

# Telstra Annual Report 2017



The sections of our Annual Report titled Chairman and CEO message, Strategy and performance, Our material risks, Outlook and Full year results and operations review comprise our Operating and financial review (OFR) and form part of the Directors' report. Our OFR, Directors' report and Financial report were released to the ASX on 17 August 2017 in the document titled 'Financial results for the year ended 30 June 2017' which is available on our website at [telstra.com/investor](http://telstra.com/investor).

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 was lodged with the ASX on 17 August 2017 and is available on our website at [telstra.com/governance](http://telstra.com/governance).



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## Annual Report





Telstra's 2017 Annual Report is available to all shareholders from our Investor Centre at [telstra.com/annualreport](http://telstra.com/annualreport).

To receive a hardcopy of our 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 at [www.linkmarketservices.com.au/telstra](http://www.linkmarketservices.com.au/telstra) to change the way you receive future copies of our Annual Report.

# Our business

<b>Our purpose</b>	To create a brilliant connected future for everyone.
<b>Our vision</b>	To be a world class technology company that empowers people to connect.
<b>Our brand</b>	To create better ways to empower everyone to thrive in a connected world.
<b>What we do</b>	Telstra is a leading telecommunications and technology company. We offer a broad suite of connectivity, media and content to customers in Australia, as well as connectivity and enterprise services globally. We curate innovative technologies and capabilities from around the world to deliver exceptional experiences for our customers.

## Who we are

 <b>Over 32,000 staff in 20 countries</b>	 <b>Over 350 Telstra Stores and 70 Telstra Business Centres</b>	
<b>&gt;400,000km of subsea cables</b> connecting to +2,000 points of presence	<b>Mobile network covering more than 2.4 million square kms</b>	 <b>More than 800,000 Telstra TVs® in market</b>
<b>Providing AFL, NRL and Netball content data-free to customers</b>	 <b>1.4m shareholders</b>	Joint owner of <b>FOXTEL</b> Australia's largest Pay TV service

## Our customers

<b>460 million calls and 430 million data connections made over our mobile network each day</b>	<b>Over 5,000 petabytes of data on our fixed network and mobile network each day, increase of 40%</b>	<b>Nearly two million customers activated to use more than 1.1 million Telstra Air® hotspots</b>
<b>1,176,000 nbn™ connections, 88% of retail fixed data customers on a bundled plan</b>	<b>5.4 million retail fixed voice services</b> <b>3.5 million retail fixed data services</b>	<b>17.5 million domestic retail mobile services</b>

# FY17 highlights



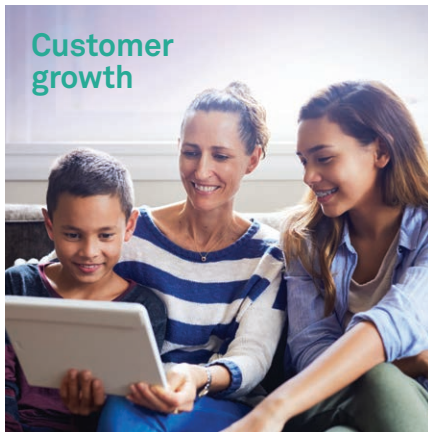
## Financial performance

Total income<sup>1,2</sup> up by 4.3% to \$28.2 billion

Net profit after tax from continuing operations up by 1.1% to \$3.9 billion

\$5.2 billion returned to shareholders via dividends and share buy-backs

FY17 total dividend of 31 cents per share



## Customer growth

Episode Net Promoter Score (NPS) up by 3 points on last year

Strategic Net Promoter Score (NPS) stable on last year

218,000 additional domestic mobile customers

nbn market share (ex-satellite) of 52%

Recognised as Australia's most valuable brand, 78th most valuable globally



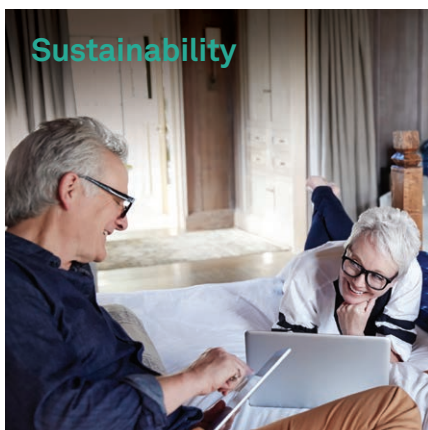
## World class technology

Launch of world-leading 1Gbps Nighthawk M1 mobile hotspot

Exclusive launch of the first Pixel smartphone as a partner of Google

4G mobile network now reaches 99% of the Australian population

Launch of Telstra Smart Home



## Sustainability

Sustainable engagement score of 71% in Employee Engagement Survey

68% reduction in greenhouse gas emissions intensity from our baseline year

Helped more than 1 million vulnerable customers stay connected

1. On a reported and guidance basis.  
2. Total income excludes finance income.

# Chairman and CEO message

Dear Shareholders,

In 2017 technology and innovation continued to transform industries, businesses and the way in which we live our daily lives. This transformation is particularly significant for Telstra as the traditional worlds of telecommunications and computing are converging, as are many other technologies.

During a time of change, we continue to put the customer at the heart of everything we do and we have seen continued strong customer growth across all key segments of our business.



Andrew Penn (CEO), John Mullen (Chairman)

## Our financial performance

Our strong performance in the context of a highly competitive and dynamic market enabled us to increase Total Income, EBITDA and NPAT. On a reported basis from continuing operations, Total Income<sup>1</sup> increased by 4.3 per cent to \$28.2 billion and EBITDA increased 2.0 per cent to \$10.7 billion. On a guidance<sup>2</sup> basis we increased Total Income<sup>1</sup> by 4.3 per cent and EBITDA by 4.5 per cent. Excluding the proceeds from the FY16 sale of Autohome, NPAT increased 1.1 per cent on a reported basis from continuing operations.

The Board announced a fully franked final dividend of 15.5 cents per share, bringing the total dividend for the financial year to 31.0 cents per share.<sup>3</sup> Combined with the \$1.5 billion on and off market share buy-backs completed during the year, we returned \$5.2 billion to shareholders in FY17.

We also announced the outcome of the capital allocation review that commenced in November 2016. This included a change to our dividend policy<sup>4</sup> to reduce the payout ratio to 70-90 per cent of our underlying earnings<sup>5</sup>, to return in the order of 75 per cent of net one off nbn™ receipts<sup>6</sup> to shareholders over time via fully-franked special dividends, a new capital management framework and plans to monetise a portion of locked-in recurring nbn receipts (see breakout box for further details).

## An evolving market

We believe we have the right vision and strategy for the dynamic environment in which we operate. Our vision is to become a world class technology company that empowers people to connect.

During the year we refined our strategy with our three pillars now being to deliver brilliant customer experiences, drive value and growth from our core, and build new growth businesses close to the core.

The changes to our strategy were not major, however they send an important signal that we will be very focused on delivering customer experience improvements and disciplined in how we invest in our networks, services and growth businesses.

Our highest priority remains improving customer experience and we are pleased that our key customer measure, our Net Promoter Score, recovered strongly in the second half of the year. While we have made progress on improving customer experience, we recognise there is more to be achieved.

We saw continued customer growth across key segments, with retail mobile net adds of 218,000, including 169,000 postpaid handheld net adds, and 132,000 domestic retail fixed broadband customers. nbn connections grew by 676,000 to 1,176,000 bringing total market share to 52 per cent (ex-satellite).

Almost 90 per cent of our retail fixed broadband customers are now on a bundle, with 224,000 adds on the back of the popular 'Best Bundle Ever' and 'Hottest Entertainment Bundle'.

Access to the best content is critically important to us as demand for media continues to grow. At the same time the media market is changing with new participants and increased competition. We remain committed to Foxtel and we continue discussions with our partner News Corp regarding the best arrangements and structure to support Foxtel's success into the future.<sup>#</sup>

In an evolving market, we are seeing new entrants into the both mobile and fixed markets as well as pricing pressure in all sectors through price reductions, value enhancements and increased data allowances. Digital disruption is continuing to accelerate, not just for us but also for our customers, and we are entering a significant point in the transformation of the telecommunications market with the nbn rollout reaching scale.

These changes confirm why we must increase the speed of our transformation. It is for this reason that last year we announced during FY17 our intention to invest up to \$3 billion in additional capital expenditure over the next three years to achieve a further step change in our strategic positioning. This is in addition to our usual capital spend and takes our expected total capital investment including spectrum over the three years to FY19 to more than \$15 billion. To date we have focused the program predominantly on the network and have invested around \$750 million since November 2016.

In FY17 we reduced our underlying fixed costs by \$244 million, consistent with our announcement in November 2016 that we would achieve at least \$1 billion in productivity by FY21. We intend to accelerate our efforts to reduce costs even further over the next five years, bringing forward our \$1 billion net productivity target by one year to FY20.

We have increased our target by a further \$500 million in cost savings and we plan to deliver more than \$1.5 billion in net productivity by FY22. As previously advised, we expect the benefits to accrue roughly equally over the life of the program.

For more detailed discussion of the progress we are making to deliver on our purpose, vision and strategy please refer to the Strategy and Performance section.

### Building world-class culture and capability

The culture and capability of our workforce is an essential part of delivering our vision to be a world class technology company that empowers people to connect. More than 32,000 talented employees working in over 20 countries contribute to our success.

Our efforts to further build a world class workforce in FY17 included a number of changes to our Senior Management team and the roles they play. We also announced a number of structural changes to bring some of our most important growth activities closer to the rest of the business to maintain our support and align them with their most relevant channel to market as they mature. These changes are designed to help us fully realise the long-term value these opportunities represent.

The Board has reviewed the current CEO and Group Executive remuneration structures, in particular the current long-term incentive plan structure. A new Executive Variable Remuneration Plan will be implemented for FY18 which combines our existing short-term and long-term incentive arrangements into a simplified variable incentive that drives performance against customer experience and financial metrics, creating long-term shareholder value. Further information can be found in our Remuneration Report.

We also saw changes at the Board level, farewelling Chin Hu Lim who retired at the conclusion of our AGM in October 2016, and welcomed Jane Hemstritch.

### Our commitment to gender equality

We remain committed to gender equality across our company. In 2017 we introduced a Global Recruitment Equality Procedure which requires recruitment and interview shortlists for all roles to include at least 50 per cent female representation. This applies to all current open roles and all new jobs, except in some specified roles where a 25 per cent requirement applies due to a known significant gender imbalance in the job market. For the third year running, Telstra also received the Employer of Choice for Gender Equality citation from the Workplace Gender Equality Agency (WGEA).

For FY18, the Board's diversity objective is that there will be at least four women on the Board, representing a female gender representation among non-executive Directors of at least 40 per cent, recognising that the level of gender diversity of the Board may be temporarily affected during periods of Board renewal.

### Delivering on our purpose, sustainably

In our increasingly connected world, digital technology is disrupting traditional operating models and helping society respond to major issues in a more agile and scalable way, from managing the impacts of climate change to making healthcare and education more universally accessible. That is why we have a multi-year vision for a more holistic approach to sustainability that informs and integrates all of our business activities.

Our sustainability efforts are focused on the issues that are most material for our business, the areas in which we have the expertise to make a meaningful impact, and where we see opportunities to use innovative, tech-based solutions to help address major societal challenges and opportunities. Our Bigger Picture 2017 Sustainability Report will detail the progress we are making. Highlights for FY17 include reaching more than 63,000 people through our digital literacy programs and our employees undertaking more than 8,900 volunteering days in the community.

## Regional, rural and remote communities

We remain deeply committed to customers living in every part of Australia. Over the past 10 years, approximately 15 per cent of our investment in our mobile network has gone to provide services to the most remote 2 per cent of the population. In FY17 we announced plans that could result in up to \$1 billion of investment and co-investment over the next five years, as we work to provide improved and expanded mobile coverage and high-speed mobile internet to regional communities. This kind of investment is delivering real benefits to customers. For example our 4G mobile network now reaches 99 per cent of the Australian population.

More work is needed to deliver the future that regional communities deserve. However, our investments are already building a bridge that regional communities can use to access knowledge, markets and services that may have previously been out of reach. Greater connectivity also enables greater innovation which is critical for the people and communities of regional Australia.

We welcomed the Australian Competition and Consumer Commission's draft decision not to declare wholesale domestic mobile roaming. This was the right decision for the people, businesses and communities of regional Australia because it ensures the industry still has the incentives to invest.

## The year ahead

Our business continues to experience changes driven by market developments, technological innovation and the continued evolution of our customers' needs and expectations. A revision of our Capital Management Framework including our Dividend Policy positions us to succeed in this changing environment.

In FY18 Telstra expects Income in the range of \$28.3 to \$30.2 billion and EBITDA of \$10.7 to \$11.2 billion. Guidance for EBITDA is after absorbing incremental restructuring costs of \$200–\$300 million to support our increased productivity. \$2–\$2.5 billion of this EBITDA is expected to come from net one-off nbn™ Definitive Agreement receipts less nbn net cost to connect. Capital expenditure is expected to be between \$4.4–\$4.8 billion or approximately 18 per cent capex to sales and free cashflow is expected to be in the range of \$4.4–\$4.9 billion.

Telstra expects total dividends in respect of FY18 to be 22 cents per share fully-franked, including both ordinary and special dividends.<sup>4</sup>

This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn rollout is broadly in accordance with the nbn Corporate Plan 2017. Capex excludes externally funded capex.

Our success is reliant upon the hard work and dedication of our employees. We thank the Telstra team for continued efforts to deliver brilliant experiences to our customers and their ongoing support for our strategy.

We believe our vision remains the right vision and our strategy the right way to achieve this. We have progressed significantly over the last two years and we look forward to continuing to deliver on our strategy.



John P Mullen,  
Chairman



Andrew R Penn,  
CEO and Managing Director

1. Excluding finance income.

2. This guidance assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn rollout was in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excluded externally funded capex. Guidance excluded the Ooyala impairment in FY16 and restructuring costs in FY17.

3. For the reasons explained below – see Capital Allocation Strategy Review, Telstra has suspended the Dividend Reinvestment Plan. Our intention is to reinstate it when circumstances allow.

4. Return subject to no unexpected material events, assumes the nbn rollout is broadly in accordance with the nbn Corporate Plan 2017 and receipt of associated one-offs, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.

5. "underlying earnings" is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 6 below).

6. "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.

7. It is anticipated Telstra would retain approximately 25 per cent of the equity component of the transaction.

# Since the release of our OFR on 17 August 2017, which was lodged with the ASX in the document titled "Financial results for the year ended 30 June 2017":

1. Telstra and News Corp have announced their intention to combine Foxtel and Fox SPORTS Australia into a new premium sports and entertainment company.

Further information is available in our ASX announcement dated 17 August 2017 and in the transcript of the media and analyst conference held on 18 August 2017 (which was lodged with the ASX on 22 August 2017) which are available at [telstra.com/investor](http://telstra.com/investor).

2. Telstra announced to the ASX on 30 August 2017 that while the proposal to monetise a portion of the locked-in recurring nbn receipts was well progressed and supported by equity and debt investors, Telstra had been advised that technical consents from nbn co will not be forthcoming. Telstra also confirmed that the proposed transaction highlighted the significant value in Telstra's core underlying telecommunications infrastructure as represented by the potential nbn monetisation opportunity. The process had shown the value of these payments to Telstra shareholders. A copy of the announcement is available at [telstra.com/investor](http://telstra.com/investor).



## Capital Allocation Strategy review

### On 17 August 2017, we announced the outcomes of the Capital Allocation Strategy review that commenced in November 2016.

The review examined Telstra's balance sheet structure and settings, longer term capex requirements, investment decisions including M&A, returns to shareholders including dividends, buy-backs and other forms of returns, and the best way to manage receipts from the nbn™.

We have consulted extensively with shareholders and other stakeholders during this review and the overwhelming and consistent feedback has been that planning for the longer term and retaining financial flexibility is a priority. This includes the importance of retaining a strong balance sheet through the nbn transition period and in light of the increased competitive dynamics and digital disruption.

The outcomes of the capital allocation strategy review are:

- a potential monetisation of a portion of locked-in recurring nbn receipts, subject to legal documentation and satisfaction of certain conditions;
- a revised capital management framework focused on maintaining tight fiscal discipline, maximising returns for shareholders, maintaining financial strength and retaining financial flexibility for investment in the future; and
- a new dividend policy to more closely align ordinary dividends to underlying earnings, and to return in the order of 75 per cent of net one-off nbn receipts<sup>6</sup> to shareholders over time through special dividends.

#### Potential monetisation of recurring nbn receipts

At our Investor Day in November 2016 we said we would look at ways to crystallise value from recurring nbn receipts for key infrastructure and today announced a potential plan to monetise a proportion of these receipts.

Recurring receipts for access to our extensive infrastructure are expected to grow to just under \$1 billion annually by the end of the nbn migration period.

If we were to proceed with these plans, it would involve approximately 40 per cent of the total long-term recurring nbn receipts that are ultimately expected, representing locked in receipts for dark fibre and exchanges.

The scale of the proposed transaction is approximately \$5–\$5.5 billion, with Telstra to retain some equity interest.<sup>7</sup> Our intention would be to use the proceeds to reduce debt by around \$1 billion, with the balance to support a capital management program to enhance shareholder returns, most likely through a series of on and off market buy-backs.

The proposed transaction is subject to agreement and a number of steps including approvals and consents from investors, the Government and nbn co.

We are currently in discussions regarding these matters. We cannot confirm whether they will be achieved but we will update the market in due course.<sup>#</sup>

#### Dividend Reinvestment Plan

Given the ongoing discussions with nbn co and Government on the potential monetisation of a proportion of the recurring nbn receipts, in order for Telstra to manage its ongoing continuous disclosure obligations, Telstra has suspended the Dividend Reinvestment Plan with an intent to reinstate it when circumstances allow.

#### Capital Management Framework

The objectives of the revised capital management framework remain the same as those communicated to the market in 2012, including maintaining Telstra's tight fiscal discipline, maximising returns for shareholders, maintaining financial strength and retaining financial flexibility.

As a result of the capital allocation strategy review some of the principles supporting these objectives have changed. The new principles are to:

- Maintain balance sheet settings consistent with an A band credit rating;
- Pay a fully-franked ordinary dividend of 70–90 per cent of underlying earnings;<sup>4,5</sup>
- Target capex/sales ratio of ~14 per cent excluding spectrum from FY20; and,
- Maintain flexibility for portfolio management and to make strategic investments.

#### Dividend Policy

The new dividend policy supports the objectives of the capital management framework and is consistent with shareholder feedback to maintain a strong balance sheet and flexibility to manage the business and invest, especially during the nbn transition.

The new dividend policy, which will commence after the payment of the final dividend for 2017 financial year, moves us away from a historical practice of paying out almost 100 per cent of profits. From FY18 we will adopt an ordinary dividend payout ratio of 70 to 90 per cent of underlying earnings<sup>9</sup>, which is more in line with global peers and local large companies.

In addition to the ordinary dividend, we intend to return in the order of 75 per cent of net one-off nbn receipts<sup>6</sup> to shareholders over time via fully franked special dividends. We believe this is appropriate given one-off income is akin to compensation for an asset sale over a number of years and aligns with market feedback and expectations that these receipts are returned to shareholders.

With the implementation of this new dividend policy, we expect total dividends in respect of FY18 to be 22 cents per share fully franked, including both ordinary and special dividends<sup>4</sup>, excluding any returns to shareholders from potential nbn monetisation.

In adjusting the capital management framework and resetting the dividend policy we have balanced the importance of providing consistent returns to shareholders with the long term sustainability of returns and strategic direction of the company.

We realise this is a material reduction from the historic level of our dividend reflecting the lower payout ratio. We do not underestimate the impact of this on our shareholders. It is for this reason we are providing advance notice of this change and why the Board has maintained a 31 cents per share dividend this year.

These are important changes to Telstra's approach to capital management and appropriate in the context of our strategic transformation. This is about setting the business up for success in the future.

# Strategy and performance



Like all companies in today's telecommunications and technology sectors, Telstra operates in an era of unprecedented technology innovation and digital disruption. Products, services and customer expectations are changing quickly and competition is intense.

To compete in this dynamic market we are transforming our business by continuing to invest in our world-leading networks, offering simple and intuitive products and services, and delivering brilliant customer experiences.

Our actions are guided by our values. Social and environmental considerations are embedded in our business and we are working on innovative, tech-based solutions to our biggest challenges.

## **Technology innovation is reshaping our market**

Our strategy is focused on meeting our customers' growing demand for connectivity and the increased network traffic it creates, while offering a range of world-class products and services which empower our customers to thrive in a connected world.

Telstra is operating in a changing market. The pace of technological innovation continues to accelerate, with a range of direct and indirect impacts on our business. The nbn™ rollout is altering our place in Australia's fixed service market, particularly in the broadband and fixed telephony market where we are moving from being the primary fixed network operator to one of many retailers competing in a lower-margin environment.

Competitive dynamics are also shifting, with Australia set to gain a fourth mobile network operator and other local and international competitors entering the market to provide services including data, IP and NAS.

Within this changing market we will continue to compete by leveraging our strong brand and reputation, a growing domestic and international customer base, a world-leading mobile network, access to the best content and entertainment, the largest undersea cable network in the Asia Pacific, and cutting-edge technologies that will help us realise our vision to become a world class technology company that empowers people to connect.

## **Transforming our business – our strategy to compete**

Our strategy to meet the challenges ahead and create long-term shareholder value is built on three strong pillars: to deliver brilliant customer experiences, drive value and growth from our core, and build new growth businesses close to the core.

**Delivering brilliant customer experiences** means giving our customers a brilliant experience through simple, intuitive and increasingly digital ways to interact with us. We measure our progress monthly using the Net Promoter Score system which tells us how our customers and other stakeholders perceive Telstra.

**Driving value and growth from the core** is focused on leveraging our strengths in networks and connectivity and making the best use of our skills, expertise and experience to deliver value. We are committed to finding opportunities to improve the productivity of our business by reducing core costs while delivering brilliant customer experiences.

**Building new growth businesses close to the core** recognises the opportunities we have to expand with new products and services in new markets. We are focused on growing a portfolio of businesses in industries close to our core utilising Telstra's expertise and experience and adding value to our customers and shareholders.

In order to accelerate the delivery of our strategy, last year we announced an additional investment of up to \$3 billion over three years on our networks for the future and digitisation to transform our business and drive improvements in customer experiences.

This is on top of the billions we invest as part of our ongoing capital expenditure each year, allowing us to reinforce our market differentiation over the long term, deliver significant customer benefits, provide revenue uplift, improve capital efficiency and further reduce operating costs.

**Our strategic enablers will drive change**

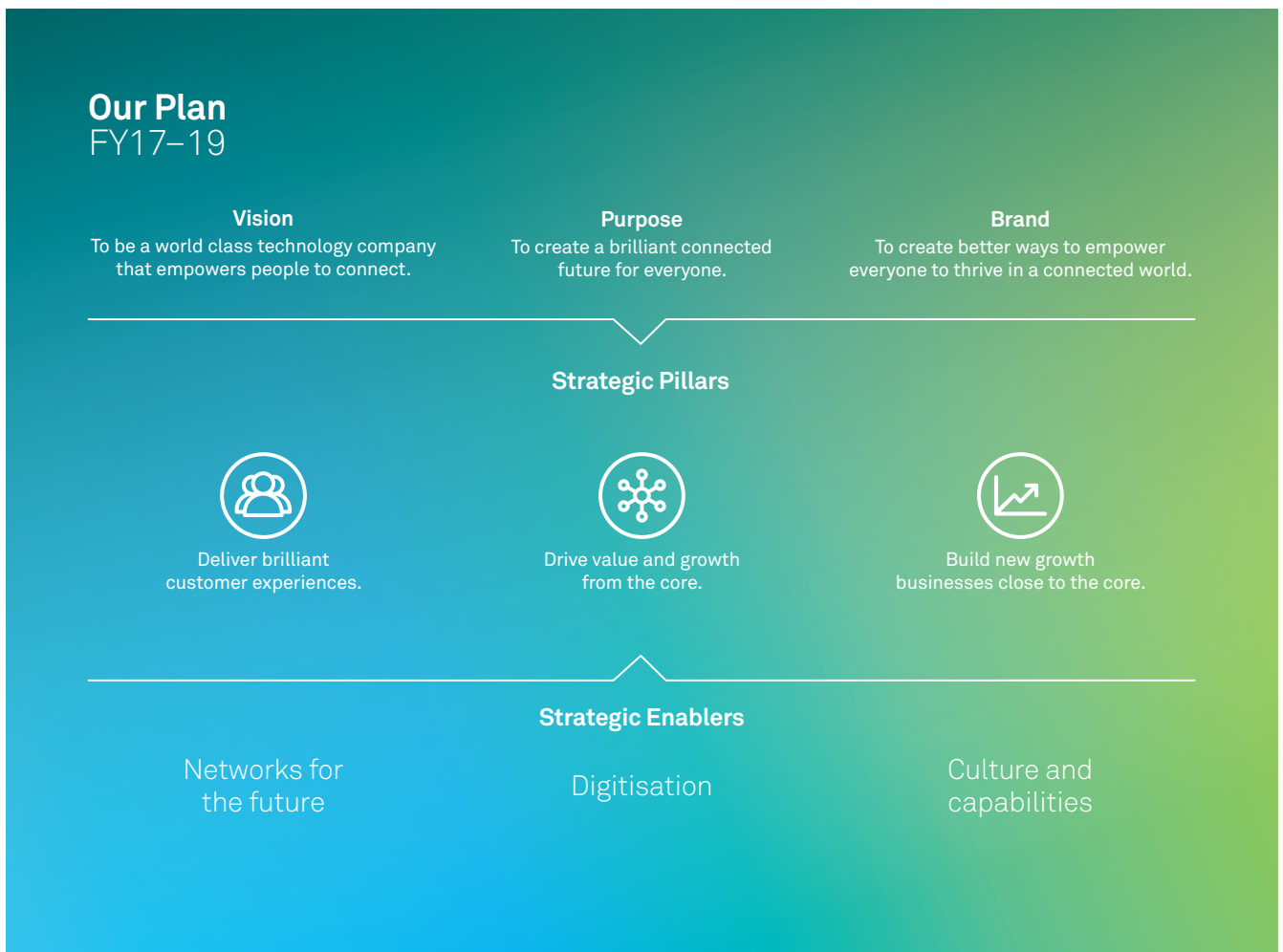
Our strategy is underpinned by three strategic enablers that drive comprehensive cross-company programs of work.

Telstra's networks are one of our biggest competitive advantages and we must continue to invest in creating **networks for the future** to deliver unparalleled coverage, speed, reliability and security.

We are building on an already strong foundation of world leading networks and this investment will enable new services for our customers over the years to come.

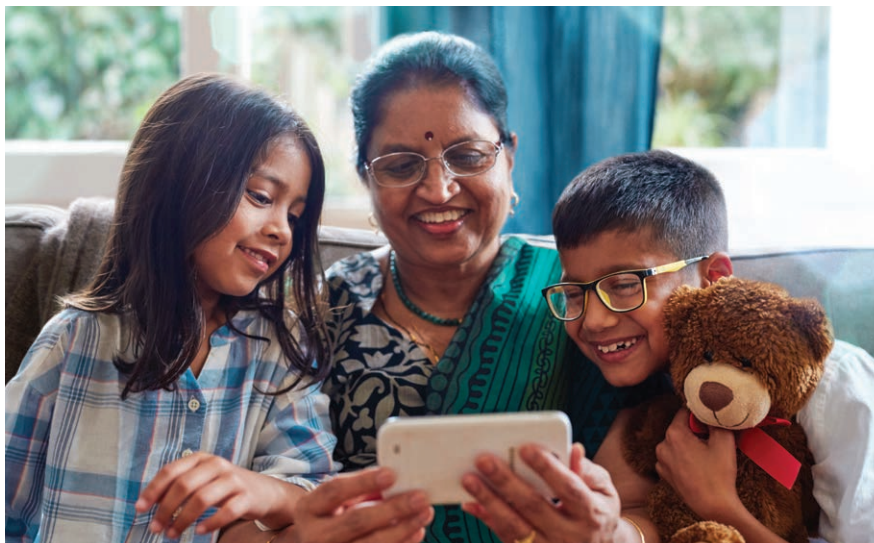
Our systems and processes are being digitised to enable brilliant customer experiences and to simplify the way we work. There are three aspects to our **digitisation** work: enabling digital experiences for our customers and our people; building digital platforms; and moving to digital ways of working across our business.

We must also build the right **capabilities** and drive critical **cultural** shifts in our workforce. We will also focus on driving greater simplicity and accountability throughout Telstra, while continuing to be guided by the Telstra values.



# Deliver brilliant customer experiences

Our customers want to be able to access the best products and services and expect them to work where they want, when they want, in the way they want. We have made progress, but we have more work to do in order to achieve our purpose of creating a brilliant connected future for everyone. Our strategy is designed to deliver this for our customers, with effortless digital experiences and services that offer the most value and enjoyment and work without fail.



## Building better customer experiences

In August last year we announced up to \$3 billion of additional capital investment over three years into programs to build networks for the future, to digitise our business and to fundamentally overhaul the experience our customers have with us. Around one quarter of this additional investment has now been made and we have seen some important improvements across the business including:

- In mobile differentiation, 89 per cent of the Australian population now have access to double the download speed of standard 4G
- In mobile differentiation more than 100 sites across five capital city CBDs are now capable of delivering our highest possible peak speeds of 1Gbps (typically 5Mbps–300Mbps) and we will continue to grow this footprint
- In ADSL, more than 80 per cent of our customers now have speeds that support a quality video experience
- In Network modernisation, we are well advanced for our first 5G trials early next year.

All of this work is a critical part of our future success. It has also meant we are able to offer our customers a significant number of new services and products including:

- The **Telstra Live Pass™** which lets customers watch every AFL, NRL and National Netball game live, fast and data-free. Live Pass now has 1.45 million subscribers
- The **Netgear Nighthawk^ M1**, Australia's fastest mobile hotspot, developed in partnership with Netgear, Qualcomm and Ericsson
- **Telstra TV®**, with 827,000 devices in market and a growing number of apps including Netflix, BigPond® Movies, Stan, Foxtel Now and Yupp TV.

## Making connecting easier

We are migrating more customers to the nbn™ network than ever before and continue to work to streamline the connection experience.

In an Australian first, we introduced the **Telstra Gateway Frontier®** hybrid modem, designed to get customers connected sooner using our mobile network while we complete a fixed network installation or migration to the nbn network. It also allows customers to get online over our mobile network if there is a fixed network disruption in their local area, providing peace of mind for residential customers and home-based businesses. With a view to the future the **Telstra Gateway Frontier** is also designed to be able to support a new wave of in-home devices and applications and can connect up to 35 devices at once.

We are offering easy-to-use **self-install kits** to nbn customers to assist them in connecting their modems and we have also expanded the capability of our **Wi-Fi Maximiser® app** to make it easier for our customers to set up, optimise and manage their home Wi-Fi network. These changes have created an auto-activation rate of close to 90 per cent and led to 280,000 fewer password-related calls in the first 90 days after activation and 50 per cent fewer unnecessary modem returns per year.

Disappointingly, in FY17 the number of first stage (Level 1) complaints made about Telstra to the Telecommunications Industry Ombudsman increased, with nbn-related issues being a key driver. We are working to provide customers with nbn speed expectations prior to them taking up a new service, and we continue to work with nbn co to improve the migration experience for customers. We have also looked closely at the experience our customers have when they need to talk with us about their nbn connection. New platforms now in use by our nbn Order-To-Activate teams simplify and automate much of the process and help ensure our customers are connected faster.

### Giving our customers more

We want to ensure we offer our customers world-leading products, services and content.

This year we switched on our one millionth **Telstra Air**® hotspot, giving mobile and eligible broadband customers even more places to enjoy free and unlimited data on Australia's largest Wi-Fi network. More than two million home broadband and mobile customers are now activated to use Telstra Air®, and data usage on the network has more than doubled over the past year.

With technology moving so fast, many customers want the latest mobile handset. That is why we introduced **Go Mobile Swap** lease plans giving customers the flexibility to return and upgrade their handset. Leasing also enables Telstra to reduce e-waste by refurbishing and reusing old handsets.

For small business we also launched our first home office bundle which pairs some of our best business-grade inclusions and productivity tools with key features from our consumer bundles to help customers thrive during business hours and enjoy their downtime outside of work.

These **Small Business Bundles** include generous call and data allowances, Microsoft® Office 365^^ Business, unlimited uploads, access to the Telstra Air® network and the Telstra Thanks® program.

Our wide-ranging work in regional Australia continues, including a partnership with the Barcoo and Diamantina Shires, the Queensland Government and the Federal Government to deliver a fibre link and new mobile base stations to Birdsville, Jundah, Stonehenge, Windorah, Bedourie, as well as joint funding to deliver fibre and mobile services in Aurukun. This work is helping connect some of Australia's most remote communities.

In partnership with Cairns Regional Council, over the next three years we will also complete a \$2 million upgrade to the city's CCTV network replacing 159 cameras with high-definition equipment that improves picture quality and provides better monitoring for a safer city. We are also working closely with the Council to help develop a mobile app to better connect the community with local information and services.

### Providing help whenever it is needed

Telstra continues to look for ways to provide our customers with the help they need, when they need it, on a platform that suits them.

Currently more than 3 million unique visitors each month use the **Telstra 24x7**® App to manage their accounts and services.

Customers now benefit from streamlined services when they are **moving homes**, as we have simplified the number of moving fees for our home phone and home broadband services and are providing more clarity about when a premise will be connected and the internet speeds and mobile coverage quality at the customer's new address.

We also continue to simplify the ordering and delivery processes for our IP products, including Managed Data Networks and Telstra IP Telephony. This multi-year program will see us redefine our processes so our business customers have a seamless end-to-end experience, from the time they order an IP product to the point of delivery. Thirty per cent of customer orders are now being processed via the new platform, providing faster delivery times, greater transparency on the status of their order and improved billing.



# Drive value and growth from the core

We have an opportunity to continue to grow our core business within an increasingly competitive market by differentiating the quality of our networks while offering innovative new products and brilliant customer experiences. This is coupled with our commitment to increase productivity across our business.

Our strategy is to drive growth by continuing to offer customers services on one of the world's best telecommunications networks, one that we are making even better through continued investment.



## Enjoying the mobile network of the future

Telstra customers enjoy Australia's largest and most reliable mobile network, with faster speeds in more places.

We continue to expand our mobile network across regional Australia, covering more than 2.4 million square kilometres and 99.4 per cent of the population. Our 4G mobile network now reaches 99 per cent of the Australian population. Under the Federal Government's Mobile Black Spot Program, we are deploying 577 new 3G/4G base stations and up to 250 small cells to improve and expand mobile coverage.

Since late 2016 we have made mobile voice calls accessible to even more Australians, with the expansion of **Wi-Fi calling** technology to millions of compatible mobile devices. Wi-Fi calling enables the seamless transfer of calls between Telstra's 4G network and an accessible Wi-Fi connection, including Telstra Air® hotspots.

Turning to the future, we want to ensure Telstra customers are among the first to benefit from the technology of tomorrow. We are contributing to the development of international **5G** industry standards, to make sure the technology is able to serve Australia's unique needs. In 2016 we conducted 5G radio testing in Melbourne, delivering peak download speeds of greater than 20Gbps. In 2018 we will deploy our first live 5G trial on the Gold Coast.

While we expect our 5G service to deliver significant speed advances, there will also be real benefits from reduced latency, increased capacity to carry massive increases in video traffic, and better managed inter-connectedness on unprecedented scales across potentially billions of connected devices globally.

We also decommissioned our long-serving 2G mobile network. First launched in 1993, the technology enabled 87 billion phone calls and billions of text messages. However mobile traffic on 2G had fallen to less than 1 per cent of our total mobile network traffic. The decision to close the network included working with customers to ensure services could be upgraded to 3G or 4G prior to the closure.

## Transitioning to the nbn™

Australia's telecommunications market is being fundamentally altered by the rollout of the nbn™ network and customer migrations are reaching peak volumes. In a competitive market we are the leading provider of consumer and business services on the nbn, with market share of 52 per cent (excluding satellite services). A combination of attractive broadband packages, the inclusion of Telstra TV® on many plans and a local approach to marketing and service has helped maintain momentum.

Telstra's challenger internet brand, **Belong®**, offers customers a simple, hassle-free, lower-cost service. Belong provides ADSL services Australia-wide and services across

the nbn network fixed broadband network. With simple plans and generous data allowances, it now has more than 150,000 customers, including more than 70,000 who are connected to the nbn – more than double the number 12 months ago.

Under the definitive agreements signed with nbn co and the Government we will receive payments that partially compensate us for the impact of the nbn rollout. Throughout the rollout period we will receive one-off payments associated with customer disconnections. We will also receive recurring payments for the use of our infrastructure such as ducts, exchange racks and backhaul. Service and maintenance costs associated with elements of our network no longer required as a consequence of the transition to the nbn are expected to reduce over time. As more customers transition to the nbn we will need to pay increasing access charges to nbn co, while dealing with the loss of existing wholesale revenues.

## Demonstrating global leadership

To achieve our vision of being a world class technology company that empowers people to connect, we are taking global leadership positions and bringing innovative products and services to our customers.

We are one of the leading providers in the **Data and IP** market despite competitive challenges and we continue to invest in capabilities like our Strategic Ethernet Platform which will provide customers with higher capacity and greater availability.

In the age of digital disruption, our customers need a flexible and high-performing network that supports their future growth. To provide this we've created the **Telstra Programmable Network**, a global platform that brings together the best of our Australian and international Software Defined Networking and Network Function Virtualisation capabilities, cloud technology and data centres. This will transform the way business customers interact with our network, allowing them to effectively add new IT capabilities that will deliver better experiences without the need for significant infrastructure upgrades.

Turning from software to hardware, we own and operate the largest subsea cable network in the Asia Pacific region and continue to invest to meet increasing demand for connectivity. This has included entering into an agreement with AARNet, Google, Indosat Ooredoo, Singtel and SubPartners to build a **new international subsea cable** to connect Singapore, Indonesia and Australia.

This year we also introduced assured availability across the busy Hong Kong, Singapore and Japan triangle. This **'Always On' service guarantee** utilises the unmatched scale and diversity of our network to reroute and maintain connectivity in the event of a cable cut or damage due to a natural disaster.

Our customers' growing needs for digital media and entertainment service have been extraordinary and represents an important opportunity for us. We made good progress in building our media and broadcast businesses this year, including signing a six-year multi-million dollar deal with Perform Group to deliver global

media network connectivity for the Women's Tennis Association, the largest media broadcast deal since we formed **Telstra Broadcast Services**.

We also launched our **Global Media Network** to provide simple and efficient delivery of live and file-based video content. The service combines Telstra's network of global undersea cables, satellite stations and broadcast operations into one solution that can enable broadcasters and content developers to quickly deliver content across the world. Also for the media industry we launched Telstra's **Distributed Production Network**, an end-to-end IP network that enables customers to produce live broadcasts away from the actual event by sending multiple raw camera feeds, audio and equipment control signals over the network back to centralised production hubs.

### Building strength in our Enterprise business

Telstra Enterprise is responsible for providing services to thousands of enterprise, government and international wholesale customers.

During the year we signed or renewed a number of significant contracts with Enterprise customers. This included the extension of our decade-long technology partnership with NAB to provide whole of business services for a three-year period and supplying integrated cloud solutions to one of Australia's major supermarket chains.

The scale and reliability of our international network continues to be critical in winning major contracts, including the \$243 million 10-year deal with the Department of Foreign Affairs and Trade to provide global Wide Area Network infrastructure across 157 sites.

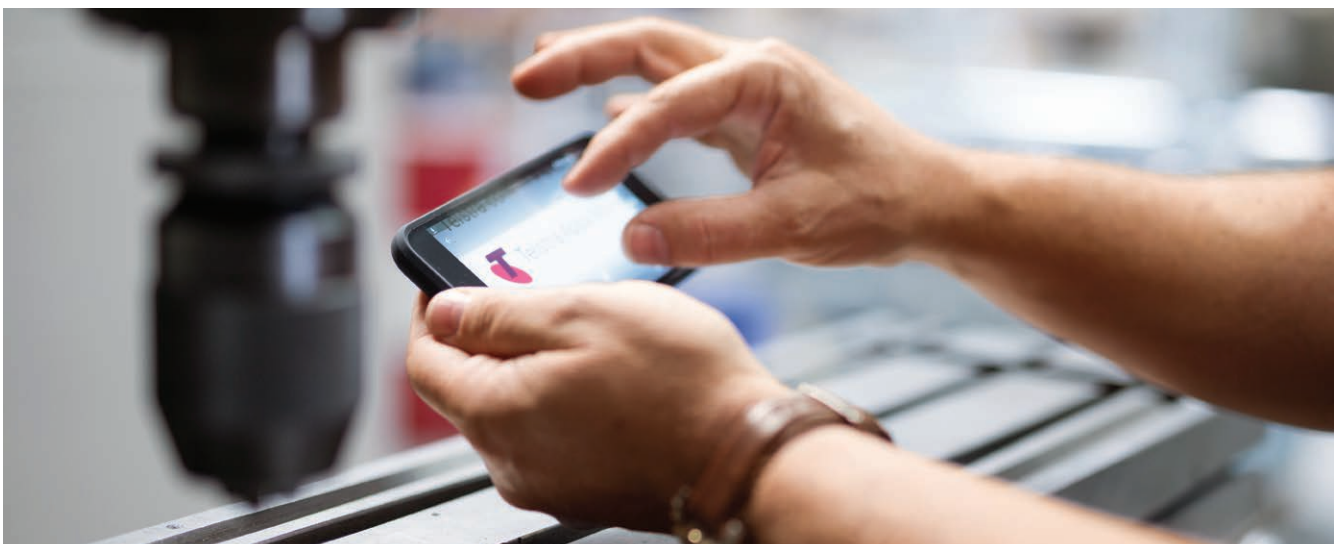
Our network also helped us to extend the solutions we provide in Australia to businesses active in Asia, including the Fitness First chain. We also signed a five year agreement with Newcrest Mining to provide a low latency, fibre-speed satellite service to Newcrest's remote Lihir gold mine in Papua New Guinea.

### Enhancing our productivity

An essential element of driving value and growth from the core is increasing productivity across our business.

We have implemented a whole-of-company approach to identify opportunities for improvement and have made significant progress, reducing our underlying fixed costs by \$244 million in FY17. Productivity improvements have positive impacts for customers and for our business. For example, automating the scheduling and dispatch process for customer appointments has reduced complexity and cost while giving customers a better experience.

Other productivity improvements include reducing the time taken to provide quotes to our business and enterprise customers by removing manual effort across our sales processes. We have also changed how we tender construction work for our mobile network by increasing the number of sites we put to tender at one time. This provides greater certainty of work for contractors and reduces our capital costs.



# Build new growth businesses close to the core

The unprecedented growth of the connected, digital world combined with Telstra's strengths in networks, connectivity and our consumer and business customer footprint opens up a wealth of opportunities for us to expand with new products and services in new markets.

We are building a pathway to the future by investing in growth businesses and new capabilities close to the core and stepping up our focus on innovation.



## Helping our customers to thrive in a digital future

Over the past year we have made a series of targeted acquisitions in fields including cloud, workplace mobility, enterprise Internet-of-Things (IoT) and cyber security. These new capabilities leverage our world-class network and will help us expand in the markets of the future. We have the opportunity to become the technology partner of choice for customers both in Australia and overseas.

We are expanding our capabilities in a number of ways. Our acquisition of **Readify** means we are now a leading provider of application development and software-focused consulting and managed services, including big data and IoT solutions. Similarly our acquisition of UK-based **Company85** adds to our data centre, cloud, security and network services capability and will help to expand our services business and differentiate our offerings in Europe.

Another important growth opportunity is cyber security and in 2017 we will open new state-of-the-art **Security Operations Centres** in Sydney and Melbourne. These centres will support our new capabilities in offering a broad range of detection and protection services to governments and enterprise customers looking to mitigate cyber risks. We are growing our **Business Technology Services Group** which offers customers integrated solutions that take advantage of software, mobility and cloud, as well as advice on how to implement and manage these technologies.

## New businesses for a new world

New capabilities are allowing us to serve customers in new ways. This year we launched **Telstra Smart Home**® which brings IoT to life for Australian consumers. The system, together with the Telstra Smart Home App, combines and connects a wide range of home devices including lights, motion sensors, cameras and smart plugs. Thoughtfully crafted 'Automation and Energy' or 'Watch and Monitor' packages allow customers to operate a range of domestic appliances remotely.

Another important opportunity for the future is **Telstra Health**®, which has moved from an acquisition phase to an integration phase, with a focus on new solutions with our existing assets. Now the largest health software and solutions vendor in Australia, this new business enables healthcare providers to better connect with their patients and each other to ultimately improve the quality, safety and efficiency of the health, aged and community care, and disability sectors.

Our solutions include providing software to approximately 100 public and private hospitals. Capabilities provided through our **Fred IT** joint venture mean more than 260 million prescriptions can be sent electronically from 22,000 GPs to almost 4,850 pharmacies each year. Our **Communicare** solution is now the most used system by Aboriginal Medical Services which manage medical records of more than 400,000 Indigenous Australians across 220 remote, rural and urban locations. Our telehealth service platforms also enable GPs, specialists and allied health providers to connect remotely with their patients.

The capabilities attained through our **Pacnet** acquisition have helped secure a number of significant customer wins. We also continued to invest in our network in China to strengthen our in-country presence and unique proposition through our **Telstra PBS** joint venture. Also in China we sold the remaining 6.5 per cent interest in Chinese online business Autohome to Ping An Insurance Group for US\$217 million (A\$283 million based on exchange rates at the time of sale). The divestment reflected the fact that Ping An is now well established as a strategic partner for Autohome. The sale price of US\$29.30 per share was in line with Autohome's volume-weighted average price over the 60 days prior to sale.

In Indonesia, our **telkomtelstra** joint venture with PT Telekomunikasi Indonesia is delivering unique, high-quality solutions and services for 150 customer projects and currently manages in excess of 10,000 Managed Network Services sites. In FY17, telkomtelstra added a number of new services to its product portfolio including Private Cloud, Managed Security Services, Managed WLAN, and professional services. Telkomtelstra's innovation focus was also recognised when its delivery automation program "D-Bots" won an accolade at the Asia Communications Awards 2017 for Innovation. D-Bots has significantly improved cost and time efficiency, reducing the time to activate customer premise equipment by 83 per cent.



During FY17, Telstra subsidiary **Ooyala** announced a revised strategy, including a restructure of its global software and services organisation. The changes are the next step in Ooyala's transformation into a unique provider of a comprehensive, integrated suite of products that meet the digital needs of broadcasters and media companies. Ooyala is combining its significant investment in research and development with its expertise in logistics, products and services to create a platform that simplifies the complexity of producing, streaming, and monetising premium video.

### Investing in the technology of the future

Underpinning our growth ambitions is a clear strategy to identify, incubate and carefully acquire new capabilities we need for long-term success in a dynamic sector. The efforts of the Chief Technology Office, our Telstra Ventures investment arm and **mur-D**® startup accelerator are focused on ensuring we are ideally placed to leverage the next generation of technologies that are transforming the economy.

Through our corporate venture capital arm **Telstra Ventures**, this year we made a number of strategic investments in

cutting-edge US-based technology companies. **VeloCloud™ Networks** is a Cloud-Delivered SD-WAN™ (software defined wide area networks) company that enhances our ability to offer enterprise customers greater network flexibility. Our priority is to offer this technology to our international customers including those in mainland China through our joint venture **Telstra PBS**. Our investment in US-based cloud-delivered endpoint protection company **CrowdStrike\*** further strengthened our cyber security capabilities and the CrowdStrike package has already been adopted by some of our business customers.

Turning from established to emerging companies, our **mur-D**® startup accelerator continued to attract and support the best technology startups and founders across the Asia Pacific region. During the past four years mur-D has accelerated 77 startups which have created over 300 jobs. The program now operates in Sydney, Singapore and Melbourne (launched in 2017) and with partner programs in Brisbane and Perth.

To further enhance our connection with some of the latest thinking and technology innovation we opened Australia's first publicly-accessible **GSMA Open Internet of Things (IoT) Lab** in Melbourne.

The Lab supports Australia's growing IoT ecosystem and provides a space where product developers can create, test and prototype IoT solutions under controlled radio conditions. The Lab will help foster a technology community focused on quality IoT product design and best-practice research and ideas sharing and includes engineers from startups through to global enterprises.

With driverless vehicles edging closer to mainstream introduction the technical fields of **Vehicle-to-Everything (V2X)** and **Vehicle-to-Infrastructure (V2I)** are becoming increasingly important. In partnership with Cohda Wireless we successfully trialled V2I technology over Telstra's 4G network in South Australia in October 2016, the first phase of our plan to show how V2X technology can be supported on our mobile network. V2X technology means vehicles will be able to communicate with infrastructure like traffic lights, other vehicles, and road users like cyclists and pedestrians, leading to the creation of intelligent transport systems allowing for more efficient use of road infrastructure, better traffic management and, in the future, coordinated and safe autonomous vehicle operation. Our 4G (and future 5G) networks will play a vital role in supporting the faster rollout of these cheaper, more efficient transport systems.



# Our material risks

The dynamic markets we compete in present both opportunities and risks. In this context, our material risk profile continues to evolve. 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 manage them.

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

## Industry disruption and competition

Rapid changes in telecommunications technology are lowering barriers to entry and increasing the level of competition in the telecommunications industry in Australia and the world. This competition comes from new and existing competitors, particularly in the mobile and broadband segments, as well as emerging competitors, including Over-the-Top (OTT) service providers, with lower cost bases, and agile, innovative business models. The effect of increasingly competitive market conditions, including any decline in the revenue and margin of our products and services, may adversely impact on our earnings and assets.

Customers' expectations are also continually changing and they are demanding more from their technology and their technology providers. There is a risk that we will not be able to differentiate from our competitors, deliver on our brand promise and maintain the trust of our customers if we can't provide the best products and services on the best networks with a sales, service and support network that is simple, brilliant, intuitive and increasingly digital.

As outlined in Strategy and Performance, we are focused on our core business through investing in innovative products and services, seeking to build new businesses close to the core through a range of new investments and acquisitions and delivering brilliant customer experiences, all in an effort to serve customers in new ways now and in the future. In all the markets we operate in, we are focused on improving our



processes, making it simpler for our customers to deal with us and compete for market share including through the 'Why Telstra' value proposition and 'Only with Telstra' service offerings.

Our digitisation program, which has a detailed and integrated program of work, is focused on enabling brilliant customer experiences and simplifying the way we work to reduce complexity for our customers and our people. The execution of the program carries a level of risk due to the large scale, complexity and the significant cross-company effort required, however the detailed and integrated programs of work in conjunction with our customer experience action plan (which aims to address known customer pain points and frustrations) helps us deliver on our brand promise and continue to build on the trust of our customers.

