Telstra Annual Report

2016

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The sections of our Annual Report titled Our business, Highlights FY16, Chairman and CEO message, Strategy and performance and Full year results and operations review comprise our operating and financial review (OFR) and form part of the Directors' report. An overview of selected aspects of our corporate governance arrangements is set out in the Governance at Telstra section of this Annual Report. A copy of our full Corporate Governance Statement and ASX Appendix 4G outlining how we comply with the third edition of the ASX Corporate Governance Principles and Recommendations is available on our website at **telstra.com/governance.**

Telstra Corporation Limited
ABN 33 051 775 556

Our business

OUR PURPOSE

To create a brilliant connected future for everyone.

OUR VISION

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

The traditional worlds of technology and telecommunications are converging, and technology innovation is accelerating.

It is critical we build and expand our skills in technology, to take advantage of the opportunities it presents and to build the capabilities necessary for our core business to be successful in the future.

WHAT WE DO

Telstra is a leading telecommunications and technology company.

Telstra is a leading telecommunications and technology company with a growing international business, and a heritage that is proudly Australian.

We offer a broad suite of connectivity, media and content to consumers and businesses in Australia, cloud and other technology services to business, enterprise and government customers, as well as connectivity services to carriers globally.

We are leveraging our core strengths in networks and connectivity to capture new opportunities in international markets and in emerging areas like eHealth, software and digital media.

We are assembling innovative technology, capability and talent from around the world to deliver exceptional experiences for our customers.

OUR CUSTOMERS

Technology pervades everything our customers do, and we know how much they rely on us.

On average, 55 million calls and 356 million data connections are made over our network each day, connecting friends, families and essential services across Australia and around the world.

72 per cent of Australia's small and medium businesses (SMBs) are Telstra customers, who are making the most of our technology products and services to connect to their customers and to do business.

Our global enterprise and government customers use our networks and solutions to provide services and products globally.

On an average week day our customers use about 13.1 petabytes of data on our fixed network and about one petabyte of data on our mobile network, streaming services and entertainment and connecting people through social channels. This is equivalent to 14 million hours of high definition video streaming.

Our customers can make use of millions of connected devices for both work and leisure, from connected vending machines to mining equipment, aircraft engines, agricultural sensors and remote sensing.

As technology innovation accelerates, we know our customers need us to respond by offering simple solutions and products that reflect their needs.

This is a time of great opportunity for our customers and for Telstra.

OUR VALUES

At Telstra, we have five key values that express what we stand for and are core to our business. They shape our people's decisions and actions and guide how we work together.

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

OUR STRATEGY

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

- Improve Customer Advocacy
- Drive Value and Growth from the Core
- Build New Growth Businesses

OUR PRIORITIES IN FY16

In FY16, we've been working to deliver against five key priorities identified within our strategy.

- Continue to consolidate our network leadership.
- Accelerate our productivity program.
- Win in the **nbn**™ market and reduce our cost to acquire.
- Continue to invest in long term growth.
- Bring to life what it means to be a world class technology company.

WHO WE ARE

Global presence

33,000 staff ACROSS MORE THAN 20 COUNTRIES

358 Telstra stores

83 Business Centres

16,500 Retail Points of Presence

>400,000 KM OF SUBSEA CABLE facilitating access to over 2,000 Points of Presence globally

58 DATA CENTRES INCLUDING THE LARGEST INTEGRATED FOOTPRINT IN THE ASIA-PACIFIC

EXCLUSIVE PROVIDER live matches on mobiles

Joint owner of FOXTEL Australia's largest Pay TV service

SATELLITES Three earth stations, reaching two-thirds of the globe

1.4m SHAREHOLDERS

3.4m RETAIL FIXED DATA SERVICES

5.7m RETAIL FIXED VOICE SERVICES

17.2m DOMESTIC RETAIL MOBILE SERVICES

Highlights FY16

31.0 cent dividend per share for FY16

$1.5b to be returned to shareholders via off-market and on-market share buy-backs

$5.8b NET PROFIT AFTER TAX
including $1.8b from the sale of Autohome shares

$27.1b[1] TOTAL INCOME

Added **560,000** *domestic retail mobile customer services*

$1.3b *invested in our mobile network*

2.7m CUSTOMERS ON A BUNDLED PLAN

300,000 TELSTRA TVs® IN THE MARKET

4G service NOW REACHING **98%** OF AUSTRALIAN POPULATION

1.1m HOME BROADBAND AND MOBILE CUSTOMERS ACTIVATED TO USE TELSTRA AIR®

58% OF ALL CONSUMER SERVICES ARE COMPLETED ONLINE

UPGRADED **2,375** OF OUR NETWORK SITES TO **4GX™**

533 people WITH DISABILITY OR FROM A DISADVANTAGED BACKGROUND EMPLOYED THROUGH OUR SUPPORTED WORKFORCE PROGRAM

GES[2] income growth of **11.5%**

289,000 *new **nbn™** connections with overall market share of 50%*

Telstra Health® won Government contract to deliver the National Cancer Screening Register

