

Earnings before interest, income tax expense, depreciation and amortisation. An indicator of a company's operational profitability.

### EPS

Earnings per share. A company's profit divided by the number of shares on issue.

### Free cashflow

Represents the cash that a company is able to generate from its operations after spending money required to maintain or expand its asset base.

### NPAT

Net profit after tax.







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## Online Shareholder Information

Telstra's Investor Centre at [telstra.com/investor](http://telstra.com/investor) has all the latest news and information available for shareholders.

Shareholders can also easily manage their shareholding online at [www.linkmarketservices.com.au/telstra](http://www.linkmarketservices.com.au/telstra). Shareholders require their SRN/HIN and postcode for access and then can view and update information under the following menu options:

**Holdings** – transaction history, holding balance and value and latest closing share price.

**Payment and Tax** – dividend payment history, tax information, payment instructions and TFN details. Update bank details here.

**Communication** – become an e-Shareholder and update postal/email addresses and communication elections here.

## Keeping Informed

To keep up to date with the latest news about Telstra:

- follow us on twitter [@Telstra\\_news](https://twitter.com/Telstra_news)
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- subscribe to our media releases on our website at [telstra.com.au/aboutus/media/rss-feeds](http://telstra.com.au/aboutus/media/rss-feeds)
- visit Telstra Exchange [exchange.telstra.com.au](http://exchange.telstra.com.au)

## Annual Report

Telstra's 2015 Annual Report is available to all shareholders from our Investor Centre at [telstra.com/annualreport](http://telstra.com/annualreport). To receive a hardcopy of the Annual Report (free of charge), you can call our Share Registry on (+61) 1300 88 66 77 and request a report be sent to you. You may also update your communication preferences online to change the way you receive future copies of the Annual Report.

Please refer to the Online Shareholder Information section for instructions on how to do this at [www.linkmarketservices.com.au/telstra](http://www.linkmarketservices.com.au/telstra).

## Sustainability Reporting

Selected graphs and data presented in this Report are included in the Bigger Picture 2015 Sustainability Report, which is available online at [telstra.com/sustainability/report](http://telstra.com/sustainability/report). Our sustainability report provides more detailed information and analysis for our stakeholders on Telstra's sustainability approach and performance. You can also subscribe to our sustainability newsletter at [telstra.com/sustainability/subscribe](http://telstra.com/sustainability/subscribe).

We develop our sustainability reporting with reference to industry and sustainability standards, including the United Nations Global Compact Communication on Progress, and in accordance with the Global Reporting Initiative G4 Sustainability Reporting Guidelines. The full GRI Index can be found online at [telstra.com/sustainability/report](http://telstra.com/sustainability/report).

The spectrum device and <sup>TM</sup> and <sup>®</sup> are trade marks and registered trade marks of Telstra Corporation Limited, ABN 33 051 775 556.

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\*\*\* Registered trade mark of Whispir Limited.

^ Registered trademark of Apple Inc.

^^ Registered trade mark of Roku Inc.

^^^ Registered trade mark of Stan Entertainment Pty Ltd.

@ Registered trade mark of Netflix Inc.

Foxtel marks are used under licence by Foxtel Management Pty Ltd.

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

Designed by thatworks.

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## Telstra Corporation Limited

ABN 33 051 775 556  
Incorporated in the Australian Capital Territory  
Telstra is listed on Stock Exchanges in  
Australia and in New Zealand (Wellington)

## Websites

### Telstra Investor Centre

[telstra.com/investor](http://telstra.com/investor)

### Telstra Sustainability

[telstra.com/sustainability](http://telstra.com/sustainability)

# INDICATIVE FINANCIAL CALENDAR<sup>1</sup>

Final dividend paid	Friday 25 September 2015
Annual General Meeting	Tuesday 13 October 2015
Half Year Results announcement	Thursday 18 February 2016
Ex-dividend share trading commences	Tuesday 1 March 2016
Record date for interim dividend	Thursday 3 March 2016
DRP election date	Friday 4 March 2016
Interim dividend paid	Friday 1 April 2016
Annual Results announcement	Thursday 11 August 2016
Ex-dividend share trading commences <sup>2</sup>	Wednesday 24 August 2016
Record date for final dividend	Thursday 25 August 2016
DRP election date	Friday 26 August 2016
Final dividend paid	Friday 23 September 2016
Annual General Meeting	Tuesday 11 October 2016

<sup>1</sup> Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).

<sup>2</sup> The ex-dividend share trading date for the final dividend reflects proposed amendments to the ASX Listing Rules associated with the implementation by the ASX of a T+2 settlement cycle in March 2016.





[telstra.com/investor](https://telstra.com/investor)