In the Australian fixed telecommunications market the nbn™ transition is well underway and accelerating. This is one of the factors changing the mix of our earnings, including through the negative effect of the nbn on our EBITDA over the period of the nbn rollout discussed in the Chairman and CEO Message. In addition, there are risks related to successfully transitioning to become an access seeker and reseller on the nbn and providing a high-quality service to our fixed customers in a lower-margin environment. While we have been successful in maintaining our market share and focused on reducing our unit costs in the early phase of the nbn transition, pressure on our ability to continue this and generate acceptable

margins remains as the migration volumes increase. We are also undertaking steps to improve the way we set customers' expectations of the experience they will receive on the nbn. We are undertaking significant commercial works contracts for nbn co. A number of these are long-term and complex contracts and we manage them through specific programs of work aimed at delivering an outcome that achieves our target margin. These programs also support our goal of reducing costs to maintain the legacy copper network as the nbn rolls out.

## Business resilience and reputation

Our network differentiation is critical to our ability to compete and maintain our brand and price premium and the provision of stable, highly reliable and fast networks and services is also key to maintaining market share and growing revenues. There are multiple threats to our ability to ensure resilience and continuity of key processes, systems and people, including extreme weather events, natural disasters, malicious attacks, loss of third party key service providers, and human errors. We understand the criticality of our services to our customers, so when we don't meet our customers' expectations (eg. through network congestion or prolonged network or other critical service disruptions) we can frustrate or adversely impact our customers and the communities we serve, which can affect our reputation and brand, and undermine the trust our customer have in us.

We have business capabilities, strategies, and plans in place which seek to prevent, respond to and recover from network/critical service disruptions. The aim of these is to provide means to manage adverse events, or mitigate their consequences and to provide acceptable levels of service continuity, especially for critical transactions and applications. We also partner with our external vendors on whom we rely to deliver improved management of our technology asset lifecycles and resilience. We communicate and engage with our customers and the community in relation to the experiences they will receive from our products and services in order to convey a strong 'Why Telstra' value proposition and to build differentiation based on speed, security and reliability.

### Major regulatory change and stakeholder engagement

Regulatory or policy changes may directly impact our strategy and business model as well as increase complexity and the cost of doing business. We proactively develop and maintain relationships with relevant regulatory stakeholders and policy makers, community groups and industry in an effort to minimise potential adverse effects of policy and regulatory decisions.

It is important we have clear, transparent and timely communications with our stakeholders (including customers, shareholders, investors, government and regulators) about our company and corporate strategy, and seek to understand the views of our stakeholders and maintain good relationships with them. We understand that if we are not successful in doing so, it may adversely affect our ability to execute our strategy.

In May we welcomed the Australian Competition and Consumer Commission's draft decision not to impose regulated domestic mobile roaming and encouraged them to move quickly to finalise this decision to provide certainty for future investments across the industry. We are also engaging with the Australian Government as they develop their response to the Productivity Commission's recommendations on the future of the Universal Service Obligation.

We are generally supportive of regulatory and policy changes if they improve the experience for customers, particularly those in rural and remote Australia. We will continue to talk with our customers as

well as businesses and organisations across the country about how we can ensure that everyone, no matter where they live or work, can enjoy the benefits of reliable communications.

### People, culture and safety

Technological evolution, transformation and innovation require us to change our workforce so we can realise our strategy and adapt to the changing operational environment. If we fail to attract, retain and develop the right talent and capabilities, and to create the right culture and organisational structure to enable new and existing talent to thrive (for example through less complexity and streamlined accountability) we may not be able to achieve our strategy and realise the benefits of our investment strategy.

We are focused on delivering the capabilities required to simplify our business, transition to an nbn™ operating environment, and extract value from our core. Our Culture and Capabilities programs support this future operating model and our succession programs (especially at the senior levels of the organisation) and are periodically reviewed for their ongoing relevance in our changing business environment. Our performance based culture seeks to encourage above industry performance to deliver increasingly responsive, personalised customer experiences.

We carry a level of inherent Health, Safety and Environmental (HSE) risk considering the nature of the infrastructure we maintain and the activities we undertake on a daily basis. This includes risks to employees, members of the public and environmental hazards associated with our work, our products and services and the facilities in which we operate. Failure to manage these risks effectively, could also affect our reputation with stakeholders and customers and expose us to regulatory action or litigation.

We have an HSE strategy, a five year HSE improvement plan, and comprehensive systems and processes to actively monitor safety outcomes and build employee awareness. Our approach to managing HSE risk incorporates broader considerations of our safety culture (including managing workplace aggression and drug and alcohol use), how we manage environmental hazards and those that may arise from use of our products such as electromagnetic energy.

### Data governance

The world is experiencing increased cyber security risks and if we do not adequately protect our data and systems from cyber-attack, theft or other malicious actions, this could result in equipment failures, disruptions in our operations or network, and leakage or unauthorised dissemination of sensitive information about Telstra and our customers. If we are unable to provide services to our customers as a result of such events, this may result in significant expense, loss of market share, regulatory action, customer claims and loss of reputation.

Failure to protect customer information such as through a breach of security, illegal sale or other unauthorised release of our customers' personal information could also adversely impact our customers and our reputation and result in adverse regulatory outcomes. Changes in technology that affect how personal data is collected, changes in our business model and how we digitise our business could increase this risk over time. Changes in expectations from government and industry groups on issues like access to metadata, data sovereignty and mandatory data breach disclosure, are also important factors that affect how this risk is managed.

We have mandatory training in relation to data security and privacy awareness for all employees, and conduct regular cyber security and privacy drills across the organisation to test the level of staff compliance and vigilance. We also continually review and update the security controls on our network, especially in times of global ransomware and other cyber-crime events and we monitor results through robust frameworks and governance forums. In regards to our privacy obligations, we consider societal expectations when reviewing our policy, compliance and training programs.

Further detail about our risk management framework and how we manage our risks is provided in our 2017 Corporate Governance Statement available at [telstra.com/governance](http://telstra.com/governance).

# Outlook

Our business continues to experience changes driven by market developments, technological innovation and the continued evolution of our customers' needs and expectations. We remain confident that Telstra has the right strategy in place to deliver on our vision to become a world class technology company that empowers people to connect.

The rollout of the nbn™ network will continue to accelerate, fundamentally altering the Australian telecommunications landscape. When we announced the nbn definitive agreements with nbn co and the Commonwealth in 2011 we said that while it was the best outcome for shareholders available to us, it would have a material impact on our business. We reported in May 2016 that the expected negative effect of the nbn rollout on Telstra's EBITDA would be in the range of \$2 to 3 billion. Given the latest outlook of nbn Connectivity Virtual Circuit (CVC) charges, which we estimate will more than double over the coming years, we now expect the impact is likely to be at least at the top end of this range, around \$3 billion.

It is also anticipated that the Australian market will gain a fourth mobile network, which will increase competitive intensity for mobile customers particularly in metropolitan areas. At the same time innovation will continue to deliver new products and services which can enhance, but also compete with, Telstra's current offerings.

We expect demand for our products and services to continue to grow. For example, we estimate that our network capacity will need to be increased to manage an expected five-fold growth in traffic over the next five years. However, while demand for connectivity is growing the value is increasingly being won at the layer of the applications and services rather than just connectivity.

Access to the best content is critically important to us as demand for media continues to grow. At the same time the media market is changing with new participants and increased competition. We remain committed to Foxtel and we continue discussions with our partner News Corp regarding the best arrangements and structure to support Foxtel's success into the future.#

Innovative global technology companies continue to develop high-quality, highly-digital standards for services and products. To remain competitive against other telcos, as well as new service providers, we need to offer our customers experiences which are simple, intuitive and increasingly digital.

We are investing now to meet the challenges and embrace the opportunities the future is bringing. We must leverage simpler, superior platforms to remove obstacles and deliver brilliant customer experiences. Through our additional investment of up to \$3 billion over FY17–FY19, we will direct more than \$1.5 billion to building the networks for the future, approximately \$1 billion to enhancing the digitisation of our business; and up to \$500 million to delivering brilliant customer experiences, recognising that every aspect of the additional investment should drive very significant customer experience improvements. We expect this to deliver economic benefits of more than \$500 million of EBITDA by the 2021 financial year.

Within Telstra we have commenced a multi-year program to fundamentally transform the way we work. Between now and 2020 our culture and capability, processes and systems, products and services will evolve from what they are today. The nature and size of our workforce will also change. Our core will continue to be people with a deep sense of the customer, backed by knowledge workers and technical experts. We will work with partners to scale up or down and manage the dynamics of a changing market, including responding to new opportunities as they arise.

In November 2016 Telstra announced it would expand its productivity target to at least \$1 billion by FY21 and in FY17 we reduced underlying fixed costs by \$244 million consistent with this announcement. We will accelerate our efforts to reduce costs even further

over the next five years by looking at every part of the company to see where digitisation and better ways of working can simplify the way we do things. Our target for achieving this net productivity gain will be brought forward by one year to FY20 and our ambition elevated to deliver an additional \$500 million annual reduction by FY22. We expect the benefits will be achieved at a broadly consistent pace through this period.

However our transformation cannot focus solely on our capabilities and business model. It is also critical that we assess our capital allocation and in November 2016 we announced we would conduct a review of our capital allocation strategy. The review considered our balance sheet structure and settings, longer term capex requirements, investment decisions including M&A, returns to shareholders including dividends, buy-backs and other forms of returns, and the best way to manage receipts from the nbn.

We consulted extensively with shareholders and other stakeholders during the review and the overwhelming and consistent feedback was that planning for the longer term and retaining financial flexibility should be a priority. This includes the importance of retaining a strong balance sheet through the nbn transition period and in light of the increased competitive dynamics and digital disruption.

The key outcomes of the review were a plan to potentially monetise a portion of locked-in recurring nbn receipts, a new dividend policy and revised capital management framework.

The potential monetisation transaction is subject to agreement and a number of steps including approvals and consents from investors, the Government and nbn co. We are currently in discussions regarding these matters. We cannot confirm whether they will be achieved but we will update the market in due course.#



Our new dividend policy supports the objectives of the capital management framework and is consistent with shareholder feedback to maintain a strong balance sheet and flexibility to manage the business and invest, especially during the nbn transition. It sees us moving away from a historical practice of paying out almost 100 per cent of profits, to setting ordinary dividends at 70–90 per cent of underlying earnings<sup>1</sup>. In addition, we intend to return in the

order of 75 per cent of net one-off nbn<sup>™</sup> receipts<sup>2</sup> to shareholders over time via fully-franked special dividends. Telstra expects total dividends in respect of FY18 to be 22 cents per share fully franked, including both ordinary and special dividends<sup>3</sup>.

In adjusting the capital management framework and resetting the dividend policy we have balanced the importance of providing consistent returns to

shareholders with the long term sustainability of returns and strategic direction of the company. These are important changes to Telstra's approach to capital management and are appropriate in the context of our strategic transformation and will set the business up for success in the future.

1. "underlying earnings" is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 3 below).

2. "net one-off nbn receipts" is defined as net nbn one off receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.

3. Return subject to no unexpected material events, assumes the nbn rollout is broadly in accordance with the nbn Corporate Plan 2017 and receipt of associated one-offs, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.

# Since the release of our OFR on 17 August 2017, which was lodged with the ASX in the document titled "Financial results for the year ended 30 June 2017":

1. Telstra and News Corp have announced their intention to combine Foxtel and Fox SPORTS Australia into a new premium sports and entertainment company. Further information is available in our ASX announcement dated 17 August 2017 and in the transcript of the media and analyst conference held on 18 August 2017 (which was lodged with the ASX on 22 August 2017) which are available at [telstra.com/investor](http://telstra.com/investor).
2. Telstra announced to the ASX on 30 August 2017 that while the proposal to monetise a portion of the locked-in recurring nbn receipts was well progressed and supported by equity and debt investors, Telstra had been advised that technical consents from nbn co will not be forthcoming. Telstra also confirmed that the proposed transaction highlighted the significant value in Telstra's core underlying telecommunications infrastructure as represented by the potential nbn monetisation opportunity. The process had shown the value of these payments to Telstra shareholders. A copy of the announcement is available at [telstra.com/investor](http://telstra.com/investor).

# FY17 Full year results and operations review



## Summary financial results

	FY17	FY16	Change
	\$m	\$m	%
Total revenue	26,013	25,911	0.4
Total income (excluding finance income)	28,205	27,050	4.3
Operating expenses	17,558	16,600	5.8
Share of net profit from joint ventures and associated entities	32	15	113.3
EBITDA	10,679	10,465	2.0
Depreciation and amortisation	4,441	4,155	6.9
EBIT	6,238	6,310	(1.1)
Net finance costs	591	710	(16.8)
Income tax expense	1,773	1,768	0.3
Profit for the period from continuing operations	3,874	3,832	1.1
Profit for the period from discontinued operations	–	2,017	n/m
Profit for the period from continuing and discontinued operations	3,874	5,849	(33.8)
Profit attributable to equity holders of Telstra	3,891	5,780	(32.7)
Capex <sup>1</sup>	4,606	4,045	13.9
Free cashflow from continuing and discontinued operations	3,496	5,926	(41.0)
Earnings per share (cents) <sup>2</sup>	32.5	31.6	2.8

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

2. Basic earnings per share from continuing operations.

## Reported results

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

For commentary on our key results, market context and outcomes of our capital allocation strategy review, please refer to the *Chairman and CEO message* section. Further detail on progress against our strategy can be found in the *Strategy and performance* section.

On 17 August 2017, the Directors of Telstra resolved to pay a fully franked interim dividend of 15.5 cents per share. Shares will trade excluding entitlement to the dividend on 30 August 2017 with payment on 28 September 2017.

Results on a guidance basis <sup>1</sup>	FY17	FY17 guidance
Total income growth <sup>2</sup>	4.3%	Mid to high-single digit
EBITDA growth	4.5%	Low to mid-single digit
Capex/sales ratio	17.8%	~18%
Free cashflow	\$4.3b	\$3.5b to \$4.0b

Guidance versus reported results <sup>1</sup>	FY17	FY17	FY17	FY16
	Reported results \$m	Adjustments \$m	Guidance basis \$m	Guidance basis \$m
Total income <sup>2</sup>	28,205	–	28,205	27,050
EBITDA	10,679	516	11,195	10,711
Free cashflow	3,496	789	4,285	4,796

1. This guidance assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout was in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excluded externally funded capex. Guidance excluded the Ooyala impairment in FY16 and restructuring costs in FY17. Please refer to the guidance versus reported results reconciliation. This reconciliation has been reviewed by our auditors.<sup>#</sup>

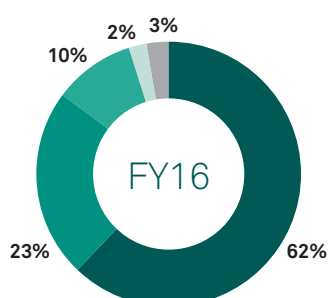
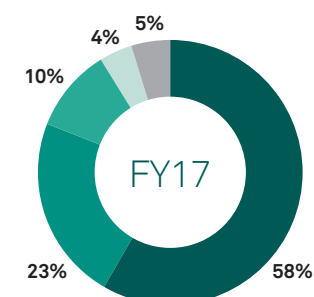
2. Excludes finance income.

## Segment performance

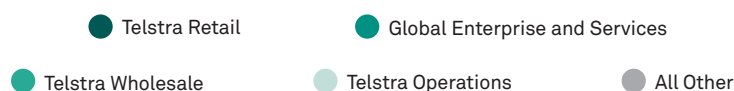
We report segment information on the same basis as our internal management reporting structure as at the reporting date. Segment comparatives reflect organisational changes that have occurred since the prior reporting period to present a like-for-like view.

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

### Segment Total Income



Total external income	FY17	FY16	Change
	\$m	\$m	%
Telstra Retail	16,489	16,848	(2.1)
Global Enterprise and Services	6,343	6,244	1.6
Telstra Wholesale	2,830	2,640	7.2
Telstra Operations	1,151	589	95.4
All Other	1,392	729	90.9
<b>Total Telstra segments</b>	<b>28,205</b>	<b>27,050</b>	<b>4.3</b>



<sup>#</sup> The guidance versus reported results reconciliation is set out on pages 156 to 157 of this annual report.

### Telstra Retail

Telstra Retail income, comprised of Telstra Consumer and Telstra Business, was largely flat excluding the impact from the Mobile Terminating Access Service (MTAS) regulatory decision, down 0.2 per cent. On a reported basis, including the impact of MTAS, income declined by 2.1 per cent to \$16,489 million.

Telstra Consumer income excluding MTAS increased by 0.8 per cent with growth in postpaid and prepaid handheld revenue, and in fixed broadband bundle revenue including media. Including MTAS, income declined by 1.4 per cent. Mobile services revenue decreased by 4.1 per cent largely due to MTAS, partly offset by fixed data growth of 3.6 per cent.

Telstra Business income was negatively impacted by lower mobile services revenue, decreasing by 2.6 per cent excluding MTAS and by 3.9 per cent including MTAS. Mobile services revenue declined by 8.1 per cent largely due to MTAS, while factors such as larger data allowances, lower cost of excess data, and ongoing fixed voice decline also contributed to the fall. Network Applications and Services (NAS) business revenue continued to grow, increasing by 11.5 per cent, driven primarily by growth in cloud professional services.

### Global Enterprise and Services (GES)

Customers continue to respond positively to the increased scale and reach of the Telstra product portfolio as GES income increased by 1.6 per cent to \$6,343 million. GES domestic income increased by 2.5 per cent due to double digit NAS growth. GES international income grew by 4.4 per cent on a constant currency basis but declined by 0.1 per cent on an Australian dollar (AUD) basis, impacted by an appreciation in the AUD compared to the prior corresponding period.

### Telstra Wholesale

Telstra Wholesale income grew by 7.2 per cent to \$2,830 million, largely due to an increase in nbn™ ISA ownership receipts which have increased in line with the nbn rollout. Excluding the impact of the MTAS and fixed line services Final Access Determination (FAD), income grew by 9.7 per cent.

### Telstra Operations

Telstra Operations income grew to \$1,151 million, primarily due to an increase in nbn commercial works.

### All Other

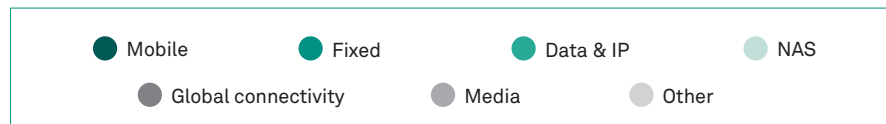
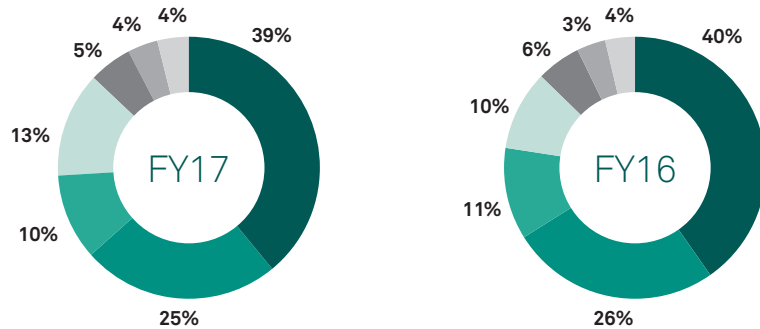
Certain items of income and expense relating to multiple reportable segments are recorded by our corporate areas and included in the All Other category. This category also includes Technology, Innovation and Strategy (including Ooyala), New Businesses (including Telstra Ventures and Telstra Health®), and Media & Marketing. Income grew largely due to increased nbn disconnection fees (Per Subscriber Address Amount (PSAA)) in line with the nbn rollout.

Subsequent to announcements made in FY17, the following structural (and reporting) changes will take effect from the next financial year:

- Telstra Retail will be renamed Telstra Consumer & Small Business and will encompass three core divisions – Customer Experience & Transformation, Telstra Products, and Consumer & Small Business Sales & Service
- Global Enterprise and Services will be renamed Telstra Enterprise
- Telstra Business will be integrated into Telstra Consumer & Small Business, and Telstra Enterprise
- Telstra Ventures will move to Technology, Innovation and Strategy.

## Product performance

### Product sales revenue breakdown



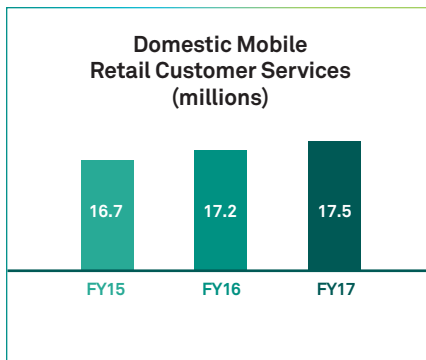
	FY17	FY16	Change
	\$m	\$m	%
<b>Key product revenue</b>			
Mobile	10,102	10,438	(3.2)
Fixed	6,407	6,721	(4.7)
Data & IP	2,695	2,829	(4.7)
NAS	3,370	2,581	30.6
Global connectivity	1,435	1,452	(1.2)

Product	FY17	2H17	1H17	FY16
Profitability EBITDA margins <sup>1</sup>	%	%	%	%
Mobile	43	45	41	42
Fixed data <sup>2</sup>	31	28	34	41
Fixed voice <sup>2</sup>	48	45	50	51
Data & IP	59	58	59	62
NAS	9	10	8	6
Global connectivity	19	18	20	18

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



**Mobile**



For the 2017 financial year, mobile revenue decreased by 3.2 per cent to \$10,102 million. Excluding the impact of MTAS, mobile revenue increased by 0.2 per cent. Retail customer services increased by 218,000 during the year, bringing the total to 17.5 million. We now have 7.6 million postpaid handheld retail customer services, an increase of 169,000.

Postpaid handheld revenue ended the period flat at \$5,448 million, but importantly, it was 0.8 per cent higher in 2H17 compared with the previous corresponding period and 0.9 per cent higher compared with 1H17. While postpaid handheld ARPU declined by 2.5 per cent from \$69.45 to \$67.70 (excluding the impact of mobile repayment options), there was continued growth in minimum monthly commitments offset by the impact of factors such as unlimited calls, larger data allowances, lower cost of excess data, and a higher mix of bring your own (BYO) device plans. The rate of decline in postpaid handheld ARPU stabilised in 2H17.

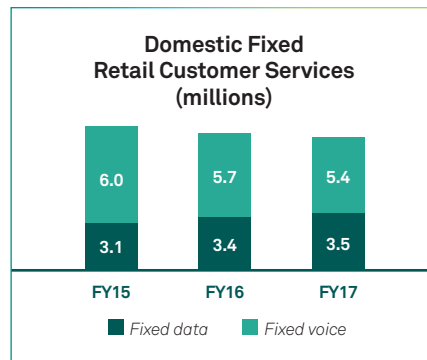
Mobile hardware revenue increased by 3.3 per cent to \$2,144 million largely due to higher handset Recommended Retail Prices (RRP).

Prepaid handheld revenue grew by 5.6 per cent to \$1,013 million during the year due to an increase in ARPU, but was partly offset by a loss of 116,000 unique users. ARPU grew by 9.3 per cent to \$22.29 as a result of stronger activations and longer customer tenures.

Mobile broadband fell 13.7 per cent to \$992 million during the year despite growing by 48,000 customer services. Significantly, the rate of revenue decline is levelling off as the mix shift slows from old dongle plans to newer tablet plans at a lower ARPU.

Mobile EBITDA margin increased by 1 percentage point to 43 per cent. Mobile margins improved marginally on the prior year excluding the margin accretive impact from MTAS, and a one-off roaming credit benefit of around \$130 million in FY16. The margin improvement included a favourable margin benefit in FY17 from reduced handset subsidies and the introduction of Go Mobile Swap.

**Fixed**



Fixed revenue declined by 4.7 per cent to \$6,407 million. Fixed voice revenue decreased by 9.1 per cent to \$3,125 million while fixed data revenue grew by 1.6 per cent to \$2,553 million. Continued focus on retention activity and momentum from bundling resulted in fixed voice revenue decline being maintained in single digits. Retail fixed voice line loss was 347,000 over the year, taking total retail fixed voice customers to 5.4 million. Fixed voice ARPU decline was lower than that of the prior corresponding period, decreasing by 3.4 per cent to \$38.53.

The increase in fixed data revenue was primarily due to 132,000 retail net subscriber additions including Belong®, bringing the total retail fixed data subscriber number to 3.5 million. ARPU decreased by 4.3 per cent to \$52.11. The total number of customers taking up a bundle increased by 224,000 during the year, with 2.9 million customers now on a bundled plan, or 88 per cent of the retail fixed data customer base. We continue to lead the nbn™ market with a total of 1,176,000 connections, an increase of 676,000 during the year.

Other fixed revenue, which includes intercarrier services, platinum services, payphones, and customer premises equipment, decreased by 5.4 per cent to \$729 million. Intercarrier access services revenue declined by 4.5 per cent which includes the impact of the ACCC FAD for Fixed Line Services.

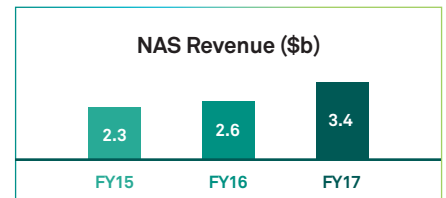
Fixed voice and fixed data EBITDA margins declined by 3 and 10 points respectively, negatively affected by one-off costs of connecting customers to the nbn, and ongoing nbn network costs. Excluding nbn related items, the fixed data margin improved on the prior corresponding period. Fixed margins were negatively affected by one-off costs of connecting customers to the nbn, and the ongoing nbn network costs. Excluding nbn related items, the fixed data margin improved on the prior corresponding period.

**Data & IP**

Despite continuing to retain and win new customers, Data & IP revenue decreased by 4.7 per cent to \$2,695 million as a result of a declining domestic market and increased competitive pricing pressure. The accelerated decline in ISDN revenue, down 10.4 per cent, represents continued customer migration to IP access, NAS and nbn products. Other data and calling products, which includes wholesale internet and data, inbound calling products, and other global products and solutions, decreased by 5.8 per cent to \$1,023 million. IP access declined by 0.7 per cent due to decreasing yield from competitive pressures, offset by growth in IP Metropolitan Area Network (IP MAN) customer connections.

Data & IP EBITDA margin decreased by 3 percentage points to 59 per cent, impacted by yield trends in the IP market and revenue decline.

**Network Applications and Services (NAS)**



NAS revenue grew by 30.6 per cent to \$3,370 million with continued double digit growth largely due to increased commercial works for nbn co, and expansion in professional services and hardware sales. Industry solutions revenue growth of 66.0 per cent was driven by nbn and other commercial works, while cloud services growth of 50.2 per cent was facilitated by consulting professional services, key acquisitions and growth in hardware sales. Unified communications increased by 8.8 per cent, largely due to significant delivery milestones in 2H17 in network communications and contact solutions. An expansion of our security platform and services offering, including the acquisition of Cognevo, contributed to the growth in managed network services of 10.3 per cent.

NAS continued to deliver EBITDA margin improvement, up by 3 percentage points to 9 per cent due to ongoing operational leverage, scalable standardised offerings, a lower cost delivery model, and a mix effect benefit from increased nbn commercial works.

## Global connectivity

Global connectivity represents the international GES business. Revenue grew by 4.4 per cent in local currency terms (LC) as customers continued to respond positively to the increased scale and reach of the Telstra product portfolio. Fixed revenue increased by 4.9 per cent (LC) due to an increase in Wholesale voice customers, while Data & IP revenue growth of 2.4 per cent (LC) was achieved in internet and Ethernet services for Over the Top (OTT) customers. On a reported AUD basis, global connectivity revenue declined by 1.2 per cent to \$1,435 million, impacted by an appreciation in the AUD from FY16 to FY17.

Global connectivity EBITDA margin improved by 1 percentage point to 19 per cent due to continued delivery of synergies and productivity as a result of scale.

## Media

Media revenue increased by 8.2 per cent to \$935 million due to the strong performance of Foxtel from Telstra and Telstra TV<sup>®</sup>. Foxtel from Telstra grew 8.1 per cent to \$777 million with 57,000 subscriber additions over the past year, while there are now 827,000 Telstra TV devices in the market, continuing its strong growth.

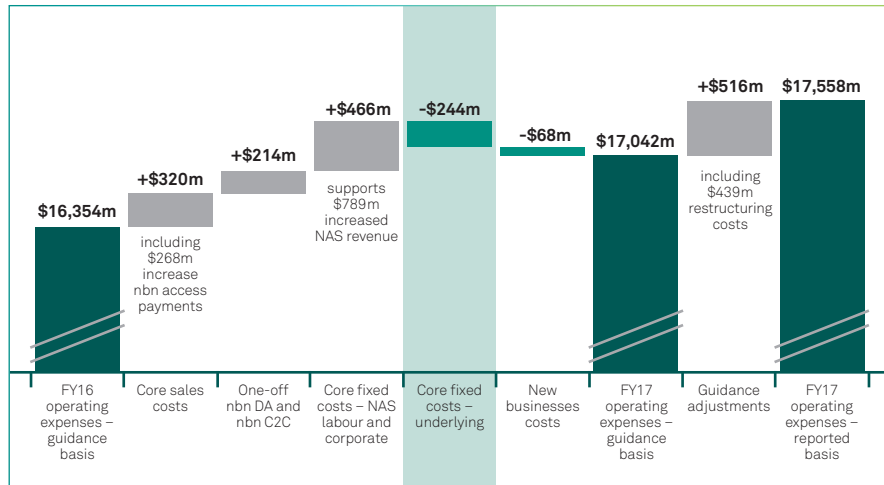
Sports Live Pass<sup>™</sup> users increased significantly to 1.3 million (including 1.2 million users who receive the service as part of their mobile subscription) across AFL, NRL and Netball, delivering unique and exclusive content for our mobility customers.

## Other

Other sales revenue includes revenue related to nbn co access to our infrastructure, and revenue from Telstra Health<sup>®</sup> and Ooyala. Other revenue primarily consists of Go Mobile Swap lease income and rental income. Other income includes gains and losses on asset and investment sales (including assets transferred under the nbn DA), income from government grants under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), income from nbn disconnection fees (PSAA), subsidies and other miscellaneous items. The increase in other income of 92.4 per cent during the period is largely due to an increase in one-off PSAA and ISA receipts in line with the progress of the nbn rollout.

## Expense performance

We have delivered against our cost ambitions for the year, with a 3.5 per cent or \$244 million reduction in underlying core fixed costs. Our total reported costs grew due to increased nbn<sup>™</sup> access payments, nbn cost to connect (C2C), nbn commercial works and other large NAS projects, and restructuring costs.



	FY17	FY16	Change	
	\$m	\$m	\$m	%
<b>Operating expenses</b>				
Core sales costs <sup>1</sup>	7,447	7,127	320	4.5
Core fixed costs	8,770	8,548	222	2.6
• Underlying	6,753	6,997	(244)	(3.5)
• NAS labour and corporate <sup>2</sup>	2,017	1,551	466	30.0
New businesses costs <sup>3</sup>	343	411	(68)	(16.5)
One-off nbn DA and nbn C2C	482	268	214	79.9
<b>Total Guidance</b>	<b>17,042</b>	<b>16,354</b>	<b>688</b>	<b>4.2</b>
Guidance adjustments <sup>4</sup>	516	246	270	n/m
<b>Total Reported</b>	<b>17,558</b>	<b>16,600</b>	<b>958</b>	<b>5.8</b>

1. Core sales costs excludes goods and services purchased associated with new businesses and nbn C2C.
2. NAS labour and corporate costs include significant transactions and events associated with NAS commercial works and labour, global connectivity costs and corporate items.
3. New businesses includes Telstra Health<sup>®</sup>, Ooyala and Telstra Ventures.
4. Guidance adjustments reflect restructuring costs in FY17 of \$439m and impairment.

Total operating expenses increased 5.8 per cent to \$17,558 million. Core sales costs, which are direct costs associated with revenue and customer growth, increased by \$320 million or 4.5 per cent. NAS labour and corporate costs, and one-off nbn DA and nbn C2C increased by 30.0 per cent and 79.9 per cent respectively as the nbn rollout continues to accelerate.

In November 2016, we announced a productivity target of more than a \$1 billion reduction in underlying core fixed costs by FY21. We have made considerable progress thus far, to the extent we will bring forward our more than \$1 billion cost out target by one year and deliver the savings by FY20. We will also target an additional \$500 million annual reduction by FY22, meaning costs will be \$1.5 billion per annum lower in FY22 compared with FY16. We expect the benefits will be achieved at a broadly consistent pace through this period.

Our progress on achieving our productivity target is reported through the above operating expenses table. The detail below provides commentary on our statutory disclosed costs. Goods and services purchased includes core sales costs and sales costs relating to new businesses, and one-off nbn DA and nbn C2C. Labour and other expenses consists of core fixed costs, and the non-core sales components of new businesses costs, and one-off nbn DA and nbn C2C.

	FY17	FY16	Change
Operating expenses	\$m	\$m	%
Labour	5,381	5,041	6.7
Goods and services purchased	7,671	7,247	5.9
Other expenses	4,506	4,312	4.5
Total operating expenses	17,558	16,600	5.8

### Labour

Total labour expenses increased by 6.7 per cent or \$340 million to \$5,381 million. Labour expenses increased while underlying core fixed costs decreased due to investment in nbn™ commercial works and other large NAS projects. Total full time staff and equivalents (FTE) decreased by 4.1 per cent or 1,366 to 32,293.

Salary and associated costs increased by 1.7 per cent or \$64 million to \$3,754 million, while an increase in labour outsourcing of 9.0 per cent or \$80 million resulted in an increase of labour substitution costs.

Redundancy costs increased by 88.6 per cent or \$147 million as a result of an increased focus on accelerating restructuring activity relating to our productivity programs.

### Goods and services purchased

Goods and services purchased increased by 5.9 per cent or \$424 million to \$7,671 million.

Cost of goods sold (COGS) (which includes directly variable costs, including mobile handsets, tablets, dongles and broadband modems) increased by 2.6 per cent or \$83 million to \$3,287 million, including growth in our NAS business.

Network payments increased by 2.5 per cent or \$42 million to \$1,692 million, including a \$268 million increase in nbn access payments as customers migrate across to nbn services. Network payments were also higher in FY17 due to a one-off mobile roaming credit benefit in the prior year. These increases were partially offset by a \$347 million decrease in carrier network payments, largely a result of the MTAS FAD impact of reduced voice and SMS terminating charges.

Commission payments increased by 6.4 per cent or \$57 million to \$949 million. Service fees (which are primarily for Foxtel, Stay Connected® and mobile content) increased by 13.3 per cent or \$131 million.

### Other expenses

Total other expenses increased by 4.5 per cent or \$194 million to \$4,506 million as a result of increased costs for service contracts and other agreements.

Service contract and other agreement costs increased by \$253 million to \$1,802 million, which includes \$107 million of nbn commercial work charges due to an acceleration in the nbn rollout, combined with the associated costs for the trainee program and upskilling of communications technicians.

### Depreciation and Amortisation

Depreciation and Amortisation increased by 6.9 per cent to \$4,441 million due to ongoing investment in business software assets with shorter useful lives. Depreciation and Amortisation will increase as a result of our strategic capex announced in August 2016 of up to \$3 billion over the three years to the end of FY19.

### Foreign currency impacts

For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to AUD decreased our expenses by approximately \$87 million on the prior period across labour, goods and services purchased, and other expenses. This foreign exchange impact has been offset by a reduction in sales revenue resulting in a favourable EBITDA contribution of approximately \$5 million.

### Net finance costs

Net finance costs from continuing operations decreased by 16.8 per cent or \$119 million period on period to \$591 million. This was largely due to the refinancing of debt at lower rates and higher interest income from higher average cash balances.

On an accounting basis, net finance costs were \$154 million lower than on a cash basis mostly due to capitalised interest and \$22 million non-cash gains associated with our derivative financial hedge instruments.

The favourable movement in gross borrowing costs was driven by a reduction in our average gross interest cost, which was 5.1 per cent compared to 5.6 per cent in the prior period. This reflects a combination of issuing debt at lower interest rates, a reduction in floating interest rates reducing the cost of our variable rate debt, as well as greater use of short term debt, including commercial paper, to manage liquidity. Average gross debt outstanding remained consistent with the prior year. Detailed discussion on net debt can be found in the debt position section below.

Finance income increased by \$52 million. Finance income reported in 2016 included a \$42 million negative accounting adjustment to recognise a reduction in interest rate applied to our joint venture loan asset. Interest earned on cash and cash equivalents increased by \$18 million driven by higher average cash balances year on year; this was offset by net interest expense recognised on our defined benefit plan in the current year.

Capitalised interest increased by \$8 million to \$81 million due to higher capital expenditure. This resulted in a reduction in net finance costs of \$8 million against the prior year.

Other finance costs increased by \$5 million resulting primarily from higher commitment and other fees related to our undrawn bank facilities which are used to support our liquidity requirements.

	FY17	FY16	Change
	\$m	\$m	%
Net cash provided by operating activities	7,775	8,133	(4.4)
Total capital expenditure	(5,321)	(4,194)	(26.9)
Sale of shares in controlled entities (net of cash disposed)	–	1,340	n/m
Other investing cash flows	104	105	(1.0)
Net cash used in investing activities	(4,279)	(2,207)	(93.9)
Free cashflow	3,496	5,926	(41.0)
Net cash used in financing activities	(6,104)	(3,777)	(61.6)
Net increase/(decrease) in cash and cash equivalents	(2,608)	2,149	n/m
Cash and cash equivalents at the beginning of the period	3,550	1,396	154.3
Effects of exchange rate changes on cash and cash equivalents	(6)	5	n/m
Cash and cash equivalents at the end of the period	936	3,550	(73.6)

## Financial Position

### Capital expenditure and cash flow

Net cash provided by operating activities declined by 4.4 per cent to \$7,775 million which included Autohome net earnings of \$120 million in the prior year and restructuring costs of \$304 million in the current period. The increase in net cash used in investing activities primarily reflects the increase in capital expenditure for the period. Our operating capital expenditure for the year was 17.8 per cent of sales revenue or \$4,606 million, and will remain approximately 18.0 per cent of sales revenue during the FY18-19 period as the up to \$3 billion of strategic investment announced in August 2016 continues to be invested across the business.

During FY17, around \$750 million in strategic investment was delivered into the networks for the future and digitisation programs laying the foundations to drive improvements in customer experience in FY18 and beyond. Our mobile network has been extended so that 88.9 per cent of the Australian population now have access to double the speed of standard 4G, more than 83 per cent of ADSL customers now have access to ADSL speeds that support a quality video experience, and we laid core network foundations to support 5G at our trials on the Gold Coast in FY18. We also launched our next generation optical network technology in Tasmania, initially delivering more than double the capacity across Bass Strait with future potential for a hundred-fold scalability, and with a significant improvement to capital efficiency to accommodate the

significant predicted traffic growth. These investments will position us to deliver significant customer benefits and reinforce our market differentiation over the longer term, as well as deliver financial benefits such as capital efficiency, reduced operating costs, and increased revenue.

We are also investing a significant proportion of our capital expenditure on our mobile network to further extend our 4G networks to deliver more square kilometres of coverage, more reliable voice and data, fewer dropouts and faster download speeds.

Free cashflow generated from operating and investing activities was \$3,496 million, representing a decrease of \$2,430 million on the prior corresponding period. This was due to the receipt of proceeds from the sale of Autohome in the prior period (\$1.34 billion), an increase in capital expenditure, and a decline in net cash provided by operating activities. The increase in net cash used in financing activities principally reflects the \$1.5 billion share buyback program that was completed in the first half of the fiscal year.

On a guidance basis free cashflow was \$4,285 million. Performance against guidance has been adjusted in the current period for free cashflow associated with restructuring costs (\$304 million), M&A activity (-\$140 million) and spectrum (\$625 million). The EBITDA impact of restructuring costs was \$439 million.

Financial settings	FY17 Actual	FY17 Comfort zone
Debt servicing <sup>1</sup>	1.4x	1.3 to 1.8x
Gearing <sup>2</sup>	51.2%	50% to 70%
Interest cover <sup>3</sup>	15.7x	>7x

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

### Debt position

Our gross debt position at 30 June 2017 was \$16,218 million, comprising borrowings of \$17,284 million and net derivative assets of \$1,066 million. Gross debt is similar to 30 June 2016 (\$16,009 million) as a result of a \$2,215 million increase in debt during the year being largely offset by \$2,207 million debt maturities, as detailed in the tables below. Debt issuance includes a \$996 million (\$1,000 million face value) AUD bond, which was issued in three tranches including two Fixed Rate Notes (\$846 million) and one Floating Rate Note (\$150 million).

The majority of the movement in gross debt comprises non-cash finance lease additions of \$85 million, revaluation impacts including unrealised movements on our derivatives, \$114 million, and bank overdraft (\$2 million) which is recorded against borrowings.

Debt issuance	\$m
Drawn bank loans and facilities <sup>1</sup>	400
Capital markets	996
Short term commercial paper (net)	816
Other loans	3
<b>Total</b>	<b>2,215</b>

1. During the period we also drew down, and subsequently repaid, a further \$1,400 million under our bank facilities. This is shown on a gross basis in the Statement of Cash Flows.

Debt repayments	\$m
Capital markets	(2,067)
Other loans	(9)
Finance leases	(131)
<b>Total</b>	<b>(2,207)</b>

Net debt at 30 June 2017 is \$15,280 million, an increase of \$2,821 million from the prior year. This movement comprises the increase in gross debt of \$209 million and a reduction in cash and cash equivalents of \$2,612 million. Reported free cash flow of \$3.5 billion, and available cash and cash equivalents, was utilised during the year to fund outflows from interest, dividends, and other financing flows of approximately \$4.6 billion, as well as our share buyback program of \$1.5 billion. At 30 June 2017, cash and cash equivalents were \$938 million.

We remain within our comfort ranges for all our credit metrics. Our gearing ratio is 51.2 per cent, up from 43.9 per cent at 30 June 2016. Debt servicing (net debt/EBITDA) is 1.4 times. Interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings is 15.7 times (2016: 13.0 times). Our comfort zone for interest cover is in excess of 7.0 times.

Summary Statement of Financial Position	FY17	FY16	Change
	\$m	\$m	%
Current assets	7,862	9,340	(15.8)
Non-current assets	34,271	33,946	1.0
Total assets	42,133	43,286	(2.7)
Current liabilities	9,159	9,188	(0.3)
Non-current liabilities	18,414	18,191	1.2
Total liabilities	27,573	27,379	0.7
Net assets	14,560	15,907	(8.5)
Total equity	14,560	15,907	(8.5)
Return on average assets (%)	15.6	16.2	(0.6)pp
Return on average equity (%)	25.6	25.7	(0.1)pp

#### Statement of Financial Position

Our balance sheet remains in a strong position with net assets of \$14,560 million. Current assets decreased by 15.8 per cent to \$7,862 million largely as a result of the reduction in cash and cash equivalents of \$2,612 million, which was built up through proceeds from the sale of our Autohome shares in June 2016, and subsequently used to fund increased capital expenditure and the share buybacks. This was partly offset by trade and other receivables, which increased by \$731 million primarily due to an increase in trade receivables (including increased nbn PSAA and ISA receivables) and accrued revenue. Inventories increased by \$336 million, driven by nbn™ construction work in progress and higher retail demand.

Non-current assets increased by 1.0 per cent to \$34,271 million. Property, plant and equipment increased by \$769 million, largely driven by mobile network investments. Our defined benefit asset increased by \$127 million due to an actuarial gain on our defined benefit plan assets resulting from an increase in the discount rate applied (from 3.3 per cent to 3.9 per cent at 30 June 2017). This was partially offset by a decrease of \$557 million in derivative financial assets due to foreign currency movements and other valuation impacts arising from measuring to fair value. As our derivatives are used to hedge foreign currency and interest rate exposures, the movement in total derivative position is largely offset by corresponding movements in borrowings and reserves (equity).

Current liabilities decreased by 0.3 per cent to \$9,159 million. Trade and other payables increased by \$241 million predominantly due to higher accrued capital expenditure. This was offset by a decrease in current borrowings of \$179 million driven by an increase in commercial paper (held principally to support working capital and liquidity requirements) of \$809 million being more than offset by a reduction in term debt due to mature within 12 months compared to the prior year. Derivative financial liabilities decreased by \$244 million as a result of derivative maturities during the period.

Non-current liabilities increased by 1.2 per cent to \$18,414 million driven by non-current borrowings, which increased by \$161 million. This was due to reclassification of debt due to mature within 12 months to current borrowings, and favourable foreign exchange movements impacting offshore borrowings being more than offset by debt issuance of \$1,399 million, including a \$1,000 million AUD bond.

# 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

The pace of technological innovation means we are in an increasingly dynamic and inter-connected world. Digital technology is disrupting traditional operating models and our operating environment is increasingly competitive. At the same time technology presents an opportunity to help society to respond to major issues in a more agile and scalable way – from managing the impacts of climate change to making healthcare and education more universally accessible.

As a large telecommunications and technology company, Telstra has a fundamental role to play in helping our customers and society to adapt to technological change and the opportunities it brings. We want everyone to thrive in a digital world.

Over FY17 we reviewed our approach to sustainability in order to ensure our strategy and activities support our corporate direction and generate stakeholder value. The review took into account the changing organisational environment, the maturation of our sustainability approach, Telstra's contribution to the delivery of the UN Sustainable Development Goals and reflects the views of a wide range of stakeholders, both internal and external. The result is a multi-year vision that represents a significant step in moving toward a more holistic approach to 'sustainability' that informs and integrates all of our business activities.

## Thriving in a digital world

Our purpose is to create a brilliant connected future for everyone, and our sustainability strategy is key to achieving this.

Our sustainability priorities reflect the issues that are most material for our business, the areas in which we have the expertise to make a meaningful impact, and where we see opportunities to use innovative, tech-based solutions to help address major societal challenges and opportunities.



<b>Core elements</b>	<b>Digital futures:</b> We will foster strong, inclusive communities that are empowered to thrive in a digital world.	<b>Environmental solutions:</b> We will use technology to address environmental challenges and help our suppliers, customers and communities do the same.	<b>Responsible business:</b> We will be a sustainable, globally trusted company that people want to work for and with.
<b>Focus areas</b>	<p><b>Everyone Connected</b> Ensuring everyone can enjoy the benefits of being connected.</p> <p><b>Networks</b> Delivering leading telecommunications networks.</p> <p><b>Tech for good</b> Using the power of technology to enable all young people to thrive.</p>	<p><b>Climate change and energy</b> Mitigating climate change impacts and helping our customers and communities to do the same.</p> <p><b>Environment and resource efficiency</b> Using resources efficiently and minimising environmental impacts across our value chain.</p>	<p><b>Ethics and governance</b> Being ethical, responsible and transparent in how we do business.</p> <p><b>Culture and capabilities</b> Creating a world-class workplace where our people can thrive.</p>

This section highlights some of the more significant aspects of sustainability at Telstra. Our Bigger Picture 2017 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.

We will foster strong, inclusive communities that are empowered to thrive in a digital world.

## Everyone Connected

We want everyone to enjoy the benefits of being connected. Through our digital inclusion programs we focus on supporting those most at risk of digital exclusion – people with disability, people 65+, those living in regional and remote communities, Indigenous communities, people on a low income, and people who are unemployed or homeless. Our approach is to integrate digital inclusion into our core business operations and partner with government and community organisations to achieve reach and scale. Key initiatives over FY17 include:

- releasing the Australian Digital Inclusion Index which provides important insights on the barriers to digital inclusion and is designed as a tool to help policy-makers, businesses and community organisations take action on digital exclusion. Key findings show that while digital inclusion is improving, digital ability – skills and confidence – is emerging as a key area for national improvement.
- helping more than 1 million vulnerable customers stay connected through a range of programs including Access for Everyone which helps people on a low income or facing financial hardship to stay connected.
- partnering with the Queensland, Victorian and New South Wales state governments on our Tech Savvy Seniors program. Over FY17 the program delivered face-to-face training to more than 35,000 older Australians.
- releasing our first Accessibility and Inclusion Plan, which aims to strengthen our commitment and amplify our focus on inclusion and removing the barriers to access. The Plan has three pillars – raising the bar on customer experience, creating a fully inclusive workplace and using our technology expertise to create new products and services.
- as part of our Reconciliation Action Plan commitments we switched on mobile and fixed broadband coverage in Titjikala, a remote community located 120km south of Alice Springs. This is the first community to be connected as part of a \$30 million co-investment with the Northern Territory government.



## Networks

Telstra's network is unmatched by any other provider in Australia. We are continually investing in our network to create differentiation and build capability for the future because we know it unlocks great economic, social and environmental potential. Network access and availability is also a key component to digital inclusion which is why over the last 10 years 15 per cent of investment in our mobile network has gone to provide services to the most remote two per cent of the population in Australia. More detail on how we're investing for the future can be found in the Strategy and Performance section of this report.

## Tech for good

Digital technologies and connectivity are encouraging innovation and opportunity, transforming the way we respond to sustainability challenges and creating a positive impact on society.

Continued innovation and investment in technology will deliver exciting opportunities in areas like agriculture and health, making lives easier through our Connected Home offering whilst also enabling our customers to realise economic and business improvement while reducing greenhouse gas emissions (see case study on the following page).

Through the Telstra Foundation® we bring together social innovation and digital connection to transform the lives of young people. In FY17, we partnered with 13 charity and social enterprise partners to help young people thrive online. We committed \$6 million in community programs and partnerships in addition to facilitating over \$1.4 million in charitable donations from Telstra employees and shareholders.

## e-mental health gets a boost

The intersection of technology with evidence-led, mental health services is a key investment area for the Telstra Foundation.

In FY17, the Telstra Foundation invested \$500,000, over three years in Orygen's new initiative to develop the world's first virtual clinic designed for young people suffering from severe and complex mental health conditions. The project blends face-to-face and online clinical and therapy interventions into different aspects of everyday life. It features a range of technology including chat bots, sentiment analytics, machine learning and natural language processing as well as functionality such as video conferencing, real time online chat, and evaluations.

150 young people will participate in the program pilot from design to delivery, and following evaluation, the program is expected to scale progressively to 30,000+ users globally.

# Environmental solutions

We will use technology to address environmental challenges and help our suppliers, customers and communities do the same.

## Energy and emissions

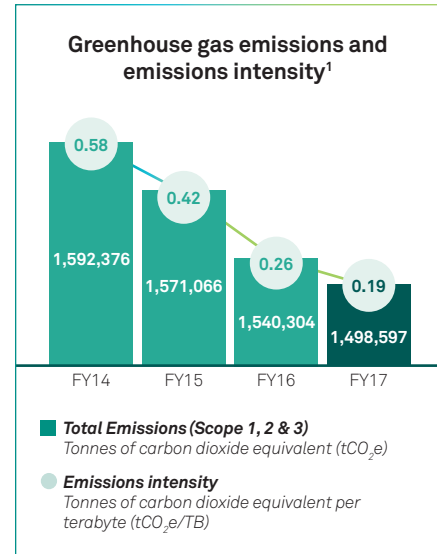
We continuously strive to reduce energy consumption within our operations by careful planning, monitoring and management of our consumption, identifying and implementing energy reduction and optimisation initiatives, as well as investing in renewables. We are also working with businesses, customers and the community to identify opportunities to improve environmental performance.

In FY14 we set a long term target to reduce our greenhouse gas (GHG) 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. We achieved our target, reducing by 68 per cent from our FY14 baseline year. A large driver for this has been the significant rate of growth in data use – up 33 per cent in FY17.

From our baseline year of FY14 our absolute GHG emissions (Scope 1, 2 and 3 tCO<sub>2</sub>e) have reduced by 5.9 per cent. The primary reason for the absolute emissions reduction is due to a decrease in the energy coefficients (emission factors) published by the Australia Government. Our ongoing program of energy efficiency projects has also contributed to the decline in emissions.