Network Applications and Services business grew by **14.3%**

$1.8b PROFIT ON THE SALE OF AUTOHOME SHARES

ALMOST **17m** SMS SENT TO CUSTOMERS HIGHLIGHTING RESPONSIBLE PHONE USE

Provided **$175m** *of value through our social and community investment programs*

~2.9m REGULAR USERS OF TELSTRA 24X7® APP

Reached more than **59,000 people** through our digital literacy programs

DATA LOAD ON OUR NETWORKS GREW BY **62%**

ACHIEVED A SUSTAINABLE ENGAGEMENT SCORE OF **71%** *in this year's Employee Engagement Survey*

500,000 ***nbn™** network connections at 30 June*

56% REDUCTION *in greenhouse gas emissions intensity from our baseline year*

We are providing up to **20,000** PHONES *through Telstra Safe Connections® to help women impacted by family violence stay connected*

1. From continuing operations, excluding finance income.
2. Global Enterprise and Services

Chairman and CEO message

Andrew Penn (CEO), John Mullen (Chairman)

Dear Shareholders,

In 2016 we saw ongoing advances in technology and constant innovation continue to reshape the telecommunications and technology markets and transform customer experiences. As the world continued to digitise, more and more people took advantage of the exciting and empowering possibilities of new technologies and being connected.

For Telstra, this was a year of considerable progress and we continued to attract new customers across our key products.

Our financial performance in 2016:

- on a reported basis from continuing operations, total income[1] increased 3.6 per cent to $27.1 billion and EBITDA decreased 0.6 per cent to $10.5 billion
- on a guidance[2] basis, total income increased 6.3 per cent to $28.3 billion, EBITDA increased 2.6 per cent to $11.0 billion and free cash flow was $4.8 billion
- net profit after tax increased 35.9 per cent to $5.8 billion, including $1.8 billion from the sale of Autohome shares. Earnings per share increased 37.4 per cent to 47.4 cents
- we delivered on our guidance for FY16
- we added 560,000 domestic retail mobile customer services and 235,000 domestic retail fixed broadband customers
- impairment of Ooyala intelligent video subsidiary of $246 million
- final dividend of 15.5 cents per share taking total dividend for FY16 to 31.0 cents per share, distributing $3.8 billion to shareholders
- we will return $1.5 billion to our shareholders through off-market and on-market buy backs in addition to the FY16 final dividend.

We are pleased to deliver another solid result for shareholders, growing revenue and EBITDA on a guidance basis, adding new customers and again providing consistent shareholder returns.

There is no doubt that competitive intensity has increased across our segments and products. The rollout of **nbn**™ network has progressed and the pace of technology innovation has continued to accelerate.

This highlights the importance of our vision to become a world class technology company and our continued efforts to deliver on our strategy.

While we performed well in the market and added new customers, we did not make as much progress as we would have liked on improving the experiences our customers have with us. Work still needs to be done to ensure we consistently deliver a great service experience.

Shareholders will also be aware we experienced a series of network interruptions in the second half of the financial year.

Notwithstanding our long track record of leading network performance, these interruptions were disappointing given the impact they had on our customers, something for which we sincerely apologise. We continue to address these issues and are implementing the recommendations from our core network and IT system review, addressing sources of potential risk and building the durability and capability of our network. Our response to the network interruptions is discussed further on page 13.

Telstra is fiercely proud of its networks and we will continue to invest in providing the network of the future and the best possible experience for our customers.

Our strategy and vision

Our vision is to become a world class technology company that empowers people to connect. To achieve this we continue to focus on the three key strategic pillars of improving customer advocacy; driving value and growth from our core business; and, building new growth businesses.

We believe this is the right strategy to manage the dynamics of the **nbn**™ network rollout and increased competition in the market, while also taking advantage of our core strengths and new opportunities arising from technology innovation.

Improving customer advocacy

Improving customer advocacy remains our most important priority and will continue to be so.

We know customers expect more from us as their reliance on smart devices continues to grow.