Our largest source of GHG emissions is electricity consumption. This accounts for 95 per cent of our total GHG emissions (Scope 1, 2 and 3). Our network sites are our largest consumers of electricity and we continue to investigate opportunities to improve their energy efficiency through a range of activities. Since 2011 we have invested \$52 million in improving the energy efficiency of our facilities. This year we invested \$5 million in energy reduction projects that delivered a collective saving 17,345 tCO<sub>2</sub>e and more than 18,000MWh of electricity.

To demonstrate our commitment to environmental improvement, we have set a new carbon emissions intensity target covering the period FY18-FY20. The target is to reduce carbon emissions intensity (tCO<sub>2</sub>e per petabyte) by 50 per cent by 2020, based on a baseline year of FY17.



1. Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships as set out in the National Greenhouse and Energy Reporting Act 2007. Greenhouse gas emissions are calculated using the latest emission factors at the time of reporting.

## Electronics reuse and recycling

Telstra has supported responsible recycling programs for nearly 20 years. We are a founding member of MobileMuster – a non-profit, government accredited, mobile phone recycling scheme in Australia. This year we launched our first Electronics Reuse and Recycling Strategy, Unlocking Hidden Value, to systematically manage and reduce our e-waste impact across our value chain. It brings focus to the importance of applying integrated and collaborative approaches to realise business value through increased electronics recovery, reuse and recycling.

This presents an opportunity for Telstra to unlock value through materials efficiency, which includes striving to keep resources in use for as long as possible, extracting the maximum value from them while in use, then recovering and remanufacturing products at the end of each service life. For example, devices returned through our Go Mobile Swap lease plans are refurbished and reused, if they are beyond repair they are responsibly recycled. In FY17 we collected 19.9 tonnes of mobile phones and accessories through the MobileMuster program, exceeding our target of 17 tonnes. We collected 4,353 tonnes of e-waste with a recycling rate of 99.9 per cent.

## Connecting to a low-carbon future

### Telstra's Cloud Calculator Tool helps enterprise customers estimate the potential savings in energy, cost and carbon emissions of a move to the cloud.

We are assisting customers transition to a low carbon future through the use of cloud technology. We are doing this by providing more energy efficient and cost effective data storage solutions compared to individual onsite data storage. By adopting cloud-computing, organisations in Australia could potentially save a collective \$1 billion in energy-related costs annually, reducing carbon emissions by 4.5 million tonnes at the same time.

Telstra's cloud solutions also support businesses to become more agile by enabling a more productive working environment. Employees are able to access data and systems anywhere internet is available. Cloud is also enabling flexibility, reducing employees commute to work, removing cars from the road, as well as reducing congestion and carbon emissions.



# Responsible business

We will be a sustainable, globally trusted company that people want to work for and with.

## Responding to global challenges

Business and technology are playing an increasingly important role in responding to global challenges. Telstra supports the United Nations Sustainable Development Goals – a common, global framework for considering and addressing the world's most significant development challenges. We have identified four initial priorities that reflect our business context, key risks and impacts and current social and environmental focus areas:

- **Goal 5:** Achieve gender equality and empower all women and girls
- **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- **Goal 9:** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
- **Goal 13:** Take urgent action to combat climate change and its impact.

We are a signatory to the United Nations Global Compact and are committed to supporting its principles – on human rights, labour rights, environment and anti-corruption – wherever we operate. Human rights are of increasing interest to stakeholders, with many jurisdictions, including Australia, developing or considering legislative responses to the issue of modern slavery. Telstra reports under the UK Modern Slavery Act and our most recent statement is available at [telstra.com/governance](http://telstra.com/governance).

## Protecting our customers' data

Privacy matters to us and we know it matters to our customers. As part of our efforts to protect our customers' personal information and our network from unauthorised access and disclosure we use a combination of technical solutions, security controls and internal processes including mandatory training. More information, including how we responded to privacy incidents during FY17, is available in our Bigger Picture 2017 Sustainability Report.

## Mobile phones, base stations and health

We acknowledge that some people are 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 Organisation (WHO), and actively contribute to scientific research in the area.

Helping our customers and the community keep abreast of the latest information is important to us. This year, we continued our mobile safety SMS campaign, sending out over 17 million messages referring customers to [telstra.com.au/mobiletips](http://telstra.com.au/mobiletips), where we have information on mobile use, EME, and tips to reduce exposure. We provide information on EME on our website at [telstra.com/eme](http://telstra.com/eme) and 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.

## Managing our tax affairs

We maintain a conservative tax risk profile. All transactions we enter into are based on commercial considerations and we do not take positions that are tax driven, artificial or contrived, or that interpret a tax law beyond its spirit and intent.

We are committed to full transparency and disclosure in all dealings with revenue authorities and we comply with all tax laws and obligations in the jurisdictions in which we operate. We pay tax consistent with our business presence and operations. The Telstra Group's effective income tax rate was 31.4 per cent, which is in line with the Australian corporate tax rate of 30 per cent. Refer to Section 2.4 Income Taxes for further details.

## An engaging culture

We focus our engagement activities on sustainable engagement because it provides a deeper understanding of the key drivers of performance, describing how engaged, enabled and energised our people are at Telstra. In FY17 we conducted a 'pulse' employee engagement survey (EES) that showed our top line sustainable engagement score was 71 per cent, which is unchanged from 2016. This is encouraging as it shows sustainable engagement was stable during a time of considerable change and provides a platform for our plans to increase to 73 in FY18 and 76 in FY19.

## Diversity and inclusion

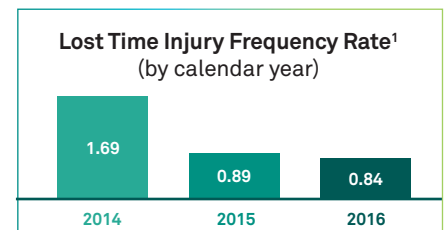
We value diversity and inclusion and the benefits they bring to the Telstra Group in achieving our objectives, enhancing our reputation, and attracting, engaging and retaining talented people. The diversity of our people should reflect our diverse, global customers and the countries where we operate.

The strategies we employ to support diversity and enable inclusion are in service of our business strategy, as well as imperatives around fairness and corporate social responsibility. We recruit, develop, promote and pay our people in a way that supports our commitment to being more diverse and inclusive. Whilst our overall representation of women decreased 0.5 percentage points over the year there are promising signs. For example, we achieved over 50 per cent female representation in our graduate intake over FY17 and our minimum female representation of 50 per cent on shortlists and interview lists is already demonstrating strong progress with a 6.5 per cent increase in female representation in shortlists and a 5.7 per cent increase in female commencements. We are also open to considering flexible ways of working in every role.

Information on Diversity and Inclusion at Telstra, including our diversity measurable objectives, can be found in our 2017 Corporate Governance Statement (which is available on our website at [telstra.com/governance](http://telstra.com/governance)) and in our Bigger Picture 2017 Sustainability Report.

## Health, safety and wellbeing

We focus on reducing health, safety and environment (HSE) risk in our operations and early intervention in our management of injuries. Our initiatives aim to build a high performing HSE culture, where sharing insights and learnings are the norm, with data and analytics supporting sound decisions on corrective actions and controls. We take a proactive, risk based approach, supported by an integrated HSE management system that is consistent across our global operations and embedded into operational practices. Throughout FY17 we focused on driver safety, working at height and supporting employee health and wellness. Our Lost Time Injury Frequency Rate (LTIFR) reduced between calendar 2015 and 2016 by 5.6 per cent<sup>1</sup>.



1. Telstra measures LTIFR as the reported number of accepted workers' compensation claims for work-related injury or disease that incur lost time for each million hours worked. As claims are often not determined for some time after the initial injury, the reported LTIFR for FY16 (and prior years) did not include those injuries that occurred within the reporting period but had not yet had an accepted worker's compensation claim. As a result we have changed our measure to report by calendar year. For comparison purposes we have recalculated LTIFR for the past three calendar years. Data includes full-time, part-time and casual staff in Telstra Corporation Limited, excluding subsidiaries, contractors and agency staff.

# Board of Directors



From left to right: (Standing) Craig Dunn, Nora Scheinkestel, Steven Vamos, Russell Higgins AO, Trae Vassallo, Peter Hearl. (Seated) Margaret Seale, John Mullen, Jane Hemstritch, Andrew Penn.

## John P Mullen

Age 62, BSc

**Non-executive Director since July 2008, Chairman effective 27 April 2016 and last re-elected in 2014. Chairman of the Nomination Committee and previously Chairman of the Remuneration Committee (2009–2016).**

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

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

Director, Brookfield Infrastructure Partners L.P (from 2017), Asciano Ltd (2011–2016). Other: Chairman, Toll Group (from 2016). Chair, Australian National Maritime Foundation (from 2015) and Councillor, Australian National Maritime Museum (from 2016). Director Kimberley Foundation Australia Limited (from 2016). Member, Australian Graduate School of Management (from 2005).

## Andrew R Penn

Age 54, MBA (Kingston), AMP (Harvard), FCCA, HFAIPM

## Chief Executive Officer and Managing Director since 1 May 2015.

Andy joined Telstra in 2012 as Chief Financial Officer. Andy is an experienced executive with a career spanning almost 40 years. Prior to joining Telstra, he was with AXA Asia Pacific in a variety of roles including Group Chief Executive (2006–2011), Chief Executive Officer Australia and New Zealand, Group Chief Financial Officer and Chief Executive for Asia. 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.

## Craig W Dunn

Age 53, BCom, FCA

## Non-executive Director appointed 12 April 2016. Member of the Audit & Risk Committee.

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

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

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

#### Peter R Hearl

Age 66, B Com (UNSW), MAIM, FAICD, Member – AMA

**Non-executive Director since 15 August 2014, elected in October 2014. Chairman of the Remuneration Committee and member of the Nomination 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, Santos Ltd (from 2016), 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.

#### Jane Hemstritch

Age 63, BSc (Hons), FCA, FAICD, FICAEW

**Non-Executive Director appointed 12 August 2016 and elected 11 October 2016. Member of the Remuneration Committee.** Ms Hemstritch is an experienced company director and has extensive senior executive experience in information technology, communications, change management and accounting. She also has broad experience across the financial services, telecommunications, government, energy and manufacturing sectors and in business expansion in Asia. During a 25 year career with Accenture and Andersen Consulting, Ms Hemstritch worked with clients across Australia, Asia and the US. She held a number of leadership positions within Accenture and was Managing Director Asia Pacific for Accenture from 2004 until her retirement in 2007. Ms Hemstritch was a member of Accenture's global Executive Leadership Team and oversaw the management of Accenture's business in the Asia Pacific region which spanned 12 countries and included 30,000 personnel.

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

#### Russell A Higgins AO

Age 67, BEc, FAICD

**Non-executive Director since September 2009 and last re-elected in 2015. Member of the Audit & Risk Committee and Remuneration 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 and a Director of Ricegrowers Limited (SunRice). From 2003 to 2004, he was Chairman of the then Prime Minister's Energy Task Force and prior to that he was Secretary of the Department of Industry, Science and Resources. In 2006, 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) and Leighton Holdings Limited (2013–2014).

#### Nora L Scheinkestel

Age 57, LLB (Hons), PhD, FAICD

**Non-executive Director since August 2010 and last re-elected in 2016. 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 former member of the Takeovers Panel. Dr Scheinkestel has served as Chairman and Director in a range of companies across various industry sectors including utilities, AMP Limited and its funds management and banking subsidiaries, Mayne Group Limited and Mayne Pharma Limited, Medical Benefits Fund of Australia Ltd, Newcrest Mining Limited, North Limited and Pacific Brands. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

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

#### Margaret L Seale

Age 56, BA, FAICD

**Non-executive Director since May 2012 and last re-elected in 2015. 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 Penguin Random House Australia (2000–2016), the Australian Publishers' Association, the Powerhouse Museum, the Sydney Writers Festival and on the Council of Chief Executive Women, chairing its Scholarship Committee (2011–2012).

**Directorships of listed companies (past three years):** Director, Scentre Group Limited (from 2016), Ramsay Health Care Limited (from 2015), Bank of Queensland Limited (from 2014).

#### Steven M Vamos

Age 59, BEng (Hons)

**Non-executive Director since September 2009 and last re-elected in 2015. 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, Divvy Parking (from 2016), eGeneration Investments Pty Limited (from 1999), Medibank Private Limited (2011–2014). Member, Advisory Board of the University of Technology Sydney Business School (from 2011).

#### Trae Vassallo

Age 45, BSc, MSc, MBA (Stanford)

**Non-executive Director elected 13 October 2015.** Ms Vassallo is an experienced technology executive, investor and advisor based in the USA with a successful track record in the technology and venture capital sectors.

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

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

**Other directorships/appointments (past three years):** Director, Enlighted Inc. (2011–2017).

# Senior management team

Over the past 12 months we have made changes to our corporate structure which are reflected in the roles and responsibilities within our senior management team.



Andrew Penn



Warwick Bray



Alexandra Badenoch



Robyn Denholm



Stephen Elop



Will Irving



Carmel Mulhern



Joe Pollard



Brendon Riley



Kevin Russell



Tony Warren



Cynthia Whelan

### **Andrew Penn** Chief Executive Officer

Andrew Penn has been our Chief Executive Officer since May 2015 after serving as Telstra's Chief Financial Officer and Group Executive International. Andrew is an experienced senior executive with a career spanning more than 30 years. Prior to joining Telstra, Andrew was with AXA Asia Pacific for 20 years where he held a number of positions including Group Chief Executive (2006–2011), Chief Executive Officer for Australia and New Zealand, Group Chief Financial Officer, Chief Executive for Asia and spent time based in Australia, Hong Kong, Thailand and Indonesia.

### **Warwick Bray** Chief Financial Officer

The Finance and Strategy team is responsible for corporate planning, 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.

### **Alexandra Badenoch** 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.

### **Robyn Denholm** Chief Operating Officer

Robyn Denholm joined Telstra as Chief Operations Officer (COO) in January 2017. Telstra Operations is responsible for all aspects of Telstra's Networks, design build and run, for the delivery of new network services and solutions, for both enterprise and network information technology systems and for group wide property and facilities. Telstra Operations is responsible for Telstra Energy, as well as the negotiation and delivery of Telstra's commercial agreements with nbn co.

### **Stephen Elop** Group Executive, Technology, Innovation and Strategy

The Technology, Innovation and Strategy (TIS) team is responsible for leading the company strategy and driving the innovation portfolio through the Chief Technology Office, Telstra Ventures and Corporate Strategy team. TIS is also responsible for Ooyala, a subsidiary company providing intelligent video solutions, and building a thriving digital ecosystem via our startup accelerator muru-D®.

### **Will Irving** Group Executive, Telstra Wholesale

Telstra Wholesale provides telecommunications and network applications and services to non-Telstra branded carriers, communications, internet and networked application providers, as well as nbn™ and Belong®. Telstra Wholesale also buys services from nbn co and other carriers on behalf of Telstra.

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

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

### **Joe Pollard** Group Executive, Media and Chief Marketing Officer

Telstra's media portfolio encompasses a range of partnerships, content and platforms across subscription TV, streaming video, music, plus leading sport and news. The Chief Marketing Office provides marketing leadership and execution, including stewardship of the brand, cross-enterprise research, insights and analytics and Telstra's sponsorship portfolio.

### **Brendon Riley** Group Executive, Telstra Enterprise (previously Group Executive, Global Enterprise and Services)

Telstra Enterprise is responsible for providing services to thousands of premium business, enterprise, government and international wholesale customers. With revenues in excess of A\$6 billion per annum and operations in 20 countries, Telstra Enterprise offers connectivity, platforms, applications and tailored industry solutions to its enterprise and government customers and operates the largest submarine cable network in the Asia Pacific region.

### **Kevin Russell** Group Executive, Consumer & Small Business (previously Group Executive, Telstra Retail)

Consumer & Small Business brings together Telstra's core domestic activities covering consumer, business, sales, fixed and mobiles, and services over the nbn™.

### **Tony Warren** Group Executive, Corporate Affairs<sup>1</sup>

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

### **Cynthia Whelan** Group Executive, New Business (previously Group Executive, International and New Businesses)

New Businesses includes some of Telstra's key growth opportunities such as Telstra Health®, where Cynthia's experience is invaluable at a critical time of growth and competitive pressure. Cynthia is also Chairman of Foxtel.

1. On 25 August 2017, Telstra announced that Group General Counsel Carmel Mulhern will become Group General Counsel and Group Executive of Corporate Affairs when Tony Warren leaves the company on 22 September 2017.

# 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, and we comply with the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

This section provides an overview of some of the important aspects of our governance framework. Our full 2017 corporate governance statement, which provides detailed information about governance at Telstra, is available on our website at [telstra.com/governance](http://telstra.com/governance).

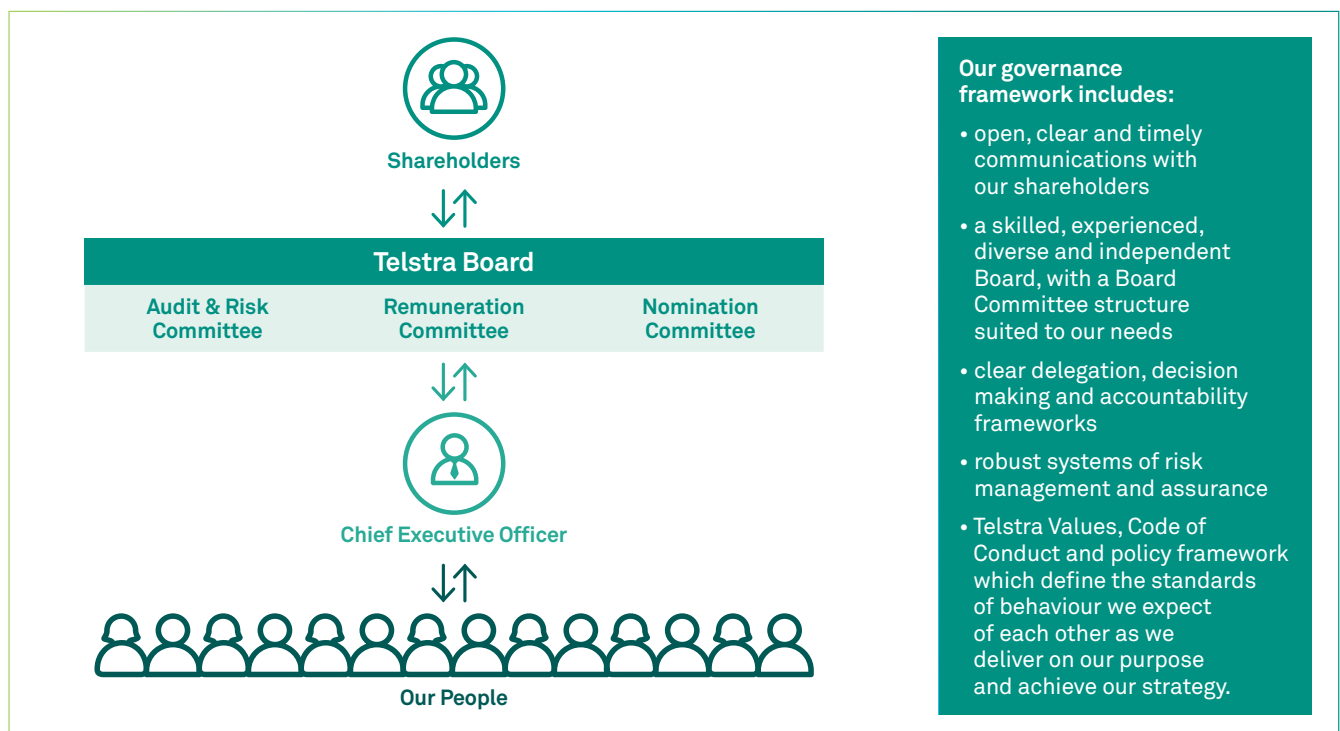


Telstra Annual General Meeting 2016

## Engaging with our shareholders

We value and facilitate a direct, two-way dialogue with our shareholders and investors. It is important we provide relevant information as quickly and efficiently as possible to shareholders (recognising the importance of meeting our continuous disclosure and other legal obligations to the market), and 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 FY17 these included:

- **Retail shareholder information briefings** – as we have done in recent years, before our 2016 Annual General Meeting (AGM) we held three retail shareholder information briefings with the CEO, CFO or other senior executives. Briefings were held in Melbourne, Sydney and Brisbane and were also webcast live on-line and to locations in Adelaide, Perth and Canberra. Over 600 retail shareholders attended these briefings.
- **Encouraging questions in advance of our AGM** – we encouraged shareholders to provide us with their questions ahead of our 2016 AGM, consistent with our approach in previous years, and we received more than 900 questions and comments. This helped us understand shareholder issues and concerns and enabled us to address the key areas of shareholder feedback.
- **Investor briefings** – in November 2016, we held an Investor Day which included presentations on our corporate strategy, our capital allocation review and details on our up to \$3 billion incremental capital expenditure program over three years from FY17–19. We communicated with our shareholders via email and the ASX market announcements platform, informing them where they could view the presentations and a recording of the event.
- **Capital allocation review** – in November 2016 we informed our shareholders that we would review our capital allocation strategy over the next 6–12 months, taking into consideration the long term business and financial profile of Telstra. We sought feedback from our stakeholders and received over 500 responses from our shareholders.
- **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.

## The Board

The Board actively seeks to ensure it has an appropriate mix of 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.

As at the date of this report, we have 10 Directors on the Board, comprising nine independent, non-executive Directors and the CEO. Details of the Directors, including their qualifications and experience, together with details of their length of service, can be found in the Board of Directors section of this report.

During FY17, there were two changes to the Telstra Board:

- Jane Hemstritch joined the Board as a non-executive Director and member of the Remuneration Committee, with effect from 12 August 2016. She was elected by shareholders at our AGM in October 2016. She is an experienced company director and has extensive senior executive experience in information technology, communications, change management and accounting. She also has broad experience across the financial services, telecommunications, government, energy and manufacturing sectors and in business expansion in Asia.
- Chin Hu Lim retired at the conclusion of our AGM in October 2016, having served as a non-executive Director since 2013.

The Board has identified the mix 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 (deliver brilliant customer experiences, drive value and growth from the core and build new growth businesses close to the core), as well as other areas of general relevance to the composition of the Board.

Each of the areas in the Board's skills matrix is currently well represented on the Board. The Board benefits from the combination of Directors' individual skills, experience and expertise in particular areas, as well as the varying perspectives and insights that arise from the interaction of Directors with diverse backgrounds. The Board also continues to seek ways to augment the skills, experience and expertise represented on the Board to best equip the Board to fulfil its role effectively.

In respect of diversity, at Telstra diversity means difference, in all its forms, both visible and not visible, and includes differences that relate to gender, age, cultural background, disability, religion and sexual orientation, as well as differences in background and life experience, and interpersonal and problem solving skills.

The Board's objective about Board diversity for FY17 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, with an aspiration to achieve 40 per cent female representation among non-executive Directors by 2020. As at 30 June 2017, there were four female Directors on the Board (including the Chairman of the Audit & Risk Committee), constituting a female gender representation among non-executive Directors of 44 per cent.

For FY18, the Board's diversity objective is that there will be at least four women on the Board, representing a female gender representation among non-executive Directors of at least 40 per cent, recognising that the level of gender diversity of the Board may be temporarily affected during periods of Board renewal.

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 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.

The Board reviews its performance annually, as well as the performance of each Committee and individual Directors (including the performance of the Chairman as Chairman of the Board). Given the significant degree of renewal on the Board in 2016, including the retirement of three long standing Directors, the Board undertook a performance review in the first half of FY17 with the assistance of an external consultant. The Board conducted a further internal performance review at the start of FY18 to assist the Board in further reflecting on the evolution of its operation. The overall assessment of the performance reviews included that the Board continues to perform well in discharging its responsibilities and helping the company navigate the range of opportunities and challenges we face.

## Managing our risks

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

A summary of the material risks that could affect Telstra (including any material exposure to economic, environmental and social sustainability risks) and how we seek to manage them is provided in the Our material risks section of this report.

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 is designed, implemented and reviewed via our 'three lines of defence' accountability model 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.

## Acting ethically and responsibly

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 we expect of each other as we deliver on our purpose and achieve our strategy.

<b>Our purpose</b>	Why we exist	
<b>Our values</b>	What we stand for	How we do things
<b>Our strategy</b>	Where we are going	What we are going to do

### Our Telstra 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, our values shape our people's 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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### 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:

<b>Our people</b>
<b>Health, safety and environment (HSE)</b> – recognising our commitment to the health, safety and wellbeing of our staff, contractors and community as well as to the environment. In addition to highlighting the importance of caring about health and safety, it sets out our commitment to initiatives that reduce HSE risk in our operations and build a high performing HSE culture, where sharing insights and learnings are the norm.
<b>Diversity &amp; inclusion</b> – reflecting the way we value diversity and inclusion at Telstra and their role in enabling us to achieve our strategy, and providing the framework for the Board to establish our measurable objectives.
<b>Discrimination and bullying</b> – aiming to ensure we have a workplace free of all forms of unlawful discrimination, harassment, bullying and victimisation.
<b>Our customers</b>
<b>Privacy</b> – setting out our commitment to protect our customers' personal information. This outlines how and why we collect personal information, how we may use and disclose it, how we keep it secure and accurate, and how customers may access their personal information.
<b>Good corporate governance and responsible business practice</b>
<b>Anti-bribery and anti-corruption</b> – aiming to ensure we comply with all applicable anti-bribery and anti-corruption laws. We also seek to ensure that gifts 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.
<b>Conflicts of interest</b> – helping our employees and contractors understand what would be a conflict of interest, how to avoid actual, perceived or potential conflicts of interest, and how to manage them if a conflict arises.
<b>Market disclosure</b> – aiming to ensure 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.
<b>Securities trading</b> – 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. All of our people are required to comply with the insider trading laws, and must also consider how their proposed dealing in Telstra securities (or the securities of another company) could be perceived by the market before they deal.
<b>Social media</b> – 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.
<b>Sustainability</b> – 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 and social impacts.
<b>Whistleblowing</b> – providing an avenue for anyone to report suspected unethical, illegal or improper behaviour.



# Directors' Report

# 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 2017. Financial comparisons used in this report are of results for the year ended 30 June 2017 compared with the year ended 30 June 2016.

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

## Principal activity

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

## Review and results of operations

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

## Dividends

On 17 August 2017, the Directors resolved to pay a final fully franked dividend of 15.5 cents per ordinary share (\$1,842 million), bringing dividends per share for financial year 2017 to 31.0 cents per share. The record date for the final dividend will be 31 August 2017, with payment to be made on 28 September 2017. Shares will trade excluding entitlement to the dividend on 30 August 2017.

The Board has determined that the Dividend Reinvestment Plan (DRP) will not operate for the final dividend for financial year 2017.

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 2016	11 Aug 2016	23 Sept 2016	15.5 cents	1,894
Interim dividend for the year ended 30 June 2017	16 Feb 2017	31 Mar 2017	15.5 cents	1,842

## Capital management

As part of our capital management program, we announced the completion of an off-market share buy-back of 282,167,516 ordinary shares (or 2.31 per cent of our total shares on issue) on 3 October 2016. The ordinary shares were bought back at a price of \$4.43 per share for an aggregate consideration of \$1.25 billion. This represented a 14 per cent discount to the Telstra market price of \$5.1482 (being the volume weighted average price of Telstra ordinary shares over the five trading days up to and including the closing date of 30 September 2016), and comprised a fully franked dividend component of \$2.65 per share (or \$748 million in total) and a capital component of \$1.78 per share (or \$502 million in total).

On 13 December 2016, we also completed the on-market share buy-back of 50,190,465 ordinary shares for total consideration of \$250 million. The average price per share bought back was \$4.98.

The shares bought back were subsequently cancelled.

## 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 2017.

## Business strategies, prospects and likely developments

The OFR section sets out information on the business strategies and prospects for future financial years, and refers to likely developments in Telstra's operations and the expected results of those operations in future financial years. Information in the OFR is provided to enable shareholders to make an informed assessment of the business strategies and prospects for future financial years of the Telstra Group. Detail that could give rise to likely material detriment to Telstra (for example, information that is commercially sensitive, is confidential or could give a third party a commercial advantage) has not been included. Other than the information set out in the OFR, information about other likely developments in Telstra's operations and the expected results of these operations in future financial years has not been included.

## Events occurring after the end of the financial year

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected, or may significantly affect in future years, Telstra's operations, the results of those operations or the state of Telstra's affairs, other than the final dividend for the financial year 2017 and that the DRP will not operate in respect of that dividend.

## Details of Directors and executives

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

- Jane S Hemstritch was appointed as a non-executive Director effective 12 August 2016
- Chin H Lim retired as a non-executive Director on 11 October 2016. Mr Lim (B Applied Science, Dip EEE) joined the Board in August 2013 and was a member of the Nomination Committee.

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

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

## Board and Committee meeting attendance

Details of the number of meetings held by the Board and its Committees during financial year 2017, and attendance by Board members, are set out below:

	Board		Committees <sup>1</sup>					
			Audit and Risk		Nomination		Remuneration	
	a	b	a	b	a	b	a	b
John P Mullen <sup>2</sup>	12	12	–	(3)	6	6	–	(3)
Andrew R Penn <sup>2</sup>	12	12	–	(6)	–	–	–	(6)
Craig W Dunn <sup>2</sup>	12	12	6	6	–	(6)	–	–
Peter R Hearl	12	12	–	–	6	5	7	7
Jane S Hemstritch	10	10	–	–	–	(5)	6	6
Russell A Higgins	12	12	6	6	–	(6)	7	7
Nora L Scheinkestel <sup>2</sup>	12	12	6	6	–	(6)	–	–
Margaret L Seale	12	12	6	6	–	(6)	–	–
Steven M Vamos	12	11	–	–	6	6	7	7
Trae A N Vassallo	12	10	–	–	–	(5)	–	–
Chin Hu Lim <sup>3</sup>	3	3	–	–	2	1	–	–
<b>Total number of meetings held</b>	<b>12</b>		<b>6</b>		<b>6</b>		<b>7</b>	

Column a: number of meetings held while a member.

Column b: number of meetings attended.

1. Committee meetings are open to all Directors to attend. Where a Director has attended a meeting of a Committee of which he or she was not a member, this is indicated by ().
2. John Mullen, Andrew Penn, Craig Dunn and Nora Scheinkestel have also served on a special purpose Board committee relating to the company's capital allocation review announced in November 2016. The special purpose Board committee met once in FY17.
3. Retired as a non-executive Director on 11 October 2016.

## Director shareholdings in Telstra

Details of Directors' shareholdings in Telstra as at 17 August 2017 are shown in the table below:

Director	Number of shares held <sup>1</sup>
John P Mullen	26,159
Andrew R Penn <sup>2</sup>	1,301,712
Craig W Dunn	16,073
Peter R Hearl	45,000
Jane S Hemstritch	91,000
Russell A Higgins	99,983
Nora L Scheinkestel	97,680
Margaret L Seale	212,500
Steven M Vamos	40,000
Trae A N Vassallo	–
Chin Hu Lim <sup>3</sup>	20,871

1. The number of shares held refers to shares held either directly or indirectly by Directors as at 17 August 2017. 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 5.6) for total shares held by Directors and their related parties directly, indirectly or beneficially as at 30 June 2017. The numbers above include 175,000 shares held by a related party of Margaret Seale and 448 shares held by a related party of Russell Higgins. In both cases, the Director has a relevant interest.

2. Andrew Penn also holds 1,611,774 Performance Rights.

3. The number of shares disclosed is the number held as at the date of cessation as a Director.

## Company Secretary

### Damien Coleman

B Ec, LLB (Hons), FCIS GAICD

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

Mr Coleman is a senior legal and governance professional with over 20 years' experience advising at senior management and board levels. Mr Coleman reports to the Board and his responsibilities include continuous disclosure compliance, corporate governance and communication with Telstra's 1.4 million shareholders.

He joined Telstra in 1998 and has served in senior legal roles across the company including Sensis, Mergers & Acquisitions, Telstra Operations, Finance and Administration, Office of the Company Secretary and National Broadband Network (NBN).

Mr Coleman played a key role in the negotiation of the 2011 Definitive Agreements for Telstra's participation in the rollout of the nbn™ network. Before joining Telstra, Mr Coleman was a senior lawyer at a leading Australian law firm. He serves on the Victorian State Council of the Governance Institute of Australia.

He holds a Bachelor of Laws (Hons) and a Bachelor of Economics 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 in the capacity as an officer of that other company. This indemnity is to the maximum extent permitted by law, as if that liability had been incurred in the capacity as an officer of Telstra. Telstra's constitution also allows it to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in Telstra's constitution.

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

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

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

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

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

### c) Directors' and officers' insurance

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

## Environmental regulation and performance

Telstra, as a minimum, seeks to be compliant with all applicable environmental laws and regulatory permissions relevant to its operations. Where instances of non-compliance may occur, Telstra has procedures requiring that internal investigations are conducted to determine the cause of the non-compliance and to ensure that any risk of recurrence is minimised.

Telstra's procedures further require that the relevant government authorities are notified of any environmental incidents (where applicable) in compliance with statutory requirements. Telstra ensures that it complies with notices issued by government authorities.

### a) Fines and prosecutions

Telstra has not been prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.

### b) Energy and greenhouse emissions

In Australia, Telstra is subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007, which requires Telstra to report its annual Australian greenhouse gas emissions, energy consumption and energy production. Telstra has implemented systems and processes for the collection and reporting of data and has, in accordance with our obligations, reported to the Clean Energy Regulator on an annual basis. The next report is due on 31 October 2017 and will again be supported with an independent assurance report.

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

## Non-audit services

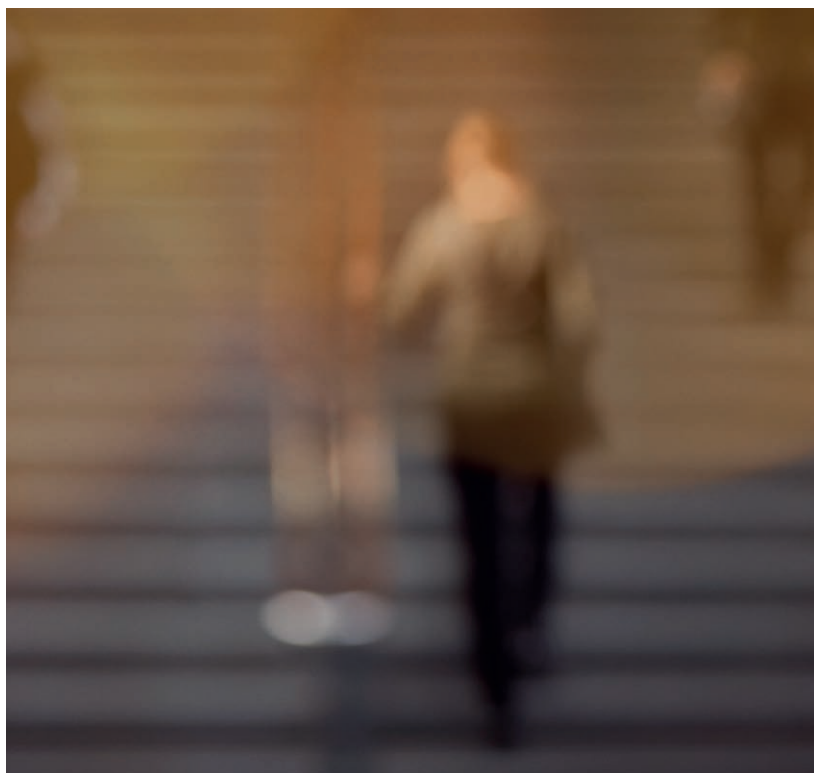
During financial year 2017, Telstra's auditor, Ernst & Young (EY), has been employed on assignments additional to its statutory audit duties. Details of the amounts paid or payable to EY for audit and non-audit services provided during the year are detailed in note 7.2 to the financial statements in our 2017 Financial Report.

The Directors are satisfied, based on advice provided by the Audit & Risk Committee that the provision of non-audit services during financial year 2017 is consistent with the general standard of independence for auditors imposed by the Act and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

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

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

# Remuneration Report



This report details the remuneration framework and outcomes for Key Management Personnel (KMP) of the Telstra Group for the year ended 30 June 2017 (FY17).

## Executive Summary

Our aim in preparing this report is to enable you, our shareholders and interested stakeholders, to understand the links between remuneration, company strategy and Telstra's performance, and the framework we have in place to provide effective governance over remuneration at Telstra. To support this we have sought to provide a comprehensive overview of our performance and remuneration outcomes, including additional voluntary disclosures, as well as a summary of our governance practices. The report has been prepared in accordance with section 300A of the Corporations Act 2001 (Corporations Act). The information in this report has been audited as required by section 308(3C) of the Corporations Act.

### Key remuneration changes in FY17

As outlined in our Remuneration Report last year, we introduced a second net promoter score metric, Episode NPS in FY17 as a component of the overall Customer Measure in our STI plan to increase the focus on how our customers feel about their direct interactions with us on a daily basis. The overall quantum of the customer metric remains unchanged with the existing Strategic NPS and new Episode NPS metrics now each contributing half of the total Customer Measure. Further information on our STI measures can be found in section 2.3(c).

### Remuneration outcomes in FY17

The overall structure and philosophy of Telstra's approach to remuneration remained consistent throughout FY17. Our remuneration philosophy is based on linking financial rewards directly to employee contributions and company performance.

Telstra has delivered solid results for shareholders during the financial year and made progress against the company's strategy of delivering brilliant customer experiences. The STI remuneration outcomes for FY17 therefore reflect the performance of the business.

During FY17 there were no Fixed Remuneration increases and no changes to the STI and LTI opportunities as a percentage of Fixed Remuneration for our Senior Executives. The Senior Executive remuneration mix has remained the same since 2013.

### Key remuneration changes proposed for FY18

In relation to our Senior Executives, a new Executive Variable Remuneration Plan (EVP) will be implemented for FY18. This new plan combines our existing STI and LTI arrangements into a simplified variable incentive plan over a longer timeframe of five years and drives performance against customer experience and financial metrics, creating long term shareholder value. Further information on the EVP can be found in section 4.0.

Each year we review our CEO and Group Executives' (including both KMP and non-KMP Group Executives) Fixed Remuneration against considerations of the company remuneration review budget, individual performance and relativity to comparable roles in the ASX20. Other than on appointment to this level, there have been no Fixed Remuneration increases for Senior Executives for the past two years. In FY18, any Fixed Remuneration increases for the CEO and Group Executives will not in total exceed the company annual review budget of 2.75%, excluding any promotions or significant changes in role.

Lastly, following a review of our non-executive Director fees benchmarked against the ASX20, effective from 1 July 2017 the Remuneration Committee Chair and Member fee will increase to \$56,000 (up from \$50,000) and \$28,000 (up from \$25,000) respectively. Both of these fees had not increased since August 2010. Further detail can be found in section 5.1.



The key outcomes under our incentive plans this year were:

### Short Term Incentives (STI)

Senior Executives received an average of 41.3% of the maximum opportunity available based on the assessment of financial, customer advocacy and individual performance. This reflects Telstra's performance on the Free Cashflow (FCF for STI), EBITDA, Episode NPS and Strategic NPS performance measures. We did not achieve our Total Income measure resulting in no payment on this component. Telstra Wholesale performed solidly against all of its STI targets.

### Long Term Incentives (LTI)

The FY15 LTI plan was tested on 30 June 2017 and the outcome was that none of the Performance Rights vested as Restricted Shares as neither of the LTI measures met the minimum threshold performance. The results of the two FY15 LTI plan measures were that the Telstra Relative Total Shareholder Return (RTSR) ranked at the 23rd percentile of the comparator group against a target of the 50th percentile and Telstra achieved a FCF ROI outcome of 14.7% against a target of 15.0%.

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- 5.2 Remuneration policy and strategy
- 5.3 Remuneration components

### 6.0 Remuneration tables and glossary

- 6.1–6.6 Remuneration tables
- 6.7 Glossary

## 1.0 Remuneration snapshot

### 1.1 Key Management Personnel (KMP)

Telstra's KMP are assessed each year and comprise the Directors of the company and Senior Executives. The term "Senior Executives" refers to the CEO and those executives with authority and responsibility for planning, directing and controlling the activities of the company and the Group, directly or indirectly. Each KMP held their position for the whole of FY17, unless stated otherwise.

Our KMP for FY17 were:

#### Non-executive Directors

John P Mullen

Craig W Dunn

Peter R Hearl

Jane S Hemstritch (appointed 12/08/16)

Russell A Higgins AO

Nora L Scheinkestel

Margaret L Seale

Steven M Vamos

Trae A N Vassallo

Chin Hu Lim (retired 11/10/16)

#### Senior Executives

Chief Executive Officer & Managing Director (CEO)

Andrew Penn

Chief Financial Officer (CFO)

Warwick Bray

Chief Operations Officer (COO)

Kate McKenzie (until 25/07/16)

Brendon Riley (acting, 26/07/16–08/01/17)

Robyn Denholm (from 09/01/17)

Group Executive Global Enterprise & Services (GES)

Brendon Riley

Group Executive Telstra Retail

Kevin Russell

Group Executive Telstra Wholesale

Will Irving

### Chief Operations Officer

Kate McKenzie advised Telstra that she intended to retire and stepped down from the role of COO on 25 July 2016. She ceased employment with Telstra on 30 September 2016.

Brendon Riley was appointed to the role of COO in an acting capacity, until Robyn Denholm was appointed as COO on 9 January 2017. During the period Brendon Riley was acting as COO, he retained full authority and responsibility for planning, directing and controlling the activities of the GES business unit.

### 1.2 Actual pay and benefits which crystallised in FY17

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 KMP. This may not reflect what Senior Executives actually received or became entitled to during that year.

The table below details actual pay and benefits for Senior Executives as at 30 June 2017. This is a voluntary disclosure and some of the figures in this table have not been prepared in accordance with the Australian Accounting Standards. These disclosures are different to those in table 6.1 (which provides a breakdown of Senior Executive remuneration in accordance with statutory requirements and the Australian Accounting Standards).

We believe this information 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 FY17.

Our approach to presenting this table is as follows:

- the amounts shown in this table include Fixed Remuneration (FR), STI payable as cash under the FY17 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 ending 30 June 2017
- the value in the table below is driven predominately by the value of the shares provided to our Senior Executives as part of their remuneration. The Telstra volume weighted average share price (VWAP) used to determine the share quantity allocated under the FY14 LTI plan was \$5.09 and at 30 June 2017 the closing share price was \$4.30. This decrease of 15.5 per cent is reflected in the value of the equity that will become unrestricted, demonstrating the link between executive remuneration and shareholder returns.

Name	Fixed Remuneration	Non-monetary benefits <sup>1</sup>	STI payable as cash <sup>2</sup>	Value of STI Restricted Shares that became unrestricted <sup>3,4</sup>	Value of LTI that became unrestricted <sup>3,5</sup>	FY17 Total
	\$	\$	\$	\$	\$	\$
Andrew Penn	2,325,000	9,166	1,485,675	349,336	1,038,764	5,207,941
Warwick Bray	1,100,000	5,414	702,900	145,125	183,816	2,137,255
Robyn Denholm	521,370	693	333,155	–	–	855,218
Will Irving	1,000,000	10,948	627,000	150,139	680,664	2,468,751
Brendon Riley	1,350,000	9,139	933,525	247,977	967,117	3,507,758
Kevin Russell	1,100,000	3,934	527,175	13,459	–	1,644,568

1. Includes the cost of personal home security services provided by Telstra, the provision of car parking and Telstra products and services.

2. Amount relates to the cash component (75 per cent) of STI earned for FY17, which will be paid in September 2017. The remaining 25 per cent will be provided as Restricted Shares. The Restriction Period for half of the shares will end on 30 June 2018 and the other half on 30 June 2019.

3. Equity in this table has been valued based on the Telstra closing share price on 30 June 2017 of \$4.30.

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 2017. These represent 50 per cent of the Restricted Shares relating to each of the FY15 and FY16 STI grants.

5. Amount relates to Performance Rights with a final test date of 30 June 2016, which vested as Restricted Shares under the FY14 LTI plan. The Restriction Period for these shares ends on 30 June 2017. Ms Denholm and Mr Russell did not participate in the FY14 LTI plan.



## 2.0 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
- 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
- support commercially responsible pay decisions.

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

#### (a) The Remuneration Committee

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

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

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

#### (b) Annual remuneration review

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

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

#### (c) 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.

Telstra uses a VWAP to determine the number of Restricted Shares to be allocated under the STI Deferral plan (refer to section 2.3(c) STI deferral), and the number of Performance Rights to be allocated under the LTI plan.

The calculation is based on the VWAP over the five 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. 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 FY17, the Committee engaged Guerdon Associates for the provision of ASX20 market data but did not request a remuneration recommendation.

### 2.2 Policy and practice

#### (a) Plan variation guidelines

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

- Board approved material change to the 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 matters, events and their impacts.

During FY17 no plan terms were amended, however the Board exercised its discretion in determining the outcome of the FY17 STI plan and the FY15 LTI plan as outlined in 3.2(b) and 3.3(a) respectively.

#### (b) Strategic investment program

In order to accelerate the delivery of our strategy, last year we announced an additional investment of up to \$3 billion over three years on our networks for the future and digitisation to transform our business and drive improvements in customer experiences.

The Board did not make any adjustments and therefore did not provide any relief, for the effects of the strategic investment program when assessing performance under the FY15 LTI plan as that plan was already in place when the strategic investment program was announced in August 2016. This principle will also be applied to the FY16 LTI plan that will be tested at 30 June 2018. See section 3.3(a) for further details.

For the FY17 LTI plan, when the FCF ROI measure is tested at the end of FY19 any reward will reflect the Board's assessment of management's performance in delivering against the strategic investment program. This will include both the cost and the benefits of the program in that period. See section 2.3(d) for further details.

#### (c) NBN Transaction and remuneration

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

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

The Board may use its discretion as outlined in 2.2(a) if, due to external factors, the nbn™ network rollout does not proceed according to the nbn co 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 for the Senior Executives.

Adjustments for the NBN Transaction were made for both the FY17 Senior Executive STI plan and the FY17 GE Wholesale STI plan as outlined in 3.2(b). The NBN Transaction adjustments made in determining the FY15 LTI plan outcome are outlined in 3.3(a).

**(d) 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 within five years of their 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 on an ongoing basis. Where applicable, all Senior Executives met the shareholding requirement as at 30 June 2017.

**(e) Restrictions and governance**

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

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

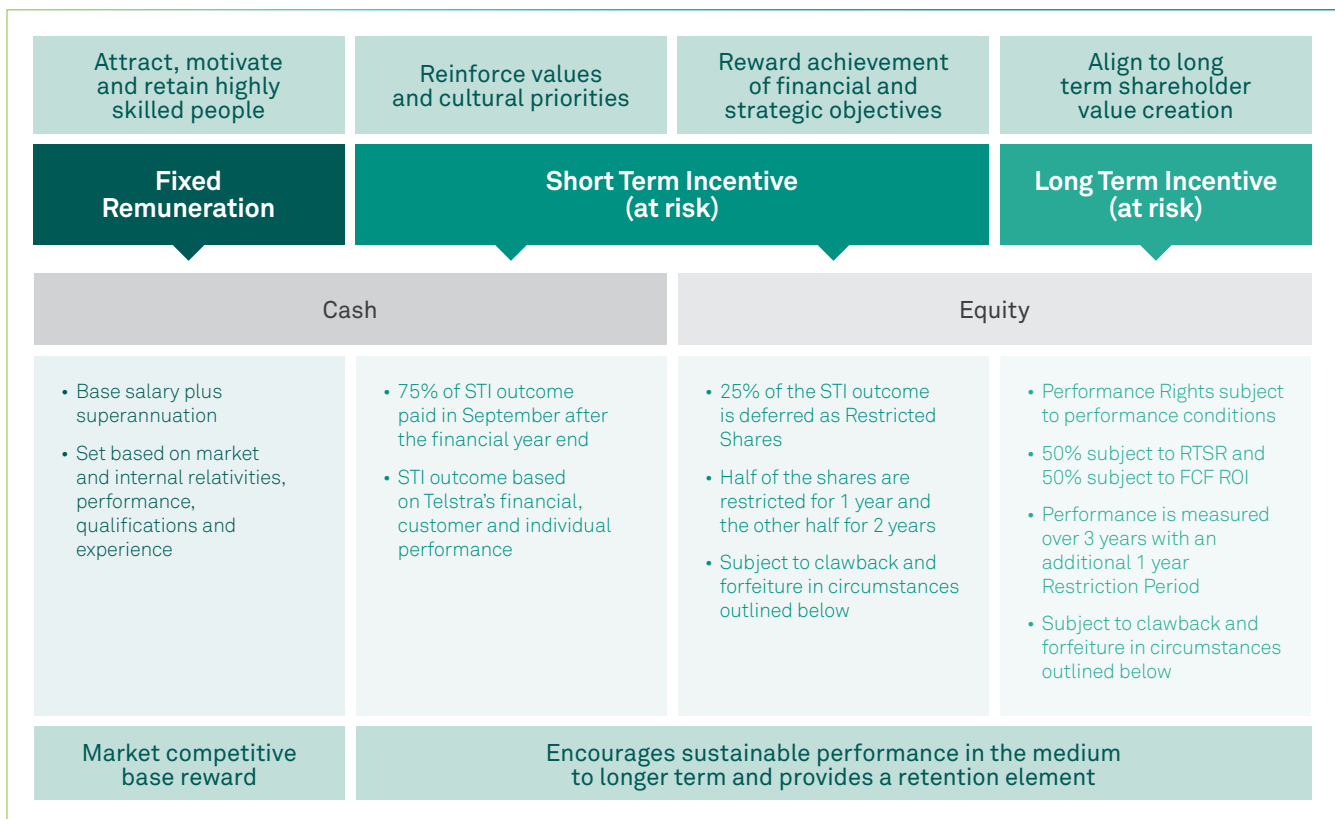
KMP are prohibited from entering into any hedging arrangement that limits the economic risk of holding Telstra securities (including those held under Telstra equity plans). This helps align our KMPs' interests with shareholders' interests.

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

**2.3 Remuneration components**

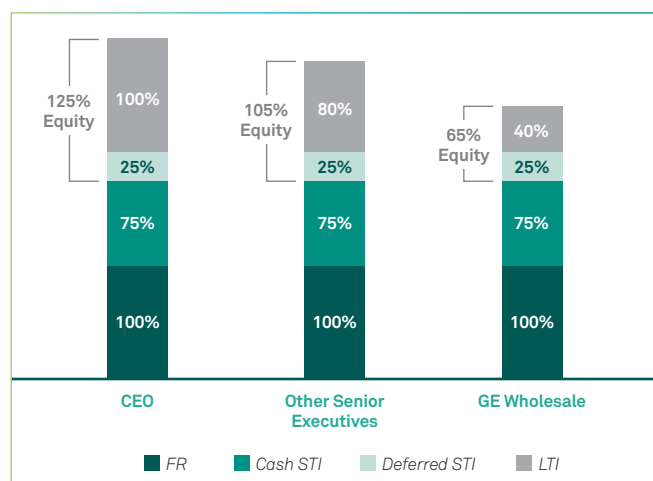
**(a) Remuneration structure**

Our remuneration structure is designed to support our remuneration strategy and is consistent for our Senior Executives. The remuneration mix for Senior Executives reflects the nature of, and the appropriate market benchmark for, their roles. The GE Telstra Wholesale has STI and LTI plans with different plan measures to comply with Telstra's Structural Separation Undertaking (SSU). The remuneration mix for the GE Telstra Wholesale is not governed by the SSU and reflects individual contractual arrangements.