This is why improving the customer experience is paramount, and why network interruptions in the second half were particularly disappointing. As a result of these factors our overall NPS score decreased by four points year on year, although we improved advocacy with enterprise, government, wholesale and managed business customers.

In FY16 we worked on removing some of our obsolete or overly complex legacy processes, systems and practices to make it easier for customers to do business with us. As part of this work, we are leveraging our digital capabilities to simplify and improve our service experience. For example the Telstra 24x7® App now has 2.9 million active users who value being able to access a growing array of services at their convenience, and who are using the app for activities such as keeping track of their usage, locating their nearest store and topping up broadband allowances.

In 2016, we further enhanced the value proposition of our mobile and fixed products with innovative product design and new experiences on our networks including access to media content. For example, we offered unlimited data on the Telstra Air Wi-Fi network until 27 March 2017and an AFL/NRL content pass for eligible customers for the 2016 season through to 31 January 2017.

We must continue to challenge ourselves to do better, to address the root cause of issues that affect our customers and to nurture our customer relationships every day. Our ongoing focus in this area is discussed in more detail on page 10.

Driving value and growth from our core business

This year, we continued to drive growth and value from our core businesses. In light of changing market and structural dynamics, we continue to focus on growing customer numbers and usage to effectively monetise the value we provide. The core of our business is built around our networks which received significant investment over the past year.

We have now achieved 98 per cent population coverage with 4G and are on track to reach 99 per cent population coverage by June 2017. Our Telstra Air Wi-Fi network now has over 500,000 hotspots nationally including over 4,500 public hotspots, and over 1.1 million customers activated to use the Telstra Air network.

Overall, we invested $4.0 billion in capital expenditure including in our fixed and mobile networks and other works.

Our network investments for the year are discussed in more detail on page 12.

Moving our customers to the nbn™ network

Telstra is Australia's leading provider of services on the **nbn**™ network, with a market share of 50 per cent, and we are seeing strong demand from customers as the rollout scales up. We are also helping nbn co with the rollout of the **nbn**™ network. Our expertise in network build and maintenance has led to a series of agreements with nbn co for additional work, including a $1.6 billion contract signed in April to provide planning, design, construction and construction management services within the Telstra HFC footprint until the end of the **nbn**™ network build, slated for completion in 2020.

Investing in next generation network leadership, digitisation and customer experience

Our customers and our networks are our biggest assets, which is why we are investing more to set new standards and deliver seamless, excellent experiences for our customers.

We have announced we are committing to invest up to an extra $3 billion over three years on our networks of the future and digitisation to drive improvements in customer experiences.

This wave of new investment will position us to deliver significant customer benefits and reinforce our market differentiation over the longer-term, as well as deliver business benefits such as capital efficiency, reduced operating costs and increased revenue.

As a result of the investment, capex to sales ratio[4] in each of the next three financial years will increase to approximately 18 per cent, the highest since 2008-09 as Telstra was building up its 3G network.

There are a number of immediate actions that we believe will improve customer experiences. We will simplify products and platforms – we need to retire old technology and systems that slow down and complicate how customers are served.

A significant proportion of the investment would also go towards transforming the next generation of networks.

Our mix of earnings is changing

The composition of our earnings is changing in line with the income mix of our products.

Over the year, fixed voice revenue declined as fewer customers made use of landline phone services, while our Network Applications and Services (NAS) revenue grew strongly. Our NAS managed services tend to be lower margin, and this shift had an impact on gross margins and our average underlying percentage EBITDA margin has reduced.

The **nbn**™ will also have one off and recurring impacts on our earnings. The definitive agreements we have signed with nbn co and the Government partially compensate us for the effect of the **nbn**™ and for using our ducts, racks and backhaul. However, the impact of the **nbn**™ goes beyond those agreements, including through transitioning costs and ongoing operational access costs.

Overall, the forecast net effect on our business is a reduction of $2-3 billion in EBITDA per annum at the conclusion of the **nbn**™ build. To offset these impacts, we continue to execute on our strategic priorities, and at the same time, we have raised the bar on productivity to reduce our fixed costs, with a focus on digitisation, simplification and getting processes right first time.

We are creating a fitter, faster Telstra

Our renewed approach to simplifying our business has been focused on our customers. We recognise the things that can frustrate our customers about our products and service are often the same things that add costs to our business.

By finding ways to start less and finish more, improve and simplify our processes, we can deliver better customer experiences as well as cost benefits. We have been working on a number of initiatives to improve service, including through digital channels. These initiatives are discussed in detail on page 13.

We are building new growth businesses

Our third strategic pillar, building new growth businesses, is designed to realise opportunities that leverage our core strengths. We are working on innovations that create opportunities and new possibilities, including investments in digital media, eHealth, applications, services and software.

The successful integration of Pacnet over the past 15 months means Telstra has emerged as a leader in international connectivity with the largest submarine cable network in the Asia-Pacific region. Our joint ventures in China (Telstra PBS) and Indonesia (telkomtelstra) both enjoyed strong demand for services this year.

Our NAS business has seen double digit growth each year for the last few years and now generates annual revenues in excess of $2.7 billion. Our Telstra Health business is now one of Australia's leading

1. Excluding finance income.
2. This guidance assumed wholesale product price stability from the beginning of the financial year and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.
3. Neither the off-market buy-back nor the subsequent on-market buy-back will be made directly or indirectly in or into the United States.
4. Refer to "Looking ahead" for relevant assumptions.

providers of eHealth solutions, and in May was selected by the Commonwealth Department of Health to deliver the National Cancer Screening Register under a five year contract. Due to changing dynamics in the intelligent video market and business performance, we recognised a $246 million impairment in our video streaming business Ooyala.

This year we announced the sale of most of our stake in Autohome, a very successful investment for Telstra. We are proud of the role we played in its rapid growth since we first invested in 2008. We believe the time was right for us to realise significant value for our shareholders and for Autohome to benefit from a new strategic partner in Ping An Insurance. We retain a 6.5 per cent interest and a board position in Autohome.

Further detail on our growth businesses is discussed on page 14.

We have a world class team

Our vision to be a world class technology company that empowers people to connect relies on the collective skill of our people. We continue to build a world class team and this year that included a number of key appointments in the Senior Management team.

We are fortunate to have such a deep pool of internal talent as well as being able to attract and recruit some of the best globally accomplished executives from around the world. These appointments are discussed in detail on page 40.

We also saw changes at a Board level, farewelling former Chairman Catherine Livingstone AO and two other longstanding Directors Geoffrey Cousins AM and John Zeglis, and welcoming Trae Vassallo and Craig Dunn to the Board.

Delivering on our purpose

Increasingly we are seeing the economic, social and environmental benefits that modern communications technologies are delivering for our customers and the community. While more and more people are getting online, it is clear that some are being left behind. If we are to truly deliver on our purpose and create a brilliant connected future for everyone, we must ensure that everyone can enjoy the benefits of being connected.

This is why we have long invested in building people's digital skills and capabilities. This year we reached more than 59,000 people through our digital literacy training programs, and helped over one million vulnerable customers stay connected.

We are also committed to minimising our environmental impacts and to working with our customers to achieve better environmental outcomes. This year, our total greenhouse gas emissions decreased by two per cent despite data load on our networks increasing by 62 per cent. This meant we achieved our three year greenhouse gas emissions intensity target a year earlier than planned.

On behalf of the Telstra Board and leadership team we would like to express our sincere thanks to Catherine Livingstone AO for her great contribution to our company. During her 16 years with Telstra, including seven as Chairman, Catherine provided remarkable leadership and vision as our company and industry experienced profound change.

To give a sense of the extent and scale of that change, when Catherine commenced as a Telstra Director there were no smartphones, no cloud and no National Broadband Network. And yet today all of those innovations are among a myriad of technologies that make telecommunications such a critical enabler of our networked society.

As Chairman of the Board, Catherine helped ensure Telstra is well placed to capitalise on the enormous opportunities of the digital age and that our company continues to build the skills, capabilities and customer focus we need to pursue our aspiration to become a world class technology company.

Through many forums, she has showed her passion for technology, science, reform and innovation and has also earned the deep respect of many other stakeholders around the world.

We thank her, and extend our best wishes for the future.

Capital management

Our capital management strategy continues to be underpinned by a clear focus on maximising returns to shareholders, maintaining financial strength and retaining financial flexibility.

We announced we would return up to approximately $1.5 billion of capital to shareholders, comprising a $1.25b off-market share buy-back and $250m on-market share buy-back.

The buy-backs are expected to be funded from Telstra's surplus cash and accumulated profits (including from the recent sale of Autohome shares).

The Board has determined that the buy-backs are the best way to achieve the objectives of Telstra's capital management framework at this time. The terms and conditions of the off-market buy-back will be set out in a booklet to be distributed to eligible shareholders[3] by 2 September 2016.