### (b) Remuneration mix for Senior Executives

The graph below shows the FY17 remuneration mix for Senior Executives expressed as a percentage of Fixed Remuneration. 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 section 2.1).



### (c) FY17 STI plan and deferral

For FY17, all Senior Executives participated in the same STI plan with the exception of the GE Telstra Wholesale role which participates in a standalone plan for regulatory reasons. The plan is structured as follows:



Plan	Senior Executive STI Plan	GE Wholesale STI plan
Performance measures	Telstra Group: <ul style="list-style-type: none"> <li>• FCF for STI</li> <li>• EBITDA</li> <li>• Total Income</li> <li>• Strategic NPS</li> <li>• Episode NPS</li> <li>• Individual Performance</li> </ul>	Telstra Wholesale: <ul style="list-style-type: none"> <li>• EBITDA</li> <li>• Total Income</li> <li>• Wholesale NPS</li> <li>• Individual Performance</li> </ul>
Performance period	1 July 2016 to 30 June 2017	
Cash/equity split of STI award	75% paid in cash; 25% provided as Restricted Shares.	
Restriction Period	Half the Restricted Shares are restricted for 1 year and the other half for 2 years.	
Dividends/voting rights	Senior Executives are entitled to dividends and voting rights during the Restriction Period.	
Forfeiture	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. Refer to the glossary for the definition of Permitted Reason.	
Clawback	Restricted Shares may also be forfeited if a Clawback Event occurs during the Restriction Period. Refer to the glossary for the definition of a Clawback Event.	

In FY17, an Episode NPS measure was introduced as a component of the overall Customer Measure alongside Strategic NPS.

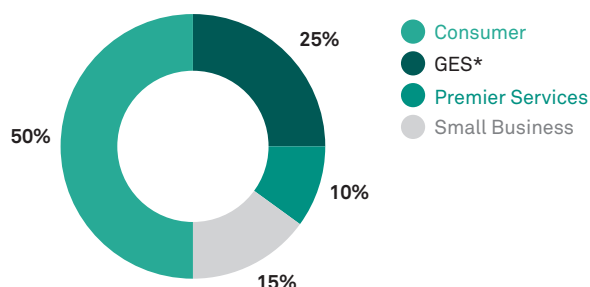
The calculation of the Strategic NPS measure is based on Telstra's customers' response to a question on likelihood of recommending Telstra on a scale of 0 to 10, asked within third party surveys.

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

Both the Strategic and Episode NPS overall result for Telstra (each component representing 50% of the overall Customer Measure result) were a weighted average calculation of the survey results from Telstra business segments.

The FY17 Strategic NPS outcome is based on the three month NPS average from 1 April 2017 to 30 June 2017 for Consumer and Business, and a consolidated second half result for Global Enterprise and Services.

### Strategic and Episode NPS survey weightings



\* GES comprises of GES Australia (GES-A) representing 20% and GES International (GES-I) representing 5%. The GES-I, Strategic NPS score was used in both the Strategic and Episode NPS Telstra Group calculations for FY17.

The FY17 Episode NPS outcome was based on the three month rolling NPS average result from 1 April 2017 to 30 June 2017 for Consumer and Business, and the six month rolling NPS average result from 1 January 2017 to 30 June 2017 for Premier Services and Global Enterprise and Services.

The Wholesale NPS measure that applies to the GE Telstra Wholesale, is calculated based on a survey of Wholesale customers only, undertaken by a third party research company from 1 May 2017 through to 30 May 2017.

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

The financial, customer and individual 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 of 200 per cent of their Fixed Remuneration.

The Board selected the 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 FY17 corporate plan and strategy
- the Strategic and Episode NPS supports Telstra's strategy to deliver brilliant customer experiences (an explanation of the way in which Strategic and Episode NPS is calculated is included above in this section 2.3(c))
- the individual performance objectives were set at the beginning of FY17 or at the time of appointment, and were based on each Senior Executive's expected individual contribution to the achievement of our strategy.

The FY17 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 Telstra Wholesale business unit.

Details of the STI outcomes for Senior Executives for FY17 are provided in section 3.2.

#### (d) FY17 LTI Plan

Performance Rights form the basis of the reward under the LTI plan. Senior Executives are not required to pay for the grant or vesting of 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.

The plan is structured as follows:

Plan	RTSR	FCF ROI
Participants	Telstra's Executive Committee (17 in total which includes the Senior Executives in this report, with the exception of the GE Wholesale)	
Performance measures and weighting	RTSR 50%	FCF ROI 50%
Minimum threshold for vesting	50th percentile of peer group	16.8%
Vesting schedule	25% vests at 50th percentile, straight-line vesting to 75th percentile where 100% vests	50% vests at target of 16.8%, straight line vesting to stretch target of 18.4% where 100% vests
Equity instruments granted	Performance Rights which vest into Restricted Shares, subject to performance conditions	
Performance period	1 July 2016 to 30 June 2019	
Restriction Period end date	30 June 2020	
Retesting	No	
Dividends/voting rights	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 FY17 LTI plan, no entitlement to receive dividends and no voting rights in relation to those shares.	
Forfeiture conditions	<p><b>Non-Permitted Reason:</b> If a Senior Executive leaves Telstra for any reason, other than a Permitted Reason, any time during the performance or Restriction Period, the equity instruments lapse or are forfeited (unless the Board exercises its discretion).</p> <p><b>Permitted Reason:</b> If a Senior Executive leaves Telstra for a Permitted Reason during the performance period, a pro rata number of Performance Rights will lapse based on the proportion of time remaining until 30 June 2020. The pro rata portion relating to the Senior Executive's completed service may still vest subject to achieving the performance measures of the FY17 LTI plan on 30 June 2019.</p>	
Clawback	Performance Rights may lapse and Restricted Shares may be forfeited if a Clawback Event occurs during the performance period or Restriction Period. Refer to the glossary for the definition of a Clawback Event.	

Details of the Performance Rights granted to Senior Executives in relation to the FY17 LTI plan are provided in section 6.

Performance hurdles explained:

#### 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 peers.

#### FY17 LTI plan comparator group

The comparator group for the FY17 LTI plan is the following large market capitalisation telecommunication firms:

- AT&T Inc
- Bell Canada Enterprises Inc
- BT Group Plc.
- Deutsche Telekom AG
- Koninklijke KPN N.V.
- KT Corporation
- Nippon Telegraph & Telephone Corp
- NTT DoCoMo Inc
- Orange SA
- Proximus SA
- Singapore Telecommunications Ltd
- SK Telecom Co Ltd
- Spark NZ Ltd
- Swisscom AG
- Telecom Italia SpA
- Telefonica SA
- Telekom Austria AG
- Telenor ASA
- Telia Company AB
- Verizon Communications Inc
- Vodafone Group Plc.

The FY17 LTI plan comparator group is consistent with the FY16 LTI plan.

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

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

FCF ROI as determined by the Board is calculated by dividing the average 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 FY19, the Board will review Telstra's audited financial results for FCF ROI and the RTSR outcome to determine the percentage of Performance Rights that vest as Restricted Shares under the FY17 LTI plan.

When the FCF ROI measure is tested at the end of FY19 any reward will reflect the Board's assessment of management's performance in delivering against the strategic investment program. This will include both the cost and the benefits of the program in the performance period. As outlined in the notice of meeting for our 2016 annual general meeting (AGM), the Board determined the FY17 FCF ROI targets before the phasing of the program and resultant benefits had been finalised, noting that details of the investment program were to be progressively confirmed during FY17–19.

Our commitment is that these investments will continue to be aligned with Telstra's capital management framework and to target returns in excess of our return on invested capital, consistent with our investment guidelines for organic investments.

#### (e) Group Executive Telstra Wholesale LTI plan

Due to the requirements of the SSU, the GE Telstra Wholesale participates in a separate equity plan. Restricted Shares are granted in lieu of the LTI plan for other Senior Executives, based on performance against the GE Telstra Wholesale's STI measures for the previous financial year. The Restricted Shares are subject to a three year Restriction Period, during which time the GE Telstra Wholesale is entitled to earn dividends and exercise voting rights attached to those shares.

If the GE Telstra Wholesale leaves Telstra before the end of the Restriction Period for any reason, other than a Permitted Reason, the Restricted Shares will be forfeited. If cessation of employment occurs for a Permitted Reason, a pro rata number of Restricted Shares are retained subject to the original Restriction Period.

Due to the timing of Will Irving's appointment as the GE Telstra Wholesale during FY16, Mr Irving was not allocated Restricted Shares under this plan in FY17. Mr Irving will be allocated Restricted Shares in FY18 based on his performance against his FY17 GE Wholesale STI plan measures, namely Wholesale Total Income, Wholesale EBITDA, Wholesale NPS and individual performance.

### 3.0 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:

	FY17	FY16	FY15	FY14	FY13 <sup>1</sup>
Performance measures	\$m	\$m	\$m	\$m	\$m
<b>Earnings</b>					
Total Income <sup>2</sup>	28,205	27,050	26,112	26,296	24,776
EBITDA <sup>2</sup>	10,679	10,465	10,533	11,135	10,168
Net Profit <sup>3</sup>	3,891	5,780	4,231	4,275	3,739
<b>Shareholder value</b>					
Share price (\$) <sup>4</sup>	4.30	5.56	6.14	5.21	4.77
Total dividends paid per share (cents)	31.0	31.0	30.0	28.5	28.0

1. FY13 results were restated in FY14 due to the retrospective adoption of changes to AASB 119: "Employee Benefits".

2. After ceasing to hold a controlling interest in the Autohome Group in FY16 and our Sensis advertising and directories business in FY14, Total Income and EBITDA include only results from continuing operations from FY13 and onwards. Refer to note 6.4 to the financial statements for further details regarding the disposal of the Autohome Group.

3. Net Profit attributable to equity holders of the Telstra entity includes results from continuing and discontinued operations (ie this includes the Autohome Group and the Sensis Group for FY16 and FY15, and the Sensis Group only for FY14 and FY13).

4. Share prices are as at 30 June for the respective year. The closing share price for FY12 was \$3.69.

### 3.2 FY17 Short Term Incentive plan outcomes

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

The average STI payment for Senior Executives as at 30 June 2017 for the period they were KMP, is expressed as a percentage of the maximum potential payout in the following table:

Performance measures	FY17	FY16	FY15	FY14	FY13
	%	%	%	%	%
STI received as % of maximum	41.3	40.5	61.0	53.6	66.0

#### (b) Overall FY17 STI Plan outcomes

At the end of FY17, the Board reviewed Telstra's audited financial results and the results of the other performance measures for the FY17 Senior Executive STI plan and the FY17 GE Wholesale STI plan. 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 exercised discretion in determining the outcomes of the financial measures to ensure there were no windfall gains or losses due to the timing of the nbn™ network rollout, spectrum purchases, material acquisitions and divestments. The Board also considered and adjusted for restructuring costs to ensure management did not receive any windfall gains. While the aggregate effect of these adjustments on the FY17 STI results was a positive adjustment, overall the resulting impact on the FY17 Senior Executive STI plan payments was negligible.

The Board believes the methods of calculating the financial and NPS outcomes are appropriate, and a rigorous assessment of Telstra's performance for FY17.

#### STI measures and outcomes for Senior Executives and GE Telstra Wholesale

Senior Executive (excluding the GE Telstra Wholesale)	Outcome (% of max)
Total Income	0.0%
EBITDA	38.0%
Free Cashflow	100%
Strategic NPS	25.0%
Episode NPS	50.0%

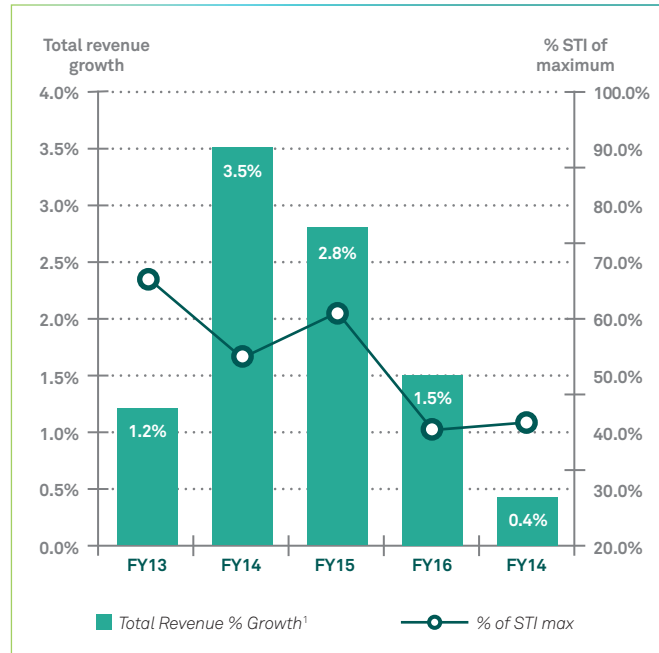
GE Telstra Wholesale	Outcome (% of max)
Wholesale Total Income	41.0%
Wholesale EBITDA	36.0%
Wholesale NPS	33.5%

#### (c) FY17 STI plan payment results

The table below displays STI payments for Senior Executives as at 30 June 2017 for the period they were KMP, expressed as a percentage of Fixed Remuneration and also as a percentage of the maximum opportunity for both FY17 and FY16 STI plans.

Name	FY17	FY17	FY16
	% of FR	% of max	% of max
Andrew Penn	85.2	42.6	34.4
Warwick Bray	85.2	42.6	37.9
Robyn Denholm	85.2	42.6	-
Will Irving	83.6	41.8	76.0
Brendon Riley	92.2	46.1	34.4
Kevin Russell	63.9	32.0	34.4
<b>Senior Executive Average:</b>	<b>82.5</b>	<b>41.3</b>	<b>43.4</b>

The graph below shows the STI payments as a percentage of the maximum opportunity relative to total revenue growth over 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 and FY16, where the lower STI payment reflects 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.



1. Represents the total revenue growth reported in each financial year and excludes any retrospective adjustments or restatements applied in subsequent years.

### 3.3 FY15 Long Term Incentive plan outcomes

The performance period for the FY15 LTI plan concluded on 30 June 2017. The vesting table is detailed below, reflecting performance up to 30 June 2017 against the two performance measures of RTSR and FCF ROI. Upon vesting, each participant was allocated Restricted Shares which are subject to a Restriction Period that ends on 30 June 2018.

#### (a) FY15 LTI Plan testing as at 30 June 2017

Test date	Performance measure	% of total plan vested
30 June 2017	RTSR (0% vesting)	0%
	FCF ROI (0% vesting)	0%
<b>Total:</b>		<b>0%</b>

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 23rd percentile of the global peer group. As Portugal Telecom SPSPG went through a significant restructure in FY16, the Board exercised its discretion under the LTI plan terms to remove it from the comparator group prior to calculation of the results. In addition, a number of companies within the FY15 LTI comparator group changed their name during the performance period: Belgacom Group was renamed to Proximus SA, Telecom Corp NZ was renamed to Spark NZ Ltd and Telia Sonera was renamed to Telia Company AB.

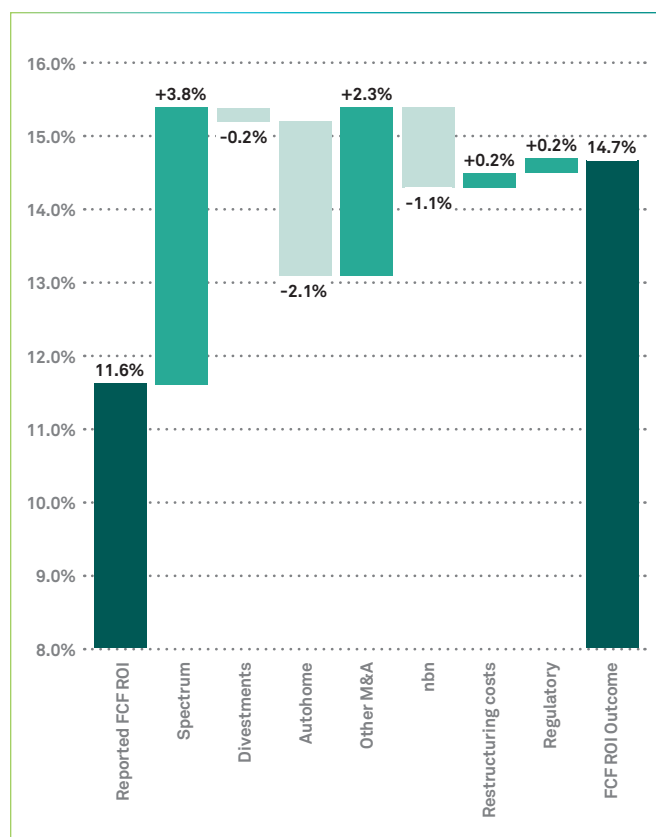
The Board determines the FCF ROI outcome by adjusting reported results to remove spectrum and other acquisitions and divestments. The Board can exercise its discretion to ensure there are no windfall gains or losses due to the timing of the nbn™ network rollout or any other significant out of plan business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

To determine the FCF ROI outcome for the FY15 LTI plan represented below, the Board excluded spectrum purchases, the purchase price and trading cashflows of acquisitions (for example Ooyala, Pacnet and Videoplaza). For divestments, the Board excluded sale proceeds (but included trading cashflows as if they continued to contribute to our results) for Autohome, as well as distributions from Sensis and the disposal of Elemental Technologies Inc.

To prevent any windfall gains or losses, the Board exercised its discretion and removed the regulatory impacts of the Fixed Access Determination, Mobile Terminating Access Service and Domestic Transmission Capacity Service pricing changes, the incremental redundancy costs associated with the restructuring and the NBN Transaction.

The Board did not make any adjustments and therefore did not provide any relief, for the effects of the strategic investment program when assessing performance under the FY15 LTI plan as that plan was already in place when the strategic investment program was announced in August 2016. This resulted in no vesting for the FCF ROI component of the FY15 LTI plan. The principle of not adjusting for the effects of the strategic investment program will also be applied for the FY16 LTI plan that will be tested at 30 June 2018.

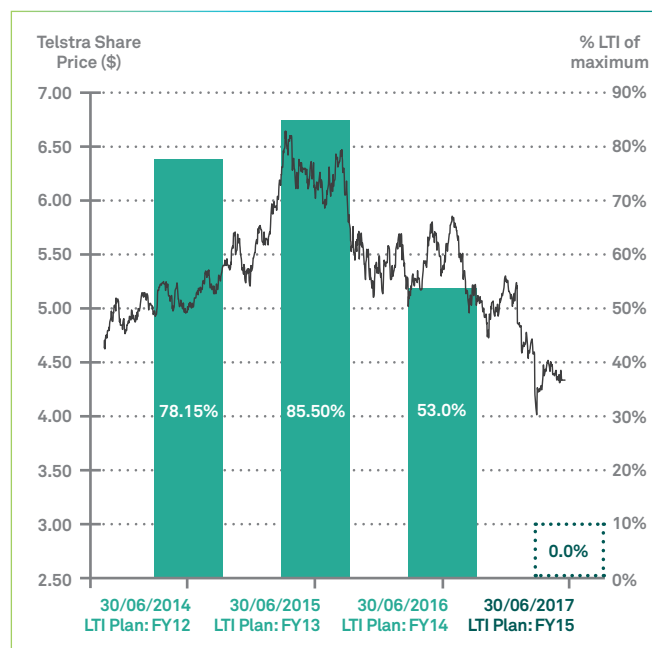
**FY15 LTI plan FCF ROI adjustments:**



Whilst the overall adjustments had the effect of increasing the plan outcome from 11.6% to 14.7%, it still fell short of the plan target of 15.0% (as per table 3.3(a)). These outcomes were reviewed by Telstra's Group Internal Audit team and the FCF ROI was reviewed by our external auditor EY. The Board approved the outcomes in accordance with the LTI plan rules.

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

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



**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 termination payment if termination is for serious misconduct, or for redundancy (unless the severance payment under Telstra's redundancy policy would be less than the termination payment, in which case the termination payment applies instead).

Name	FR at the end of FY17	Notice period	Termination payment
Andrew Penn	2,325,000	6 months	6 months
Warwick Bray	1,100,000	6 months	6 months
Robyn Denholm	1,100,000	6 months	6 months
Will Irving	1,000,000	6 months	6 months
Brendon Riley	1,350,000	6 months	12 months
Kevin Russell	1,100,000	6 months	6 months

The table above only includes those individuals who were Senior Executives as at 30 June 2017.

The termination payment provisions in each executive contract reflect the company's policy at the time the contract was entered into. Telstra's current policy is to provide for a six month termination payment in executive contracts.

## 4.0 Looking forward to FY18 and planned changes

### 4.1 Executive Variable Remuneration Plan (EVP)

Over the past nine months the Board has undertaken a review of our current remuneration structures for our Senior Executives, in particular reviewing our current LTI plan structure.

Our existing LTI plan is complex and we believe a simpler remuneration model is in the interest of shareholders by more directly supporting our strategic pillars of delivering brilliant customer experiences, driving value and growth from the core, and building new growth businesses close to the core.

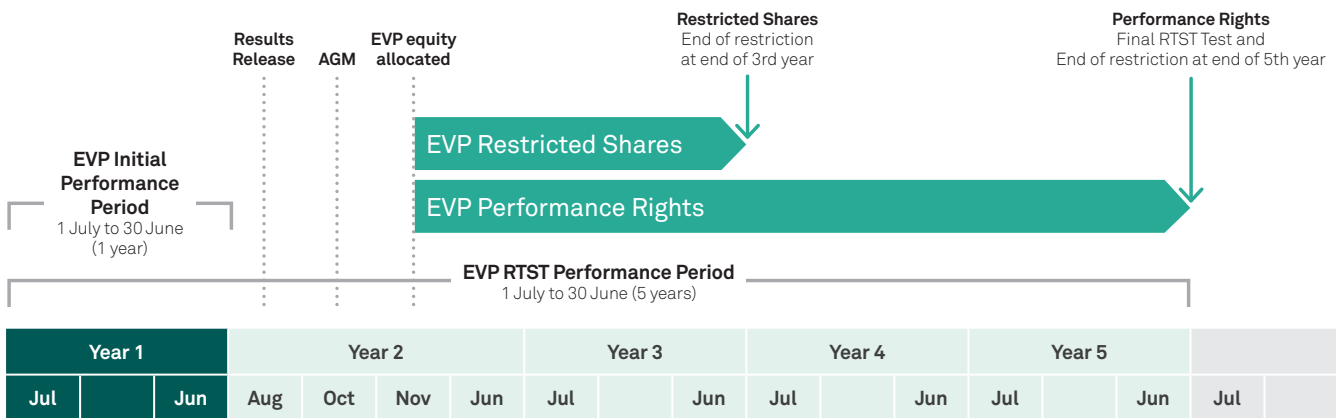
The new EVP will combine our existing STI and LTI arrangements into a simplified single incentive plan. The EVP will further align executive reward to shareholder interests by extending the overall plan from four years for our current LTI plan to five years under the EVP. There is no change to the maximum opportunity that Senior Executives can earn.

The EVP is designed to continue to drive performance against customer experience and financial metrics which create long term shareholder value and reward management in a way that provides both a better link to executive performance and alignment to shareholders through longer term equity rewards. This is achieved by a more significant proportion of the reward tested against RTSR of a comparator group comprising the ASX100 excluding resource companies.

#### Design features

The "at target" opportunity under the EVP is up to 200% of the Senior Executive's Fixed Remuneration as at the end of the initial performance period as per the table below. The amount earned by the Senior Executive will be determined at the end of a one year performance period based on the Senior Executive's performance against the measures outlined below. At the end of that year, the Senior Executive's performance will be tested, the amount earned will be determined (EVP Outcome) and that amount will be provided as 35% in cash, 26% in Restricted Shares and 39% in Performance Rights.

The construct of the EVP is illustrated in the table below:





The key design features of the EVP are summarised below:

Plan design attribute	Detail
Eligibility	CEO and Group Executives*
Reward opportunity*	<p><b>CEO:</b> The “at target” opportunity is 200% of Fixed Remuneration and the maximum opportunity is 400% of Fixed Remuneration.</p> <p><b>Group Executives*:</b> The “at target” opportunity is 180% of Fixed Remuneration and the maximum opportunity is 360% of fixed remuneration. Fixed Remuneration is as at the end of the initial performance period.</p>
Measures and weightings*	<p><b>Financial Measures:</b> 10% Income, 20% EBITDA, 20% FCF for STI</p> <p><b>Customer Measures:</b> 20% Strategic NPS, 20% Episode NPS</p> <p><b>Individual Component:</b> 10%</p>
Initial performance period	1 year
Instrument type	Cash with a combination of Restricted Shares (Tranche 1) and Performance Rights (Tranche 2).
Cash vs equity balance	35:65 ratio of cash and equity (with 40% of the equity allocated in Restricted Shares and 60% of the equity allocated in Performance Rights).
Equity allocation methodology	The number of Restricted Shares and Performance Rights to be allocated will be based on the dollar value of the Senior Executive’s EVP Outcome, multiplied by 26% for Restricted Shares and 39% for Performance Rights, and then divided by the five day VWAP of Telstra shares commencing on the day after the FY18 results announcement (ie a face value allocation methodology).
Restriction and performance periods for equity	<p><b>Restricted Shares:</b> Two years after the initial performance period ends.</p> <p><b>Performance Rights:</b> Five years from the start of the performance period, subject to a RTSR* measure. Therefore the Senior Executive’s Performance Rights will be subject to two sets of performance measures: the first tested over the initial one year performance period and the second RTSR measure tested over a five year performance period.</p>
RTSR measure*	<p><b>Restricted Shares:</b> None</p> <p><b>Performance Rights:</b> The Performance Rights will only vest into Telstra ordinary shares if Telstra’s RTSR ranks at the 50th percentile or greater against a comparator group comprising the ASX100 (excluding resource companies) over the five year period. Telstra measures the RTSR percentile ranking to two decimal places and rounds up to the nearest whole number if the two decimal places are .50 or above and rounds down to the nearest whole number if the two decimal places are below .50. If the RTSR gateway measure is not satisfied, all of the Performance Rights will lapse.</p>
Dividends	<p><b>Restricted Shares:</b> Participants would receive dividends on allocated Restricted Shares.</p> <p><b>Performance Rights:</b> No dividends are paid on Performance Rights prior to vesting. For Performance Rights that do vest, a cash payment equivalent to dividends paid by Telstra during the period between allocation of the Performance Rights and vesting, will be made at or around the time of vesting.</p>
Leaver	In the event of ceasing employment for reasons of death, total and permanent disablement, certain medical conditions, redundancy, retirement, separation by mutual agreement or Telstra initiated separation for a reason unrelated to performance or conduct, Restricted Shares and Performance Rights that have been allocated will be retained and remain subject to the original Restriction Period (in the case of Restricted Shares) or performance period and RTSR measure (in the case of Performance Rights). If the Senior Executive ceases employment for any other reason prior to the end of the Restriction Period or performance period, any unvested Performance Rights lapse and any Restricted Shares are forfeited.
Clawback	The Board has discretion to claw back Performance Rights and Restricted Shares if certain clawback events occur during the performance period or Restriction Period.

\*For the FY18 EVP, the RTSR test will apply to Performance Rights granted to all participants except the GE Wholesale due to constraints under our Structural Separation Undertaking (SSU). The GE Wholesale has an “at target” opportunity of 140% to reflect the greater certainty of plan outcome for that role. The EVP plan measures for the GE Wholesale will replicate the Wholesale STI plan measures.

The table below provides a comparison of the current STI and LTI structure compared to the proposed EVP:

	Current		New
	STI	LTI	EVP
Total Reward Opportunity (at target) as a % of FR	CEO: STI 100% + LTI 100% = 200% Group Executives: STI 100% + LTI 80% = 180% GE Wholesale: STI 100% + LTI 40% = 140%		CEO: 200% Group Executives: 180% GE Wholesale: 140%
Total Reward Opportunity (at maximum) as a % of FR	CEO: STI 200% + LTI 200% = 400% Group Executives: STI 200% + LTI 160% = 360% GE Wholesale: STI 200% + LTI 80% = 280%		CEO: 400% Group Executives: 360% GE Wholesale: 280%
Performance Measures and Weighting	Total Income – 10% EBITDA – 20% FCF for STI – 10% Strategic NPS – 20% Episode NPS – 20% Individual – 20%	FCF ROI – 50% RTSR – 50% (RTSR peer group comprises Global Telecommunication Companies)	Total Income – 10% EBITDA – 20% FCF for STI – 20% Strategic NPS – 20% Episode NPS – 20% Individual – 10%  Plus a RTSR gateway on the Performance Rights that are allocated  (RTSR peer group comprises ASX100 excluding resource companies)
Cash: Equity Split	75% Cash 25% Equity	100% Equity	35% Cash 65% Equity
Performance Period	1 year	3 years	1 year and 5 year RTSR
Restriction Period	50% of equity – 1 year 50% of equity – 2 years	1 year	40% of equity – 2 years 60% of equity – 4 years
Instruments	Restricted Shares	Performance Rights (that vest into Restricted Shares)	Restricted Shares and Performance Rights (that vest into ordinary Telstra shares)
Dividends	Received during restriction period	Received only if Performance Rights vest into Restricted Shares	<b>Restricted Shares:</b> Received during the restriction period <b>Performance Rights:</b> No dividends paid prior to vesting, however for Performance Rights that vest, a cash payment will be made equivalent to the value of the dividends paid by Telstra during the period between allocation and vesting

#### 4.2 FY18 transition plan and implementation

In order to smooth the transition from our current STI and LTI incentive structure to the new EVP plan, for the FY18 EVP only, the following treatment applies:

##### Restricted Shares:

- will be split into two equal tranches, with half of the Restricted Shares subject to a Restriction Period ending 30 June 2019; and
- the other half subject to a Restriction Period ending 30 June 2020,

similar to the current Restriction Periods of the STI Deferred plan we are replacing.

##### Performance Rights:

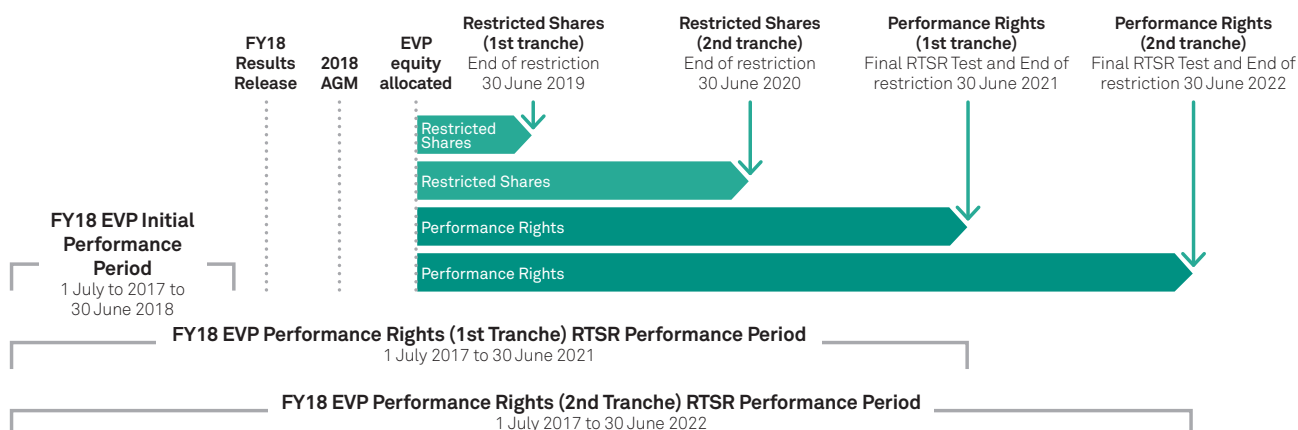
- will be split into two equal tranches, with half of the Performance Rights subject to an RTSR test at the end of a four year performance period from 1 July 2017 to 30 June 2021; and
- the other half subject to an RTSR test at the end of a five year performance period from 1 July 2017 to 30 June 2022.

If the RTSR measure is achieved over the relevant performance period, all of the Performance Rights in that tranche will vest as Telstra shares. If the RTSR measure is not achieved over the relevant performance period, none of the Performance Rights in that tranche will vest and no shares will be allocated for that tranche of Performance Rights.

From FY19, the EVP will have the performance and restriction periods as described in section 4.1.

**(a) Implementation of the FY18 EVP**

Telstra will seek shareholder approval for the grant of Performance Rights and Restricted Shares to the CEO under the FY18 EVP at the 2017 AGM with further details to be provided in the 2017 notice of meeting. The EVP will come into effect for FY18 with the first allocation of Restricted Shares and Performance Rights to occur in November 2018 as per the timeline below:



FY18			FY19				FY20		FY21			FY22			FY23	
Jul		Jun	Aug	Oct	Nov	Jun	Jul		Jun	Jul		Jun	Jul		Jun	Jul

**(b) Robyn Denholm – Chief Operations Officer**

As Ms Denholm commenced her employment after the FY17 LTI plan was allocated she did not receive any grant under this plan and it was proposed that she would receive an allocation in FY18 equal to one and a half times the standard LTI plan allocation to compensate her for her service for the second half of FY17. As the EVP has replaced the LTI plan for FY18, subject to Board approval, it is proposed that Ms Denholm will receive an equivalent amount under the EVP.

**5.0 Non-executive Director remuneration****5.1 Remuneration structure**

The Telstra Board and Committee fee structure (inclusive of superannuation) during FY17 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 if he is a Member of a Board Committee.

There was no change to non-executive Director or Committee fees during FY17. In FY17, Telstra conducted a review of its non-executive Director fees relative to other major companies in the ASX20. The results of that review found our Remuneration Committee Chair and Member fees, which have remained the same since August 2010, had not kept up with market rates for similar companies which had changed as a result of their increased responsibilities on governance and accountabilities to shareholders.

Effective from 1 July 2017, the Remuneration Committee Chair and Member fees increased resulting in a Remuneration Committee Chair fee of \$56,000 up from \$50,000 and a Remuneration Committee Member fee of \$28,000 up from \$25,000. No other changes were made to any of the Committee or non-executive Director fees.

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

The total of Board and Committee fees, including superannuation, paid to non-executive Directors in FY17 remained within the approved fee pool.

**(a) Changes to the Board and Committee composition**

During the year, Chin Hu Lim retired from the Board on 11 October 2016 and Jane Hemstrich was appointed to the Board and as a Member of the Remuneration Committee effective 12 August 2016.

**5.2 Remuneration policy and strategy**

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

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. Such shares should be acquired by a non-executive Director by the end of the five year period from his or her date of appointment.

Progress is monitored on an ongoing basis. Directors' shareholdings as at 17 August 2017 are set out in the Directors' Report.

**5.3 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 6.5 provides full details of non-executive Director remuneration for FY17.

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

## 6.0 Remuneration tables and glossary

The tables in this section disclose KMP information and only represents their time as Senior Executives.

### 6.1 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 FY17.

Name and title	Year	Short term employee benefits			Post-employment benefits
		Salary and fees (\$) <sup>1</sup>	Short term incentives (cash) (\$) <sup>2</sup>	Non-monetary benefits (\$) <sup>3</sup>	Superannuation (\$) <sup>4</sup>
Andrew Penn Chief Executive Officer	2017	2,305,384	1,485,675	9,166	19,616
	2016	2,305,692	1,199,700	11,274	19,308
Warwick Bray Chief Financial Officer	2017	1,065,004	702,900	5,414	34,996
	2016	1,065,000	625,350	10,153	35,000
Robyn Denholm Chief Operations Officer	2017	512,073	333,155	693	9,297
	2016	–	–	–	–
Will Irving GE Telstra Wholesale	2017	980,384	627,000	10,948	19,616
	2016	176,846	205,574	2,933	3,482
Brendon Riley GE Global Enterprise and Services	2017	1,330,384	933,525	9,139	19,616
	2016	1,330,692	696,600	10,574	19,308
Kevin Russell GE Telstra Retail	2017	1,080,384	527,175	3,934	19,616
	2016	194,879	102,354	–	3,482
Kate McKenzie Former Chief Operations Officer	2017	80,848	154,800	296	1,344
	2016	1,180,692	464,400	11,857	19,308
<b>Total current and former KMP</b>	2017	<b>7,354,461</b>	<b>4,764,230</b>	<b>39,590</b>	<b>124,101</b>
	2016	6,253,801	3,293,978	46,791	99,888

The total for FY16 of \$15,350,387 in this table is less than the total for FY16 in the FY16 Remuneration Report of \$19,681,125 as it does not include the \$2,121,110 for the former GE Telstra Retail, Gordon Ballantyne, the \$2,292,501 for the former GE Telstra Wholesale, Stuart Lee and the negative amount of \$82,873 for the former GE Telstra Retail, Dr Karsten Wildberger reported in last year's report.

- Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and Fringe Benefits Tax (FBT).
- Short term incentives (cash) relates to performance in FY17 and FY16 respectively and is based on actual performance for Telstra and the individual. Ms McKenzie received the deferred component of her FY16 STI of \$154,800 as cash rather than equity as her departure was announced prior to the date of equity allocation under the FY16 STI Deferral plan, consistent with the provisions of Telstra's STI policy. This sum was earned during FY16 and paid in FY17.
- Includes the cost of personal home security services provided by Telstra, the cost of personal use of Telstra products and services and the provision of car parking. For Mr Irving the amount includes the value of non-recourse loans under TESOP 99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 "First-time Adoption of Australian Equivalence to International Financial Reporting Standards"). The value of non-monetary benefits have been grossed up for FBT by the relevant FBT rates.
- Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives.
- Termination benefits for Ms McKenzie of \$671,697 comprised of \$369,231 payment in lieu of notice as per her service agreement, plus \$302,466 pro rata for the 92 days she was employed by Telstra (which includes the period she was a KMP) at target for her FY17 STI payment consistent with the provisions of Telstra's STI Policy. The total termination benefit of \$671,697 was paid in compliance with Part 2D.2, Division 2 of the Corporations Act.

Termination benefits	Other long term benefits	Equity settled share-based payments		Total (\$)
		Accounting value (at risk) (\$) <sup>6,7,8</sup>		
Termination benefits (\$) <sup>5</sup>	Accrued leave benefits (\$)	Short term incentive shares <sup>9</sup>	Long term incentive performance rights <sup>10</sup>	
–	<b>57,329</b>	<b>464,008</b>	<b>1,319,153</b>	<b>5,660,331</b>
–	57,172	458,445	1,587,629	5,639,220
–	<b>27,123</b>	<b>214,367</b>	<b>499,116</b>	<b>2,548,920</b>
–	27,049	211,303	361,190	2,335,045
–	<b>12,856</b>	<b>21,932</b>	–	<b>890,006</b>
–	–	–	–	–
–	<b>24,658</b>	<b>199,044</b>	<b>192,782</b>	<b>2,054,432</b>
–	4,434	37,592	95,083	525,944
–	<b>33,288</b>	<b>300,715</b>	<b>605,927</b>	<b>3,232,594</b>
–	33,197	324,413	1,157,186	3,571,970
–	<b>27,123</b>	<b>87,435</b>	<b>263,596</b>	<b>2,009,263</b>
–	4,878	14,216	–	319,809
<b>671,697</b>	<b>2,027</b>	<b>79</b>	<b>24,424</b>	<b>935,515</b>
–	29,508	281,796	970,838	2,958,399
<b>671,697</b>	<b>184,404</b>	<b>1,287,580</b>	<b>2,904,998</b>	<b>17,331,061</b>
–	156,238	1,327,765	4,171,926	15,350,387

6. The accounting values included in the table relate to the current year amortised value of all STI and LTI instruments that had not yet fully vested as at the commencement of the financial year. The value of each equity instrument is calculated by applying valuation methodologies or is based on the market value of Telstra shares at the grant date as described in note 5.2 to the financial statements and is then amortised, based on the maximum achievable allocation, over the relevant vesting period. This value includes an assumption that the instruments will vest at the end of the vesting period unless forfeited during the financial year. 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 instruments vest.

7. For Ms Denholm and Ms McKenzie, the accounting value of the STI and LTI instruments is calculated on a pro rata basis in accordance with their relevant KMP period. Refer to section 1.1 for further information.

8. As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in both FY17 and FY16 if the service condition or the non-market performance condition (FCF ROI) was not met. In relation to LTI Performance Rights, for FY17, this occurred for a portion of the FY15 plan that failed to satisfy the FCF ROI performance target at 30 June 2017, resulting in equity instruments lapsing. Similarly for FY16, this occurred for a portion of the FY14 LTI plan that failed to satisfy the FCF ROI performance target at 30 June 2016, resulting in equity instruments lapsing. Refer to section 3.3 on LTI outcomes for FY17 for further information. For Ms McKenzie, the amounts reported include the reversal of current year and prior years' accounting value of STI and LTI instruments forfeited in FY17 as the result of her retirement effective 30 September 2016.

9. This includes the amortised value of Restricted Shares allocated under the FY14 (only applicable to FY16 comparatives), FY15, FY16 and FY17 STI plans whereby 25 per cent of the STI payment was provided as Restricted Shares which are subject to a Restriction Period.

10. This includes amortised value of LTI Performance Rights allocated under FY13 (only applicable to FY16 comparatives), FY14, FY15, FY16 and FY17 LTI plans.

## 6.2 STI Payments (cash and shares)

Name	Current year grant of STI (\$)²						
	Year	Maximum potential STI opportunity (\$)¹	75% cash component	25% deferred shares component³	% of the maximum potential opportunity earned	% of the maximum potential opportunity forfeited	Total grant of STI (\$)
Andrew Penn	2017	4,650,000	1,485,675	495,225	42.6%	57.4%	1,980,900
	2016	4,650,000	1,199,700	399,900	34.4%	65.6%	1,599,600
Warwick Bray	2017	2,200,000	702,900	234,300	42.6%	57.4%	937,200
	2016	2,200,000	625,350	208,450	37.9%	62.1%	833,800
Robyn Denholm	2017	1,042,740	333,155	111,052	42.6%	57.4%	444,207
	2016	–	–	–	–	–	–
Will Irving	2017	2,000,000	627,000	209,000	41.8%	58.2%	836,000
	2016	360,656	205,574	68,525	76.0%	24.0%	274,099
Brendon Riley	2017	2,700,000	933,525	311,175	46.1%	53.9%	1,244,700
	2016	2,700,000	696,600	232,200	34.4%	65.6%	928,800
Kevin Russell	2017	2,200,000	527,175	175,725	32.0%	68.0%	702,900
	2016	396,721	102,354	34,118	34.4%	65.6%	136,472
Kate McKenzie⁴	2017	164,384	–	–	n/a	n/a	–
	2016	2,400,000	464,400	154,800	25.8%	74.2%	619,200

1. Represents the maximum potential STI specific to their time as Senior Executives for FY17 and FY16 respectively, adjusted for any variation in Fixed Remuneration throughout FY17 and FY16 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 FY17 and FY16 were approved by the Board on 16 August 2017 and 10 August 2016 respectively. These values represent their time as Senior Executives.

3. The Restricted Shares awarded are expected to be allocated in November 2017 and are subject to a Restriction Period. Half are restricted for one year and half for two years ending 30 June 2018 and 30 June 2019 respectively, subject to the Senior Executive's continued employment. Refer to section 2.3(c) for further details.

4. \$164,384 is the maximum potential opportunity for FY17 calculated pro rata for the 25 days Ms McKenzie was a KMP. Refer to footnote 5 of table 6.1 for further information on Ms McKenzie's termination benefits which includes a payment for her FY17 STI as per the Telstra STI policy. Ms McKenzie received the deferred equity component of her FY16 STI of \$154,800 as cash rather than equity, refer to footnote 2 of table 6.1.

## 6.3 Summary of LTI Performance Rights as at 30 June 2017

Name <sup>1</sup>	Plan	Performance period	Restriction Period end date <sup>2</sup>	Future financial years in which grants may vest <sup>3</sup>	Accounting value yet to vest <sup>4</sup>	
					Min (\$)	Max (\$)
Andrew Penn	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	–	–
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	–	163,298
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	–	1,318,004
	FY17	1/07/16 – 30/06/19	30/06/2020	FY20	–	2,089,299
Warwick Bray	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	–	–
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	–	32,659
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	–	498,858
	FY17	1/07/16 – 30/06/19	30/06/2020	FY20	–	790,791
Robyn Denholm <sup>5</sup>	–	–	–	–	–	–
Will Irving	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	–	–
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	–	38,789
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	–	161,584
Brendon Riley	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	–	–
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	–	146,967
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	–	612,234
	FY17	1/07/16 – 30/06/19	30/06/2020	FY20	–	970,514
Kevin Russell <sup>5</sup>	FY17	1/07/16 – 30/06/19	30/06/2020	FY20	–	790,790
<b>Total</b>					<b>nil</b>	<b>7,613,787</b>

1. Ms McKenzie has been excluded from the table above as she ceased to be a Senior Executive before 30 June 2017.

2. Restriction period end date refers to the end of the Restriction Period for Performance Rights.

3. Vest has the meaning here as 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.

4. 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 5.2 to the financial statements.

5. Ms Denholm did not participate in any LTI plans during FY17.



#### 6.4 Number and value of equity instruments granted, vested and exercised during FY17 (LTI and other equity)

Name	Instrument	Equity		
		Total held at 1 July 2016 <sup>1</sup>	Granted during FY17 <sup>2</sup>	Value of instruments granted <sup>3</sup>
Andrew Penn	Performance Rights	1,928,347	853,210	\$2,785,731
Warwick Bray	Performance Rights	414,966	322,936	\$1,054,386
Robyn Denholm	Performance Rights	–	–	–
Will Irving <sup>10</sup>	Performance Rights	693,521	–	–
	TESOP99	400	–	–
Brendon Riley	Performance Rights	1,427,026	396,330	\$1,294,017
Kevin Russell	Performance Rights	–	322,936	\$1,054,386
Kate McKenzie	Performance Rights	1,185,961	–	–

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 6.6 includes details of such Restricted Shares provided during FY17.

All service and performance conditions for rights granted in previous financial years and that have vested or been exercised in FY17 are summarised in the Remuneration Report for each relevant year of grant. Each equity instrument granted, vested or exercised in FY17 (where applicable) in the table above was issued by Telstra and resulted or will result in one ordinary Telstra share per equity instrument granted, vested or exercised. No amount is payable by the KMP. STI Restricted Shares are excluded from this table, refer to tables 6.2 and 6.6 for further information.

- For Ms Denholm, the balance reported at 1 July 2016 reflects the number of equity instruments held as at the date on which she commenced as a KMP.
- Performance Rights granted relate to the FY17 LTI plan which was allocated on 7 November 2016. Refer to section 2.3(d) for more information.
- The fair value of the RTSR and FCF ROI Performance Rights granted in FY17 at the grant date of 12 October 2016 is \$2.18 and \$4.35 respectively. The fair value reflects the valuation approach required by AASB 2 using an option pricing model, as explained in note 5.2 to the financial statements.
- Relates to Restricted Shares coming out of restriction or Performance Rights vesting as defined above. Performance Rights vested during FY17 relate to the FY13 LTI plan. For more information on our KMP interests in Telstra Shares refer to table 6.6.
- The value of the equity instruments vested/exercised reflects the market value at the date the instruments vested and were released from restriction.
- Relates to Performance Rights that lapsed due to the specified performance hurdles or service conditions not being achieved. Performance Rights in this column relate to the FY15 LTI plan that was performance tested at the end of FY17 and resulted in 100 per cent of the plan lapsing.





movements				Equity outcomes	
Vested/ exercised during FY17 <sup>4</sup>	Value of instruments exercised <sup>5</sup>	Other changes <sup>6</sup>	Total held at 30 June 2017 <sup>7</sup>	Achieved performance target during FY17 <sup>8</sup>	Achieved performance target as at 30 June 2017 <sup>9</sup>
(502,678)	\$2,719,488	(425,532)	1,853,347	–	241,573
–	–	(85,106)	652,796	–	42,748
–	–	–	–	–	–
(341,151)	\$1,845,627	(101,078)	251,292	–	158,294
–	–	–	400	–	–
(466,773)	\$2,525,242	(382,978)	973,605	–	224,911
–	–	–	322,936	–	–
–	–	–	1,185,961	–	173,266

7. For Ms McKenzie, the balance reported at 30 June 2017 reflects the number of equity instruments held as at the date on which she ceased to hold the KMP position. Refer to section 1.1 for further information.

8. Relates to instruments that have been performance tested for the performance period ending on 30 June 2017 and met the specified performance hurdles. Performance Rights in this column relate to the FY15 LTI plan that was performance tested at the end of FY17 and resulted in zero per cent of the plan to be provided as Restricted Shares in early FY18. Ms McKenzie ceased being KMP before 30 June 2017. Following her departure in September 2016, Ms McKenzie's Restricted Shares allocated under the FY14 LTI plan remained on foot and her FY15 LTI plan and FY16 LTI plan allocations were pro-rated and remain subject to the original performance conditions and restriction period of the plan terms. None of her FY15 LTI Performance Rights will vest as Restricted Shares, and 97,878 of her 313,212 FY16 LTI Performance Rights will be performance tested at the end of FY18.

9. Relates to instruments that have met the specified performance hurdles as at 30 June 2017. This balance relates to Performance Rights allocated under the FY14 LTI plan that were performance tested at the end of FY16, and have been provided as Restricted Shares during FY17. For more information on our KMP interests in Telstra Shares refer to table 6.6.

10. Mr Irving was granted TESOP99 shares in 1999, with an interest free loan which can be repaid at any time. There are no outstanding performance or restriction periods and the shares will vest if and when the loan is repaid in full. Refer to footnote 3 of table 6.1 for further information.

There are no Performance Rights or options held by any KMP's related parties and no Performance Rights or options held indirectly or beneficially by our KMP. As at 30 June 2017, there were no options or Performance Rights vested, vested and exercisable or vested and unexercisable.

## 6.5 Non-executive Director remuneration

Name and title	Short term employee benefits			Post-employment benefits	
	Year	Salary and fees (\$) <sup>1</sup>	Non-monetary benefits (\$) <sup>2</sup>	Superannuation (\$)	Total (\$)
John P Mullen Chairman	<b>2017</b>	<b>755,384</b>	<b>5,174</b>	<b>19,616</b>	<b>780,174</b>
	2016	356,285	1,106	19,308	376,699
Craig W Dunn Director	<b>2017</b>	<b>250,384</b>	<b>–</b>	<b>19,616</b>	<b>270,000</b>
	2016	54,189	–	4,827	59,016
Peter R Hearl Director	<b>2017</b>	<b>272,384</b>	<b>–</b>	<b>19,616</b>	<b>292,000</b>
	2016	253,225	–	19,308	272,533
Jane S Hemstritch <sup>3</sup> Director	<b>2017</b>	<b>212,724</b>	<b>–</b>	<b>17,358</b>	<b>230,082</b>
	2016	–	–	–	–
Russell A Higgins AO Director	<b>2017</b>	<b>275,384</b>	<b>426</b>	<b>19,616</b>	<b>295,426</b>
	2016	256,225	705	19,308	276,238
Nora L Scheinkestel Director	<b>2017</b>	<b>296,194</b>	<b>–</b>	<b>19,616</b>	<b>315,810</b>
	2016	285,692	–	19,308	305,000
Margaret L Seale Director	<b>2017</b>	<b>250,384</b>	<b>–</b>	<b>19,616</b>	<b>270,000</b>
	2016	250,692	–	19,308	270,000
Steven M Vamos Director	<b>2017</b>	<b>247,384</b>	<b>1,833</b>	<b>19,616</b>	<b>268,833</b>
	2016	247,692	1,252	19,308	268,252
Trae A N Vassallo <sup>5</sup> Director	<b>2017</b>	<b>230,923</b>	<b>–</b>	<b>4,077</b>	<b>235,000</b>
	2016	165,292	–	2,932	168,224
Chin Hu Lim <sup>4,5</sup> Former Director	<b>2017</b>	<b>67,105</b>	<b>–</b>	<b>1,185</b>	<b>68,290</b>
	2016	232,445	–	4,104	236,549
<b>Total</b>	<b>2017</b>	<b>2,858,250</b>	<b>7,433</b>	<b>159,932</b>	<b>3,025,615</b>
	2016	2,101,737	3,063	127,711	2,232,511

1. Includes fees for membership on Board Committees.

2. Includes the cost value of Telstra products and services (such as Foxtel) provided to Directors without charge to allow them to familiarise themselves with Telstra's products and services and with recent technological developments. The value of non-monetary benefits have been grossed up for FBT by the relevant FBT rates.

3. Ms Hemstritch qualifies as KMP from 12 August 2016 being the date that she was appointed as a non-executive Director.

4. Mr Lim retired from the Board on 11 October 2016.

5. As Mr Lim and Ms Vassallo are overseas residents, their superannuation contributions for FY17 are less than the contributions for Australian resident non-executive Directors.

## 6.6 KMP interests in Telstra shares

During FY17, our KMP and their related parties held Telstra shares directly, indirectly or beneficially as follows:

Name	Total shares held at 1 July 2016 <sup>1,2</sup>	STI Restricted Shares granted <sup>3</sup>	LTI Restricted Shares received during FY17 <sup>4</sup>	Net shares acquired or disposed of and other changes	Total shares held at 30 June 2017 <sup>1,5</sup>	Shares held nominally at 30 June 2017 <sup>5,6</sup>
<b>Non-Executive Directors</b>						
John P Mullen	26,159	–	–	–	26,159	26,159
Craig W Dunn	19,173	–	–	–	19,173	18,473
Peter R Hearl	45,000	–	–	–	45,000	–
Jane Hemstritch	23,500	–	–	67,500	91,000	91,000
Russell A Higgins AO	93,563	–	–	6,420	99,983	99,983
Nora L Scheinkestel	91,549	–	–	8,775	100,324	100,324
Margaret L Seale	269,540	–	–	–	269,540	269,540
Steven M Vamos	40,000	–	–	–	40,000	40,000
Trae A N Vassallo	–	–	–	–	–	–
Chin Hu Lim	20,274	–	–	597	20,871	–
<b>Sub total</b>	<b>628,758</b>	<b>–</b>	<b>–</b>	<b>83,292</b>	<b>712,050</b>	<b>645,479</b>
<b>Senior Executives</b>						
Andrew Penn	986,763	73,376	241,573	–	1,301,712	418,302
Warwick Bray	176,830	38,248	42,748	–	257,826	95,622
Robyn Denholm	25,913	–	–	–	25,913	23,913
Will Irving	1,160,406	32,514	158,294	–	1,351,214	239,867
Brendon Riley	1,289,953	42,606	224,911	(264,000)	1,293,470	1,293,470
Kevin Russell	–	6,260	–	–	6,260	6,260
Kate McKenzie	619,290	–	–	–	619,290	451,592
<b>Sub total</b>	<b>4,259,155</b>	<b>193,004</b>	<b>667,526</b>	<b>(264,000)</b>	<b>4,855,685</b>	<b>2,529,026</b>
<b>Total</b>	<b>4,887,913</b>	<b>193,004</b>	<b>667,526</b>	<b>(180,708)</b>	<b>5,567,735</b>	<b>3,174,505</b>

Each equity instrument exercised or granted in FY17 (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.

- Total shareholdings include shares held by our KMP and their related parties. Unless related to our employee share plans, shares acquired or disposed of by our KMP and their related parties during FY17 were on an arm's length basis at market price.
- For those non-executive Directors and Senior Executives who qualified as a KMP during the financial year, the balance as at 1 July 2016 represents shares held as at the date on which they became KMP. Refer to section 1.1 for further information.
- STI Restricted Shares granted during FY17 relate to the FY16 STI plan which was allocated on 7 November 2016. However, the allocation of Restricted Shares under the FY17 STI plan will be made after the reporting date of 30 June 2017, therefore they have not been included in the table above.
- This column relates to those equity instruments that have been provided as Restricted Shares during this financial year. For FY17, this relates to the FY14 LTI plan that was performance tested last financial year. Ms McKenzie's FY14 LTI plan vested as Restricted Shares after she ceased being KMP. These are disclosed in Table 6.4.
- For those non-executive Directors and Senior Executives who ceased as a KMP during the financial year, the balance as at 30 June 2017 represents shares held as at the date on which they ceased being KMP. Refer to section 1.1 for further information. For Ms McKenzie, this includes 64,264 Restricted Shares allocated under the FY15 STI plan, 32,132 of which became unrestricted after ceasing as KMP and 32,132 of which, on her departure, remained on foot and subject to the original Restriction Period ending 30 June 2017.
- Nominally refers to shares held either indirectly or beneficially by KMP and shares held by their related parties, including those acquired under Directshare for non-executive Directors, as well as certain Restricted Shares held by Senior Executives. 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 5.2 to the financial statements for further details.

## 6.7 Glossary

<b>Average Investment</b>	Average investment over the period is the average of the sum of net debt and shareholders' funds over the entire three year performance period.
<b>Clawback Event</b>	Includes fraud, gross misconduct or material breach of obligations of the Senior Executive or behaviour that brings Telstra into disrepute, may negatively impact Telstra's long term financial strength or results in a significant and unintended deterioration in Telstra's financial performance. It also includes where the financial results that led to the Performance Rights or Restricted Shares being granted are subsequently shown to be materially misstated.
<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortisation.
<b>EBITDA for STI</b>	Earnings Before Interest, Tax, Depreciation and Amortisation (excluding profit/loss on land and building disposals).
<b>FCF for LTI</b>	Annual FCF adjusted for interest paid and non-recurring factors such as spectrum licence purchases, acquisitions (ie the removal of trading cashflows and purchase prices of those entities acquired), divestments (ie re-instate forecasted trading cashflows and sale proceeds for those entities disposed) and material regulatory adjustments that impact on pricing that was assumed when setting plan targets.
<b>FCF ROI</b>	The average of the annual FCF for LTI over the performance period expressed as a percentage of the Average Investment over the performance period.
<b>FCF for STI</b>	FCF adjusted for spectrum license purchases, acquisitions and divestments.
<b>Fixed Remuneration</b>	Base salary plus company and private salary sacrificed superannuation contributions.
<b>FCF</b>	Free Cashflow from operating and investing activities.
<b>GE</b>	Group Executive
<b>KMP</b>	Key Management Personnel
<b>LTI</b>	Long Term Incentive
<b>NBN Transaction</b>	Agreements with nbn co and the Government in relation to Telstra's participation in the rollout of the nbn™ network. This includes the entire Definitive Agreement receipts, any impacts the nbn™ has on our existing products, costs associated with connecting customers to the nbn™ network and any tax, interest or debt impacts of nbn™ related changes in profit or cash. Any nbn™ related commercial works are excluded from this definition.
<b>NPS</b>	<p>Net Promoter Score which is a non financial measure in Telstra's STI plan and consists of two components, Strategic NPS and Episode NPS.</p> <p>The Strategic NPS measure is based on Telstra's customers' response to a question on likelihood of recommending Telstra on a scale of 0 to 10, asked within third party surveys.</p> <p>The Episode NPS measure is based on responses to internal surveys following actual service experiences customers had with Telstra. Refer to 2.3(c) for further information.</p>
<b>Performance Right</b>	A right to a share (which, depending on the plan, may be a Restricted Share) at the end of a performance period, subject to the satisfaction of certain performance measures and service conditions.
<b>Permitted Reason</b>	For both LTI plans and STI Deferral plans death, total and permanent disablement, certain medical conditions, redundancy, and retirement or mutual separation (where notice of retirement is given or a separation agreement is entered six months after the actual date of allocation) are permitted reasons.
<b>Restricted Share</b>	A Telstra share that is subject to a Restriction Period.
<b>Restriction Period</b>	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.
<b>RTSR</b>	Relative Total Shareholder Return
<b>Senior Executive</b>	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.
<b>Service Agreement</b>	A Senior Executive's contract of employment.
<b>SSU</b>	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 and building disposals.
Total Remuneration	The sum of all the fixed and variable components of remuneration as detailed in table 6.1 for Senior Executives, and all the remuneration components as detailed in table 6.5 for non-executive Directors.



# Directors' Report



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## Rounding

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and issued pursuant to section 341(1) of the Corporations Act 2001. 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 17 August 2017 in accordance with a resolution of the Directors.

John P Mullen  
Chairman  
17 August 2017

Andrew R Penn  
Chief Executive Officer and Managing Director  
17 August 2017

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

As lead auditor for the audit of Telstra Corporation Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Andrew Price  
Partner  
17 August 2017

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# Financial Report

# Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

## Financial report: introduction and contents

As at 30 June 2017

### About this report

This is the financial report for Telstra Corporation Limited and its controlled entities (together referred to as we, us, our, Telstra, the Telstra Group or the Group) for the year ended 30 June 2017.

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

This financial report was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 17 August 2017. The Directors have the power to amend and reissue the financial report.

### Reading the financials

#### Section introduction

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

#### Note and topic summary

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

#### Narrative table

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

#### Information panel

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

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# Income Statement

Telstra Financial Report 2017

For the year ended 30 June 2017

Telstra Group	Note	Year ended 30 June	
		2017	2016
		\$m	\$m
<b>Continuing operations</b>			
<b>Income</b>			
Revenue (excluding finance income)	2.2	26,013	25,911
Other income	2.2	2,192	1,139
		<b>28,205</b>	<b>27,050</b>
<b>Expenses</b>			
Labour		5,381	5,041
Goods and services purchased		7,671	7,247
Other expenses	2.3	4,506	4,312
		<b>17,558</b>	<b>16,600</b>
<b>Share of net profit from joint ventures and associated entities</b>	6.3	<b>32</b>	<b>15</b>
		<b>17,526</b>	<b>16,585</b>
<b>Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)</b>		<b>10,679</b>	<b>10,465</b>
Depreciation and amortisation	2.3	4,441	4,155
<b>Earnings before interest and income tax expense (EBIT)</b>		<b>6,238</b>	<b>6,310</b>
Finance income	2.2	138	86
Finance costs	2.3	729	796
Net finance costs		<b>591</b>	<b>710</b>
<b>Profit before income tax expense</b>		<b>5,647</b>	<b>5,600</b>
Income tax expense	2.4	1,773	1,768
<b>Profit for the year from continuing operations</b>		<b>3,874</b>	<b>3,832</b>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations		-	2,017
<b>Profit for the year from continuing and discontinued operations</b>		<b>3,874</b>	<b>5,849</b>
<b>Profit/(loss) attributable to:</b>			
Equity holders of Telstra Entity		3,891	5,780
Non-controlling interests		(17)	69
		<b>3,874</b>	<b>5,849</b>
<b>Earnings per share from continuing operations (cents per share)</b>		<b>cents</b>	<b>cents</b>
Basic	2.5	32.5	31.6
Diluted	2.5	32.5	31.5
<b>Earnings per share (cents per share)</b>			
Basic	2.5	32.5	47.4
Diluted	2.5	32.5	47.3

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

# Statement of Comprehensive Income

For the year ended 30 June 2017

Telstra Group	Note	Year ended 30 June	
		2017	2016
		\$m	\$m
<b>Profit/(loss) for the year from continuing and discontinued operations:</b>			
Attributable to equity holders of Telstra Entity		3,891	5,780
Attributable to non-controlling interests		(17)	69
		<b>3,874</b>	<b>5,849</b>
<b>Items that will not be reclassified to the income statement</b>			
<b>Retained profits</b>			
Actuarial gain/(loss) on defined benefit plans attributable to equity holders of Telstra Entity	5.3	133	(302)
Income tax on actuarial gain/(loss) on defined benefit plans		(40)	91
Cumulative gains from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal		83	-
<b>Fair value of equity instruments reserve</b>			
Gains from investments in equity instruments designated at fair value through other comprehensive income		86	8
Income tax on gains from investments in equity instruments		(9)	-
Cumulative gains from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal		(83)	-
<b>Foreign currency translation reserve</b>			
Translation differences of foreign operations attributable to non-controlling interests		(4)	7
Translation differences of foreign operations attributable to non-controlling interests derecognised on disposal of controlled entities		-	(19)
		<b>166</b>	<b>(215)</b>
<b>Items that may be subsequently reclassified to the income statement</b>			
<b>Foreign currency translation reserve</b>			
Translation differences of foreign operations attributable to equity holders of Telstra Entity		(77)	52
Translation differences transferred to the income statement on disposal of controlled entities		-	(78)
<b>Cash flow hedging reserve</b>			
Movements in cash flow hedging reserve	4.3	(72)	30
Income tax on movements in the cash flow hedging reserve		22	(9)
<b>Foreign currency basis spread reserve</b>			
Changes in the value of the foreign currency basis spread		(41)	(3)
Income tax on movements in the foreign currency basis spread reserve		9	1
		<b>(159)</b>	<b>(7)</b>
<b>Total other comprehensive income</b>		<b>7</b>	<b>(222)</b>
<b>Total comprehensive income for the year</b>		<b>3,881</b>	<b>5,627</b>
<b>Total comprehensive income attributable to equity holders of Telstra Entity from:</b>			
Continuing operations		3,902	3,711
Discontinued operations		-	1,859
		<b>3,902</b>	<b>5,570</b>
<b>Total comprehensive income attributable to non-controlling interests</b>		<b>(21)</b>	<b>57</b>

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

# Statement of Financial Position

Telstra Financial Report 2017

As at 30 June 2017

Telstra Group	Note	As at 30 June	
		2017	2016
		\$m	\$m
<b>Current assets</b>			
Cash and cash equivalents	2.6	938	3,550
Trade and other receivables	3.3	5,468	4,737
Inventories	3.4	893	557
Derivative financial assets	4.3	21	62
Current tax receivables		11	8
Prepayments		531	426
<b>Total current assets</b>		<b>7,862</b>	<b>9,340</b>
<b>Non-current assets</b>			
Trade and other receivables	3.3	1,039	1,293
Inventories	3.4	29	29
Investments – accounted for using the equity method	6.3	194	171
Investments – other	4.4	292	394
Property, plant and equipment	3.1	21,350	20,581
Intangible assets	3.2	9,558	9,229
Derivative financial assets	4.3	1,623	2,180
Deferred tax assets	2.4	44	54
Defined benefit asset	5.3	142	15
<b>Total non-current assets</b>		<b>34,271</b>	<b>33,946</b>
<b>Total assets</b>		<b>42,133</b>	<b>43,286</b>
<b>Current liabilities</b>			
Trade and other payables	3.5	4,189	3,948
Employee benefits	5.1	865	913
Other provisions		190	92
Borrowings	4.3	2,476	2,655
Derivative financial liabilities	4.3	42	286
Current tax payables		161	176
Revenue received in advance		1,236	1,118
<b>Total current liabilities</b>		<b>9,159</b>	<b>9,188</b>
<b>Non-current liabilities</b>			
Other payables	3.5	70	66
Employee benefits	5.1	160	169
Other provisions		134	127
Borrowings	4.3	14,808	14,647
Derivative financial liabilities	4.3	536	663
Deferred tax liabilities	2.4	1,539	1,493
Defined benefit liability	5.3	6	4
Revenue received in advance		1,161	1,022
<b>Total non-current liabilities</b>		<b>18,414</b>	<b>18,191</b>
<b>Total liabilities</b>		<b>27,573</b>	<b>27,379</b>
<b>Net assets</b>		<b>14,560</b>	<b>15,907</b>
<b>Equity</b>			
Share capital	4.2	4,421	5,167
Reserves	4.2	(105)	62
Retained profits		10,225	10,642
<b>Equity available to Telstra Entity shareholders</b>		<b>14,541</b>	<b>15,871</b>
Non-controlling interests		19	36
<b>Total equity</b>		<b>14,560</b>	<b>15,907</b>

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

# Statement of Cash Flows

For the year ended 30 June 2017

Telstra Group	Note	Year ended 30 June	
		2017	2016
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax (GST))		31,288	31,163
Payments to suppliers and employees (inclusive of GST)		(21,997)	(21,179)
Government grants received		235	182
Net placement of deposits by Autohome Inc. that are not part of cash equivalents		-	(173)
<b>Net cash generated by operations</b>		<b>9,526</b>	<b>9,993</b>
Income taxes paid	2.4	(1,751)	(1,860)
<b>Net cash provided by operating activities</b>	2.6	<b>7,775</b>	<b>8,133</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(3,725)	(3,051)
Payments for intangible assets		(1,596)	(1,143)
<b>Capital expenditure (before investments)</b>		<b>(5,321)</b>	<b>(4,194)</b>
Payments for business and shares in controlled entities (net of cash acquired)	6.1	(63)	(92)
Payments for joint ventures and associated entities	6.3	(6)	(38)
Payments for other investments		(76)	(67)
<b>Total capital expenditure (including investments)</b>		<b>(5,466)</b>	<b>(4,391)</b>
Proceeds from sale of property, plant and equipment		679	470
Proceeds from sale of business and shares in controlled entities (net of cash disposed)		-	1,340
Proceeds from sale of other investments		285	56
Distributions received from joint ventures and associated entities		10	82
Interest received		109	131
Other		104	105
<b>Net cash used in investing activities</b>		<b>(4,279)</b>	<b>(2,207)</b>
<b>Operating cash flows less investing cash flows</b>		<b>3,496</b>	<b>5,926</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,710	4,987
Repayment of borrowings		(4,571)	(3,954)
Repayment of finance lease principal amounts		(131)	(101)
Share buy-back		(1,502)	-
Purchase of shares for employee share plans		(22)	(68)
Finance costs paid		(854)	(860)
Dividends paid to equity holders of Telstra Entity	4.1	(3,736)	(3,787)
Other		2	6
<b>Net cash used in financing activities</b>		<b>(6,104)</b>	<b>(3,777)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,608)</b>	<b>2,149</b>
Cash and cash equivalents at the beginning of the year		3,550	1,396
Effects of exchange rate changes on cash and cash equivalents		(6)	5
<b>Cash and cash equivalents at the end of the year</b>	2.6	<b>936</b>	<b>3,550</b>

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

# Statement of Changes in Equity

Telstra Financial Report 2017

For the year ended 30 June 2017

Telstra Group	Share capital	Reserves	Retained profits	Total	Non-controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2015</b>	<b>5,198</b>	<b>372</b>	<b>8,533</b>	<b>14,103</b>	<b>407</b>	<b>14,510</b>
Profit for the year	-	-	5,780	<b>5,780</b>	69	<b>5,849</b>
Other comprehensive income	-	1	(211)	<b>(210)</b>	(12)	<b>(222)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1</b>	<b>5,569</b>	<b>5,570</b>	<b>57</b>	<b>5,627</b>
Dividends	-	-	(3,787)	<b>(3,787)</b>	(1)	<b>(3,788)</b>
Non-controlling interests on disposals	-	-	-	-	(466)	<b>(466)</b>
Transactions with non-controlling interests	-	16	-	<b>16</b>	(13)	<b>3</b>
Transfers from reserves to retained profits	-	(327)	327	-	-	-
Amounts repaid on share loans provided to employees	2	-	-	<b>2</b>	-	<b>2</b>
Additional shares purchased	(68)	-	-	<b>(68)</b>	-	<b>(68)</b>
Share-based payments	35	-	-	<b>35</b>	52	<b>87</b>
<b>Balance at 30 June 2016</b>	<b>5,167</b>	<b>62</b>	<b>10,642</b>	<b>15,871</b>	<b>36</b>	<b>15,907</b>
Profit for the year	-	-	3,891	<b>3,891</b>	(17)	<b>3,874</b>
Other comprehensive income	-	(165)	176	<b>11</b>	(4)	<b>7</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(165)</b>	<b>4,067</b>	<b>3,902</b>	<b>(21)</b>	<b>3,881</b>
Dividends	-	-	(3,736)	<b>(3,736)</b>	(2)	<b>(3,738)</b>
Share buy-back (net of income tax)	(754)	-	(748)	<b>(1,502)</b>	-	<b>(1,502)</b>
Transactions with non-controlling interests	-	(2)	-	<b>(2)</b>	4	<b>2</b>
Amounts repaid on share loans provided to employees	1	-	-	<b>1</b>	-	<b>1</b>
Additional shares purchased	(22)	-	-	<b>(22)</b>	-	<b>(22)</b>
Share-based payments	29	-	-	<b>29</b>	2	<b>31</b>
<b>Balance at 30 June 2017</b>	<b>4,421</b>	<b>(105)</b>	<b>10,225</b>	<b>14,541</b>	<b>19</b>	<b>14,560</b>

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

## Section 1. Basis of preparation

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

### 1.1 Basis of preparation of the financial report

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

The financial report is presented in Australian dollars and, unless otherwise stated, all values have been rounded to the nearest million dollars (\$m) under the option available under the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191. The functional currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non-Australian controlled entities is not Australian dollars. The results of these entities are translated into Australian dollars in accordance with our accounting policy in note 7.1.

### 1.2 Key accounting estimates and judgements

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

The accounting policies and significant management judgments and estimates used in the preparation of the financial report and any changes thereto are set out in the relevant notes. They can be located within the following notes:

Key accounting estimates and judgements	Note	Page
Impact of nbn Infrastructure Services Agreement (ISA) on sales revenue and other income	2.2	84
Estimating provision for income tax	2.4	87
Unrecognised deferred tax assets	2.4	88
Cash generating units (CGUs) for impairment assessment	3.1	92
Useful lives and residual values of tangible assets	3.1	92
Impact of nbn Infrastructure Services Agreement (ISA) on our fixed asset base	3.1	93
Determining CGUs and their recoverable amount for impairment assessment	3.2	95
Capitalisation of development costs	3.2	97
Determining fair value of identifiable intangible assets	3.2	97
Useful lives of intangible assets	3.2	97
Estimating allowance for doubtful debts	3.3	98
Estimating net realisable value	3.4	99
Long service leave provision	5.1	120
Defined benefit plan	5.3	128
Accounting for business combinations	6.1	131
Significant influence over our investments	6.3	138
Joint control of our investments	6.3	138

Note 7.1 includes accounting policies common across a number of areas and provides a summary of new accounting standards to be applied in future reporting periods.

### 1.3 Terminology used in our income statement

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

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

### 1.4 Principles of consolidation

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

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

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

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

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

## Section 2. Our performance

This section explains our results and performance and includes our segment results, which are reported on the same basis as our internal management structure, and our earnings per share for the period. It also provides details of selected income and expense items, information about taxation and a reconciliation of our profit to net cash generated from operating activities.



### 2.1 Segment information

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management. We present our reportable segments and measure our segment results on a continuing operations basis, i.e. the same basis as our internal management reporting structure.

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

#### 2.1.1 Operating segments

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

During this period, there have been no changes to our operating segments other than International & New Business (INB) changed its name to New Businesses (NB).

In our segment results, the 'All Other' category includes business units that do not qualify as operating segments in their own right and the results of the NB, Media & Marketing and Technology Innovation & Strategy operating segments which do not meet the disclosure requirements of a reportable segment.

We have four reportable segments as follows:

Segment	Operation
<b>Telstra Retail (TR)</b>	<ul style="list-style-type: none"> <li>provider of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small to medium business customers in Australia</li> <li>the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network</li> <li>online self-service capabilities for customers, from browsing to buying, billing and service requests</li> </ul>
<b>Global Enterprise and Services (GES)</b>	<ul style="list-style-type: none"> <li>sales and contract management for large business and government customers in Australia and globally</li> <li>management of Telstra's networks outside Australia</li> <li>product management for advanced technology solutions and services, including Data and Internet Protocol (IP) networks and Network Applications and Services (NAS) products such as managed network, unified communications, cloud, industry solutions and integrated services in Australia and globally</li> <li>development of industry vertical solutions based on Telstra's networks and technology</li> </ul>
<b>Telstra Operations (TOps)</b>	<ul style="list-style-type: none"> <li>overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions</li> <li>service delivery centre supporting the revenue-generating activities of TR, GES and TW segments, including operational and risk management services</li> <li>provider of certain network services to nbn co under the revised nbn Definitive Agreements (nbn DAs) and commercial contracts</li> <li>provider of various telecommunication services to meet Telstra Universal Service Obligation Performance Agreement (TUSOPA)</li> </ul>
<b>Telstra Wholesale (TW)</b>	<ul style="list-style-type: none"> <li>provider of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to other carriers, carriage service providers and internet service providers</li> <li>provider of certain network assets and services to nbn co under the revised nbn DAs</li> </ul>

## Section 2. Our performance (continued)

### 2.1 Segment information (continued)

#### 2.1.1 Operating segments (continued)

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution from continuing operations. EBITDA contribution excludes the effects of all inter-segment balances and transactions, with the exception of transactions referred to under Table A in note 2.1.2. As such, only transactions external to the Telstra Group are reported.

Certain items of income and expenses are recorded by our corporate areas rather than being allocated to each segment. These items include:

- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy (our reportable segments record these amounts upfront)
- the majority of redundancy expenses for the Telstra Entity and restructuring costs.

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

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



## Section 2. Our performance (continued)

### 2.1 Segment information (continued)

#### 2.1.2 Segment results

Table A details our segment results and a reconciliation of EBITDA contribution to the Telstra Group's EBITDA, EBIT and profit before income tax expense. Our segment results are reported only on a continuing operations basis, therefore the results of discontinued operations of the Autohome and Sensis groups in the prior reporting period constituted a reconciling item between segment results (i.e. EBITDA contribution) and Telstra Group's reported profit before income tax expense. There were no discontinued operations in the current reporting period.

<b>Table A</b>	TR	GES	TOps	TW	All Other	Total
<b>Telstra Group</b>	\$m	\$m	\$m	\$m	\$m	\$m
	Year ended 30 June 2017					
<b>Continuing operations</b>						
Revenue from external customers	16,414	6,324	789	2,388	98	<b>26,013</b>
Other income	75	19	362	442	1,294	<b>2,192</b>
<b>Total income from continuing operations</b>	<b>16,489</b>	<b>6,343</b>	<b>1,151</b>	<b>2,830</b>	<b>1,392</b>	<b>28,205</b>
Share of net profit from joint ventures and associated entities	-	4	-	-	28	<b>32</b>
<b>EBITDA contribution from continuing operations</b>	<b>9,183</b>	<b>2,272</b>	<b>(2,814)</b>	<b>2,640</b>	<b>(602)</b>	<b>10,679</b>
Depreciation and amortisation						(4,441)
<b>Telstra Group EBIT from continuing operations</b>						<b>6,238</b>
Net finance costs						(591)
<b>Profit before income tax expense from continuing operations</b>						<b>5,647</b>
<b>Telstra Group profit before income tax expense</b>						<b>5,647</b>
	Year ended 30 June 2016					
<b>Continuing operations</b>						
Revenue from external customers	16,782	6,230	328	2,426	145	<b>25,911</b>
Other income	66	14	261	214	584	<b>1,139</b>
<b>Total income from continuing operations</b>	<b>16,848</b>	<b>6,244</b>	<b>589</b>	<b>2,640</b>	<b>729</b>	<b>27,050</b>
Share of net profit from joint ventures and associated entities	-	-	-	-	15	<b>15</b>
<b>EBITDA contribution from continuing operations</b>	<b>9,611</b>	<b>2,447</b>	<b>(2,895)</b>	<b>2,453</b>	<b>(1,151)</b>	<b>10,465</b>
Depreciation and amortisation						(4,155)
<b>Telstra Group EBIT from continuing operations</b>						<b>6,310</b>
Net finance costs						(710)
<b>Profit before income tax expense from continuing operations</b>						<b>5,600</b>
Profit before income tax expense from discontinued operations						2,048
<b>Telstra Group profit before income tax expense</b>						<b>7,648</b>

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

- revenue from external customers in the GES segment includes \$192 million (2016: \$204 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 \$14 million (2016: \$18 million) of inter-segment expenses treated as external revenue in the TW segment and eliminated in the 'All Other' category.

## Section 2. Our performance (continued)

### 2.1 Segment information (continued)

#### 2.1.2 Segment results (continued)

Information about our geographical operations is presented in Table B.

Table B Telstra Group	Year ended/as at	
	30 June	
	2017	2016
	\$m	\$m
<b>Revenue from external customers</b>		
Australian customers	24,734	24,606
Offshore customers excluding discontinued operations	1,279	1,305
<b>Revenue from external customers from continuing operations</b>	<b>26,013</b>	<b>25,911</b>
Discontinued operations	-	827
<b>Revenue from external customers from continuing and discontinued operations</b>	<b>26,013</b>	<b>26,738</b>
<b>Carrying amount of non-current assets</b>		
Located in Australia	28,884	27,600
Located offshore	2,218	2,381
	<b>31,102</b>	<b>29,981</b>

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

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

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

As Global connectivity was added as a new product line during the financial year, the prior year numbers have been restated to align with our current management reporting structure.

Table C Telstra Group	Note	Year ended 30 June	
		2017	2016
		\$m	\$m
<b>Total income from continuing operations (excluding finance income)</b>			
Fixed		6,407	6,721
Mobile		10,102	10,438
Data & IP		2,695	2,829
Network applications and services		3,370	2,581
Media		1,039	974
Global connectivity		1,435	1,452
Other sales revenue <sup>1</sup>		864	839
Other revenue <sup>2</sup>	2.2	101	77
Other income	2.2	2,192	1,139
	2.2	<b>28,205</b>	<b>27,050</b>

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

<sup>2</sup> Other revenue primarily consists of \$63 million (2016: nil) from Go Mobile Swap lease, distributions from our Foxtel Partnership nil (2016: 37 million) and rental income.

On 23 May 2017, we announced a number of structural changes to move certain businesses from NB reported under 'All Other' category to the other reportable segments.

Subsequently on 14 June 2017, we announced the following structural changes:

- Telstra Retail will be renamed Telstra Consumer & Small Business and will encompass three core divisions – Customer Experience & Transformation, Telstra Products, and Consumer & Small Business Sales & Service
- Global Enterprise and Services will be renamed Telstra Enterprise
- Telstra Business will be integrated into Telstra Consumer & Small Business, and Telstra Enterprise
- Telstra Ventures will move to Technology, Innovation and Strategy.

The new structure was effective from 1 July 2017.

## Section 2. Our performance (continued)

### 2.2 Income

Table A Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Continuing operations</b>		
<b>Sales revenue</b>		
Rendering of services	22,134	22,685
Sale of goods	2,773	2,651
Construction contracts	1,005	498
	<b>25,912</b>	<b>25,834</b>
Other revenue (excluding finance income)	101	77
<b>Total revenue (excluding finance income)</b>	<b>26,013</b>	<b>25,911</b>
<b>Other income</b>		
Net gain on disposal of property, plant and equipment and intangibles	686	335
Net (loss)/gain on disposal of business and investments	(2)	3
Government grants	178	212
nbn disconnection fees	1,248	503
Other miscellaneous income	82	86
	<b>2,192</b>	<b>1,139</b>
<b>Total income (excluding finance income)</b>	<b>28,205</b>	<b>27,050</b>
Finance income	138	86
<b>Total income from continuing operations</b>	<b>28,343</b>	<b>27,136</b>
Total income from discontinued operations (excluding finance income)	-	2,621
Finance income	-	15
<b>Total income from discontinued operations</b>	<b>-</b>	<b>2,636</b>

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

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

## Section 2. Our performance (continued)

### 2.2 Income (continued)

#### 2.2.1 Recognition and measurement

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

Category	Recognition and measurement
<b>Sale of services</b>	<p><b>Telecommunication services</b> Revenue from:</p> <ul style="list-style-type: none"> <li>• calls is earned on completion of the call</li> <li>• internet and data is earned on a straight-line basis over the period of service provided, unless another method better represents the stage of completion.</li> </ul> <p>Installation and connection fees that are not considered to be separate services are deferred and recognised over the average estimated customer life.</p> <p><b>Rent of network facilities</b> 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.</p> <p><b>Advertising and subscription service</b> Revenue from online advertising services is recognised when displayed or over the stated display period for advertisements published on the websites or when the services have been rendered for promotional activities. Subscription revenue is recognised on a straight-line basis over the subscription period.</p>
<b>Sale of goods</b>	Our revenue from the sale of goods includes revenue from the sale of customer equipment and other goods. This revenue is recorded on delivery of the goods sold.
<b>Construction contracts</b>	<p>We record construction revenue and profit on a percentage of contract completion basis. The percentage of completion is calculated based on estimated costs to complete the contract. This does not apply to short duration contracts (less than one month) where revenue is only recorded upon contract completion.</p> <p>Profits are recognised when:</p> <ul style="list-style-type: none"> <li>• the stage of contract completion can be reliably determined</li> <li>• costs to date can be clearly identified</li> <li>• total contract revenues to be received and costs to complete can be reliably estimated.</li> </ul>
<b>Lease income</b>	We earn income from operating subleases of mobile handsets offered to our retail customers (Telstra as a lessor), which we lease from a third party in a back-to-back arrangement (Telstra as a lessee). We also earn income from property leases. Lease income is recognised as other revenue on a straight-line basis over the lease term. Expenses arising from the head lease are recognised as other expenses (refer note 2.3).
<b>Government grants</b>	<p>Government grants are recognised where there is reasonable assurance that the grant will be received and Telstra will comply with all attached conditions.</p> <p>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.</p>
<b>Interest income</b>	We record interest income on an accrual basis. For financial assets, interest income is determined by the effective yield on the instrument.

## Section 2. Our performance (continued)

### 2.2 Income (continued)

#### 2.2.1 Recognition and measurement (continued)

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

##### **(a) Revenue arrangements with multiple deliverables**

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

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

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

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

##### **(c) Sales incentives**

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

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

## Section 2. Our performance (continued)

### 2.2 Income (continued)

#### 2.2.1 Recognition and measurement (continued)

##### **Impact of nbn Infrastructure Services Agreements (ISA) on sales revenue and other income**

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

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

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

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

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

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

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

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

## Section 2. Our performance (continued)

### 2.3 Expenses

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

Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Continuing operations</b>		
<b>Included in our labour expenses are the following:</b>		
Employee redundancy	313	166
Share-based payments	31	38
Defined contribution plan expense	251	252
Defined benefit plan expense	72	60
Cost of goods sold	3,287	3,204
<b>Other expenses</b>		
Impairment losses	306	482
Rental expense on operating leases	724	660
Service contracts and other agreements	1,802	1,549
Promotion and advertising	330	301
General and administration	998	972
Other operating expenses	346	348
	<b>4,506</b>	<b>4,312</b>
<b>Depreciation and amortisation</b>		
Depreciation of property, plant and equipment	3,058	2,957
Amortisation of intangible assets	1,383	1,198
	<b>4,441</b>	<b>4,155</b>
<b>Finance costs</b>		
Interest on borrowings	820	884
Other	(10)	(15)
	<b>810</b>	<b>869</b>
Less: interest on borrowings capitalised	(81)	(73)
	<b>729</b>	<b>796</b>
<b>Total expenses from discontinued operations</b>	-	<b>588</b>

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

- impairment losses include a \$202 million (2016: \$200 million) impairment of trade and other receivables and a \$64 million (2016: \$246 million) impairment of goodwill. For further details of goodwill impairment refer to note 3.2.1
- interest on borrowings has been capitalised using a capitalisation rate of 5.1 per cent (2016: 5.6 per cent)
- other finance costs include rating agency and bank facility expenditure not attributable to a particular borrowing
- other finance costs also include unrealised net (gains)/losses on remeasurement of derivative financial instruments which arise from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not effective or the hedge accounting criteria are not met. These fair values increase or decrease because of changes in financial indices and prices over which we have no control. All unrealised amounts unwind to nil at maturity of the underlying instrument
- further information on our operating leases is provided in note 7.4.2.

## Section 2. Our performance (continued)

### 2.4 Income taxes

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

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

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

In Table B we provide a reconciliation of income tax expense to income tax paid during the period. These disclosures in conjunction with Table A form part of the requirements of the Board of Taxation's Voluntary Tax Code. Any disclosed amounts are determined in accordance with Australian Accounting Standards. A section on how we manage our tax affairs will be provided in our Bigger Picture 2017 Sustainability Report due to be released on 1 September 2017.

#### 2.4.1 Income tax expense

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

Table A Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Major components of income tax expense</b>		
Current tax expense	1,731	1,781
Deferred tax resulting from the origination and reversal of temporary differences	26	16
Under provision of tax in prior years	16	2
	<b>1,773</b>	<b>1,799</b>
Effective income tax rate	31.4%	23.5%
<b>Reconciliation of notional income tax expense to actual income tax expense</b>		
Profit before income tax expense from continuing operations	5,647	5,600
Profit before income tax expense from discontinued operations	-	2,048
<b>Profit before income tax expense</b>	<b>5,647</b>	<b>7,648</b>
Notional income tax expense calculated at the Australian tax rate of 30% (2016: 30%)	1,694	2,294
<b>Notional income tax expense differs from actual income tax expense due to the tax effect of:</b>		
Different tax rates in overseas jurisdictions	(11)	(28)
Non-taxable and non-deductible items	78	(470)
Amended assessments	(4)	1
Under provision of tax in prior years	16	2
<b>Income tax expense on profit from continuing and discontinued operations</b>	<b>1,773</b>	<b>1,799</b>
<b>Comprising income tax from:</b>		
Continuing operations	1,773	1,768
Discontinued operations	-	31
Income tax expense/(benefit) recognised directly in other comprehensive income or equity during the year	<b>18</b>	<b>(83)</b>

The effective income tax rate of 31.4 per cent (2016: 23.5 per cent) was calculated as income tax expense divided by profit before income tax expense from continuing and discontinued operations. The effective tax rate for continuing operations for 2016 was 31.6 per cent. In 2016, discontinued operations included the gain on disposal of Autohome on which there was no tax payable as the corresponding capital gain for tax purposes was reduced to nil after capital losses were applied.

Non-taxable and non-deductible items in the current period include:

- tax losses not recognised (\$37 million)
- non-deductible impairment losses (\$19 million)
- taxable income attributed from controlled foreign companies (\$10 million)
- estimated share of taxable income from the Foxtel Partnership (\$8 million)
- various other items (\$4 million).



## Section 2. Our performance (continued)

### 2.4 Income taxes (continued)

#### 2.4.1 Income tax expense (continued)

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

Table B Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Income tax expense	1,773	1,799
<b>Temporary differences recognised in deferred tax expense</b>		
Property, plant and equipment	(106)	(67)
Intangible assets	118	(72)
Provision for employee entitlements	6	29
Trade and other payables	12	(27)
Revenue received in advance	63	104
Accrued revenue	(33)	(14)
Long-term construction contracts	(84)	6
Other temporary differences	(2)	25
	<b>(26)</b>	<b>(16)</b>
Income tax payments relating to prior years	174	270
Current year income tax payable next year	(161)	(176)
Other	(9)	(17)
<b>Income tax paid</b>	<b>1,751</b>	<b>1,860</b>

#### Estimating provision for income tax

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

#### 2.4.2 Deferred tax assets/(liabilities)

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

Table C Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
<b>Deferred tax items recognised in the income statement</b>		
Property, plant and equipment	(1,343)	(1,245)
Intangible assets	(895)	(1,011)
Provision for employee entitlements	330	325
Trade and other payables	113	112
Defined benefit (asset)/liability	95	93
Borrowings and derivative financial instruments	(32)	(22)
Revenue received in advance	241	169
Allowance for doubtful debts	36	34
Provision for workers' compensation and other provisions	72	56
Accrued revenue	(63)	(17)
Long-term construction contracts	(117)	(36)
Income tax losses	35	34
Other	34	50
	<b>(1,494)</b>	<b>(1,458)</b>
<b>Deferred tax items recognised in other comprehensive income or equity</b>		
Defined benefit (asset)/liability	(137)	(97)
Financial instruments	147	115
Other	(11)	1
	<b>(1)</b>	<b>19</b>
<b>Net deferred tax liability</b>	<b>(1,495)</b>	<b>(1,439)</b>
<b>Comprising:</b>		
Deferred tax assets	44	54
Deferred tax liabilities	(1,539)	(1,493)
	<b>(1,495)</b>	<b>(1,439)</b>

## Section 2. Our performance (continued)

### 2.4 Income taxes (continued)

#### 2.4.2 Deferred tax assets/(liabilities) (continued)

#### Unrecognised deferred tax assets

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

As at 30 June 2017, our deferred tax assets not recognised in the statement of financial position include an estimate of the capital loss on liquidation of two foreign subsidiaries in November 2016.

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

Table D Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
<b>Deferred tax assets not recognised</b>		
Income tax losses	322	324
Capital tax losses	1,896	1,349
Deductible temporary differences	272	251
	<b>2,490</b>	<b>1,924</b>

#### 2.4.3 Tax consolidated group

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

The effective income tax rate of the Australian tax consolidated group was 32.6 per cent (2016: 22.4 per cent).

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

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

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

Amounts receivable by the Telstra Entity of \$32 million (2016: \$28 million) and payable by the Telstra Entity of \$101 million (2016: \$80 million) under the tax funding agreement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

#### 2.4.4 Recognition and measurement

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

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

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

We generally recognise deferred tax liabilities for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit nor our taxable income at the time of the transaction.

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

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

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

## Section 2. Our performance (continued)

### 2.5 Earnings per share

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

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

Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Earnings used in the calculation of basic and diluted EPS</b>		
<b>Profit for the year attributable to equity holders of Telstra Entity from:</b>		
Continuing operations	3,891	3,851
Discontinued operations	-	1,929
	<b>3,891</b>	<b>5,780</b>
<b>Weighted average number of ordinary shares</b>	<b>Number of shares (millions)</b>	
Weighted average number of ordinary shares used in the calculation of basic EPS	11,968	12,202
Dilutive effect of certain employee share instruments	11	14
Weighted average number of ordinary shares used in the calculation of diluted EPS	<b>11,979</b>	<b>12,216</b>
<b>Basic EPS</b>	<b>cents</b>	<b>cents</b>
Basic EPS from continuing operations	32.5	31.6
Basic EPS from discontinued operations	-	15.8
<b>Basic EPS</b>	<b>32.5</b>	<b>47.4</b>
<b>Diluted EPS</b>	<b>cents</b>	<b>cents</b>
Diluted EPS from continuing operations	32.5	31.5
Diluted EPS from discontinued operations	-	15.8
<b>Diluted EPS</b>	<b>32.5</b>	<b>47.3</b>

In the current year, the weighted average number of ordinary shares used in the calculation of EPS included the effect of the off-market and on-market share buy-backs that were completed on 3 October 2016 and 13 December 2016 respectively, resulting in 332,357,981 shares being cancelled. Our EPS would have been higher, had the share buy-backs been completed at the beginning of this reporting period. Refer to note 4.2 for further details on share buy-backs.

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

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

### 2.6 Notes to the statement of cash flows

#### 2.6.1 Reconciliation of profit to net cash provided by operating activities

Table A Telstra Group	Note	Year ended 30 June	
		2017	2016
		\$m	\$m
Profit for the year from continuing operations		3,874	3,832
Profit for the year from discontinued operations		-	2,017
<b>Profit for the year</b>		<b>3,874</b>	<b>5,849</b>
<b>Add/(subtract) items classified as investing/financing activities</b>			
Finance income		(138)	(101)
Finance costs		729	796
Distribution from Foxtel Partnership	6.3	-	(37)
Net gain on disposal of property, plant and equipment and intangibles		(686)	(335)
Net loss/(gain) on disposal of business and controlled entities		2	(1,791)
<b>Add/(subtract) non-cash items</b>			
Depreciation and amortisation		4,441	4,165
Share-based payments		31	87
Defined benefit plan expense		72	60
Share of net profit from joint ventures and associated entities	6.3	(32)	(15)
Impairment losses (excluding inventories, trade and other receivables)		86	266
Other		(20)	(19)
<b>Cash movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)</b>			
Increase in trade and other receivables		(370)	(389)
Increase in inventories		(335)	(99)
Increase in prepayments and other assets		(279)	(605)
Increase in trade and other payables		99	178
Increase in revenue received in advance		225	151
Increase/(decrease) in net taxes payable		26	(69)
Increase in provisions		50	41
<b>Net cash provided by operating activities</b>		<b>7,775</b>	<b>8,133</b>

## Section 2. Our performance (continued)

### 2.6 Notes to the statement of cash flows (continued)

#### 2.6.2 Cash and cash equivalents

Table B Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
Cash at bank and on hand	212	269
Bank deposits and negotiable certificates of deposit	726	3,281
	<b>938</b>	<b>3,550</b>
Bank overdraft	(2)	-
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>936</b>	<b>3,550</b>

#### 2.6.3 Recognition, measurement and presentation

##### (a) Cash and cash equivalents

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

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

##### (b) Short-term borrowings in financing cash flows

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

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

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

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

## Section 3. Our core assets and working capital

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

### 3.1 Property, plant and equipment

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

Table A Telstra Group	Land and site improvements	Buildings	Communication assets	Other plant, equipment and motor vehicles	Total property, plant and equipment
	\$m	\$m	\$m	\$m	\$m
<b>Net book value at 1 July 2015</b>	<b>52</b>	<b>647</b>	<b>19,182</b>	<b>569</b>	<b>20,450</b>
Additions	-	57	2,913	118	<b>3,088</b>
Acquisitions of controlled entities	-	-	24	1	<b>25</b>
Disposals	-	-	(18)	-	<b>(18)</b>
Disposals through sale of controlled entities	-	(3)	(1)	(17)	<b>(21)</b>
Impairment losses	-	-	(11)	(2)	<b>(13)</b>
Depreciation expenses from continuing operations	-	(89)	(2,710)	(158)	<b>(2,957)</b>
Depreciation expenses from discontinued operations	-	-	-	(9)	<b>(9)</b>
Net foreign currency exchange differences	-	(7)	37	(4)	<b>26</b>
Transfers	-	16	13	(19)	<b>10</b>
<b>Net book value at 30 June 2016</b>	<b>52</b>	<b>621</b>	<b>19,429</b>	<b>479</b>	<b>20,581</b>
At cost	52	1,277	61,755	1,876	<b>64,960</b>
Accumulated depreciation and impairment	-	(656)	(42,326)	(1,397)	<b>(44,379)</b>
<b>Net book value at 1 July 2016</b>	<b>52</b>	<b>621</b>	<b>19,429</b>	<b>479</b>	<b>20,581</b>
Additions	-	79	3,647	124	<b>3,850</b>
Disposals	-	-	(4)	(1)	<b>(5)</b>
Impairment losses	-	-	(4)	-	<b>(4)</b>
Depreciation expenses	-	(72)	(2,836)	(150)	<b>(3,058)</b>
Net foreign currency exchange differences	-	(4)	(34)	(4)	<b>(42)</b>
Transfers	-	(4)	22	10	<b>28</b>
<b>Net book value at 30 June 2017</b>	<b>52</b>	<b>620</b>	<b>20,220</b>	<b>458</b>	<b>21,350</b>
At cost	52	1,310	60,987	1,963	<b>64,312</b>
Accumulated depreciation and impairment	-	(690)	(40,767)	(1,505)	<b>(42,962)</b>

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

### 3.1 Property, plant and equipment (continued)

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

- property, plant and equipment include \$54 million (2016: \$42 million) of capitalised borrowing costs directly attributable to qualifying assets
- buildings include leasehold improvements and a \$44 million (2016: \$49 million) net book value of buildings under finance lease
- communication assets include certain network land and building assets that are essential to the operation of our communication assets
- as at 30 June 2017, we had property, plant and equipment under construction amounting to \$1,147 million (2016: \$795 million). As these assets were not installed and ready for use, no depreciation has been charged on these assets.

#### 3.1.1 Impairment assessment

All non-current tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. For our impairment assessment we identify cash generating units (CGUs), i.e. the smallest groups of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets.

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

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

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

#### Cash generating units (CGUs) for impairment assessment

We apply management judgement to establish our CGUs.

We have determined that under the nbn Infrastructure Services Agreement (ISA) our ubiquitous telecommunications network also includes the Hybrid Fibre Coaxial (HFC) cable network. This resulted mainly from the fact that under the nbn ISA cash inflows generated by both networks can no longer be separated. No one item of telecommunications equipment is of any value without the other assets to which it is connected to deliver our products and services.

During the financial year 2017, we have assessed our telecommunications network CGU to identify indicators of impairment, using both external and internal sources of information. No such indicators have been identified.

### 3.1.2 Recognition and measurement

#### (a) Acquisition

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

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

#### (b) Depreciation

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

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

Table B Telstra Group	Useful life (years)	
	As at 30 June	
	2017	2016
Buildings	5 - 48	4 - 48
Communication assets	2 - 57	2 - 57
Other plant and equipment	4 - 20	4 - 20

#### Useful lives and residual values of tangible assets

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

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

The net effect of the assessment of useful lives was a \$34 million (2016: \$84 million) decrease in depreciation expense.

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

### 3.1 Property, plant and equipment (continued)

#### 3.1.2 Recognition and measurement (continued)

##### (b) Depreciation (continued)

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

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

As at 30 June 2017, the net book value of assets that are in scope to be potentially transferred to nbn co under the ISA amounted to \$825 million (2016: \$1,004 million). This represented 3.9 per cent of the net book value of our total property, plant and equipment. We have applied management judgement in assessing the useful lives of the in-scope assets based on the anticipated nbn™ network rollout period.

The nbn™ network rollout will also to a lesser extent impact useful lives of other assets, e.g. transmission and switching technologies, which will not be transferred to nbn co. The full impact on our useful lives is not yet known and will depend on nbn co's selection of access technologies in each rollout region and the sequence in which the nbn™ network rollout progresses. For the year ended 30 June 2017, we have applied management judgement in assessing the useful lives of these assets based on our best estimate of the expected consequential impacts of the nbn™ network rollout. The result of our assessment is included in the net effect of our useful lives assessment.