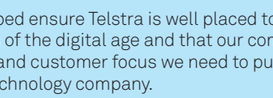
Looking ahead

Today there is virtually no technology innovation that does not fundamentally rely on a network and for that reason we anticipate demand for our services will only continue to grow. We need to be prepared to respond to our customers' expectations, and to work harder on the experience we offer. We have a clear strategy and we are lifting our aspiration for the year ahead to focus on the things that matter: improving the customer experience, driving value and growth from our core and building pathways toward future, sustainable long-term growth.

In FY17 Telstra expects to deliver mid to high-single digit income growth and low to mid-single digit EBITDA growth. Free cashflow is expected to be between $3.5 billion and $4.0 billion and capital expenditure to be approximately 18 per cent of sales. 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 in accordance with the nbn™ Corporate Plan 2016. Capex to sales guidance excludes externally funded capex.

Guidance excludes the Ooyala impairment in FY16 and restructuring costs in FY17 of $300 million to $500 million.

We are extremely grateful to the Telstra team for their dedication to customers and willingness to embrace change as we transform the company for continuing success. We remain committed to making Telstra not just a better company and a great place to work, but a world class technology company that empowers people to connect; we can think of no more exciting goal for this great company.



John P Mullen,
Chairman

Andrew R Penn,
CEO and Managing Director

Strategy and performance

Our strategy is focused on driving growth and creating long term shareholder value. This section outlines our progress in delivering on the three pillars of our strategy over the past year.

Alice, Head of Hong Kong and Taiwan, Global Sales.

Improve customer advocacy

Ted Tolfree, Crisp Creative Salad, Victoria.

Improving customer advocacy remains our number one strategic priority. By providing great customer experiences we can change the way our customers talk about us. Customers who become advocates for Telstra will stay with us longer, buy more of our services, and recommend us to others.

We continue to listen to our customers to help us improve the way we do things and we use the Net Promoter System (NPS) to get their feedback. Customers provide feedback through surveys we run at the end of a conversation or contact with Telstra and via external market research. We use this feedback to help our frontline teams improve their conversations with customers and to improve our processes, products and services.

Encouragingly, our NPS performances in Telstra Business Managed, Wholesale, GES Australia and GES International improved over the course of the year.

Our overall NPS performance this year was disappointing, and shows we have more to do to deliver a great experience for our customers every time they interact with us.

Our recent announcement that we will invest up to an extra $3 billion over three years on new investments in networks and business initiatives is designed to deliver significant benefits to all our customers.

In 2016, we made progress on some of our customer advocacy initiatives, taking action to address some of the issues customers are telling us about and delivering extra value to our customers with new product and content offers.

Improving our customer service

We improved our orders process
When customers are placing a new order, adding a service or recontracting, we have made changes to our order process to ensure we set the right expectations at the point of sale, to help them understand what they have ordered, what will happen next and what their bill will look like.

Our online services are growing
Digital channels now account for 58 per cent of our consumer service transactions, with millions of customers regularly using the Telstra 24x7® app and My Account portal for activities such as keeping track of their data usage and staying in control of their account and services. Customers are using our online channels at the time that best suits them, with the ability to log in and make a change to their service, or to complete simple transactions such as purchasing extra mobile data, unlocking a mobile device, or requesting a payment extension.

The Nielsen mobile and tablet usage survey (Oct 2015) ranked Telstra's 24x7 App® as the number one tablet and number two smartphone app amongst Australian companies.

We're talking to customers in more languages
To support ongoing international growth, we have enhanced our 24/7 Global Service Desk for our international enterprise customers with more support in multiple languages. We have created a new global approach with service desks in Hong Kong, London and Kuala Lumpur. Our standard international customer contracts are also now available in Japanese, Korean and traditional and simplified Chinese.

Extra value for our customers

Our customers' expectations are changing, as the rate of technology innovation accelerates and at the same time, competitive intensity is increasing. In 2016, we have been working to become more agile and responsive to our customers' needs by providing differentiated content and experiences.

More customers watched Telstra TV®
Our Telstra TV® service has been performing well, and is the first streaming device in Australia to include all three streaming services – Stan^, Presto^^ and Netflix^^^. It also includes all five free-to-air catch up apps and movie rentals through BigPond Movies. We are pleased to see that Telstra TV is providing a simple way for our customers to access the content they love, using their Telstra Home Broadband. There are now over 300,000 Telstra TV devices in households across the country with access to apps such as Fox Sports**, ZooMoo# and many more.

We offered more music
Telstra offers a six-month Apple Music## membership to all retail customers on any 12 or 24 month Go Mobile Plan with a compatible device. An Apple Music membership provides access to the full Apple Music library, expert recommendations, worldwide radio and unlimited skips on all other radio stations.

We grew our Telstra Air® Wi-Fi network
More than 1.1 million home broadband and mobile customers are now activated to use Telstra Air, Australia's largest Wi-Fi network. Our fixed broadband customers have created over 500,000 homespots nationally, which Telstra Air customers can access across Australia. We now have over 4,500 public hotspots including selected Telstra pink payphones, most Telstra stores and other outdoor locations. Home broadband customers can also access Wi-Fi at more than 19 million hotspots overseas through our partnership with international Wi-Fi provider, Fon.

We bumped up the data on popular plans
In 2016 we increased the data available through our popular mobile plans to enable our customers to make the most of their experience. Telstra consumer mobile and fixed broadband customers get access to a free 200GB Microsoft OneDrive+ subscription to store, share and access important documents, photos and files at home or on the go.

Our bundles are better value
In April, we offered consumer customers our best value bundle ever. New and existing broadband customers, including those connecting to or moving onto the nbn™ network, receive 1000GB on a Telstra Large Bundle for 24 months. As part of the bundle, they have access to unlimited fixed line calls to local, standard national and Australian mobile numbers. It also includes a Telstra TV with a six-month Presto subscription, three months access to Fox Sports Now and a $15 BigPond Movie voucher.

On top of this, customers buying the bundle with an eligible broadband service will receive a Telstra Air® Wi-Fi compatible gateway modem.

We gave Data Top Ups to Business Customers
In May, we began rolling out double data allowances for all Telstra Business Broadband, Digital Office Technology™ (DOT) and BizEssentials® customers. Providing this data boost will help businesses take up new ways of working, such as video conferencing or setting up an online retail presence. Telstra also doubled the data for new customers who signed up to a business broadband plan from May 2016.

We entertained with our Live Football Digital Passes and Telstra Thanks® rewards
The AFL Live Pass or NRL Season Pass is included on eligible mobile plans and for Pre-Paid Freedom Plus® customers. This means our customers can watch every game live for the 2016 season, including finals, on their compatible device in Australia.

The Telstra Thanks® program offers customers a range of great rewards and extras, just for being a Telstra customer. In entertainment, customers can access specially priced movie tickets, and get exclusive pre-sale offers for live music events and concerts. Telstra customers can also enjoy $20 tickets to select AFL games and 20 per cent off selected 2016 NRL tickets.

We offered better value with Telstra Platinum®
We've changed the Telstra Platinum offering to give customers the same great technology support but more flexibility and better value. We've halved the contract period for new Telstra Platinum Service Subscriptions and also halved the cost of in-home services for our subscription customers.

We introduced exciting new technologies
We introduced our first Software Defined Networking (SDN) products for both Australian and international customers, enabling businesses to rapidly deploy and configure services over Telstra's networks.

We also launched Telstra's Cloud Gateway, which makes it easy for customers to connect multiple clouds; including world-leading cloud platforms Amazon Web Services++ (AWS), Microsoft Azure+, Office365+ and VMware's vCloud Air as well as IBM SoftLayer.

We've been Checking-In with customers
We continue to check-in regularly with our customers to make sure they have the best products and plans to meet their needs. For regional and remote customers, we have used our Telstra Check-In Tour, which provides face to face contact in areas where we don't have stores, so our customers can talk to a Telstra representative in person about their needs. This year through our Check-In program, we delivered 6.6 million personalised Check-In communications to business and consumer customers.

Our first Check-In Tour to the centre of Australia

Telstra's first Indigenous Check-In Tour travelled to some of Australia's most remote communities to help our customers with their services, resolve issues and discuss new technologies.

The Telstra team working with locals from Yuendumu.

Drive value and growth from the core

We are focused on driving value and growth from our core including through consolidating our network leadership, winning in the **nbn**™ market and accelerating our productivity program. Our core refers to our key domestic products, services and costs that make up the bulk of our business today.

Consolidating our network leadership

Telstra's networks continue to be among the best in the world and provide us real strategic differentiation. Our recent announcement that we will invest up to an extra $3 billion over three years on new investments in networks and business initiatives is designed to help us continue to maintain strategic advantage in a heavily competitive environment. The new investments will go towards transforming the next generation of networks, with a focus on the next stage of mobile network innovation including preparation for 5G, as well as strategic investments in our fixed network services.

Notwithstanding the interruptions we experienced in the second half of the financial year, in FY16 we made progress on network innovation and overall, we invested $4 billion in capital expenditure, including investment in our fixed and mobile networks and other works.