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

##### (c) Leased assets (Telstra as a lessee)

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

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

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

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

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

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

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

### 3.2 Goodwill and other intangible assets

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

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

Table A Telstra Group	Goodwill	Software assets	Licences	Deferred expenditure	Other intangibles	Total intangible assets
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net book value at 1 July 2015</b>	<b>1,652</b>	<b>4,465</b>	<b>2,042</b>	<b>955</b>	<b>218</b>	<b>9,332</b>
Additions	-	1,194	7	1,056	1	<b>2,258</b>
Acquisition of business	3	1	-	-	4	<b>8</b>
Acquisition of controlled entities	61	5	-	-	19	<b>85</b>
Impairment losses from continuing operations	(246)	(4)	-	-	-	<b>(250)</b>
Amortisation expense from continuing operations	-	(1,003)	(168)	(868)	(27)	<b>(2,066)</b>
Amortisation expense from discontinued operations	-	(1)	-	-	-	<b>(1)</b>
Disposal through sale of controlled entities	(137)	(2)	-	-	(7)	<b>(146)</b>
Net foreign currency exchange differences	13	3	-	-	3	<b>19</b>
Transfers	-	2	(12)	-	-	<b>(10)</b>
<b>Net book value at 30 June 2016</b>	<b>1,346</b>	<b>4,660</b>	<b>1,869</b>	<b>1,143</b>	<b>211</b>	<b>9,229</b>
At cost	1,592	10,431	2,436	2,186	336	<b>16,981</b>
Accumulated amortisation and impairment	(246)	(5,771)	(567)	(1,043)	(125)	<b>(7,752)</b>
<b>Net book value at 1 July 2016</b>	<b>1,346</b>	<b>4,660</b>	<b>1,869</b>	<b>1,143</b>	<b>211</b>	<b>9,229</b>
Additions	-	1,065	652	1,079	-	<b>2,796</b>
Acquisition of controlled entities	22	26	-	-	2	<b>50</b>
Impairment losses from continuing operations	(64)	(16)	-	-	-	<b>(80)</b>
Amortisation expense from continuing operations	-	(1,158)	(195)	(981)	(30)	<b>(2,364)</b>
Net foreign currency exchange differences	(35)	(6)	(1)	-	(3)	<b>(45)</b>
Transfers	-	(28)	-	-	-	<b>(28)</b>
<b>Net book value at 30 June 2017</b>	<b>1,269</b>	<b>4,543</b>	<b>2,325</b>	<b>1,241</b>	<b>180</b>	<b>9,558</b>
At cost	1,571	11,070	3,087	2,462	332	<b>18,522</b>
Accumulated amortisation and impairment	(302)	(6,527)	(762)	(1,221)	(152)	<b>(8,964)</b>

During the financial year 2017, the following transactions impacted our goodwill balance:

- we recognised \$22 million (2016: \$64 million) goodwill on acquisition of controlled entities and businesses. Refer to note 6.1.1 for further details
- we recognised a \$64 million impairment loss against goodwill. Refer to note 3.2.1 for further details.



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

### 3.2 Goodwill and other intangible assets (continued)

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

- as at 30 June 2017, we had software assets under development amounting to \$456 million (2016: \$438 million). As these assets were not installed and ready for use, no amortisation has been charged on the amounts
- software assets include \$27 million (2016: \$31 million) of capitalised borrowing costs directly attributable to qualifying assets
- software assets mostly comprise internally generated assets
- licences include \$652 million for the 900 MHz, 1800 MHz and 2.5GHz spectrum licences acquired in the current financial year.

#### 3.2.1 Impairment assessment

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

The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value less cost of disposal is measured with reference to quoted market prices in an active market.

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

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

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

#### Determining CGUs and their recoverable amount for impairment assessment

We apply management judgement to identify our CGUs and determine their recoverable amounts using a 'value in use' calculation for our impairment assessment. These judgments include cash flow forecasts, as well as the selection of growth rates, terminal rates and discount rates based on past experience and our expectations for the future.

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

#### (a) Cash generating units with allocated goodwill

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

Table B Telstra Group	Goodwill	
	As at 30 June	
	2017	2016
	\$m	\$m
<b>CGU</b>		
GES International Group <sup>1</sup>	609	629
Ooyala Holdings Group <sup>1</sup>	242	251
Telstra Enterprise & Services Group <sup>2</sup>	122	122
Telstra Europe Group (formerly known as Telstra UK Group) <sup>1</sup>	61	66
O2 Networks Group	57	57
Fred IT Group	-	21
HealthConnex Group	-	17
Other <sup>3</sup>	178	183
	<b>1,269</b>	<b>1,346</b>

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

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

3 Other includes individually immaterial CGUs. Refer to note 6.1 for further details on acquisitions during the year.

#### (b) Value in use

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite life intangible assets have been allocated:

Table C Telstra Group	Discount rate		Terminal value growth rate	
	2017	2016	2017	2016
	%	%	%	%
GES International Group	9.2	9.0	3.0	3.0
Ooyala Holdings Group	24.0	24.0	3.0	3.0
Telstra Enterprise & Services Group	12.8	13.1	3.0	3.0
Telstra Europe Group (formerly known as Telstra UK Group)	6.2	6.6	3.0	3.0
O2 Networks Group	11.5	10.7	3.0	3.0
Fred IT Group	14.8	13.6	3.0	3.0
HealthConnex Group	16.1	14.4	3.0	3.0

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

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

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

### 3.2 Goodwill and other intangible assets (continued)

#### 3.2.1 Impairment assessment (continued)

##### (b) Value in use (continued)

As at 30 June 2017, the carrying value of FRED IT and HealthConnex Group was assessed for impairment. The recoverable amount of these CGUs were determined using a 'value in use' calculation and it was lower than their carrying value. As a result, we recognised in the income statement a \$21 million and a \$17 million impairment loss against goodwill of these CGUs respectively. The impairment charges are a result of changing industry conditions and competitive pressures within the pharmaceutical and aged care industries, which lead to a decrement in the cash flow projections. Our value in use assumptions take into consideration the factors noted above. In addition, a further \$26 million impairment loss was recognised against goodwill for individually immaterial CGUs which are classified as other.

Sensitivity analysis also examined the effect of a change in a key assumption on the remaining CGUs. The discount rate would need to increase by 57 basis points (2016: 100 basis points) or the terminal value growth rate would need to decrease by 117 basis points (2016: 120 basis points) before the recoverable amount of any of the CGUs would equal its carrying value. No other changes in key assumptions will result in a material impairment charge for any of the CGUs.

#### 3.2.2 Recognition and measurement

Category	Recognition and measurement
<b>Goodwill</b>	<p>Goodwill acquired in a business combination is measured at cost. Cost represents the excess of what we pay for the business combination over the fair value of the identifiable net assets acquired at the date of acquisition.</p> <p>Goodwill is not amortised but is tested for impairment on an annual basis or when an indication of impairment arises.</p> <p>Goodwill amount arising on acquisition of joint ventures or associated entities constitutes part of the cost of the investment.</p>
<b>Internally generated intangible assets</b>	<p>Internally generated intangible assets include mainly IT development costs incurred in design, build and testing of new or improved IT products and systems.</p> <p>Research costs are expensed when incurred.</p> <p>Capitalised development costs include:</p> <ul style="list-style-type: none"> <li>• external direct costs of materials and services consumed</li> <li>• payroll and payroll-related costs for employees (including contractors) directly associated with the project</li> <li>• borrowing costs that are directly attributable to the qualifying assets.</li> </ul> <p>Refer to 'Capitalisation of development costs' for management judgment on recognition of development costs.</p> <p>Internally generated intangible assets have a finite life and are amortised on a straight-line basis over their useful lives.</p>

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

### 3.2 Goodwill and other intangible assets (continued)

#### 3.2.2 Recognition and measurement (continued)

Category	Recognition and measurement
<b>Acquired intangible assets</b>	<p>We acquire other intangible assets either as part of a business combination or through a separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. Intangible assets acquired through a specific acquisition are recorded at cost.</p> <p>Refer to 'Determining fair value of identifiable intangible assets' for management judgment on measurement of fair value of intangible assets acquired as part of a business combination.</p> <p>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.</p>
<b>Deferred expenditure</b>	<p>Deferred expenditure mainly includes direct incremental costs of establishing a customer contract, costs incurred for basic access installation and connection fees for existing and new services, as well as deferred costs related to the revised nbn Definitive Agreements.</p> <p>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.</p> <p>We amortise deferred expenditure over the average period in which the related benefits are expected to be realised. The amortisation expense is recognised in our operating expenses.</p>

<p><b>Capitalisation of development costs</b></p>	<p>Management judgement is required to determine whether to capitalise development costs. Development costs are only capitalised if the project is assessed to be technically and commercially feasible, we are able to use or sell the asset and we have sufficient resources and intent to complete the development.</p>
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<p><b>Determining fair value of identifiable intangible assets</b></p>	<p>Management judgement is required to determine the appropriate fair value of identifiable intangible assets acquired in business combinations. This involves estimating timing and amounts of future cash flows derived from the use of these assets as well as an appropriate discount rate to be applied to the forecast cash flows. Such estimates are based on current forecasts, extrapolated for an appropriate period and taking into account growth rates, operating costs and the expected useful life of the assets.</p>
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#### (a) Amortisation

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

Table D Telstra Group	Expected benefit (years)	
	As at 30 June	
	2017	2016
Software assets	8	8
Licences	14	15
Deferred expenditure	5	6
Other acquired intangibles	10	10

<p><b>Useful lives of intangible assets</b></p>	<p>We apply management judgement to determine the amortisation period based on the expected useful lives of each asset class. In addition, we apply management judgement to assess annually the indefinite useful life assumption applied to certain acquired intangible assets.</p> <p>We review the useful lives of our identifiable intangible assets each year. The net effect of the reassessment of useful lives for the financial year 2017 was a \$54 million (2016: \$67 million) decrease in amortisation expense.</p>
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## Section 3. Our core assets and working capital (continued)

### 3.3 Trade and other receivables

#### 3.3.1 Current and non-current trade and other receivables

Table A Telstra Group	Note	As at 30 June	
		2017	2016
		\$m	\$m
<b>Current</b>			
Trade receivables		3,635	3,343
Allowance for doubtful debts		(133)	(134)
		<b>3,502</b>	<b>3,209</b>
Finance lease receivables		122	111
Accrued revenue		1,672	1,324
Other receivables		172	93
		<b>1,966</b>	<b>1,528</b>
		<b>5,468</b>	<b>4,737</b>
<b>Non-current</b>			
Trade receivables		111	476
Amounts owed by joint ventures and associated entities	6.3	443	411
Finance lease receivables		250	233
Other receivables		235	173
		<b>1,039</b>	<b>1,293</b>

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

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

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

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

Table B Telstra Group	As at 30 June			
	2017		2016	
	Gross	Allow- ance	Gross	Allow- ance
	\$m	\$m	\$m	\$m
Not past due	2,676	(13)	2,704	(15)
Past due 0 - 30 days	640	(9)	710	(10)
Past due 31 - 60 days	168	(10)	159	(8)
Past due 61 - 90 days	67	(7)	74	(7)
Past due 91 - 120 days	61	(17)	49	(23)
Past 120 days	134	(77)	123	(71)
	<b>3,746</b>	<b>(133)</b>	<b>3,819</b>	<b>(134)</b>

Ageing analysis in the above table is based on the original due date of trade receivables, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

As at 30 June 2017, trade receivables with a carrying amount of \$950 million (2016: \$996 million) were past due but not impaired.

We hold security for a number of trade receivables, including past due or impaired receivables, in the form of guarantees, letters of credit and deposits. During the financial year 2017, the securities we called upon were insignificant. These trade receivables, along with our trade receivables that are neither past due nor impaired, comprise customers who have a good debt history and are considered recoverable.

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

Table C Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Opening balance</b>	<b>(134)</b>	<b>(113)</b>
Additional allowance from continuing operations	(54)	(70)
Amount used	40	46
Amount reversed from continuing operations	15	3
<b>Closing balance</b>	<b>(133)</b>	<b>(134)</b>

#### Estimating allowance for doubtful debts

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

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

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

### 3.3 Trade and other receivables (continued)

#### 3.3.1 Trade receivables and allowance for doubtful debts (continued)

##### (b) Finance lease receivables

We enter into finance lease arrangements predominantly for communication assets dedicated to solutions management that we provide to our customers largely in a back-to-back finance lease arrangement. Refer to note 7.4 for information about our finance lease commitments arising from these finance arrangements (Telstra as a lessee). The weighted average term of the finance lease in our customer contracts is 5.8 years (2016: 5.5 years). Table D presents detailed information about our finance lease receivables.

Table D Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
<b>Amounts receivable under finance leases</b>		
Within 1 year	141	130
Within 1 to 5 years	226	195
After 5 years	90	86
Total minimum lease receivables	<b>457</b>	<b>411</b>
Less: unearned finance income	(85)	(67)
Present value of minimum lease receivables	<b>372</b>	<b>344</b>
<b>Included in the financial statements as:</b>		
Current finance lease receivables	122	111
Non-current finance lease receivables	250	233
	<b>372</b>	<b>344</b>

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate was 5.6 per cent (2016: 5.8 per cent) per annum.

#### 3.3.2 Recognition and measurement

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

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

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

##### (a) Leased assets (Telstra as a lessor)

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

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

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

### 3.4 Inventories

Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
<b>Current</b>		
<b>Construction work in progress</b>		
Contract costs incurred and recognised profits	973	548
Progress billings	(573)	(391)
	<b>400</b>	<b>157</b>
Raw materials recorded at cost	45	75
Finished goods recorded at cost	361	228
Finished goods recorded at net realisable value	87	97
	<b>493</b>	<b>400</b>
	<b>893</b>	<b>557</b>
<b>Non-current</b>		
Finished goods recorded at net realisable value	29	29
<b>Total current and non-current inventories</b>	<b>922</b>	<b>586</b>

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

#### Estimating net realisable value

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

#### 3.4.1 Recognition and measurement

##### (a) Inventories

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

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

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.

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

### 3.4 Inventories (continued)

#### 3.4.1 Recognition and measurement (continued)

##### (b) Construction contracts

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

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

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

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

### 3.5 Trade and other payables

Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
<b>Current</b>		
Trade creditors	1,185	1,465
Accrued expenses	1,733	1,265
Accrued capital expenditure	438	279
Accrued interest	256	305
Contingent consideration	4	11
Other creditors	573	623
	<b>4,189</b>	<b>3,948</b>
<b>Non-current</b>		
Contingent consideration	4	5
Other creditors	66	61
	<b>70</b>	<b>66</b>

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

#### 3.5.1 Recognition and measurement

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

## Section 4. Our capital and risk management

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



### 4.1 Dividends

This note includes dividends paid for the previous year final dividend and the current year interim dividend.

As the resolution for the current year final dividend was passed on 17 August 2017, no provision had been raised as at 30 June 2017.

We currently pay dividends twice a year, an interim and a final dividend. A shareholder can elect to receive the dividend in cash or, if the Board determines that our Dividend Reinvestment Plan (DRP) will apply, to reinvest all or part of it under our DRP.

Table A provides details about dividends paid during the financial year 2017.

Table A Telstra Entity	Year ended 30 June			
	2017	2016	2017	2016
	\$m	\$m	cents	cents
<b>Dividends paid</b>				
Previous year final dividend paid	1,894	1,893	15.5	15.5
Interim dividend paid	1,842	1,894	15.5	15.5
<b>Total dividends paid</b>	<b>3,736</b>	<b>3,787</b>	<b>31.0</b>	<b>31.0</b>

On 3 October 2016, we completed an off-market share buy-back, which comprised a fully franked dividend component of \$748 million. Refer to note 4.2.1 for further details.

On 17 August 2017, the Directors of Telstra Corporation Limited resolved to pay a fully franked final dividend for the financial year 2017 of 15.5 cents per ordinary share. The record date for the final dividend will be 31 August 2017, with payment to be made on 28 September 2017. On 30 August 2017, shares will trade excluding entitlement to the dividend.

The final dividend will be fully franked at a tax rate of 30 per cent. As at 30 June 2017, the final dividend for the financial year 2017 was not determined or publicly recommended by the Board, therefore no provision for the dividend has been raised in the statement of financial position. However, a provision for the final dividend payable amounting to \$1,842 million has been raised as at the date of resolution.

On 17 August 2017, the Board determined that the DRP will not operate for the final dividend for the financial year 2017.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the final dividend, except for \$790 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

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

Table B Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Franking credits available for use in subsequent reporting periods</b>		
Franking account balance	9	234
Franking credits that will arise from the payment of income tax payable as at 30 June (at a tax rate of 30% on a tax paid basis)	146	158
	<b>155</b>	<b>392</b>

We believe that our current balance in the franking account, combined with the franking credits that will arise on income tax instalments expected to be paid in the financial year 2018, will be sufficient to fully frank our 2017 final dividend.

### 4.2 Equity

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

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

#### 4.2.1 Share capital

Table A Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Contributed equity	4,530	5,284
Share loan to employees	(12)	(13)
Shares held by employee share plans	(81)	(109)
Net services received under employee share plans	(16)	5
	<b>4,421</b>	<b>5,167</b>

## Section 4. Our capital and risk management (continued)

### 4.2 Equity (continued)

#### 4.2.1 Share capital (continued)

##### (a) Contributed equity

As at 30 June 2017, we have 11,893,297,855 (2016: 12,225,655,836) authorised fully paid ordinary shares on issue. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the Company. Holders of our shares also have the right to receive 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 3 October 2016 we announced the completion of an off-market share buy-back of 282,167,516 ordinary shares (or 2.31 per cent of our total shares on issue). The ordinary shares were bought back at \$4.43 per share, which represented a 14 per cent discount to the Telstra market price of \$5.1482 (being the volume weighted average price of Telstra ordinary shares over the five trading days up to and including the closing date of 30 September 2016), and comprised a fully franked dividend component of \$2.65 per share (or \$748 million in total) and a capital component of \$1.78 per share (or \$502 million in total). The total off-market share buy-back amounted to \$1,252 million, including \$2 million of associated transaction costs (net of income tax).

On 13 December 2016, we also completed the on-market share buy-back of 50,190,465 ordinary shares, which amounted to \$250 million. The average price per share bought back was \$4.98.

The shares bought back were subsequently cancelled.

##### (b) Shares held by employee share plans

As at 30 June 2017, the number of shares held by employee share plans totalled 14,434,930 (2016: 19,058,155). During the financial year, 4,245,590 shares were acquired on market by Telstra Growthshare Trust at an average price of \$5.16 per share.

##### (c) Net services received under employee share plans

We measure the fair value of services received under employee share plans by reference to the fair value of the equity instruments granted. The net services received under employee share plans represent the cumulative value of all instruments issued. Contributions made by the Telstra Entity to Telstra Growthshare Trust are also included in this account.

#### 4.2.2 Reserves

Table B details our reserve balances.

Table B Telstra Group	Foreign currency translation reserve	Cash flow hedging reserve	Foreign currency basis spread reserve	Fair value of equity instruments reserve	General reserve	Total reserves
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 July 2015</b>	<b>121</b>	<b>(114)</b>	<b>50</b>	<b>6</b>	<b>309</b>	<b>372</b>
Other comprehensive income	(26)	21	(2)	8	-	1
Transactions with non-controlling interests	-	-	-	-	16	16
Transfer from general reserve to retained profits	-	-	-	-	(327)	(327)
<b>Balance at 30 June 2016</b>	<b>95</b>	<b>(93)</b>	<b>48</b>	<b>14</b>	<b>(2)</b>	<b>62</b>
Other comprehensive income	(77)	(50)	(32)	(6)	-	(165)
Transactions with non-controlling interests	-	-	-	-	(2)	(2)
<b>Balance at 30 June 2017</b>	<b>18</b>	<b>(143)</b>	<b>16</b>	<b>8</b>	<b>(4)</b>	<b>(105)</b>



## Section 4. Our capital and risk management (continued)

### 4.2 Equity (continued)

#### 4.2.2 Reserves (continued)

During the financial year 2017, fair value gains from investments in equity instruments were \$86 million, of which \$82 million related to Autohome Inc. prior to its disposal. This was recognised in other comprehensive income.

Additionally, \$83 million of cumulative gains held in fair value of equity instruments reserve were transferred to retained profits during the financial year, of which \$49 million related to the disposal of our remaining interest in Autohome Inc. Refer to note 4.4.5 for further details.

In the prior financial year, we disposed of 47.4 per cent shareholding in Autohome Inc. and its controlled entities. On disposal, we transferred \$323 million held in our general reserve to retained profits and \$78 million of foreign currency translation reserve to other comprehensive income.

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

Reserve	Nature and purpose
<b>Foreign currency translation reserve</b>	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>Cash flow hedging reserve</b>	Represents the effective portion of gains or losses on remeasuring the fair value of hedge instruments, where a hedge qualifies for hedge accounting.
<b>Foreign currency basis spread reserve</b>	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.
<b>Fair value of equity instruments reserve</b>	Represents changes in fair value of equity instruments we have elected to measure at fair value through other comprehensive income.
<b>General reserve</b>	Represents other items we have taken directly to equity.

#### 4.2.3 Recognition and measurement

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

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

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

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

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

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management

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

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

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

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

All our financial instruments are accounted for under AASB 9 (2013): 'Financial Instruments'.

#### 4.3.1 Net debt

A parameter used to monitor capital management is the gearing ratio. Our comfort zone for the gearing ratio is currently 50 to 70 per cent (2016: 50 to 70 per cent).

Gearing ratio equals net debt divided by total capital, where:

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

We undertake the following transactions in relation to managing our net debt portfolio and associated financial risks:

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

Refer to note 4.4 for further discussion on financial risks.

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

Table A Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Borrowings	(17,284)	(17,302)
Derivative financial instruments	1,066	1,293
Cash and cash equivalents	938	3,550
<b>Net debt</b>	<b>(15,280)</b>	<b>(12,459)</b>

The components of net debt are not subject to any externally imposed capital requirements. We did not have any defaults or breaches under any of our agreements with our lenders during the current or prior years.

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

Table B Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Opening net debt</b>	<b>(12,459)</b>	<b>(13,566)</b>
Debt issuance	(1,399)	(1,970)
Net commercial paper	(816)	(514)
Debt repayments	2,076	1,451
Finance lease repayments	131	101
<b>Net cash inflow</b>	<b>(8)</b>	<b>(932)</b>
<b>Fair value (losses)/gains impacting:</b>		
Equity	(102)	33
Other expenses	(8)	(2)
Finance costs	(4)	(2)
<b>Other non-cash movements</b>		
Finance lease additions	(85)	(144)
<b>Total increase in gross debt</b>	<b>(207)</b>	<b>(1,047)</b>
Net (decrease)/increase in cash and cash equivalents (includes foreign exchange differences)	(2,614)	2,154
<b>Total (increase)/decrease in net debt</b>	<b>(2,821)</b>	<b>1,107</b>
<b>Closing net debt</b>	<b>(15,280)</b>	<b>(12,459)</b>
Total equity	(14,560)	(15,907)
<b>Total capital</b>	<b>(29,840)</b>	<b>(28,366)</b>
	<b>%</b>	<b>%</b>
Gearing ratio	51.2	43.9

#### (a) Borrowings and repayment of debt

During the financial year 2017, we repaid \$2,076 million of term debt (Australian dollar equivalent). This included:

- \$1,682 million Euro bond
- \$385 million Australian dollar borrowings.

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

We also repaid \$9 million loans from associated entities.

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management (continued)

#### 4.3.1 Net debt (continued)

##### (a) Borrowings and repayment of debt (continued)

Debt issuance during the period included:

- \$1,000 million Australian dollar bond which was issued in three tranches with maturities of 19 April 2021 (\$300 million and \$150 million) and 19 April 2027 (\$550 million)
- \$200 million bilateral loan facility which matures on 23 September 2020
- \$200 million term loan note repayable on 11 March 2024.

During the year, we drew down an additional \$1,400 million (2016: \$1,850 million) under our revolving bank loan facilities in varying tranches. This was fully repaid as at 30 June 2017. We also issued, on a net basis, \$816 million commercial paper (Australian dollar equivalent). These amounts are shown on a gross basis in the statement of cash flows.

#### 4.3.2 Borrowings

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

Table C Telstra Group	As at 30 June 2017		As at 30 June 2016	
	Carrying value	Fair value	Carrying value	Fair value
	\$m	\$m	\$m	\$m
<b>Current borrowings</b>				
Domestic borrowings	(813)	(812)	(395)	(397)
Offshore borrowings	(95)	(95)	(1,492)	(1,546)
Bank loans	(2)	(2)	(2)	(2)
Bank overdraft	(2)	(2)	-	-
Commercial paper	(1,457)	(1,457)	(648)	(648)
Finance leases	(107)	(107)	(118)	(118)
	<b>(2,476)</b>	<b>(2,475)</b>	<b>(2,655)</b>	<b>(2,711)</b>
<b>Non-current borrowings</b>				
Domestic borrowings	(2,642)	(2,859)	(2,463)	(2,690)
Offshore borrowings	(11,225)	(12,081)	(11,605)	(12,917)
Bank loans	(707)	(688)	(310)	(304)
Finance leases	(234)	(234)	(269)	(269)
	<b>(14,808)</b>	<b>(15,862)</b>	<b>(14,647)</b>	<b>(16,180)</b>
<b>Total borrowings</b>	<b>(17,284)</b>	<b>(18,337)</b>	<b>(17,302)</b>	<b>(18,891)</b>

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management (continued)

#### 4.3.2 Borrowings (continued)

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

Generally all our borrowings are unsecured, except for finance leases as noted above. No assets are pledged as security for our borrowings. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities and other organisations.

The notional (face) value of our total borrowings is \$17,017 million (2016: \$16,874 million).

#### (a) Maturity of borrowings

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

#### (b) Recognition and measurement

##### (i) Borrowings

Borrowings are:

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

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

##### (ii) Finance leases

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

##### (c) Finance costs

Table D shows interest on our borrowings. Amounts disclosed are net amounts after offsetting interest income and interest expense on associated derivative instruments. Our hedging strategies are discussed further in note 4.3.3.

Table D Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Interest expense on:</b>		
Domestic borrowings	137	138
Offshore borrowings	615	666
Bank loans	15	17
Commercial paper	23	27
Finance leases	21	24
Other	9	12
<b>Total interest on borrowings</b>	<b>820</b>	<b>884</b>

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management (continued)

#### 4.3.3 Derivatives

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

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

Table E Telstra Group	As at 30 June 2017		As at 30 June 2016	
	Assets	Liabilities	Assets	Liabilities
	\$m	\$m	\$m	\$m
<b>Current derivative financial instruments</b>				
Cross currency swaps	16	-	-	(192)
Interest rate swaps	4	-	49	(56)
Forward foreign exchange contracts	1	(42)	9	(34)
Foreign exchange options	-	-	4	(4)
	<b>21</b>	<b>(42)</b>	<b>62</b>	<b>(286)</b>
<b>Non-current derivative financial instruments</b>				
Cross currency swaps	994	(117)	1,259	(82)
Interest rate swaps	629	(419)	921	(581)
	<b>1,623</b>	<b>(536)</b>	<b>2,180</b>	<b>(663)</b>
<b>Total derivative financial instruments</b>	<b>1,644</b>	<b>(578)</b>	<b>2,242</b>	<b>(949)</b>

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

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

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

#### (a) Recognition and measurement

Derivative financial instruments are:

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

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management (continued)

#### 4.3.3 Derivatives (continued)

##### (a) Recognition and measurement (continued)

<b>Recognition and measurement</b>	
<b>Recognition and measurement</b>	All derivatives are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Where the fair value of a derivative is positive, it is carried as an asset, and where negative, as a liability. Refer to note 4.4.5 for details on the determination of fair value.
<b>Right to set-off</b>	<p>We record derivative financial instruments on a net basis in our statement of financial position where we:</p> <ul style="list-style-type: none"> <li>• have a legally recognised right to set-off the derivative asset and the derivative liability, and we intend to settle on a net basis or simultaneously</li> <li>• 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.</li> </ul> <p>For our interest rate swaps, we do not offset the receivable or payable with the underlying financial asset or financial liability being hedged as the transactions are usually with different counterparties and are not generally settled on a net basis.</p>
<b>Derecognition</b>	<p>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.</p> <p>Derivative liabilities are derecognised when the contractual obligations are discharged, cancelled or expired.</p>
<b>Impact to the income statement</b>	The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, on the nature of the item being hedged.

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

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

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

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

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

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management (continued)

#### 4.3.3 Derivatives (continued)

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

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

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

## Section 4. Our capital and risk management (continued)

### 4.3 Capital management (continued)

#### 4.3.3 Derivatives (continued)

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

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

Table F Telstra Group	As at 30 June 2017		As at 30 June 2016	
	Carrying value	Notional value	Carrying value	Notional value
	\$m	\$m	\$m	\$m
<b>Borrowings by hedge designation</b>				
Fair value hedges	(5,337)	(4,874)	(5,537)	(4,904)
Cash flow hedges	(6,805)	(6,840)	(8,674)	(8,717)
Not in a hedge relationship	(5,142)	(5,303)	(3,091)	(3,253)
<b>Total borrowings</b>	<b>(17,284)</b>	<b>(17,017)</b>	<b>(17,302)</b>	<b>(16,874)</b>
<b>Derivative assets by hedge designation</b>				
Fair value hedges	775	458	988	482
Cash flow hedges	868	579	1,243	670
Not in a hedge relationship	1	1	11	9
<b>Total derivative assets</b>	<b>1,644</b>	<b>1,038</b>	<b>2,242</b>	<b>1,161</b>
<b>Derivative liabilities by hedge designation</b>				
Fair value hedges	(3)	(4)	-	-
Cash flow hedges	(536)	(46)	(915)	(216)
Not in a hedge relationship	(39)	(41)	(34)	(36)
<b>Total derivative liabilities</b>	<b>(578)</b>	<b>(91)</b>	<b>(949)</b>	<b>(252)</b>
<b>Total gross debt</b>	<b>(16,218)</b>	<b>(16,070)</b>	<b>(16,009)</b>	<b>(15,965)</b>

##### (i) Fair value hedges

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

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

Table G Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Notional value as at 30 June	(4,874)	(4,904)
Unamortised discounts/premiums	17	22
<b>Amortised cost</b>	<b>(4,857)</b>	<b>(4,882)</b>
Cumulative fair value hedge adjustments	(480)	(655)
<b>Carrying amount</b>	<b>(5,337)</b>	<b>(5,537)</b>

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

Table H Telstra Group	Year ended 30 June	
	2017	2016
	(Gain)/loss	(Gain)/loss
	\$m	\$m
Re-measurement of hedged item used to measure ineffectiveness	(180)	274
Change in value of hedging instruments	199	(267)
<b>Net loss before tax from ineffectiveness</b>	<b>19</b>	<b>7</b>
Net loss after tax	13	5



## Section 4. Our capital and risk management (continued)

### 4.3 Capital management (continued)

#### 4.3.3 Derivatives (continued)

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

###### (ii) Cash flow hedges

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

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

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

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

Table I Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Cash flow hedging reserve</b>		
Changes in fair value of cash flow hedges	(402)	32
Changes in fair value transferred to other expenses	117	(196)
Changes in fair value transferred to goods and services purchased	3	(7)
Changes in fair value transferred to finance costs	208	204
Changes in fair value transferred to property, plant and equipment	2	(3)
Income tax on movements in the cash flow hedging reserve	22	(9)
	<b>(50)</b>	<b>21</b>

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

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

Table J Telstra Group	Notional cash outflows	
	As at 30 June	
	2017	2016
	\$m	\$m
<b>Non-capital items</b>		
Within 1 year	(634)	(956)
<b>Capital items</b>		
Within 1 year	(89)	(162)
<b>Borrowings</b>		
Within 1 year	(316)	(2,068)
Within 1 to 5 years	(3,553)	(2,477)
After 5 years	(4,147)	(5,672)
	<b>(8,739)</b>	<b>(11,335)</b>

Non-capital and capital items will be recognised in the income statement in the same period in which the cash flows are expected to occur.

###### (iii) Derivatives not in a formal hedge relationship

Some derivatives may not qualify for hedge accounting or are specifically not designated as a hedge as natural offset achieves substantially the same accounting results. This includes forward foreign currency contracts that are used to economically hedge exchange rate fluctuations associated with trade creditors or other liability and asset balances denominated in a foreign currency.

#### 4.3.4 Other hedge accounting policies

##### (a) Discontinuation of hedge accounting

Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or no longer meets the criteria for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement as the previously hedged item affects profit or loss. For fair value hedges, the cumulative adjustment recorded against the carrying value of the hedged item at the date hedge accounting ceases is amortised to the income statement using the effective interest method.

##### (b) Embedded derivatives

Derivatives embedded in host contracts that are financial assets are not separated from financial asset hosts and a hybrid contract is classified in its entirety at either amortised cost or fair value.

Derivatives embedded in other financial liabilities or other host contracts are treated as separate financial instruments when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management

Our underlying business activities result in exposure to operational risks and a number of financial risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks in order to reduce volatility on our financial performance and to support the delivery of our financial targets. Financial risk management is carried out centrally by our treasury department under policies approved by the Board.

This note summarises how we manage these financial risks.

All our financial instruments are accounted for under AASB 9 (2013): 'Financial instruments'.

#### 4.4.1 Managing our interest rate risk

Interest rate risk arises from changes in market interest rates. Borrowings issued at fixed rates expose us to fair value interest rate risk. Variable rate borrowings give rise to cash flow interest rate risk, which is partially offset by cash and cash equivalents balances held at variable rates.

We manage interest rate risk on our net debt portfolio by:

- setting our target ratio of fixed interest debt to variable interest debt, as required by our debt management policy
- ensuring access to diverse sources of funding
- reducing risks of refinancing by establishing and managing our target maturity profiles
- entering into cross currency and interest rate swaps. Also refer to note 4.3.3.

##### (a) Exposure

Table C in note 4.3.2 sets out the carrying amount of borrowings. The use of cross currency and interest rate swaps allows us to manage the level of exposure our borrowings have to interest rate risks. Table A below shows the way in which debt was managed in the financial year 2017 using interest rate swaps, by reporting our fixed to floating ratio pre and post the impact of derivatives.

Table A includes current borrowings based on the actual economic hedging arrangement. For internal risk management purposes, we classify debt due to mature within 12 months as floating.

Table A Telstra Group	Note	As at 30 June 2017		As at 30 June 2016	
		Pre-hedge borrowings	Post-hedge borrowings	Pre-hedge borrowings	Post-hedge borrowings
		\$m	\$m	\$m	\$m
Fixed rate		(14,964)	(9,627)	(16,069)	(10,813)
Floating rate		(2,320)	(7,657)	(1,233)	(6,489)
<b>Total borrowings</b>	4.3	<b>(17,284)</b>	<b>(17,284)</b>	<b>(17,302)</b>	<b>(17,302)</b>

## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management (continued)

#### 4.4.1 Managing our interest rate risk (continued)

##### (b) Sensitivity

We have performed a sensitivity analysis based on the interest rate risk exposures of our financial instruments as at 30 June, showing the impact that a 10 per cent shift in interest rates would have on our profit after tax and on equity. In accordance with our policy to swap foreign currency borrowings into Australian dollars, interest rate sensitivity relates primarily to movements in Australian interest rates.

Table B shows the results of our sensitivity analysis.

Table B Telstra Group	As at 30 June			
	2017		2016	
	Gain/(loss)			
	Net profit/ (loss)	Equity	Net profit/ (loss)	Equity
	\$m	\$m	\$m	\$m
Interest rates (+10%)	(19)	48	(24)	61
Interest rates (-10%)	18	(49)	24	(63)

A shift of 10 per cent has been selected as a reasonably possible change in interest rates based on the current level of both short-term and long-term interest rates. This is not a forecast or prediction of future market conditions.

The results of the sensitivity analysis are driven by the following main factors:

- any increase or decrease in interest rates will impact our net unhedged floating rate financial instruments and therefore will directly impact profit or loss
- changes in the fair value of derivatives which are part of effective cash flow hedge relationships are deferred in equity with no impact to profit or loss
- changes in the fair value of foreign currency basis spreads associated with our cross currency swaps are deferred in equity
- there is no net impact on profit or loss as a result of fair value movements on derivatives designated in effective fair value hedge relationships as there will be an offsetting adjustment to the underlying borrowing
- the analysis does not include the impact of any management action that might take place if a 10 per cent shift were to occur.

#### 4.4.2 Managing our foreign currency risk

Foreign currency risk is our risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign exchange rates. We operate internationally and hence we are exposed to foreign exchange risk from various currencies. However, our largest concentration of risk is attributable to the Euro, United States dollar and the Philippine peso.

This risk exposure arises primarily from:

- borrowings denominated in foreign currencies
- trade and other creditor balances denominated in foreign currencies
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies
- net investments in foreign controlled entities (foreign operations).

##### (a) Borrowings

We mitigate the foreign currency exposure on foreign currency denominated borrowings by:

- converting borrowings to Australian dollar using cross currency swaps
- holding borrowings to offset the translation of a foreign controlled entity (where significant we may choose to hedge foreign currency risk arising from the translation of the net assets of our foreign controlled entities).

Table C shows the carrying value of offshore borrowings by underlying currency. As at 30 June 2017, all offshore borrowings were swapped into Australian dollars (2016: all Australian dollars).

Table C Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
United States dollar	(2,592)	(2,672)
Euro	(7,948)	(9,612)
Japanese Yen	(119)	(136)
Swiss Franc	(315)	(325)
Other	(346)	(352)
<b>Total offshore borrowings</b>	<b>(11,320)</b>	<b>(13,097)</b>

As at 30 June 2017, we also held \$1,457 million (carrying value) of commercial paper, including \$1,318 million denominated in United States dollar. This was converted into Australian dollars using foreign exchange swaps.

## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management (continued)

#### 4.4.2 Managing our foreign currency risk (continued)

##### (b) Trading

The performance of our business is sensitive to movements in foreign exchange rates. Our major exposure to foreign currency risk arises from our operating (transactional) activities. We manage this risk by:

- hedging a proportion of the exposure of foreign exchange transaction risk arising from firm commitments or highly probable forecast transactions denominated in foreign currencies in accordance with our risk management policy. These transactions may be physically settled in a foreign currency or in Australian dollars but with direct reference to quoted currency rates in accordance with a contractual formula
- economically hedging a proportion of foreign currency risk associated with trade and other asset and liability balances
- economically hedging the risk associated with our wholly owned controlled entities ('WOCE') that may be exposed to transactions, both forecast and committed, in currencies other than their functional currency, in accordance with our overall risk management policy.

We hedge the above risks using forward foreign exchange contracts. Table D summarises the impact of outstanding forward foreign exchange contracts that are hedging our transactional currency exposures.

Table D Telstra Group	As at 30 June 2017				As at 30 June 2016			
	Exposure	Forward foreign exchange contract receive/(pay)			Exposure	Forward foreign exchange contract receive/(pay)		
	Local currency	Australian dollars	Average exchange rate		Local currency	Australian dollars	Average exchange rate	
	m	m	\$m	\$	m	m	\$m	\$
<b>Commercial paper borrowings</b>								
United States dollars	(1,020)	1,020	(1,357)	0.75	(330)	330	(468)	0.71
<b>Loans to and from WOCE</b>								
British pounds sterling	(15)	13	(23)	0.59	(24)	22	(41)	0.52
United States dollars	(342)	295	(390)	0.76	(316)	287	(382)	0.75
Other (various currencies)	-	-	(3)	-	-	-	(2)	-
<b>Forecast transactions</b>								
United States dollars	(469)	216	(284)	0.76	(580)	221	(300)	0.73
Philippine peso	(3,840)	3,072	(80)	38.40	(6,002)	4,802	(139)	34.64
Other (various currencies)	-	-	(7)	-	-	-	(13)	-
<b>Other assets and liabilities</b>								
United States dollars	(83)	83	(109)	0.76	(71)	71	(96)	0.72
Other (British pounds sterling)	-	-	-	-	(4)	4	(9)	0.46
<b>Total in Australian dollars</b>			<b>(2,253)</b>				<b>(1,450)</b>	

##### (c) Natural offset

Our direct foreign exchange exposure arising from the impact of translation of the results of our foreign entities to Australian dollars is, in part, naturally offset at the Group level by foreign currency denominated operating and capital expenditure of business units, for which we do not have formal hedging in place.

## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management (continued)

#### 4.4.2 Managing our foreign currency risk (continued)

##### (d) Sensitivity

We have performed a sensitivity analysis based on our foreign currency risk exposures existing at balance date. Table E shows the impact that a 10 per cent shift in applicable exchange rates would have on our profit after tax and on equity.

Table E Telstra Group	As at 30 June			
	2017		2016	
	Gain/(loss)			
	Net profit/ (loss)	Equity	Net profit/ (loss)	Equity
	\$m	\$m	\$m	\$m
Exchange rates (+10%)	19	(24)	31	(41)
Exchange rates (-10%)	(23)	30	(38)	50

A shift of 10 per cent has been selected as a reasonably possible change taking into account the current level of exchange rates and the volatility observed both on a historical basis and on market expectations of future movements. This is not a forecast or prediction of future market conditions.

The translation of our foreign entities' results into the Group's presentation currency has not been included in the above sensitivity analysis as this represents translation risk rather than transaction risk.

We are exposed to equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. This foreign currency risk is spread over a number of currencies. We have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency.

Any unhedged foreign exchange positions associated with our transactional exposures will directly affect profit or loss as a result of foreign currency movements.

There is no significant impact on profit or loss from foreign currency movements associated with our borrowings portfolio in effective fair value or cash flow hedges as a corresponding entry will be recognised on the associated hedging instrument.

The analysis does not include the impact of any management action that might take place if these events occurred.

#### 4.4.3 Managing our credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss. We are exposed to credit risk from our operating activities (primarily customer credit risk) and financing activities.

We manage credit risk by:

- applying stringent credit policies
- monitoring exposure to high risk debtors
- requiring collateral where appropriate
- assigning credit limits to all financial counterparties.

We may also be subject to credit risk on transactions not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 7.3.2.

##### (a) Customer credit risk

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. Other than nbn co, we do not have any significant credit risk exposure to a single customer or group of customers. Ageing analysis and ongoing credit evaluation are performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debts is raised. In addition, receivable balances are monitored on an ongoing basis so that our exposure to bad debts is not significant. Refer to note 3.3 for further details about our trade and other receivables.

##### (b) Treasury credit risk

We are exposed to credit risk from the investment of surplus funds (primarily deposits) and from the use of derivative financial instruments.

As at 30 June 2017 and 2016, we had a number of exposures to individual counterparties. To manage this risk, we have Board approved policies that limit the amount of credit exposure to any single counterparty. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted where appropriate. We also manage our credit exposure using a value at risk (VaR) methodology, which is an industry standard measure that estimates the maximum potential exposure of our risk positions as a result of future movements in market rates. This helps to ensure that we do not underestimate credit exposure with any single counterparty. Using VaR analysis, at 30 June 2017, 99 per cent (2016: 91 per cent) of our derivative credit exposure was with counterparties that have a credit rating of A- or better. Management does not expect any significant losses from non-performance by any of these counterparties.

## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management (continued)

#### 4.4.4 Managing our liquidity risk

Liquidity risk is the risk that we will be unable to meet our financial obligations as they fall due.

Our objective is to maintain a balance between continuity and flexibility of funding through the use of liquid financial instruments, long-term and short-term borrowings, and committed available bank facilities.

We manage liquidity risk by:

- defining minimum levels of cash and cash equivalents
- defining minimum levels of cash and cash equivalents plus undrawn bank facilities
- closely monitoring rolling forecasts of liquidity reserves on the basis of expected business cash flows
- using instruments which trade in highly liquid markets with highly rated counterparties
- investing surplus funds within various types of liquid instruments.

We believe that our contractual obligations can be met through existing cash and cash equivalents, operating cash flows and other funding arrangements we reasonably expect to have available to us, including the use of committed bank facilities if required.

Table F shows our contractual cash flow maturities of financial liabilities including estimated interest payments. The amounts disclosed are undiscounted future cash flows and therefore do not reconcile to the amounts in the statement of financial position.

Table F Telstra Group	Contractual maturity									
	As at 30 June 2017					As at 30 June 2016				
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Domestic borrowings	(808)	(538)	(1,257)	(1,550)	<b>(4,153)</b>	(397)	(809)	(1,134)	(800)	<b>(3,140)</b>
Offshore borrowings	(97)	(306)	(4,906)	(5,606)	<b>(10,915)</b>	(1,497)	(96)	(2,675)	(8,278)	<b>(12,546)</b>
Commercial paper	(1,467)	-	-	-	<b>(1,467)</b>	(656)	-	-	-	<b>(656)</b>
Interest on borrowings, excluding finance lease liabilities	(530)	(498)	(1,158)	(456)	<b>(2,642)</b>	(586)	(492)	(1,239)	(599)	<b>(2,916)</b>
Finance lease liabilities	(125)	(73)	(100)	(184)	<b>(482)</b>	(143)	(99)	(104)	(186)	<b>(532)</b>
Trade/other creditors and accrued expenses	(4,190)	(11)	(18)	(40)	<b>(4,259)</b>	(3,950)	(8)	(14)	(42)	<b>(4,014)</b>
Derivative financial assets	2,785	666	5,627	6,181	<b>15,259</b>	3,710	473	3,687	8,951	<b>16,821</b>
Derivative financial liabilities	(2,972)	(782)	(5,587)	(5,881)	<b>(15,222)</b>	(4,178)	(607)	(4,020)	(8,170)	<b>(16,975)</b>
<b>Total</b>	<b>(7,404)</b>	<b>(1,542)</b>	<b>(7,399)</b>	<b>(7,536)</b>	<b>(23,881)</b>	<b>(7,697)</b>	<b>(1,638)</b>	<b>(5,499)</b>	<b>(9,124)</b>	<b>(23,958)</b>

#### (a) Borrowing facilities

We have committed available bank facilities in place to support our liquidity requirements and our short-term and long-term borrowings. Table G shows our undrawn facilities as at 30 June.

Table G Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Facilities available	3,200	1,700
Facilities used	(200)	-
<b>Facilities unused</b>	<b>3,000</b>	<b>1,700</b>

## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management (continued)

#### 4.4.5 Valuation and disclosures within fair value hierarchy

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

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

Fair value hierarchy:

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

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

Level	Financial instrument	Fair value
<b>Level 1</b>	Listed investments in equity instruments	Quoted prices in active markets.
<b>Level 2</b>	Borrowings, cross currency and interest rate swaps	Present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of our 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.
	Forward foreign exchange contracts	Quoted forward exchange rates at reporting date for contracts with similar maturity profiles.
<b>Level 3</b>	Unlisted investments in equity instruments	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.
	Contingent consideration	Initial recognition: expectations of future performance of the business. Subsequent measurement: present value of the future expected cash flows.

During the financial year, a financial instruments balance of \$10 million was transferred from level 3 to level 1 following the investment listing on a stock exchange. The valuation technique for the investment changed to reflect the quoted market price.

## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management (continued)

#### 4.4.5 Valuation and disclosures within fair value hierarchy (continued)

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

Table H Telstra Group	As at 30 June 2017				As at 30 June 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>								
Derivative financial instruments	-	1,644	-	<b>1,644</b>	-	2,242	-	<b>2,242</b>
Investments in listed securities	15	-	-	<b>15</b>	216	-	-	<b>216</b>
Investments in unlisted securities	-	-	277	<b>277</b>	-	-	178	<b>178</b>
	<b>15</b>	<b>1,644</b>	<b>277</b>	<b>1,936</b>	<b>216</b>	<b>2,242</b>	<b>178</b>	<b>2,636</b>
<b>Liabilities</b>								
Derivative financial instruments	-	(578)	-	<b>(578)</b>	-	(949)	-	<b>(949)</b>
Contingent consideration	-	-	(8)	<b>(8)</b>	-	-	(16)	<b>(16)</b>
	-	<b>(578)</b>	<b>(8)</b>	<b>(586)</b>	-	<b>(949)</b>	<b>(16)</b>	<b>(965)</b>
<b>Total</b>	<b>15</b>	<b>1,066</b>	<b>269</b>	<b>1,350</b>	<b>216</b>	<b>1,293</b>	<b>162</b>	<b>1,671</b>

As at 30 June 2016, investments in listed securities included the fair value of our retained interest in Autohome Inc. of \$200 million based on the New York Stock Exchange 30 June 2016 closing share price of US\$20.11. This represented a quoted price in an active market. We subsequently sold our remaining 6.5 per cent interest in Autohome Inc. on 22 February 2017 for a total consideration of \$283 million and a cumulative gain of \$49 million was recognised in equity in accordance with the election made.

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

Table I Telstra Group	Unlisted securities
	Level 3
	\$m
<b>Opening balance 1 July 2016</b>	<b>178</b>
Purchases	76
Retained interest in a former joint venture entity	21
Remeasurement recognised in other comprehensive income	12
Transfer to listed securities	(10)
<b>Closing balance 30 June 2017</b>	<b>277</b>

The remeasurement recognised in other comprehensive income in the financial year 2017 related to investments held by Telstra Ventures Pty Ltd.

The retained interest in a former joint venture entity represents our former joint venture entity, which is now measured at fair value as we no longer have significant influence and discontinued the equity accounting method.

During the year, we have not received any dividends from our listed or unlisted equity investments and there have been no transfers to or from equity in relation to these investments.

Our borrowings as per Table C in note 4.3.2 are classified as level 2 in the fair value hierarchy.



## Section 4. Our capital and risk management (continued)

### 4.4 Financial instruments and risk management (continued)

#### 4.4.6 Offsetting and netting arrangements

Table J presents financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements.

Table J Telstra Group	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Gross amounts not offset in the statement of financial position		Net amounts
				Financial instruments	Collateral received or pledged	
	\$m	\$m	\$m	\$m	\$m	\$m
	A	B	C=A-B	D	E	F=C-D-E
As at 30 June 2017						
Trade and other receivables	732	100	<b>632</b>	109	9	<b>514</b>
Trade and other payables	(329)	(100)	<b>(229)</b>	(109)	-	<b>(120)</b>
Derivative financial assets	1,644	-	<b>1,644</b>	480	-	<b>1,164</b>
Derivative financial liabilities	(578)	-	<b>(578)</b>	(480)	-	<b>(98)</b>
<b>Total</b>	<b>1,469</b>	<b>-</b>	<b>1,469</b>	<b>-</b>	<b>9</b>	<b>1,460</b>
As at 30 June 2016						
Trade and other receivables	621	115	<b>506</b>	96	5	<b>405</b>
Trade and other payables	(311)	(115)	<b>(196)</b>	(96)	-	<b>(100)</b>
Derivative financial assets	2,242	-	<b>2,242</b>	713	-	<b>1,529</b>
Derivative financial liabilities	(949)	-	<b>(949)</b>	(713)	-	<b>(236)</b>
<b>Total</b>	<b>1,603</b>	<b>-</b>	<b>1,603</b>	<b>-</b>	<b>5</b>	<b>1,598</b>

Gross amounts not offset in the statement of financial position reflect amounts subject to conditional offsetting arrangements.

Gross amounts of financial instruments not offset in the statement of financial position, i.e. our material rights of set-off that are not otherwise included in column B, related to:

- our inter-operative tariff arrangements with some of our international roaming partners, where we have executed agreements that allow the netting of amounts payable and receivable by us on cessation of the contract
- our wholesale customers, where we have executed Customer Relationship Agreements that allow for the netting of amounts payable and receivable by us in certain circumstances where there is a right to suspend the supply of services or on the expiration or termination of the agreement
- our derivative financial instruments, where we have executed master netting arrangements under our International Swaps and Derivatives Association agreements. These agreements allow for the netting of amounts payable and receivable by us or the counterparty in the event of default or a credit event. In line with contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability.

## Section 5. Our people

We are working to attract and retain employees with the skills and passion to best serve our markets. This section provides information about our employee benefits obligations. It also includes details of our employee share plans and compensation paid to key management personnel.

### 5.1 Employee benefits

#### 5.1.1 Aggregate employee benefits

Our employee benefits include provisions and accrued expenses for our employee benefits and incentives, which are separately presented in the statement of financial position. These provisions and accruals include elements where we apply estimates and judgement. Accrued labour and related on-costs are disclosed within our current trade and other payables in note 3.5.

Redundancy provisions are included in our other provisions. A total provision of \$86 million has been raised for redundancy for the Telstra Group as at 30 June 2017 based on the detailed formal plan developed and communicated to those employees likely to be affected. The execution of the detailed formal plan, for which a redundancy provision has been raised, is expected to be completed by the end of the financial year 2018.

Table A provides a summary of all these employee obligations.

Table A Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Current provision for employee benefits	865	913
Non-current provision for employee benefits	160	169
Current redundancy provisions	86	6
Accrued labour and on-costs	480	364
	<b>1,591</b>	<b>1,452</b>

Provision for employee benefits includes annual leave, long service leave and incentives accrued by employees.

#### Long service leave provision

We applied management judgment to determine the following key assumptions used in the calculation of long service leave entitlements:

- 4.5 per cent (2016: 4.7 per cent) weighted average projected increases in salaries
- 4 per cent (2016: 3.3 per cent) discount rate.

The discount rate used to calculate the present value has been determined by reference to market yields at 30 June 2017 on 10 year (2016: 10 year) high quality corporate bonds which have due dates similar to those of our liabilities.

For the amounts of the provision presented as current, we do not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, we do not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Amounts disclosed in Table B have been determined in accordance with an actuarial assessment and reflect leave that is not expected to be taken or paid within the next 12 months.

Table B Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Leave obligations expected to be settled after 12 months	532	577

#### 5.1.2 Recognition and measurement

The liabilities for employee benefits relating to wages and salaries, annual leave and other current employee benefits are accrued at their nominal amounts. These are calculated based on remuneration rates expected to be current at the settlement date and include related costs.

Certain employees who have been employed by Telstra for at least 10 years are entitled to long service leave of three months (or more depending on the actual length of employment). We accrue liabilities for long service leave not expected to be paid or settled within 12 months of reporting date at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

Provisions are recognised when:

- the Telstra Group has a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events
- it is probable that a future sacrifice of economic benefits will arise
- a reliable estimate can be made of the amount of the obligation.

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies 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 effected.

## Section 5. Our people (continued)

### 5.2 Employee share plans

We have a number of employee share plans that are available for executives and employees as part of their short-term and long-term remuneration packages. Active share plans are conducted through the Telstra Growthshare Trust (Growthshare). Telstra wholly owns Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare (the Trustee), the results of which are consolidated into our Telstra Group Financial Report.

A transaction will be classified as share-based compensation where the Group receives services from employees and pays for these in shares or similar equity instruments.

This note summarises the primary employee share plans conducted through Growthshare and the key movements in the share-based payment arrangements during the financial year.

#### 5.2.1 Description of short-term incentive (STI) share-based payment arrangements

##### (a) Restricted shares

As approved by the Board, 25 per cent of executives' actual STI payment is provided as restricted shares with an effective allocation date of 1 July each financial year. For the CEO and other senior executives, half of these shares are restricted for 12 months and half for 24 months from their effective allocation date. For other executives, these shares are restricted for three years from their effective allocation date.

Performance hurdles are applied in determining the number of restricted shares allocated to executives, and therefore, once allocated, restricted shares are not subject to any other performance conditions. During the restriction period, from the actual grant date, executives are entitled to vote and earn dividends on their restricted shares. However, they are restricted from dealing with the shares during this period.

If an executive leaves Telstra for a non-permitted reason before the end of the relevant restriction period, the restricted shares are forfeited. A non-permitted reason is a reason other than a permitted reason (the definition of which is set out in the Remuneration Report Glossary). Restricted shares may also be forfeited if certain clawback events occur during the restriction period.

##### (b) Summary of movements

Table A summarises the movements in the number of restricted shares outstanding for the Group and their weighted average fair value. 'Exercised' refers to restricted shares being released from restriction.

Table A Telstra Group	Restricted shares	
	Number	Weighted average fair value
<b>Outstanding at 30 June 2015</b>	<b>7,273,914</b>	<b>\$4.07</b>
Granted	2,900,238	\$6.13
Forfeited	(367,382)	\$5.25
Exercised	(3,197,232)	\$3.43
<b>Outstanding at 30 June 2016</b>	<b>6,609,538</b>	<b>\$5.22</b>
Granted	1,708,194	\$5.47
Forfeited	(363,205)	\$5.88
Exercised	(2,521,050)	\$4.04
<b>Outstanding at 30 June 2017</b>	<b>5,433,477</b>	<b>\$5.80</b>

As at 30 June 2017, there were no exercisable STI instruments.

The weighted average share price for restricted shares exercised during the financial year was \$5.44 (2016: \$6.09).

#### 5.2.2 Description of long-term incentive (LTI) share-based payment arrangements

We have three key types of LTI share-based payment arrangements being:

- Executive LTI performance rights
- Employee Share Plan restricted shares
- Group Executive (GE) Telstra Wholesale restricted shares.

The performance rights and restricted shares have a nil exercise price and no outstanding performance rights and restricted shares were exercisable at 30 June 2017 or at 30 June 2016.

##### (a) Executive LTI performance rights

In respect of performance rights, an executive has no legal or beneficial interest in the underlying shares, no entitlement to receive dividends from the shares and no voting rights in relation to the shares unless the performance rights become restricted shares.

If the performance hurdle is satisfied at the end of the applicable performance period, a specified number of performance rights will become restricted shares.

Although the Trustee holds the restricted shares in trust, the executive will retain the beneficial interest (dividends, voting rights, bonus issues and rights issues) in these shares until they vest and are transferred to them at the end of the restriction period, or, in the case of performance rights granted in or after the financial year 2014, on the first day after the end of the restriction period that the executive is able to deal with the shares under Telstra's Securities Trading Policy (unless forfeited).

The performance rights and restricted shares are subject to lapsing and forfeiture provisions if the executive leaves Telstra before the end of the performance period or restriction period. The performance rights may also lapse and the restricted shares may be forfeited if a specified clawback event occurs during the performance period or restriction period.

## Section 5. Our people (continued)

### 5.2 Employee share plans (continued)

#### 5.2.2 Description of long-term incentive (LTI) share-based payment arrangements (continued)

##### (a) Executive LTI performance rights (continued)

Two types of Executive LTI performance rights existed in the financial year 2017 as follows:

- Relative Total Shareholder Return (RTSR) performance rights
- Free Cashflow Return on Investment (FCF ROI) performance rights.

Table B provides details of the two types of LTI performance rights, including relevant performance hurdles and vesting schedules.

Minimum threshold target refers to the minimum allocation threshold specified in each of the relevant plan terms. Stretch target refers to the maximum potential allocation threshold specified in each of the relevant plan terms.

<b>Table B</b>	
<b>Telstra Group</b>	
<b>LTI plan component</b>	<b>Detail</b>
Performance measure weighting	50% to RTSR 50% to FCF ROI
Performance period	Three years from 1 July to 30 June
Restriction period after vesting of performance rights as restricted shares	Approximately one year
<b>RTSR Performance Rights</b>	
Performance Hurdle - RTSR	RTSR measures the growth in Telstra's total shareholder return (TSR) relative to the growth in total shareholder return of telecommunication companies in a global peer group over the same period
Vesting schedule	25% vests at minimum threshold target  Straight-line vesting from minimum threshold target to stretch target where 100% vests
<b>FCF ROI Performance Rights</b>	
Performance Hurdle - FCF ROI	FCF ROI is calculated by dividing the average annual free cashflow (adjusted for interest paid and specific non-recurring factors) over the performance period by Telstra's average investment over the same period and may be adjusted by the Board to ensure that material events do not result in unintended windfall gains or losses
Vesting schedule	50% vests at minimum threshold target  Straight-line vesting from minimum threshold target to stretch target where 100% vests

##### (b) Employee Share Plan (ESP) restricted shares

Restricted shares provided under the ESP in each financial year were allocated at no cost to certain eligible employees (executives are excluded from the ESP).

The restricted shares are held by the Trustee on behalf of employees until the restriction period ends. For Australian based employees, the shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment. Although the Trustee holds the restricted shares in trust, the employees retain beneficial interest (dividends, voting rights, bonus issues and right issues) in these shares until the end of the restriction period.

There are no performance hurdles for these restricted shares.

##### (c) GE Telstra Wholesale restricted shares

Due to the Structural Separation Undertaking (SSU) arising from the nbn transaction, the executive fulfilling the GE Telstra Wholesale role has been prohibited from participating in the LTI plans since the financial year 2012. As a result, from the financial year 2013 an alternative remuneration arrangement has been provided to that executive, which is a restricted share plan where the allocated number of restricted shares is based on the executive's STI outcome for the previous financial year. The restriction period is three years from the allocation date.

The performance hurdles for GE Telstra Wholesale restricted shares are applied in determining the number of restricted shares allocated and the restricted shares are not subject to any other performance hurdles.

If the GE Telstra Wholesale executive leaves Telstra for any non-permitted reason before the end of the three-year restriction period, the restricted shares are forfeited. If the executive leaves for a permitted reason, he or she will forfeit a pro rata number of restricted shares. Restricted shares may also be forfeited if certain clawback events occur during the restriction period.

Due to the timing of the appointment of Will Irving as GE Telstra Wholesale in financial year 2016, he did not participate in FY17 LTI plan. Instead he will be allocated restricted shares in FY18 based on his performance against his FY17 STI plan measures.

## Section 5. Our people (continued)

### 5.2 Employee share plans (continued)

#### 5.2.2 Description of long-term incentive (LTI) share-based payment arrangements (continued)

##### (d) Outstanding equity based instruments

Table C provides further information about each type of LTI plan that was outstanding during the financial year.

End date refers to the end of the restriction period for ESP restricted shares, GE Telstra Wholesale restricted shares, and the restricted shares allocated after vesting of RTSR and FCF ROI performance rights.

All ESP restricted shares, GE Telstra Wholesale restricted shares and RTSR & FCF ROI performance rights have a nil exercise price.

Table C Telstra Group	Allocation date	Performance period		End date
		from	to	
<b>Growthshare 2013</b>				
RTSR & FCF ROI performance rights	17 Aug 2012	1 Jul 2012	30 Jun 2015	17 Aug 2016
<b>Growthshare 2014</b>				
ESP restricted shares	28 Feb 2014	n/a	n/a	28 Feb 2017
RTSR & FCF ROI performance rights	1 Jul 2013	1 Jul 2013	30 Jun 2016	30 Jun 2017
GE Telstra Wholesale restricted shares	1 Jul 2013	n/a	n/a	1 Jul 2016
<b>Growthshare 2015</b>				
ESP restricted shares	27 Feb 2015	n/a	n/a	27 Feb 2018
RTSR & FCF ROI performance rights	1 Jul 2014	1 Jul 2014	30 Jun 2017	30 Jun 2018
GE Telstra Wholesale restricted shares	1 Jul 2014	n/a	n/a	30 Jun 2017
<b>Growthshare 2016</b>				
ESP restricted shares	26 Feb 2016	n/a	n/a	26 Feb 2019
RTSR & FCF ROI performance rights	1 Jul 2015	1 Jul 2015	30 Jun 2018	30 Jun 2019
GE Telstra Wholesale restricted shares	1 Jul 2015	n/a	n/a	30 Jun 2018
<b>Growthshare 2017</b>				
ESP restricted shares	24 Feb 2017	n/a	n/a	24 Feb 2020
RTSR & FCF ROI performance rights	1 Jul 2016	1 Jul 2016	30 Jun 2019	30 Jun 2020

## Section 5. Our people (continued)

### 5.2 Employee share plans (continued)

#### 5.2.2 Description of long-term incentive (LTI) share-based payment arrangements (continued)

##### (e) Summary of movements

Table D provides a summary of the movements in our LTI plans.

Forfeited refers to either instruments that lapsed on cessation of employment or following a clawback event or instruments that lapsed unexercised.

Exercised refers to performance rights and restricted shares released from restriction.

Expired refers to instruments that lapsed as the result of the performance hurdle not being met.

Telstra Group	Number of equity instruments					
	Outstanding at 30 June 2016	Granted	Forfeited	Exercised	Expired	Outstanding at 30 June 2017
<b>Growthshare 2013</b>						
RTSR performance rights	1,896,720	-	-	(1,896,720)	-	-
FCF ROI performance rights	1,667,446	-	-	(1,667,446)	-	-
<b>Growthshare 2014</b>						
ESP restricted shares	2,161,200	-	-	(2,161,200)	-	-
RTSR performance rights	496,734	-	-	-	-	496,734
FCF ROI performance rights	1,201,768	-	-	-	-	1,201,768
GE Telstra Wholesale restricted shares	133,595	-	-	(133,595)	-	-
<b>Growthshare 2015</b>						
ESP restricted shares	2,239,600	-	-	(267,500)	-	1,972,100
RTSR performance rights	1,206,972	-	(87,921)	-	(1,119,051)	-
FCF ROI performance rights	1,206,973	-	(87,921)	-	(1,119,052)	-
GE Telstra Wholesale restricted shares	117,277	-	(17,103)	-	-	100,174
<b>Growthshare 2016</b>						
ESP restricted shares	2,471,600	-	-	(300,200)	-	2,171,400
RTSR performance rights	1,367,450	-	(139,070)	-	-	1,228,380
FCF ROI performance rights	1,367,450	-	(139,070)	-	-	1,228,380
GE Telstra Wholesale restricted shares	66,031	-	(26,138)	-	-	39,893
<b>Growthshare 2017</b>						
ESP restricted shares	-	2,460,600	-	(80,100)	-	2,380,500
RTSR performance rights	-	1,961,713	(36,605)	-	-	1,925,108
FCF ROI performance rights	-	1,961,713	(36,605)	-	-	1,925,108

## Section 5. Our people (continued)

### 5.2 Employee share plans (continued)

#### 5.2.2 Description of long-term incentive share-based payment arrangements (continued)

##### (f) Reconciliation of outstanding share plans

Table E summarises the number and weighted average fair value of each type of LTI equity instrument.

Table E Telstra Group	Performance rights		Restricted shares	
	Number	Weighted average fair value	Number	Weighted average fair value
<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>
Granted	2,878,456	\$3.48	2,592,231	\$5.26
Forfeited	(3,235,624)	\$3.42	-	-
Exercised	(3,432,133)	\$2.31	(2,615,971)	\$4.75
Expired	(1,506,199)	\$2.54	-	-
<b>Outstanding at 30 June 2016</b>	<b>10,411,513</b>	<b>\$3.29</b>	<b>7,189,303</b>	<b>\$5.60</b>
Granted	3,923,426	\$3.27	2,460,600	\$4.84
Forfeited	(527,192)	\$3.56	(43,241)	\$5.94
Exercised	(3,564,166)	\$2.67	(2,942,595)	\$5.23
Expired	(2,238,103)	\$3.83	-	-
<b>Outstanding at 30 June 2017</b>	<b>8,005,478</b>	<b>\$3.38</b>	<b>6,664,067</b>	<b>\$5.48</b>

The weighted average share prices for instruments exercised during the financial year 2017 were:

- \$5.41 for the release of performance rights under the financial year 2013 LTI plan
- \$4.77 for the release of restricted shares under the financial year 2017, 2016, 2015 and 2014 ESP plans and the financial year 2014 GE Telstra Wholesale plan.

The weighted average share prices of instruments exercised during the financial year 2016 were:

- \$6.21 for the release of performance rights under the financial year 2012 LTI plan
- \$5.39 for the release of restricted shares under the financial year 2016, 2015, 2014 and 2013 ESP plans and the financial year 2013 GE Telstra Wholesale plan.

These weighted average share prices were based on the closing market price on the exercise dates.

No LTI equity instruments were exercisable at 30 June 2017.

##### (g) Fair value measurement

###### (i) Performance rights

Table F provides details of the inputs used in the measurement of the fair values at grant date of the performance rights.

Table F Telstra Group	LTI RTSR and FCF ROI performance rights	
	Measurement date at	
	Oct 2016	Oct 2015
Share price	\$5.10	\$5.49
Risk free rate	1.76%	1.81%
Dividend yield	6.0%	6.0%
Expected stock volatility	15.0%	15.0%
Expected life	(a)	(a)
Expected rate of achievement of TSR performance hurdles	43.2%	41.3%

(a) The expected life represents the date on which the instruments become exercisable.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This is based on the historical daily and weekly closing share prices.

The expected rate of achievement of TSR performance hurdle only applies to LTI RTSR performance rights.

## Section 5. Our people (continued)

### 5.2 Employee share plans (continued)

#### 5.2.3 Other equity plans

##### (a) TESOP 99

As part of the Commonwealth's sale of its shareholding in the financial years 1998 and 2000, Telstra offered eligible employees the opportunity to buy ordinary shares of Telstra with an interest-free loan from Telstra. The shares are held by Telstra ESOP Trustee Pty Limited (TESOP Trustee) on behalf of the employee until the loan has been repaid in full. The Telstra Employee Share Ownership Plan II (TESOP 99) has 3,093,400 outstanding equity instruments as at 30 June 2017 (2016: 3,264,600) with a total fair value of \$13 million (2016: \$18 million). This plan did not have a material impact on our results.

The employee share loan balance as at 30 June 2017 was \$12 million (2016: \$13 million). For TESOP99, the weighted average loan still to be repaid was \$3.74 (2016: \$3.97) per instrument.

#### 5.2.4 Recognition and measurement

Our employee share plans are equity settled and consist of restricted shares and performance rights. For each of our share plans, we measure the fair value of the equity instrument at grant date and recognise the expense over the relevant vesting period in the income statement with a corresponding increase in equity (i.e. share capital). The expense is adjusted to reflect actual and expected levels of vesting.

The fair values of our equity instruments are calculated by a qualified independent valuer by taking into account the terms and conditions of the individual plan and as follows:

Equity instrument	Fair value approach
Restricted shares	Market value of Telstra share at grant date
Performance rights	Black-Scholes methodology and utilises Monte Carlo simulations

The restricted shares are subject to a specified period of service, except for ESP for Australia based employees. Performance rights are subject to certain performance conditions and are measured over three years from 1 July of each year with an additional one year restriction period after vesting as restricted shares.

### 5.3 Post-employment benefits

We participate in, or sponsor, defined benefit and defined contribution schemes for our employees. This note provides details of our Telstra Superannuation Scheme (Telstra Super) defined benefit plan.

Our employer contributions to Telstra Super are based on our actuary's recommendations in line with any legislative requirements. The net defined benefit asset/(liability) at balance date is also affected by the valuation of Telstra Super's investments and our obligations to members of Telstra Super.

#### 5.3.1 Net defined benefit plan asset/(liability)

Table A details our net defined benefit plan asset/(liability) recognised in the statement of financial position.

Table A Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Fair value of defined benefit plan assets	2,565	2,638
Present value of the defined benefit obligation	2,429	2,627
<b>Net defined benefit asset</b>	<b>136</b>	<b>11</b>
<b>Attributable to:</b>		
Telstra Super Scheme	142	15
Other	(6)	(4)
	<b>136</b>	<b>11</b>

#### 5.3.2 Telstra Superannuation Scheme (Telstra Super)

The Telstra Entity participates in Telstra Super, a regulated fund in accordance with the Superannuation Industry Supervision Act governed by the Australian Prudential Regulation Authority.

Telstra Super's board of directors operates and governs the plan, including making investment decisions.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions, which are closed to new members, provide benefits based on years of service and final average salary paid as a lump sum. Post-employment benefits do not include payments for medical costs.

On an annual basis, we engage qualified actuaries to calculate the present value of the defined benefit obligations.

Contribution levels made to the defined benefit divisions are determined by Telstra after obtaining the advice of the actuary and in consultation with Telstra Super Pty Ltd (the Trustee). These are designed to ensure that benefits accruing to members and beneficiaries are fully funded as they fall due. The benefits received by members of each defined benefit division take into account factors such as each employee's length of service, final average salary, and employer and employee contributions.

Telstra Super is exposed to Australia's inflation, credit risk, liquidity risk and market risk. Market risk includes interest rate risk, equity price risk and foreign currency risk. The strategic investment policy of the fund is to build a diversified portfolio of assets to match the projected liabilities of the defined benefit plan.



## Section 5. Our people (continued)

### 5.3 Post-employment benefits (continued)

#### 5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

##### (a) Reconciliation of changes in fair value of defined benefit plan assets

Table B provides a reconciliation of fair value of defined benefit plan assets from the opening to the closing balance.

Table B Telstra Super	As at 30 June	
	2017	2016
	\$m	\$m
<b>Fair value of defined benefit plan assets at beginning of year</b>	<b>2,638</b>	<b>2,694</b>
Employer contributions	66	72
Member contributions	36	48
Benefits paid (including contributions tax)	(266)	(203)
Plan expenses after tax	(9)	(8)
Interest income on plan assets	81	110
Actual asset gain/(loss)	19	(75)
<b>Fair value of defined benefit plan assets at end of year</b>	<b>2,565</b>	<b>2,638</b>

##### (b) Reconciliation of changes in the present value of the wholly funded defined benefit obligation

Table C provides a reconciliation of the present value of defined benefit obligation from the opening to the closing balance.

Table C Telstra Super	As at 30 June	
	2017	2016
	\$m	\$m
<b>Present value of defined benefit obligation at beginning of year</b>	<b>2,623</b>	<b>2,398</b>
Current service cost	82	82
Interest cost	82	101
Member contributions	16	18
Benefits paid	(266)	(203)
Actuarial (gain)/loss due to change in financial assumptions	(144)	180
Actuarial (gain) due to change in demographic assumptions	(8)	(3)
Actuarial loss due to experience	38	50
<b>Present value of wholly funded defined benefit obligation at end of year</b>	<b>2,423</b>	<b>2,623</b>

The actual return on defined benefit plan assets was 4.5 per cent (2016: 2.1 per cent).

Net actuarial gain recognised in other comprehensive income for Telstra Super amounted to \$133 million (2016: \$302 million net loss).

##### (c) Categories of plan assets

Table D details the weighted average allocation as a percentage of the fair value of total plan assets by class based on their nature and risks.

Table D Telstra Super	As at 30 June	
	2017	2016
	%	%
<b>Asset allocations</b>		
<b>Equity instruments</b>		
Australian equity <sup>1</sup>	18	18
International equity <sup>1</sup>	17	17
Private equity	7	7
<b>Debt instruments</b>		
Fixed interest <sup>1</sup>	45	45
Property	4	4
Cash and cash equivalents	6	6
Other	3	3
	<b>100</b>	<b>100</b>

<sup>1</sup> These assets have quoted prices in active markets.

##### (i) Related party disclosures

As at 30 June 2017, Telstra Super owned 39,779,094 (2016: 32,896,875) shares in the Telstra Entity at a cost of \$198 million (2016: \$195 million) and a market value of \$171 million (2016: \$183 million). All these shares were fully paid at 30 June 2017. In the financial year 2017, we paid dividends to Telstra Super of \$9 million (2016: \$11 million). We own 100 per cent of the equity of Telstra Super Pty Ltd, the Trustee of Telstra Super.

Telstra Super also holds promissory notes and bonds issued by the Telstra Entity. As at 30 June 2017, these securities had a cost of \$24 million (2016: \$119 million) and a market value of \$24 million (2016: \$122 million).

All purchases and sales of Telstra shares, promissory notes and bonds by Telstra Super are on an arm's length basis and are determined by the Trustee and/or its investment managers on behalf of the members of Telstra Super.

## Section 5. Our people (continued)

### 5.3 Post-employment benefits (continued)

#### 5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

##### (d) Actuarial assumptions and sensitivity analysis

<b>Defined benefit plan</b>	<p>Management judgement was used to determine the following key assumptions used in the calculation of our defined benefit obligations:</p> <ul style="list-style-type: none"> <li>• 3.3 per cent (2016: 3.3 per cent) average expected rate of increase in future salaries</li> <li>• 3.9 per cent (2016: 3.3 per cent) discount rate.</li> </ul> <p>We have used a nine-year (2016: nine-year) high quality corporate bond rate to determine the discount rate as the term matches closest to the term of the defined benefit obligations.</p> <p>Our assumption for the salary inflation rate for Telstra Super reflects our long-term expectation for salary increases.</p> <p>If the estimates prove to be incorrect, this may materially affect balances in the next reporting period.</p>
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Table E summarises how the defined benefit obligation as at 30 June 2017 would have increased/(decreased) as a result of a change in the respective assumptions by 1 percentage point (1pp).

Table E Telstra Super	Defined benefit obligation	
	1pp increase	1pp decrease
	\$m	\$m
Discount rate	(183)	225
Expected rate of increase in future salaries	135	(121)

##### (e) Employer contributions

During the year, we paid contributions totalling \$66 million (2016: \$72 million) at the rate of 15 per cent (2016: 15 per cent) to our defined benefit divisions, following recommendations from our actuary.

We expect to continue to contribute at the rate of 15 per cent to our defined benefit divisions for the financial year 2018. This contribution rate could change depending on market conditions during the financial year 2018.

Table F shows the expected proportion of benefits paid from the defined benefit obligation in future years.

Table F Telstra Super	Year ended 30 June	
	2017	2016
	%	%
Within 1 year	6	11
Between 1 and 4 years	19	17
Between 5 and 9 years	20	18
Between 10 and 19 years	42	39
After 20 years	13	15
	<b>100</b>	<b>100</b>

The weighted average duration of the defined benefit plan obligations at the end of the reporting period was nine years (2016: nine years).

##### 5.3.3 Other defined benefit schemes

Our controlled entities also participate in both funded and unfunded defined benefit schemes, which are individually and in aggregate immaterial.

##### 5.3.4 Recognition and measurement

###### (a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements and other obligations. The contributions are recorded as an expense in the income statement as they become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

###### (b) Defined benefit plans

###### (i) Telstra Superannuation Scheme

We currently sponsor a post-employment defined benefit plan under the Telstra Superannuation Scheme.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit is recognised as a liability. In the reverse situation, the net surplus is recognised as an asset. We recognise the asset only when we have the ability to control this surplus to generate future funds that will be available to us in the form of reductions in future contributions or as a cash refund.

The actuaries use the projected unit credit method to estimate the present value of the defined benefit obligations of the plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on high quality corporate bonds.

We recognise all our defined benefit costs in the income statement, with the exception of actuarial gains and losses that are recognised directly in other comprehensive income.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at a reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

## Section 5. Our people (continued)

### 5.4 Key management personnel compensation

Key management personnel (KMP) refer to those who have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. KMP are deemed to include the following:

- the non-executive Directors of the Telstra Entity
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, including the CEO.

This note summarises the aggregate compensation of our KMP during the financial years 2017 and 2016, and provides information about other transactions with our KMP and their related parties.

#### 5.4.1 KMP aggregate compensation

During the financial years 2017 and 2016, the aggregate compensation of our KMP was:

Telstra Group	As at 30 June	
	2017	2016
	\$	\$
Short-term employee benefits	15,023,964	15,377,763
Post-employment benefits	284,033	292,238
Other long-term benefits	184,404	197,365
Termination benefits	671,697	1,324,977
Share-based payments	4,192,578	5,511,939
	<b>20,356,676</b>	<b>22,704,282</b>

Refer to the Remuneration Report, which forms part of the Directors' Report for further details regarding KMP remuneration.

#### 5.4.2 Other transactions with our KMP and their related parties

During the financial years 2017 and 2016, apart from transactions trivial and domestic in nature and on normal commercial terms and conditions, there were no other transactions with our KMP and their related parties.

## Section 6. Our investments

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

### 6.1 Changes in the group structure

#### 6.1.1 Current year acquisitions

There were no material acquisitions during the financial year 2017. The individually immaterial acquisitions have been summarised below.

On 31 July 2016, we acquired 100 per cent shareholding in Mercury Holdings Corporation Pty Ltd and its controlled entities (MSC). MSC manages and supports mobile devices through Enterprise Mobility Management and provides professional services which comprise strategy consulting and mobility solutions design.

On 25 November 2016, we acquired the business known as Cognevo. Cognevo provides security and threat analytics to detect anomalies and potential threats in the behaviour of users across the network.

On 2 December 2016, we acquired 100 per cent shareholding in Mobile Payment Gateway Pty Limited (previously known as Fusion Payments Pty Ltd), a mobile recharge and payments provider.

On 2 June 2017, we acquired 100 per cent shareholding in Company 85 Limited and its wholly owned subsidiary DVS Channel Services Limited (Company 85). Company 85 is a UK based technology consulting business that provides services related to complex enterprise transformations across networks, security, data centre, cloud, collaboration and mobility domains.

On 30 June 2017, we acquired the Hosted Collaboration Solutions business assets from Inabox Group Limited. The assets are used to provide hosted collaboration services to customers.

Table A below summarises the effect of our acquisitions.

<b>Table A</b>	<b>Year ended 30 June 2017</b>
<b>Telstra Group</b>	<b>\$m</b>
<b>Consideration for acquisitions</b>	
Cash consideration	56
Contingent consideration	3
<b>Total purchase consideration</b>	<b>59</b>
Cash balances acquired	(4)
Contingent consideration payable	(3)
Contingent consideration paid	10
Deferred consideration paid on prior period acquisition	1
<b>Outflow of cash on acquisitions</b>	<b>63</b>
	<b>Fair value</b>
<b>Assets/(liabilities) at acquisition date</b>	
Cash and cash equivalents	4
Trade and other receivables	17
Prepayments	4
Intangible assets	28
Trade and other payables	(13)
Provisions	(1)
Current tax payables	(1)
Deferred tax liabilities	(1)
<b>Net assets</b>	<b>37</b>
Goodwill on acquisition	22
<b>Total purchase consideration</b>	<b>59</b>

Contingent consideration paid includes targets achieved by 30 June 2016 related to prior period acquisitions.

Contingent consideration payable is based on the entities acquired achieving financial and non-financial targets between 30 June 2017 and 30 June 2019.

The fair value of the trade and other receivables equalled the gross contractual amount which is expected to be collectible.

The goodwill comprises revenue growth opportunities, cost synergies, workforce talents and profitability of the acquired businesses. None of the goodwill recognised is expected to be deductible for income tax purposes.

## Section 6. Our investments (continued)

### 6.1 Changes in the group structure (continued)

#### 6.1.1 Current year acquisitions (continued)

Table B details impact of the current year acquisitions on our income statement.

Table B Telstra Group	Year ended 30 June 2017
	\$m
<b>Contribution to the Group's performance from the acquisition date</b>	
Income	1
Loss before income tax	(21)

Acquisition costs of \$1 million incurred are included in other expenses in the income statement.

If all the acquisitions made had occurred on 1 July 2016, our adjusted Telstra Group consolidated income and profit before income tax expense from continuing operations for the year ending 30 June 2017 would have been \$28,225 million and \$5,645 million, respectively.

#### Accounting for business combinations

We apply management judgment to determine the fair value of acquired net assets. The relevant accounting standard allows the fair value of net assets acquired to be refined for a window of a year after the acquisition date and judgment is required to ensure that the adjustments made reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjustments made to fair value of net assets are retrospective in nature and have an impact on goodwill recognised on acquisition.

#### 6.1.2 Prior year disposals

Proceeds from sale of businesses and shares in controlled entities (net of cash disposed) were \$1,340 million of which \$1,323 million was related to the sale of Autohome Inc. and its controlled entities on 23 June 2016. The remaining ownership interest was disposed in the current financial year. Refer to note 4.4.5 for further information.

#### 6.1.3 Recognition and measurement

We account for the acquisition of our controlled entities using the acquisition method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the fair value of consideration over our interest in the fair value of the acquiree's net identifiable assets is recognised as goodwill. We expense acquisition related costs as incurred in the income statement.

The non-controlling interests on the date of acquisition can be measured at either fair value or at the non-controlling shareholders' proportion of the net fair value of the identifiable assets assumed. This choice is made separately for each acquisition. Transactions with non-controlling interests are recorded directly in statement of comprehensive income.

Contingent consideration is classified as a financial instrument. It is recognised at fair value at acquisition date and subsequently remeasured to fair value, with changes in fair value recognised in the income statement.

If a business combination is achieved in stages, we remeasure any previously held equity interest at its acquisition fair value and any resulting gain or loss is recognised in income statement.

## Section 6. Our investments (continued)

### 6.2 Investments in controlled entities

#### 6.2.1 List of our investments in controlled entities

Table A sets out our material operating controlled entities as at 30 June 2017 based on a percentage of earnings before interest, income tax expense, depreciation and amortisation (EBITDA). The ownership percentages represent the relevant percentage of equity held by the subsidiary's immediate and ultimate parent, respectively.

A complete list of our controlled entities is available online at [www.telstra.com/investor](http://www.telstra.com/investor).

Table A		% of equity held by immediate parent		% of equity held by ultimate parent	
		As at 30 June		As at 30 June	
		2017	2016	2017	2016
Name of entity	Country of incorporation	%	%	%	%
<b>Ultimate parent entity</b>					
Telstra Corporation Limited	Australia				
<b>Controlled entities</b>					
1300 Australia Pty Ltd	Australia	85.0	85.0	85.0	85.0
Asia Global Crossing Finance Co. Ltd	Bermuda	100.0	100.0	100.0	100.0
Asia Netcom Pacnet (Ireland) Limited	Ireland	100.0	100.0	100.0	100.0
Bridge Point Communications Pty Ltd	Australia	100.0	100.0	100.0	100.0
CloudMed Pty Ltd	Australia	100.0	100.0	100.0	100.0
DCA Direct Health Pty Ltd	Australia	100.0	100.0	100.0	100.0
Fred IT Group Pty Ltd <sup>1, 2</sup>	Australia	50.0	50.0	50.0	50.0
Neto E-Commerce Solutions Pty Ltd	Australia	59.7	51.0	59.7	51.0
O2 Networks Pty Ltd <sup>3</sup>	Australia	100.0	100.0	100.0	100.0
Ooyala AB <sup>4, 5</sup>	Sweden	100.0	100.0	98.4	97.6
Ooyala Holdings Inc. <sup>4, 5</sup>	United States	98.4	97.6	98.4	97.6
Ooyala Inc. <sup>4, 5</sup>	United States	100.0	100.0	98.4	97.6
Pacific Business Solutions (China) (formerly Pacnet Business Solutions (China)) <sup>1, 2, 4</sup>	China	50.0	50.0	50.0	50.0
Pacnet Cable Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Internet (A) Pty Ltd	Australia	100.0	100.0	100.0	100.0
Pacnet Internet (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Pacnet Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Networks (Philippines) Inc.	Philippines	100.0	100.0	100.0	100.0
Pacnet Network (UK) Limited	United Kingdom	100.0	100.0	100.0	100.0
Pacnet Network Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Services (A) Pty Ltd	Australia	100.0	100.0	100.0	100.0
Pacnet Services (Japan) Corp. <sup>3</sup>	Japan	100.0	100.0	100.0	100.0
PT Teltranet Aplikasi Solusi <sup>1, 4</sup>	Indonesia	49.0	49.0	49.0	49.0
Telstra Broadcast Services Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Cable (HK) Limited (formerly Pacnet Cable (HK) Limited)	Hong Kong	100.0	100.0	100.0	100.0
Telstra Global (HK) Limited (formerly Pacnet Global (HK) Limited)	Hong Kong	100.0	100.0	100.0	100.0

## Section 6. Our investments (continued)

### 6.2 Investments in controlled entities (continued)

#### 6.2.1 List of our investments in controlled entities (continued)

Table A (continued)		% of equity held by immediate parent		% of equity held by ultimate parent	
		As at 30 June		As at 30 June	
		2017	2016	2017	2016
Name of entity	Country of incorporation	%	%	%	%
Telstra Global (Singapore) Pte Ltd (formerly Pacnet Global (Singapore) Pte Ltd)	Singapore	100.0	100.0	100.0	100.0
Telstra Holdings Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Inc.	United States	100.0	100.0	100.0	100.0
Telstra International (Aus) Limited	Australia	100.0	100.0	100.0	100.0
Telstra International Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra International Philippines Inc.	Philippines	100.0	100.0	100.0	100.0
Telstra Internet (S) Pte Ltd (formerly Pacnet Internet (S) Pte Ltd)	Singapore	100.0	100.0	100.0	100.0
Telstra iVision Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Japan K.K.	Japan	100.0	100.0	100.0	100.0
Telstra Limited	United Kingdom	100.0	100.0	100.0	100.0
Telstra Media Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Multimedia Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Pay TV Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Readycare Pty Ltd <sup>5</sup>	Australia	88.7	87.5	88.7	87.5
Telstra Services (Taiwan) Inc. (formerly Pacnet Services (Taiwan) Inc.) <sup>3</sup>	Taiwan	100.0	100.0	100.0	100.0
Telstra Services (USA) Inc. (formerly Pacnet Services (USA) Inc.)	United States	100.0	100.0	100.0	100.0
Telstra Services Asia Pacific (HK) Limited (formerly Pacnet Services Asia Pacific (HK) Limited)	Hong Kong	100.0	100.0	100.0	100.0
Telstra Services Global (S) Pte Ltd (formerly Pacnet Services Global (S) Pte Ltd)	Singapore	100.0	100.0	100.0	100.0
Telstra Singapore Pte Ltd	Singapore	100.0	100.0	100.0	100.0
Telstra SNP Monitoring Pty Ltd <sup>1</sup>	Australia	51.0	51.0	51.0	51.0
Telstra Telecommunications Private Limited <sup>4</sup>	India	74.0	74.0	74.0	74.0
Telstra Web Holdings Inc. <sup>3</sup>	Philippines	64.0	64.0	64.0	64.0

<sup>1</sup> We have control over these companies through our decision making ability on the board.

<sup>2</sup> These companies are not audited by Ernst & Young, our Australian statutory auditor.

<sup>3</sup> The investment in these companies is held by various entities. The immediate parent percentage reflected represents the ultimate ownership by Telstra Corporation.

<sup>4</sup> These entities have a 31 December reporting date except for Telstra Telecommunications Private Limited which has a 31 March reporting date.

<sup>5</sup> We increased our ownership interest in these entities via additional equity contributions.

## Section 6. Our investments (continued)

### 6.2 Investments in controlled entities (continued)

#### 6.2.2 Deed of cross guarantee

Telstra Corporation Limited and each of the wholly-owned subsidiaries set out below (together the 'Closed Group'), have entered into a deed of cross guarantee, as defined in ASIC legislative instrument: 'ASIC Corporations (Wholly-owned Companies) Instrument 2016/785' (ASIC Instrument) dated 17 May 2010 (Deed).

The effect of the Deed is that each entity in the Closed Group guarantees the payment in full of all debts of the other entities in the Closed Group in the event of their winding up.

Pursuant to the ASIC Instrument, the wholly-owned subsidiaries within the Closed Group are relieved from the requirement to prepare and lodge separate financial statements, directors' reports and auditors' reports.

The statement of comprehensive income and statement of financial position disclosed in this section present consolidated results of the Closed Group.

The following entities are party to the Deed and part of the Closed Group:

- Telstra Corporation Limited
- Bridge Point Communications Pty Ltd
- DCA Direct Health Pty Ltd
- DCA eHealth Solutions Pty Ltd
- Goodwin Enterprises (Vic) Pty Ltd
- Kelzone Pty Ltd
- Network Design and Construction Limited
- NSC Enterprises Solutions Pty Ltd
- NSC Group Pty Ltd
- O2 Networks Pty Ltd
- Prentice Management Consulting Pty Ltd
- Telstra Communications Limited
- Telstra Holdings Pty Ltd
- Telstra International (Aus) Limited
- Telstra iVision Pty Ltd
- Telstra Multimedia Pty Ltd
- Telstra Pay TV Pty Ltd
- Telstra Plus Pty Ltd
- Telstra Services Solutions Holdings Limited
- Telstra Ventures Pty Ltd
- Kloud Solutions (National) Pty Ltd
- Telstra Broadcast Services Pty Ltd
- Telstra Media Pty Ltd
- The Silver Lining Consulting Group Pty Ltd.

These entities were added as parties to the Deed via an assumption deed on 22 June 2017 and are also part of the Closed Group:

- iCareHealth Pty Ltd
- Readify Pty Ltd
- Telstra Software Group Pty Ltd.

On 14 June 2017, a revocation deed was lodged with ASIC to revoke and release NSC Group Pty Ltd and NSC Enterprises Solutions Pty Ltd from the Deed in preparation for the liquidation of these entities. The revocation deed will take effect six months after the date of lodgement with ASIC at which point NSC Group Pty Ltd and NSC Enterprises Solutions Pty Ltd will cease being members of the Closed Group.

There are no other members of the Extended Closed Group (as defined in the ASIC Instrument). Telstra Finance Limited is trustee under the Deed. However, it is not a member of the Closed Group or the Extended Closed Group.

The consolidated statement of financial position and statement of comprehensive income of the entities that are members of the Closed Group are presented in Tables B and C respectively. This excludes Telstra Finance Limited. All transactions between members of the Closed Group have been eliminated.

Table B Closed Group	As at 30 June	
	2017	2016
	\$m	\$m
<b>Current assets</b>		
Cash and cash equivalents	809	3,421
Trade and other receivables	4,711	4,044
Inventories	877	544
Derivative financial assets	21	62
Current tax receivables	7	-
Prepayments	487	378
<b>Total current assets</b>	<b>6,912</b>	<b>8,449</b>
<b>Non-current assets</b>		
Trade and other receivables	1,037	1,284
Inventories	29	29
Investments – controlled entities	2,816	2,342
Investments – accounted for using the equity method	187	171
Investments – other	289	392
Property, plant and equipment	20,239	19,380
Intangible assets	7,859	7,752
Derivative financial assets	1,663	2,180
Defined benefit asset	142	15
<b>Total non-current assets</b>	<b>34,261</b>	<b>33,545</b>
<b>Total assets</b>	<b>41,173</b>	<b>41,994</b>
<b>Current liabilities</b>		
Trade and other payables	3,811	3,547
Provisions	1,029	987
Borrowings	3,031	3,228
Derivative financial liabilities	42	286
Current tax payables	92	169
Revenue received in advance	1,153	1,021
<b>Total current liabilities</b>	<b>9,158</b>	<b>9,238</b>
<b>Non-current liabilities</b>		
Other payables	62	62
Provisions	276	283
Borrowings	14,725	14,572
Derivative financial liabilities	536	663
Deferred tax liabilities	1,456	1,367
Revenue received in advance	767	599
<b>Total non-current liabilities</b>	<b>17,822</b>	<b>17,546</b>
<b>Total liabilities</b>	<b>26,980</b>	<b>26,784</b>
<b>Net assets</b>	<b>14,193</b>	<b>15,210</b>
<b>Equity</b>		
Share capital	4,421	5,167
Reserves	(93)	(31)
Retained profits	9,865	10,074
<b>Equity available to the closed group</b>	<b>14,193</b>	<b>15,210</b>



## Section 6. Our investments (continued)

### 6.2 Investments in controlled entities (continued)

#### 6.2.2 Deed of cross guarantee (continued)

Table C Closed Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Continuing operations</b>		
<b>Income</b>		
Revenue (excluding finance income)	24,596	24,465
Other income	2,192	1,125
	<b>26,788</b>	<b>25,590</b>
<b>Expenses</b>		
Labour	4,868	4,487
Goods and services purchased	7,007	6,606
Other expenses	4,412	4,167
	<b>16,287</b>	<b>15,260</b>
Share of net profit from joint ventures and associated entities	27	15
	<b>16,260</b>	<b>15,245</b>
<b>Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)</b>	<b>10,528</b>	<b>10,345</b>
Depreciation and amortisation	4,114	3,855
Earnings before interest and income tax expense (EBIT)	<b>6,414</b>	<b>6,490</b>
Finance income	141	91
Finance costs	724	792
Net finance costs	<b>583</b>	<b>701</b>
<b>Profit before income tax expense</b>	<b>5,831</b>	<b>5,789</b>
Income tax expense	1,736	1,786
<b>Profit for the year from continuing operations</b>	<b>4,095</b>	<b>4,003</b>
Profit for the year from discontinued operation	-	2,213
<b>Profit for the year from continuing and discontinued operations available to the Closed Group</b>	<b>4,095</b>	<b>6,216</b>

Table C (continued) Closed Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Items that will not be reclassified to the Closed Group income statement</b>		
<b>Retained profits</b>		
Actuarial gain on defined benefit plans	133	(302)
Income tax on actuarial gain on defined benefit plans	(40)	91
Cumulative gains from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal	83	-
<b>Fair value of equity instruments reserve</b>		
Gains from investments in equity instruments designated at fair value through other comprehensive income	86	8
Income tax on gains from investments in equity instruments	(9)	-
Cumulative gains from investments in equity instruments designated at fair value through other comprehensive income transferred to retained earnings on disposal	(83)	-
	<b>170</b>	<b>(203)</b>
<b>Items that may be subsequently reclassified to the Closed Group income statement</b>		
Changes in fair value of cash flow hedging reserve	(32)	30
Income tax on movements in the cash flow hedging reserve	10	(9)
Changes in the value of the foreign currency basis spread	(41)	(3)
Income tax on movements in the foreign currency basis spread reserve	9	1
	<b>(54)</b>	<b>19</b>
<b>Total other comprehensive income for the Closed Group</b>	<b>116</b>	<b>(184)</b>
<b>Total comprehensive income for the year for the Closed Group</b>	<b>4,211</b>	<b>6,032</b>

## Section 6. Our investments (continued)

### 6.2 Investments in controlled entities (continued)

#### 6.2.2 Deed of cross guarantee (continued)

Table D provides a reconciliation of retained profits of the Closed Group from the opening to the closing balance.

Table D Closed Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Retained profits at the beginning of the financial year available to the Closed Group</b>	<b>10,074</b>	<b>7,850</b>
Effect on retained profits from addition of entities to the Closed Group	4	2
Share buy-back (net of income tax)	(748)	-
Total comprehensive income recognised in retained profits	4,271	6,009
Dividends	(3,736)	(3,787)
<b>Retained profits at the end of the financial year available to the Closed Group</b>	<b>9,865</b>	<b>10,074</b>

### 6.3 Investments in joint ventures and associated entities

We account for joint ventures and associated entities using the equity method. Under this method, we recognise the investment at cost and subsequently adjust it for our share of profits or losses, which are recognised in the income statement and our share of other comprehensive income, which is recognised in the statement of comprehensive income. Generally, dividends received reduce the carrying value of the investment.

The movements in the carrying amount of equity accounted investments in our joint ventures and associated entities are summarised in Table A.

Table A Telstra Group	As at 30 June			
	Joint ventures		Associated entities	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
<b>Carrying amount of investments at beginning of year</b>	<b>6</b>	<b>5</b>	<b>165</b>	<b>196</b>
Additions	1	2	5	36
Disposals	-	-	-	(29)
Reclassification to other investment	(7)	-	-	(7)
Net reversal of impairment/(impairment loss) recognised in the income statement	-	-	2	(2)
	-	<b>7</b>	<b>172</b>	<b>194</b>
Share of net profit/(loss)	2	(1)	30	16
Share of distributions	-	-	(10)	(29)
Share of capital return	-	-	-	(16)
<b>Carrying amount of investments at end of year</b>	<b>2</b>	<b>6</b>	<b>192</b>	<b>165</b>

## Section 6. Our investments (continued)

### 6.3 Investments in joint ventures and associated entities (continued)

#### 6.3.1 List of our investments in joint ventures and associated entities

Table B shows a list of our investments in joint ventures and associated entities, their principal place of business/country of incorporation and our ownership interest.

Table B			Ownership interest	
			As at 30 June	
Name of entity	Principal activities	Principal place of business / country of incorporation	2017	2016
			%	%
<b>Joint ventures</b>				
Foxtel Partnership (b)	Pay television	Australia	50.0	50.0
Foxtel Television Partnership (b)	Pay television	Australia	50.0	50.0
Customer Services Pty Ltd (b)	Customer service	Australia	50.0	50.0
Foxtel Management Pty Ltd (b)	Management services	Australia	50.0	50.0
Foxtel Cable Television Pty Ltd (b)	Pay television	Australia	80.0	80.0
Reach Limited (a)	International connectivity services	Bermuda	50.0	50.0
3GIS Pty Ltd	Management of former 3GIS Partnership (non-operating)	Australia	50.0	50.0
Health Engine Pty Ltd	Online healthcare appointment booking	Australia	-	31.5
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	50.0	50.0
<b>Associated entities</b>				
Australia-Japan Cable Holdings Limited (a)	Network cable provider	Bermuda	46.9	46.9
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0
Mandoe Pty Ltd	Digital signage software provider	Australia	-	28.4
IPscape Pty Ltd	Cloud based contact centre solution	Australia	24.9	25.0
Whispir Limited	Cloud communication software provider	Australia	24.5	24.2
IP Health Pty Ltd	Health workflow software development	Australia	32.9	32.9
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	Australia	30.0	30.0
Near Pte Ltd (a)	Location intelligence and analytics	Singapore	12.5	13.2
Panviva Pty Ltd	Cloud based business process guidance software	Australia	22.2	22.5
Gorilla Technology Group Inc. (a)	Video analytics software provider	Taiwan/Cayman Islands	8.9	8.9
enepath (Group Holdings) Pte Ltd (a)	Trading turret and calling software provider	Singapore	24.8	21.4
PharmX Pty Ltd	Internet based ordering gateway	Australia	30.0	30.0
Asia Netcom Philippines Corporation (a)	Ownership of physical property	Philippines	40.0	40.0
Dacom Crossing Corporation (a)	Network cable provider	Korea	49.0	49.0
Digitel Crossing Inc. (a)	Telecommunication services	Philippines	40.0	40.0
Pivotal Labs Sydney Pty Ltd	Software development	Australia	20.0	20.0

## Section 6. Our investments (continued)

### 6.3 Investments in joint ventures and associated entities (continued)

#### 6.3.1 List of our investments in joint ventures and associated entities (continued)

##### Significant influence over our investments

We applied management judgment to determine that we do not control Telstra Super Pty Ltd even though we own 100 per cent of its equity. Telstra Super Pty Ltd is a trustee for the Telstra Superannuation Scheme. We do not consolidate Telstra Super Pty Ltd as we do not control the board of directors. The board of directors consists of an equal number of employer and member representatives and an independent chairman. Our voting power over the relevant activities is 44 per cent, which is equivalent to our representation on the board. The entity is therefore classified as an associated entity as we have significant influence over it.

Although we continue to hold 21.4 per cent in Health Engine Pty Ltd, we applied management judgment and determined that we do not have significant influence due to changes in ownership interest and board representation.

We own less than 20 per cent of Near Pte Ltd and Gorilla Technology Group Inc., however we have significant influence over these entities through our decision making ability on the board.

##### Joint control of our investments

We applied management judgment to determine that we do not control Foxtel Cable Television Pty Ltd even though we own 80 per cent of its equity. We assessed whether we have the power to direct the activities of Foxtel Cable Television Pty Ltd by considering the rights we hold to appoint and remove key management and to make decisions. 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.

In 2016, we applied management judgment to determine that we had joint control through our decision making ability on the board of Health Engine Pty Ltd where we owned 31.5 per cent of its equity. In May 2017 our ownership was diluted to 21.4 per cent and our representation on the board reduced. As a result, we no longer have joint control or significant influence and the investment has been reclassified to other investment.

##### (b) Foxtel joint venture

Our joint venture Foxtel includes Foxtel Partnerships 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.

##### (a) Joint ventures and associated entities with different reporting dates

Several of our joint ventures and associated entities have reporting dates that differ from our reporting date of 30 June for financial year 2017 as follows:

- Reach Limited – 31 December
- Australia-Japan Cable Holdings Limited – 31 December
- Asia Netcom Philippines Corporation – 31 December
- Dacom Crossing Corporation – 31 December
- Digitel Crossing Inc. – 31 December
- Gorilla Technology Group Inc. – 31 December
- Near Pte Ltd – 31 March
- enepath (Group Holdings) Pte Ltd – 31 March
- Pivotal Labs Sydney Pty Ltd – 31 January.