We are increasing mobile coverage
With the nation's largest mobile footprint and as the first carrier to bring 4G mobile services to regional Australia, we are acutely aware of the challenges facing communities living with limited mobile network access.

Our mobile network remains the largest and most reliable mobile network in Australia and now covers over 2.4 million square kilometres and 99.3 per cent of the Australian population. Our 4G network now covers 98 per cent of the Australian population and we are on track to reach 99 per cent of the population by June 2017.

Under the Federal Government's Mobile Black Spot Programme, we are deploying 429 new 3G/4G base stations to improve mobile coverage for over 400 communities across Australia and of these, we have already delivered sites providing new and improved mobile coverage to approximately 50 communities.

We are preparing our networks for the future
We have taken significant steps to prepare our networks for the future, to meet the rising demand for data and content on our networks.

LTE Broadcast (LTE-B)
As growth of video consumption continues to accelerate on our mobile network, LTE-B technology can allow large groups of customers to consume the same content in the same location at the same time, such as software downloads or sports content.

In FY16 we enabled the capability to switch on LTE Broadcast technology across our entire 4GX™ coverage area giving us a platform to cost effectively broadcast high quality video media to a number of metropolitan and regional areas around Australia.

VoLTE
In September, we launched Australia's first Voice over LTE (VoLTE) service that allows voice calls to be carried on the 4G service for the first time. Benefits include call setup times speeds and the ability to serve new coverage areas more cost effectively with 4G alone rather than having to include 3G infrastructure for voice.

1Gbps
In late 2015, we completed a world first commercial launch of a device capable of 600Mbps peak download speeds and the successful demonstration of a device with 1Gbps download capabilities on a commercial network. Our mobile network has now been enabled to support 1Gbps peak download speeds in Melbourne, Sydney and Brisbane CBD areas in readiness for commercial devices which we expect to become available later in 2016.

Customer revenue and growth

We continued to grow customer numbers in our core mobiles and fixed broadband business in 2016, leveraging the work we are doing to build customer advocacy as well as our core network strength. Our focus remains on enhancing the customer experience, with our mobile offerings including more content and larger data allowances than ever before. Appetite for data continues to rise, with the volume of data usage across our networks up 62 per cent from the previous year.

In a highly competitive environment, retail mobile customer services increased by 560,000, bringing the total number of services to 17.2 million. Mobile revenue decreased largely as a result of regulatory changes to voice and SMS terminating charges, and lower international roaming charges. However without the negative impact of the regulatory changes, on a like-for-like basis, mobile revenue was higher.

Fixed revenue fell largely due to a continued decline in the number of fixed voice services and regulatory changes. The rate of fixed voice revenue decline was broadly maintained due to success in retention activities and momentum from bundling.

The total number of customers on bundled plans increased by 322,000, with 83 per cent of our retail fixed data customer base now on a bundled plan.

Fixed data continues to grow strongly, partially offsetting the decline in voice. Retail subscriber numbers increased by 235,000 for the year, the highest net adds in over five years, bringing the total retail fixed data services customer number to 3.4 million. Demand for our **nbn**™ services continues, with connections growing by 289,000 to 500,000.

Winning in the nbn™ market

Telstra is Australia's leading provider of services on the **nbn**™ network with a market share of 50 per cent and we are seeing strong momentum as the rollout gathers pace.

The multi-technology model (MTM) for the **nbn**™ network is now in effect, scaling up the rollout of the **nbn**™ network across the country with the launch of new access technologies, fibre-to-the-basement (FTTB) and fibre-to-the-node (FTTN).

As at 30 June 2016, we had 500,000 **nbn**™ network connections, made up of 407,000 voice and data bundles, 34,000 data only and 59,000 voice only services. Our customers on the **nbn**™ network are embracing access to high speeds and we are seeing a rise in data use as our customers take advantage of exclusive content through our media and sports partnerships and leading on-demand video technologies like the Telstra TV®. For our business customers we are creating industry solutions, managed network services, cloud and collaboration services to take advantage of the improved network experience available with the **nbn**™ network.

In the first areas to launch FTTN technology on the **nbn**™ network we deployed a local leadership strategy to drive high demand and awareness and educate and help our customers take advantage of the new technology. We have more to do to improve our customers' experience as they transition to the **nbn**™ network, and this will continue to be a key focus as the rollout continues.