The differences in reporting dates are due to jurisdictional requirements. Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in joint ventures and associated entities with different reporting dates is the same at that reporting date as at 30 June unless otherwise noted.

## Section 6. Our investments (continued)

### 6.3 Investments in joint ventures and associated entities (continued)

#### 6.3.1 List of our investments in joint ventures and associated entities (continued)

##### (b) Foxtel joint venture (continued)

Financial information of Foxtel and its controlled entities is summarised in Table C based on their consolidated financial statements prepared in accordance with IFRS.

Table C Foxtel joint venture	Year ended 30 June	
	2017	2016
	\$m	\$m
Current assets	894	916
Non-current assets	3,266	3,303
<b>Total assets</b>	<b>4,160</b>	<b>4,219</b>
Current liabilities	1,023	1,092
Non-current liabilities	3,264	3,377
<b>Total liabilities</b>	<b>4,287</b>	<b>4,469</b>
<b>Net liabilities</b>	<b>(127)</b>	<b>(250)</b>
Cash and cash equivalents	30	40
Current financial liabilities	13	102
Non-current financial liabilities	3,171	3,310
Revenue	3,206	3,310
Expenses	(2,571)	(2,455)
Depreciation and amortisation	(279)	(323)
Interest income	1	1
Interest expense	(208)	(229)
Other finance income/(costs)	10	(4)
Income tax expense	(27)	(29)
<b>Profit for the year</b>	<b>132</b>	<b>271</b>
Other comprehensive income	(9)	(90)
<b>Total comprehensive income for the year</b>	<b>123</b>	<b>181</b>

Financial liabilities exclude trade and other payables and provisions.

#### 6.3.2 Other joint ventures and associated entities

We 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 Table D.

Table D Telstra Group	Year ended/as at 30 June			
	Joint ventures		Associated entities	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
<b>Carrying amount of investment</b>	<b>2</b>	<b>6</b>	<b>192</b>	<b>165</b>
<b>Group's share of:</b>				
Profit from continuing operations	7	-	58	12
Other comprehensive income	4	(4)	1	(4)
<b>Total comprehensive income</b>	<b>11</b>	<b>(4)</b>	<b>59</b>	<b>8</b>

#### 6.3.3 Suspension of equity accounting

Table E presents our unrecognised share of profits/(losses) for the period and cumulatively for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount.

Table E Telstra Group	Year ended 30 June			
	Period	Cumulative	Period	Cumulative
	2017	2017	2016	2016
	\$m	\$m	\$m	\$m
<b>Joint ventures</b>				
Foxtel	62	(63)	54	(125)
Reach Ltd	5	(550)	1	(555)
<b>Associated entities</b>				
Australia-Japan Cable Holdings Limited	28	(77)	(4)	(105)
	<b>95</b>	<b>(690)</b>	<b>51</b>	<b>(785)</b>

## Section 6. Our investments (continued)

### 6.3 Investments in joint ventures and associated entities (continued)

#### 6.3.4 Transactions with our joint ventures and associated entities

Table F details transactions with our joint ventures and associated entities recorded in the income statement and statement of financial position.

Table F Telstra Group	Year ended/as at	
	30 June	
	2017	2016
	\$m	\$m
<b>Income</b>		
Sale of goods and services	287	240
Distribution from Foxtel Partnership	-	37
Interest income from loans to joint ventures and associated entities	49	7
<b>Expenses</b>		
Purchase of goods and services	933	830
Interest expense on loans from joint ventures and associated entities	2	4
<b>Total amounts receivable as at 30 June</b>		
<b>Current</b>		
Joint ventures and associated entities – receivables	69	60
	<b>69</b>	<b>60</b>
<b>Non-current</b>		
Joint ventures and associated entities – loans	450	418
Allowance for amounts owed by joint ventures and associated entities	(7)	(7)
	<b>443</b>	<b>411</b>
<b>Movement in allowance for amounts owed by joint ventures and associated entities</b>		
<b>Opening balance</b>	<b>(7)</b>	<b>(7)</b>
Foreign currency exchange differences	-	-
<b>Closing balance</b>	<b>(7)</b>	<b>(7)</b>
<b>Total amounts payable as at 30 June</b>		
<b>Current</b>		
Joint ventures and associated entities – payables	89	180
Joint ventures and associated entities – loans	29	-
	<b>118</b>	<b>180</b>
<b>Non-current</b>		
Joint ventures and associated entities – loans	-	35
	<b>-</b>	<b>35</b>

#### (a) Sale and purchase of goods and services

We sold and purchased goods and services, and received and paid interest from/to our joint ventures and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of individually significant transactions with our joint ventures and associated entities during the financial year 2017 were as follows:

- we purchased pay television services amounting to \$811 million (2016: \$720 million) from our joint venture Foxtel. The purchases were to enable the resale of Foxtel\*\* services, including Pay TV content, to our existing customers as part of our ongoing product bundling initiatives
- we made sales to Foxtel for our broadband system services of \$103 million (2016: \$109 million) and wholesale services of \$58 million (2016: \$35 million).

#### (b) Distribution from Foxtel joint venture

During the financial year 2017, we did not receive any distribution from our joint venture Foxtel (2016: \$37 million).

#### (c) Loans to joint ventures and associated entities

Loans provided to joint ventures and associated entities mainly relate to loans provided to Foxtel Management Pty Ltd of \$443 million (2016: \$411 million) and Reach Ltd of \$7 million (2016: \$7 million).

The loan to Foxtel Management Pty Ltd was made in April 2012 to fund the acquisition of shares in AUSTAR. The loan has a minimum term of just over 10 years and a maximum of 15 years and the applicable interest rate is 10.5 per cent. During the year we capitalised \$30 million (2016: nil) of interest receivable on this Foxtel loan.

The loan provided to Reach Ltd is an interest-free loan and repayable upon the giving of 12 months' notice by both PCCW Limited and us. We have fully provided for the non-recoverability of the loan as we do not consider that Reach Ltd is in a position to be able to repay the loan amount in the medium term.

#### (d) Loans from joint ventures and associated entities

As at 30 June 2017, we had an outstanding loan payable amount of \$29 million (2016: \$35 million) under a loan agreement with an associated entity, Project Sunshine I Pty which includes capitalised interest. The loan has an interest rate of 8 per cent per annum and a maturity date of 31 December 2017.

## Section 6. Our investments (continued)

### 6.3 Investments in joint ventures and associated entities (continued)

#### 6.3.4 Transactions with our joint ventures and associated entities (continued)

##### **(e) Commitments**

Our joint venture Foxtel has commitments amounting to approximately \$3,080 million (2016: \$3,262 million), with our share equal to 50 per cent. The majority of these commitments relate to the committed satellite expenditure payments for transponder services and broadcasting expenditure payments for sports broadcasting rights. The agreements are for the periods of between one and five years. The amounts are based on current prices and costs under agreements entered into between the Foxtel Partnership and various other parties.

We have purchase commitments to Project Sunshine I Pty Ltd, primarily for advertising services, amounting to \$21 million (2016: \$33 million) over the remaining two-year contract term.

#### 6.3.5 Recognition and measurement

##### **(a) Investments in joint ventures**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Our interests in joint ventures are accounted for using the equity method of accounting.

##### **(b) Investments in associated entities**

These are investments in entities over which we have the ability to exercise significant influence but we do not control the decisions of the entity. Our interests in associated entities are accounted for using the equity method of accounting.

##### **(c) Equity method of accounting**

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

## Section 7. Other information

This section provides other information and disclosures not included in the other sections, for example our external auditor's remuneration, commitments and contingencies, parent entity disclosures and significant events occurring after reporting date.

### 7.1 Other accounting policies

#### 7.1.1 Changes in accounting policies

We note the following amendments to the accounting standards which are applicable to us from 1 July 2016:

- AASB 2014-3 'Amendments to Australian Accounting Standards - Accounting for Acquisition of Interests in Joint Operations'
- AASB 2014-4 'Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation'
- 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 2015-9 'Amendments to Australian Accounting Standards - Scope and Application Paragraphs'.

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

#### 7.1.2 Foreign currency translation

##### (a) Transactions and balances

Foreign currency transactions are translated into the relevant functional currency at the spot exchange rate at transaction date. At the reporting date amounts receivable or payable denominated in foreign currencies are translated into the relevant functional currency at market exchange rates at reporting date. Any currency translation gains and losses that arise are included in our income statement.

Non-monetary items denominated in foreign currency that are measured at fair value (i.e. certain equity instruments not held for trading) are translated using the exchange rates at the date when the fair value was determined. The differences arising from the translation are reported as part of the fair value gain or loss in line with the recognition of the changes in the fair value of the non-monetary item.

##### (b) Financial reports of foreign operations that have a functional currency that is not Australian dollars

The financial statements of our foreign operations are translated into Australian dollars (our presentation currency) using the following method:

Foreign currency amount	Exchange rate
Assets and liabilities including goodwill and fair value adjustments arising on consolidation	The reporting date rate
Equity items	The initial investment date rate
Income statements	Average rate (or the transaction date rate for significant identifiable transactions)

The exchange differences arising from the translation of financial statements of foreign operations are recognised in other comprehensive income.

#### 7.1.3 New accounting standards to be applied in future reporting periods

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

##### (a) Financial instruments - impairment of financial assets

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

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

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



## Section 7. Other information (continued)

### 7.1 Other accounting policies (continued)

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

##### (a) Financial instruments - impairment of financial assets (continued)

AASB 9 requires us to record expected credit losses on our financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets arising under AASB 15: 'Revenue from Contracts with Customers', on either of the following bases:

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

Lifetime expected credit losses measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. Otherwise 12-month expected credit losses measurement applies. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime expected credit losses measurement always applies for trade receivables and contract assets without a significant financing component. This policy choice is also available for trade receivables and contract assets with a significant financing component.

While we are in the process of completing our detailed assessment to determine the extent of the impact, we expect a reduction in our opening retained earnings for the first time adoption of the standard due to higher loss allowance resulting from earlier recognition of credit losses.

##### (b) Revenue from contracts with customers

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

AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers and requires application of a five-step process to identify the contract with the customer, identify performance obligations in the contract, determine transaction price, allocate the transaction price to the performance obligations and recognise revenue when performance obligations are satisfied. AASB 15, AASB 2014-5, AASB 2015-8 and AASB 2016-3 apply to Telstra from 1 July 2018, with early application permitted.

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

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

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

Based on the work done to date, and like many other telecommunications companies, we expect to be materially affected by the application of the new standard, primarily in respect of the timing of revenue recognition, the classification of revenue, the capitalisation of costs of obtaining a contract with a customer and possibly the capitalisation of the costs to fulfil certain contracts while expensing those costs which are currently deferred for other contracts.

Our initial impact assessment focused on homogeneous retail consumer contracts, with a large number of low value contracts, for which we expect some accounting changes on the adoption of AASB 15.

Our mobile long-term contracts often offer a bundle of hardware and services, where the customer pays a monthly fee and receives a discount, which is allocated between the hardware and services based on their relative standalone selling prices. Under the legal terms of these contracts the allocated hardware amount is not contingent on delivery of future services and we recognise the hardware revenue on delivery of the handset. Therefore, on adoption of AASB 15 and unlike many other telecommunication companies, we do not expect an acceleration of hardware revenue in our mobiles business due to the removal of the contingent consideration rules.

However, when determining the customer contract AASB 15 requires us to assess the combination of two or more contracts entered into at or near the same time with the same customer. As a result and based on our current practice, we expect changes in the accounting treatment of customer contracts sold via our dealer channel where the substance over form principle will be overridden by these new contract combination rules, as we can no longer combine these separate legal contracts. Consequently no discounts will be allocated to hardware sold via dealer channel, bringing forward timing of our hardware revenue recognition for the dealer channel.

## Section 7. Other information (continued)

### 7.1 Other accounting policies (continued)

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

##### (b) Revenue from contracts with customers (continued)

AASB 15 gives far greater detail on how to account for contract modifications than current revenue accounting principles. Changes must be accounted for either as a retrospective cumulative change to revenue (creating either a catch up or deferral of past revenues for all performance obligations in the original contract), a prospective change to revenue with a reallocation of revenues amongst remaining performance obligations in the original contract, as a separate contract which will not require any reallocation to performance obligations in the original contract, or both a cumulative change and prospective change to revenue in the original contract. Currently we account for any changes in our consumer retail contracts prospectively as there is no clear guidance for contract modification accounting.

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

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

Some of our contracts with customers include deferred payment terms and under AASB 15 Telstra is considered to provide financing to the customer. AASB 15 requires us to separately account for a significant financing component and measure it using a discount rate that would be reflected in a separate financing transaction between Telstra and the customer at contract inception. The rate would reflect the credit characteristics of the party receiving financing in the contract, i.e. the customer. For our mass market customers this rate is likely to differ from our current practice of using Telstra's incremental borrowing rate, which will result in reduction of revenue and a higher interest income being recognised over the contract term.

The magnitude of the financial impacts on transition and on the comparative financial year is yet to be determined, with some impacts expected to be immaterial or offsetting each other.

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

Once we have developed and implemented the necessary accounting policies, estimates, judgments and processes, we will commence the incremental compilation of historical data, as well as the accounting for that data, which is necessary to transition to, and to make reasonable quantitative estimates of the effects of the new standard. As a result, at this time, it is not possible to make reasonable quantitative estimates of the effects of the new standard, and we may not be able to do so prior to completing our 31 December 2018 half-year consolidated financial statements. Should reliable estimates become available earlier we will provide an estimate of opening retained earnings adjustment and the expected impacts on the comparative period in our consolidated financial statements for the financial year 2018.

##### (c) New leasing standard

In February 2016, AASB issued AASB 16 'Leases', which replaces the current guidance in AASB 117 'Leases', Interpretation 4 'Determining whether an Arrangement contains a Lease', Interpretation 115 'Operating Leases - Incentives' and Interpretation 127 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The new standard will apply to us from 1 July 2019. Early adoption is permitted, but only in conjunction with AASB 15: 'Revenue from Contracts with Customers'.

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

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

We have a significant number of long-term non-cancellable property leases for our office buildings and network sites, which are expected to have a material impact when recognised in the statement of financial position. We are currently assessing the impact of the new leasing standard on our financial results. This includes identifying changes to our accounting policies, internal and external reporting requirements, IT systems, business processes and controls. Our adoption approach and application of the transition provisions under the new standard will depend on the outcome of this assessment, which is yet to be finalised.

## Section 7. Other information (continued)

### 7.1 Other accounting policies (continued)

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

##### (d) Other

In June 2017, the IFRIC Interpretations Committee issued IFRIC 23, which clarified how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatment. The interpretation becomes effective for Telstra on 1 July 2019. We are currently assessing its impacts on Telstra.

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

### 7.2 Auditor's remuneration

Our external auditor of the Group is Ernst & Young (EY). In addition to the audit and review of our financial reports, EY provides other services throughout the year. This note shows the total fees to external auditors split between audit, audit-related and non-audit services.

Telstra Group	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Audit fees</b>		
EY fees for the audit and review of the financial reports	8,011	9,390
<b>Other services</b>		
Audit-related	2,114	1,216
<b>Non-audit services</b>		
Tax services	0.164	0.059
Advisory services	0.596	0.568
<b>Total other services provided by EY</b>	<b>2,874</b>	<b>1,843</b>

Audit-related fees charged by EY are for services that are reasonably related to the performance of the audit or review of our financial reports and for other assurance engagements. These services include regulatory financial assurance services, services over debt raising prospectuses, additional control assessments, various accounting advice and additional audit services related to our controlled entities.

We have processes in place to maintain the independence of the external auditor, including the nature of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

### 7.3 Parent entity disclosures

This note provides details of Telstra Entity financial performance and financial position as a standalone entity. The results include transactions with its controlled entities.

Tables A and B provide a summary of the financial information for the Telstra Entity.

Table A Telstra Entity	As at 30 June	
	2017	2016
	\$m	\$m
<b>Statement of financial position</b>		
Total current assets	7,493	9,030
Total non-current assets	36,967	36,243
<b>Total assets</b>	<b>44,460</b>	<b>45,273</b>
Total current liabilities	12,817	12,627
Total non-current liabilities	17,797	17,515
<b>Total liabilities</b>	<b>30,614</b>	<b>30,142</b>
Share capital	4,421	5,167
Cash flow hedging reserve	(143)	(93)
Foreign currency basis spread reserve	16	48
General reserve	194	194
Retained profits	9,358	9,815
<b>Total equity</b>	<b>13,846</b>	<b>15,131</b>

Table B Telstra Entity	Year ended 30 June	
	2017	2016
	\$m	\$m
<b>Statement of comprehensive income</b>		
Profit for the year	3,934	5,633
Total comprehensive income	3,945	5,441

Total non-current assets include impairment losses of \$324 million (2016: \$1,314 million reversal of impairment losses) recognised in the income statement and relating to the value of our investments in, and amounts owed by, our controlled entities. The impairment losses have been eliminated on consolidation of the Telstra Group.

#### 7.3.1 Property, plant and equipment commitments

Table C provides details of our expenditure commitments for the acquisition of property, plant or equipment, which have been contracted for at balance date but not recognised in the financial statements.

Table C Telstra Entity	As at 30 June	
	2017	2016
	\$m	\$m
Total property, plant and equipment expenditure commitments	802	1,101

## Section 7. Other information (continued)

### 7.3 Parent entity disclosures (continued)

#### 7.3.2 Contingent liabilities and guarantees

##### (a) Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2017, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial results. The maximum amount of these contingent liabilities cannot be reliably estimated.

##### (b) Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity:

- indemnities to financial institutions to support bank guarantees to the value of \$212 million (2016: \$231 million) in respect of the performance of contracts
- indemnities to financial institutions and other third parties in respect of performance and other obligations of our controlled entities, with the maximum amount of our contingent liabilities of \$153 million (2016: \$124 million)
- letters of comfort to indicate support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due, subject to certain conditions (including that the entity remains our controlled entity)
- during the financial year 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to \$210 million as a shareholder of IBMGSA. During the financial year 2000, we issued a guarantee of \$68 million on behalf of IBMGSA. During the financial year 2004, we sold our shareholding in this entity. The \$68 million guarantee, provided to support service contracts entered into by IBMGSA and third parties, was made with IBMGSA bankers or directly to IBMGSA customers. As at 30 June 2017, this guarantee remains unchanged and \$142 million (2016: \$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.

#### 7.3.3 Recognition and measurement

The accounting policies for the Telstra Entity are consistent with those of the Telstra Group, except for those noted below:

- under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed from our Australian wholly-owned entities are booked as current assets or liabilities
- investments in controlled entities, included within non-current assets, are recorded at cost less impairment of the investment value. Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 4.3. Refer to note 6.2 for details on our investments in controlled entities
- our interests in associated entities and joint ventures, including partnerships, are accounted for using the cost method of accounting and are included within non-current assets.

### 7.4 Commitments and contingencies

This note provides details of our commitments for capital expenditure, operating leases and finance leases arising from our contractual agreements.

This note also includes information about contingent liabilities for which no provisions have been recognised due to the uncertainty regarding the outcome of future events and/or inability to reliably measure such liabilities.

#### 7.4.1 Capital expenditure commitments

Table A shows the capital expenditure commitments contracted for at balance date but not recorded in the financial statements.

Table A Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Property, plant and equipment commitments	833	1,132
Intangible assets commitments	395	426

Property, plant and equipment commitments include the Telstra Entity capital expenditure commitments of \$802 million (2016: \$1,101 million) as disclosed in note 7.3.

#### 7.4.2 Operating lease commitments

Table B shows future lease payments for non-cancellable operating leases (Telstra as a lessee) not recorded in the financial statements.

Table B Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Within 1 year	753	546
Within 1 to 5 years	1,477	1,206
After 5 years	1,724	1,059
	<b>3,954</b>	<b>2,811</b>

Table C provides information about the assets under our operating leases and their weighted average lease terms.

Table C Telstra Group	Weighted average lease term (years)	
	As at 30 June	
	2017	2016
Land and buildings	16	17
Motor vehicles	2	2
Light commercial vehicles (caravan huts and trailers)	3 - 4	4 - 5
Trucks and mechanical aids and heavy excavation equipment	5 - 7	7 - 12
Personal computers, laptops, printers and other related equipment used in non-communications plant activities	3	3
Mobile handsets	2	-

## Section 7. Other information (continued)

### 7.4 Commitments and contingencies (continued)

#### 7.4.2 Operating lease commitments (continued)

The majority of our operating leases relate to land and buildings. We have several subleases with total minimum lease payments of \$40 million (2016: \$42 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between three and five per cent, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

We also lease handsets which we then sublease to our retail customers in a back-to-back arrangement.

Table D sets out our future minimum lease receivables from retail customers under non-cancellable operating leases (Telstra as lessor).

Table D Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
Within 1 year	158	-
Within 1 to 5 years	104	-
	<b>262</b>	<b>-</b>

Refer to notes 3.1 and 3.3 for our lease accounting policy (Telstra as lessee and Telstra as a lessor, respectively). The accounting policy described in note 3.1 applies to both property, plant and equipment and other assets, including handsets.

#### 7.4.3 Finance lease commitments

Table E includes finance lease commitments of the Telstra Group as a lessee.

Table E Telstra Group	As at 30 June	
	2017	2016
	\$m	\$m
<b>Finance lease commitments</b>		
Within 1 year	125	143
Within 1 to 5 years	173	203
After 5 years	184	186
<b>Total minimum lease payments</b>	<b>482</b>	<b>532</b>
Future finance charges on finance leases	(141)	(145)
<b>Present value of net future minimum lease payments</b>	<b>341</b>	<b>387</b>
<b>The present value of finance lease liabilities is as follows:</b>		
Within 1 year	107	118
Within 1 to 5 years	124	156
After 5 years	110	113
<b>Total finance lease liabilities</b>	<b>341</b>	<b>387</b>

Table F provides information about the assets under our finance leases and their weighted average lease terms.

Table F Telstra Group	Weighted average lease term (years)	
	As at 30 June	
	2017	2016
Property lease in our controlled entity, Telstra Limited (initial life 25 years)	20	21
Computer mainframes, processing equipment and other related equipment	6	5

We lease computer mainframes, processing equipment and other related equipment to our customers as part of the solutions management and outsourcing services. Refer to note 3.3 for further details on these finance leases.

Refer to note 3.1 for our lease accounting policy (Telstra as a lessee).

#### 7.4.4 Commitments of our joint ventures and associated entities

Information about our share of our joint ventures and associated entities' commitments is included in note 6.3.

#### 7.4.5 Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2017. Details and estimated maximum amounts (where reasonable estimates can be made) of contingent liabilities for the Telstra Entity are disclosed in note 7.3.2.

Other contingent liabilities identified for the Telstra Group relate to the ASIC deed of cross guarantee. A list of the companies that are part of the deed are included in note 6.2.2. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up.

### 7.5 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 30 June 2017 that, in our opinion, has significantly affected or may significantly affect in future years:

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

other than the following:

#### 7.5.1 Final dividend

The details of the final dividend for the financial year 2017 are disclosed in note 4.1.

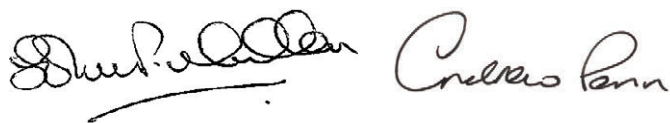
# Directors' Declaration

This Directors' Declaration is required by the Corporations Act 2001 of Australia.

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

- (a) in the Directors' opinion, the financial statements and notes of the Telstra Group for the financial year ended 30 June 2017 as set out in the financial report:
  - (i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations (as disclosed in note 1.1 to the financial statements), and Corporations Regulations 2001
  - (ii) give a true and fair view of the financial position of Telstra Corporation Limited and the Telstra Group as at 30 June 2017 and of the performance of Telstra Corporation Limited and the Telstra Group, for the year ended 30 June 2017
  - (iii) have been made out in accordance with the Corporations Act 2001.
- (b) they have received declarations as required by section 295A of the Corporations Act 2001
- (c) at the date of this declaration, in the Directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable
- (d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 6.2.2 to the financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any liabilities to which they are, or may become, subject to because of the Deed of Cross Guarantee described in note 6.2.2.

For and on behalf of the board



John P Mullen  
Chairman

Andrew R Penn  
Chief Executive Officer and  
Managing Director

17 August 2017  
Melbourne, Australia

## Independent Auditor's Report to the Shareholders of Telstra Corporation Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Telstra Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- Complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Key audit matter	How our audit addressed the matter
<p>Revenue recognition</p> <p>There are three significant judgment areas relating to revenue recognition. These are:</p> <ul style="list-style-type: none"> <li>accounting for new products and plans including multiple element arrangements;</li> <li>accounting for large Network Application Services (NAS) contracts; and</li> <li>accounting for NBN revenue under the revised Definitive Agreements (DAs) with nbn co and the Commonwealth Government.</li> </ul> <p>Disclosures relating to revenue recognition can be found at Note 2.2 Income.</p> <p>The accuracy and completeness of amounts recorded as revenue is an inherent industry risk due to the complexity of billing systems, the complexity of products and services, and the combination of products sold and price changes in the year. The complexity of the billing systems was also considered as part of the automated processes and controls in the below Key Audit Matter.</p>	<p>We evaluated the design and operating effectiveness of key controls over the capture and measurement of revenue transactions, including evaluating the relevant IT systems.</p> <p>We examined the process and controls over the capture and assessment of the timing of revenue recognition for new products and plans, as well as performed testing of a sample of new plans to supporting evidence.</p> <p>We tested revenue recognition and the process to make adjustments to revenue recognised for a sample of NAS contracts.</p> <p>We tested the revised DAs including understanding the timing of disconnections and the transfer of the copper and Hybrid Fibre Coaxial (HFC) networks to nbn co. We assessed the estimation techniques applied in determining the timing of revenue recognised in relation to these revised DAs.</p> <p>We assessed the Group accounting policies as set out in Note 2.2 Income, and the adequacy of disclosures for compliance with the revenue recognition requirements of Australian Accounting Standards (AASBs).</p>

Key audit matter	How our audit addressed the matter
<b>Reliance on automated processes and controls</b>	
<p>A significant part of the Group's financial processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions. This is a key part of our audit because of the:</p> <ul style="list-style-type: none"> <li>• Complex IT environment supporting diverse business processes</li> <li>• Mix of manual and automated controls</li> <li>• Multiple internal and outsource support arrangements</li> <li>• Complexity of the billing systems which result in revenue being recognised.</li> </ul>	<p>We understood and tested the Group's controls in IT systems relevant to financial reporting. When testing controls was not considered an appropriate or efficient testing approach, alternative audit procedures were performed on the financial information being produced by systems.</p>
<p>The Group continues to enhance its IT systems and during the year implemented new systems which were material to our audit.</p>	<p>We gained an understanding of material new systems including the design of the automated processes and controls.</p> <p>We assessed the processes put in place to migrate any data from the legacy systems to new systems and tested reconciliations between the systems.</p> <p>We evaluated the design and tested the operating effectiveness of the controls in the new systems and we performed additional audit testing procedures.</p>
<b>Impairment of the goodwill and intangible assets</b>	
<p>Given the changing nature of the industry in which the Group operates, there is a risk that there could be a material impairment to goodwill and intangible asset balances.</p> <p>Determination as to whether or not there is an impairment relating to an asset or Cash Generating Unit (CGU) involves significant judgment about the future cash flows and plans for these assets and CGUs.</p> <p>Further disclosure regarding the Group's impairment can be found in Note 3.2.</p>	<p>We evaluated the impairment calculations including the testing of the recoverable amount of each CGU. We assessed the reasonableness of the Board approved cash flow projections used in the impairment models as well as the Group's historical ability to achieve forecasts. We involved our valuation specialists to assess the impairment models and evaluated the reasonableness of key assumptions including the discount rate, terminal growth rates and forecast growth assumptions. We also performed sensitivity analysis around the key drivers of the cash flow projections. Having determined the change in assumptions (individually or collectively) that would be required for the CGUs to be impaired, we considered the likelihood of such a movement in those key assumptions arising. We evaluated the adequacy of the disclosures included in Note 3.2.</p>
<b>Capitalisation and asset lives</b>	
<p>There are a number of areas where judgment impacts the carrying value of property, plant and equipment, software intangible assets and their respective depreciation and amortisation profiles. This is a key part of the audit due to the judgment involved in:</p> <ul style="list-style-type: none"> <li>• the decision to capitalise or expense costs;</li> <li>• the annual asset life review; and</li> <li>• the timeliness of the transfer from assets in the course of construction.</li> </ul> <p>Disclosures relating to the capitalisation and write-off of assets can be found at Notes 3.1 and 3.2.</p>	<p>We understood and assessed the Group's design and operating effectiveness of controls over the fixed asset cycle, evaluated the appropriateness of capitalisation policies, performed tests of a sample of costs capitalised during the year and assessed the timeliness of the transfer of assets in the course of construction.</p> <p>We also performed testing on the application of the asset life review. This testing included assessing judgments made by the Group on:</p> <ul style="list-style-type: none"> <li>• the nature of underlying costs capitalised; and</li> <li>• the appropriateness of assets lives applied in the calculation of depreciation and amortisation.</li> </ul> <p>We evaluated the adequacy of disclosures included in Notes 3.1 and 3.2.</p>

### **Information Other than the Financial Statements and Auditor's Report**

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



### **Directors' Responsibilities**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on the Audit of the Remuneration Report**

#### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 44 to 67 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

#### **Responsibilities**

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Andrew Price  
Partner  
Melbourne  
17 August 2017

# Shareholder information

## Listing 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 5.1.7(d), Telstra notes that the ASX Corporate Governance Council's Corporate Governance Principles and 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 [asx.com.au](http://asx.com.au) and, in respect of the NZX, at [nzx.com](http://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 2017 Corporate Governance Statement which can be found at [telstra.com/governance](http://telstra.com/governance).

### Markets on which our debt securities are listed

We also have debt securities listed on the Australian Securities Exchange, 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 28 July 2017:

Title of class	Identity of person or group	Amount owned	%
Listed shares	Listed shareholders	11,893,297,855	100

## Distribution of shares

The following table summarises the distribution of our listed shares as at 28 July 2017:

Size of holding	Number of Shareholders	%	Number of Shares	%
1-1,000	633,122	45.47	350,747,541	2.95
1,001-5,000	512,045	36.78	1,237,657,428	10.41
5,001-10,000	128,678	9.24	922,561,595	7.76
10,001-100,000	114,164	8.20	2,751,853,584	23.14
100,001 and over	4,289	0.31	6,630,477,707	55.75
<b>Total</b>	<b>1,392,298</b>	<b>100.00</b>	<b>11,893,297,855</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel of shares was 26,208 holding 1,984,982 shares (based on the closing market price on 28 July 2017).

## Substantial shareholders

As at 28 July 2017, we are not aware of any substantial shareholders.

## Twenty largest shareholders as at 28 July 2017

The following table sets out the Top 20 holders of our shares (when multiple holdings are grouped together):

	Shareholder name	Number of shares	% of issued capital
1	HSBC CUSTODY NOMINEES	2,138,397,318	17.98
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,294,836,559	10.89
3	CITICORP NOMINEES PTY LIMITED	666,740,177	5.61
4	NATIONAL NOMINEES LIMITED	495,409,656	4.17
5	BNP PARIBAS NOMINEES PTY LIMITED	483,760,407	4.07
6	AUSTRALIAN FOUNDATION INVESTMENT	52,445,000	0.44
7	ARGO INVESTMENTS LIMITED	45,014,800	0.38
8	AMP LIFE LIMITED	39,852,515	0.34
9	NETWORK INVESTMENT HOLDINGS	36,418,851	0.31
10	UBS NOMINEES PTY LTD	35,090,007	0.30
11	IOOF INVESTMENT MANAGEMENT	30,750,085	0.26
12	NAVIGATOR AUSTRALIA LTD	23,271,181	0.20
13	EQUITAS NOMINEES PTY LTD	23,218,179	0.20
14	NULIS NOMINEES (AUSTRALIA)	22,049,245	0.19
15	TELSTRA GROWTHSHARE PTY LTD	19,317,770	0.16
16	NETWORK INVESTMENT HOLDINGS	17,309,017	0.15
17	PACIFIC CUSTODIANS PTY LTD	15,752,876	0.13
18	MILTON CORPORATION LIMITED	14,971,253	0.13
19	NETWEALTH INVESTMENTS LIMITED	13,329,383	0.11
20	RBC INVESTOR SERVICES AUSTRALIA	12,983,442	0.11
	Total for Top 20	5,480,917,721	46.08
	Total other Investors	6,412,380,134	53.92
	<b>Grand Total</b>	<b>11,893,297,855</b>	<b>100.00</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

Non financial results	FY17	FY16	FY15
Sustainable engagement Score (%)	71	71 <sup>1</sup>	n/a
Health and safety <sup>2</sup> Lost Time Injury Frequency Rate (LTIFR) by calendar year	n/a	0.84 CY 2016	0.89 CY 2015
Gender equality <sup>3</sup> Women in executive management (%)	27.8	25.5	25.6
Volunteering during Telstra time <sup>1</sup> Total (days)	8,910	8,186	7,225
Payroll giving Participation rate (%)	4.9	5.5	5.8
Social and community investment <sup>4</sup> Value (\$m)	157	175	214
Everyone Connected Targeted community programs (people reached) ('000's)	64	59 <sup>5</sup>	117
Greenhouse gas emissions <sup>6</sup> Tonnes of carbon dioxide equivalent (tCO <sub>2</sub> e) ('000s)	1,499	1,540	1,571
Emissions intensity <sup>6</sup> tCO <sub>2</sub> e per terabyte of data	0.19	0.26	0.42
E-waste Mobile phones (tonnes collected)	19.9	16	15.6

1. In FY16 we shifted our key metric to Sustainable Engagement which provides a deeper understanding of the key drivers of performance and consists of three components: how engaged, enabled and energised our people are to give their best performance.
2. Telstra measures LTIFR as the reported number of accepted workers' compensation claims for work-related injury or disease that incur lost time for each million hours worked. As claims are often not determined for some time after the initial injury, the reported LTIFR for FY16 (and prior years) did not include those injuries that occurred within the reporting period but had not yet had an accepted worker's compensation claim. As a result we have changed our measure to report by calendar year. For comparison purposes we have recalculated LTIFR for the past three calendar years: 2016 = 0.84/2015 = 0.89/2014 = 1.69. Data includes Data includes full-time, part-time and casual staff in Telstra Corporation Limited, excluding subsidiaries, contractors and agency staff.
3. 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.
4. Our social and community investment covers four key focus areas: Everyone Connected (customer and community digital inclusion programs, comprising 86 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.
5. The number of people reached decreased between FY15 and FY16 due to DVD loans from libraries not being included in FY16 and beyond. In FY15 DVD loans accounted for more than 80,000 people reached. Our Bigger Picture 2017 Sustainability Report provides more detail on our approach.
6. Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships as set out in the National Greenhouse and Energy Reporting Act 2007.

	2017	2016	2015 <sup>1</sup>	2014	2013 <sup>2</sup>
<b>Continuing operations</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Total income (excluding finance income)	28,205	27,050	26,112	26,296	24,776
EBITDA <sup>3</sup>	10,679	10,465	10,533	11,135	10,168
EBIT <sup>4</sup>	6,238	6,310	6,559	7,185	6,090
Profit for the year from continuing operations	3,874	3,832	4,114	4,549	3,640
Profit/(loss) for the year from discontinued operations <sup>5</sup>	0	2,017	191	(204)	151
Profit for the year from continuing and discontinued operations	3,874	5,849	4,305	4,345	3,791
Dividends declared per share (cents)	31.0	31.0	30.5	29.5	28.0
Total assets	42,133	43,286	40,445	39,360	38,527
Gross debt	16,218	16,009	14,962	16,048	15,628
Net debt	15,280	12,459	13,566	10,521	13,149
Total equity	14,560	15,907	14,510	13,960	12,875
Capital expenditure <sup>6</sup>	4,606	4,045	3,589	3,661	3,689
Free cashflow from continuing and discontinued operations	3,496	5,926	2,619	7,483	5,024
Earnings per share from continuing and discontinued operations (cents)	32.5	47.4	34.5	34.4	30.1
Dividend payout ratio (%) <sup>7</sup>	95	65	88	86	93

1. Represented the Autohome Group being classified as a discontinued operation.

2. Restated for the retrospective adoption of AASB 119: 'Employee Entitlements'.

3. 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.

4. EBITDA less depreciation and amortisation.

5. Profit/(loss) for the year from discontinued operations for FY15 and FY16 included both Sensis and Autohome Group results, while FY14 and FY13 only included Sensis results.

6. 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.

7. Dividend payout ratio from continuing and discontinued operations. Dividend payout ratio from continuing operations FY17: 95% (FY16: 98%).

## Guidance versus reported results

This schedule details the adjustments made to the reported results for the current period to reflect the performance of the business on the basis which we provided guidance to the market. This guidance assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout was in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excluded externally funded capex. Guidance excluded the Ooyala impairment in FY16 and restructuring costs in FY17.

	Reported			Adjustments Jun-17			
	Full year ended 30 June			M&A Controlled Entities <sup>1</sup>	M&A JVs/ Associates <sup>1</sup>	M&A Other Investments <sup>1</sup>	M&A Disposals <sup>1</sup>
	2017	2016	Growth				
	\$m	\$m	%	\$m	\$m	\$m	\$m
Sales revenue	25,912	25,834	0.3%	1	0	0	0
Total revenue	26,013	25,911	0.4%	1	0	0	0
<b>Total income (excl. finance income)</b>	<b>28,205</b>	<b>27,050</b>	<b>4.3%</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Labour	5,381	5,041	6.7%	0	0	0	0
Goods and services purchased	7,671	7,247	5.9%	0	0	0	0
Other expenses	4,506	4,312	4.5%	(4)	0	0	0
<b>Operating expenses</b>	<b>17,558</b>	<b>16,600</b>	<b>5.8%</b>	<b>(4)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Share of net profit/(loss) from joint ventures and associated entities	32	15	113.3%	0	0	0	0
<b>EBITDA</b>	<b>10,679</b>	<b>10,465</b>	<b>2.0%</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
Depreciation and amortisation	4,441	4,155	6.9%	0	0	0	0
<b>EBIT</b>	<b>6,238</b>	<b>6,310</b>	<b>(1.1%)</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net finance costs	591	710	(16.8%)	0	0	0	0
<b>Profit before income tax expense</b>	<b>5,647</b>	<b>5,600</b>	<b>0.8%</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>
Income tax expense	1,773	1,768	0.3%	1	0	0	0
<b>Profit for the year</b>	<b>3,874</b>	<b>3,832</b>	<b>1.1%</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Profit/(loss) for the year from discontinued operations</b>	<b>0</b>	<b>2,017</b>	<b>nm</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Profit for the year from continuing and discontinued operations</b>	<b>3,874</b>	<b>5,849</b>	<b>(33.8%)</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Attributable to:</b>							
Equity holders of Telstra Entity	3,891	5,780	(32.7%)	2	0	0	0
Non controlling interests	(17)	69	(124.6%)	0	0	0	0
<b>Free cashflow</b>	<b>3,496</b>	<b>5,926</b>	<b>(41.0%)</b>	<b>63</b>	<b>6</b>	<b>76</b>	<b>(285)</b>

This table has been subject to review by our auditors.

### Notes:

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

#### 1. Mergers & Acquisitions:

Adjustments relating to acquisition of controlled entities, businesses and contingent consideration. This includes the acquisition of Mercury Holdings Corporation Pty Ltd and its controlled entities, Mobile Gateway Payment Pty Ltd previously known as Fusion Payments Pty Ltd, the acquisition of the Cognevo business from the Wynyard Group, the acquisition of Company 85 and its wholly owned subsidiary DVC Channel Services Limited and the acquisition of the business of Inabox Group Limited. Joint Ventures/Associates includes additional equity injections in Near Pte Ltd, ProQuo Pty Ltd, enepath (Group Holdings) Pte Ltd and Panviva Ptd Ltd.

Other Investments include purchase of shares/ additional shares in NSOne Inc, Attack IQ Inc, Headspin Inc, Monk's Hill Ventures Fund 1, L.P, Velocloud Networks Inc, Matrixx Software Inc, CrowdStrike Inc, Phantouch International Ltd, A.C.N. 619 102 608 Pty Ltd, Auth0 Inc, OpenGov Inc, Skillz Inc, PhishMe Inc and Nginx Inc. During this period we disposed of our remaining interest in Autohome and our investments in Vonage Holdings Corporation.

#### 2. Restructuring costs adjustments:

Adjustments for the strategic focus on accelerating restructure activity including Fitter and Faster programs (\$373m), in addition to our normal business as usual redundancies for the period. Adjustments for the strategic focus on the incremental capex spend announced at last financial full year results to promote sustainable network differentiation, support digitisation, productivity and boost customer experience (\$66m).

#### 3. Impairment adjustments:

Adjustments relating to an impairment of goodwill and related assets of \$77m in Health Group.

#### 4. Spectrum adjustments:

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

- \$27m for renewal of Spectrum licences in the 900MHz band (2x8.4MHz national PMTS Class B licence)
- \$190m for new Spectrum licenses in the 1800MHz band in regional areas (2x25MHz in nine regions, 2x20MHz in two regions, and 2x10MHz in one region)
- \$408m for renewal of Spectrum licenses in the 2100MHz band (2x15MHz in eight capital cities and 2x10MHz in regional areas).

			Jun-16				Guidance Basis		
Restructuring costs <sup>2</sup>	Impairment <sup>3</sup>	Spectrum <sup>4</sup>	Impairment <sup>5</sup>	Spectrum <sup>6</sup>	M&A <sup>7</sup>	FAD/MTAS <sup>8</sup>	Full year ended 30 June		
							2017	2016	Growth
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
0	0	0	0	0	0	0	25,913	25,834	0.3%
0	0	0	0	0	0	0	26,014	25,911	0.4%
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,206</b>	<b>27,050</b>	<b>4.3%</b>
(225)	0	0	0	0	0	0	5,156	5,041	2.3%
0	0	0	0	0	0	0	7,671	7,247	5.9%
(214)	(77)	0	(246)	0	0	0	4,211	4,066	3.6%
<b>(439)</b>	<b>(77)</b>	<b>0</b>	<b>(246)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,038</b>	<b>16,354</b>	<b>4.2%</b>
0	0	0	0	0	0	0	32	15	113.3%
<b>439</b>	<b>77</b>	<b>0</b>	<b>246</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,198</b>	<b>10,711</b>	<b>4.5%</b>
0	0	0	0	0	0	0	4,441	4,155	6.9%
<b>439</b>	<b>77</b>	<b>0</b>	<b>246</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,757</b>	<b>6,556</b>	<b>3.1%</b>
0	0	0	0	0	0	0	591	710	(16.8%)
<b>439</b>	<b>77</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,166</b>	<b>5,600</b>	<b>10.1%</b>
132	4	0	0	0	0	0	1,909	1,768	8.0%
<b>307</b>	<b>73</b>	<b>0</b>	<b>246</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,256</b>	<b>4,078</b>	<b>4.4%</b>
0	0	0	0	0	0	0	0	2,017	(100.0%)
<b>307</b>	<b>73</b>	<b>0</b>	<b>246</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,256</b>	<b>6,095</b>	<b>(30.2%)</b>
307	73	0	240	0	0	0	4,273	6,020	(29.0%)
0	0	0	6	0	0	0	(17)	75	(122.7%)
<b>304</b>	<b>0</b>	<b>625</b>	<b>0</b>	<b>5</b>	<b>(1,197)</b>	<b>62</b>	<b>4,285</b>	<b>4,796</b>	

5. **Impairment adjustments:**

Adjustments relating to an impairment of goodwill of \$246m in FY16 of Ooyala.

6. **Spectrum adjustments:**

Adjustments relating to the impact on Free Cashflow associated with our Spectrum purchases and renewals for the year (\$5m for Spectrum licences in the 3.4GHz band).

7. **M&A adjustments:**

Adjustments related to the sale of Autohome. Adjustments relating to acquisition of controlled entities and businesses. This includes the acquisition of the controlled entities Readify Limited, The Silver Lining Consulting Group Pty Ltd (Kloud Solutions (National) Pty Ltd and its controlled entities), Health IQ Pty Ltd and the acquisition of the EOS Technologies business.

Joint Ventures/Associates includes the acquisition by Autohome of associates Shanghai You Che You Jia Financial Leasing Co Ltd and Hunan Mango Autohome Automobile Sales Co Ltd. During the year we disposed of our controlled entity Pacnet Internet (Thailand) Ltd, and also disposed of our shareholdings in other investments including Elemental Technologies Inc, Elastica Inc, Box Inc and Nexmo Inc. We also disposed of our ISP businesses held by the controlled entities Pacnet Internet (Singapore) Ltd and Pacnet internet (HK) Ltd.

8. **FAD/MTAS adjustments:**

Adjustments relating to an MTAS FAD of \$62m including:

- Adjustments for ACCC FAD pricing for fixed services which became effective on 1 November 2015
- Adjustments for the re-pricing of mobile terminating rates, with Voice termination from 3.6 cents to 1.7 cents per minute and SMS termination from 7.4 cents to 0.03 cents per SMS which became effective from 1 January 2016
- Adjustments for ACCC FAD pricing for Transmission Capacity Service which became effective on 21 April 2016.

# Glossary

## 4G

Fourth generation of wireless networks, with faster download and upload speeds and better response times than previous generations.

## 4GX®

The latest step in our 4G evolution. 4GX is capable of greater peak network speeds and adds another lane of capacity to the Telstra mobile broadband super highway.

## 5G

The next stage and fifth generation of wireless mobile networks, 5G will deliver a step change in network speeds, with reduced latency and much greater capacity to help address the explosion in wireless data usage.

## Asymmetric Digital Subscriber Line (ADSL)

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.

## Bundle

A product that has one or more base products. For example, a customer can bundle together a fixed line home phone service and internet connection.

## Capital expenditure (capex)

Capital expenditure (capex) are funds we have invested to purchase, upgrade or improve long-term assets such as property, infrastructure or equipment to create future benefit.

## Connectivity Virtual Circuit (CVC) charge

A charge levied by nbn co on Internet Service Providers based on the broadband capacity they acquire for retail customers' use.

## Cloud

Refers 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.

## Dark fibre

An optical fibre network used for data transmission.

## Definitive Agreement

The documents that record the final, binding arrangements between Telstra, nbn co and the Commonwealth Government for Telstra's participation in the nbn rollout.

## Dividend per share (DPS)

A dividend is a payment of a portion of our earnings to our shareholders and is most often quoted in terms of the amount each share receives.

## Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)

An indicator of a company's operational profitability.

## Earnings per share (EPS)

The portion of profit allocated to each share.

## Fibre to the Basement (FTTB)

A broadband access solution that delivers fibre from an exchange facility to an apartment block or similar types of buildings.

## Fibre to the Node (FTTN)

A broadband access solution that delivers fibre from an 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 an exchange facility directly to the outside of a building, offering potentially faster internet speeds than FTTN solutions (see definition of FTTN).

## Fixed Wireless (nbn™)

The nbn co Fixed Wireless network uses advanced wireless technology to deliver fixed telephone and broadband services to the premises within each coverage area.

## 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.

## Gigabit per second (Gbps)

A unit of measurement of transmission speeds equal to one billion bits per second.



### Hybrid Fibre Coax (HFC)

A way of delivering video, voice and data using both coaxial and fibre optic cables.

### Internet Protocol (IP)

Part of the family of protocols describing software that identifies internet addresses, directs outgoing messages, and recognises incoming messages. Used in gateways to connect networks at a high level.

### Live chat

Telstra LiveChat is an application which allows visitors to [telstra.com](http://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 chat.

### Megabit per second (Mbps)

A unit of measurement of transmission speeds equal to one million bits per second.

### 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 has since been varied by approval of the ACCC to accommodate shifts in nbn co's approach to its rollout.

### Mobile data

Wireless internet access delivered over the mobile phone network to computers and other digital devices using portable modems.

### Multi-Technology Model (MTM)

Refers to the current Government's nbn policy to rollout the nbn network using a mix of technologies.

### Net profit after tax (NPAT)

NPAT is total revenue minus all expenses and taxes. This figure shows the effect taxes are having on our bottom line.

### Network Function Virtualisation (NFV)

NFV is a network architecture concept that uses the technologies of IT virtualisation to virtualise traditionally physical network node functions into virtual building blocks that may connect, or chain together, to create communication services.

### Over The Top (OTT)

OTT content is the delivery of audio, video, and other media over the internet without the involvement of a system operator in the control or distribution of the content.

### 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.

### Public Switched Telephone Network (PSTN)

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.

### Software Defined Networking (SDN)

Software-defined networking (SDN) is a computer networking approach comprised of multiple kinds of network technologies designed to make the network more flexible and agile.

### Spectrum

Wireless communications signals travel through the air via radio frequency, known also as spectrum. The government grants licences for dedicated use of portions (bands) of spectrum.

### 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.

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# Contact details

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## Registered Office

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Melbourne, Victoria 3000 Australia  
Damien Coleman  
Company Secretary  
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## General Enquiries – Registered Office

All Other: +61 3 8647 4838  
Customer enquiries: 13 2200

## Shareholder Enquiries

### Australian Share Register

Australia: 1300 88 66 77  
All Other: +61 1300 88 66 77  
Fax: +61 2 9287 0303  
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Website: [www.linkmarketservices.com.au/telstra](http://www.linkmarketservices.com.au/telstra)  
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### New Zealand Share Register

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Link Market Services Limited  
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## Investor Relations

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Melbourne, Victoria 3000 Australia  
Australia: 1800 880 679  
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Email: [investor.relations@team.telstra.com](mailto:investor.relations@team.telstra.com)

## 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 menus:

- **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.

## Sustainability

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Melbourne, Victoria 3000 Australia  
Email: [sustainability@team.telstra.com](mailto:sustainability@team.telstra.com)

## Sustainability Reporting

Our Bigger Picture 2017 Sustainability Report, which is available online at [telstra.com/sustainability/report](http://telstra.com/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 (GRI) G4 Sustainability Reporting Guidelines. The full GRI Index can be found online at [telstra.com/sustainability/report](http://telstra.com/sustainability/report).

## 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)  
Telstra Customer Enquiries: [telstra.com](http://telstra.com)

# Indicative financial calendar<sup>1</sup>

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## Half year results announcement

Thursday 15 February 2018

## Ex-dividend share trading commences

Wednesday 28 February 2018

## Record date for interim dividend

Thursday 1 March 2018

## Interim dividend paid

Thursday 29 March 2018

## Annual results announcement

Thursday 16 August 2018

## Ex-dividend share trading commences

Wednesday 29 August 2018

## Record date for final dividend

Thursday 30 August 2018

## Final dividend paid

Thursday 27 September 2018

## Annual General Meeting

Tuesday 16 October 2018

<sup>1</sup> Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).

## Keeping informed

To keep up to date with the latest news about Telstra:

- follow us on Twitter [@Telstra\\_news](#)
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- subscribe to our media releases on our website at [telstra.com.au/aboutus/media/rss-feeds](https://telstra.com.au/aboutus/media/rss-feeds)
- visit Telstra Exchange at [exchange.telstra.com.au](https://exchange.telstra.com.au)