Belong®
Our challenger internet brand Belong has continued to offer competitively priced broadband plans. Throughout FY16, the low cost data-focused offering and hassle free approach of Belong has seen it secure more than 250 per cent growth in the **nbn**™ network consumer market helping new broadband customers get connected.

We won new nbn co construction contracts
In April, we signed a new $1.6 billion contract with **nbn** co to provide planning, design, construction and construction management services within our existing HFC footprint, which is a testament to our world class expertise in network construction. The works are due to continue until the end of the **nbn**™ network build, which is expected to be in 2020.

Our HFC network is currently used to deliver pay TV and cable broadband services. Once upgraded, it will be an important part of the **nbn**™ network, delivering **nbn**™ broadband capability to millions of homes and businesses.

Accelerating our productivity program

Productivity remains a key focus for us in driving value from the core. Our productivity work is designed to deliver better customer outcomes by simplifying our processes and systems and optimising our products and services so we give our customers simple, clear choices and reduce the amount of work we need to do in the background.

We have made good progress in removing complexities and moving toward digital solutions in FY16.

- We expanded the range of Self Service Assurance tools from ADSL to include Cable and PSTN products and in FY16, 1.2 million Self Care online interactions were completed, compared to 600,000 in FY15. We estimate this reduced customer calls by 3.5 per cent.
- We introduced a number of back-of-house and customer management initiatives to improve our efficiencies in moving customers to the **nbn**™ network, leading to a 40 percent year-on-year reduction in the average cost to connect each customer. The recent introduction of a seamless migration program in FTTN areas will further improve the customer experience and cost efficiencies. Customers on **nbn**™ ready plans are sent a compatible modem and phone so they can move to the new network with minimal disruption.
- By expanding our use of new technologies such as software defined networking, we were able to lower our energy and floor space requirements within our exchange sites.
- We also improved digital tools and processes for our customer facing teams including a Customer Advisor Tool which speeds up query resolutions, and My Account Mirror which mirrors the customer view of an account, helping our team guide customers through our self-service features.

As we accelerate our productivity program, we are already starting to see value delivered, with a 0.6 per cent reduction in our underlying core fixed costs in FY16. These are discussed in more detail on page 25.

Our response to network service interruptions

In response to mobile network interruptions in February and March, we provided two free data days for our mobile customers in every state and territory in Australia.

Many of our customers made use of this offering and we saw record data usage across our network on both days, with our network performing strongly throughout.

We also offered customers impacted by ADSL and **nbn**™ network outages service credits as a goodwill gesture; additional data packs; we refunded excess usage; and replaced modems no longer working.

In May, we also announced the results of a full review into our mobile network and we have since been working to implement the recommendations from that review, which will help to reduce the likelihood of future outages, with increased redundancy in our nodes, more core network capacity, new procedures for key network element restarts, and improving resilience in our international connectivity.

We have also recently completed an end-to-end review of our core network and IT systems, pinpointing sources of potential risk.

As a result of this work we will be investing $250 million in our network from our existing capital program over the next six to 12 months to provide a higher degree of network resilience and improved network performance. This includes investment in three key areas:

- enhancing the mobile network's resiliency, to improve recovery time and create more effective real time monitoring
- improving reliability and resilience within the core network
- increasing current ADSL broadband capacity to meet increasing customer demand.

Build new growth businesses

We are leveraging our core strengths in networks, connectivity and commitment to customer advocacy to capture opportunities in Asia and in emerging areas like eHealth, software and digital media.

The rapid adoption of digital technology and online services is creating a range of new business opportunities, including supporting the connectivity boom that is underway in key markets in Asia and developing innovative new products through the Telstra Software Group, Telstra Health® and Telstra Ventures™. To realise these opportunities we are assembling innovative technology, capability and talent from around the world to deliver transformative services for our customers.

These business opportunities create a new dynamic for Telstra in terms of earnings and investment returns, which is important given the impact the **nbn**™ network will have on our mix of earnings as the rollout progresses. We expect to see the composition of our earnings change as we provide more managed services to enterprise customers, which tend to be lower margin, and we continue to develop early stage new businesses in areas like health and software.

We are investing in long term growth

Asia
Asia is one of the key elements of Telstra's growth strategy. We are leveraging our longstanding presence and strong network in the region to expand our enterprise services business and to pursue longer term growth opportunities.

With the successful integration of the Pacnet business we acquired in 2015, Telstra now operates the largest submarine cable network in the Asia Pacific Region, representing around 30 per cent of total active intra-Asia capacity, and the largest integrated data centre footprint in the region.

Building on this unique set of assets we are offering market leading network applications and services, such as cloud and unified communications, and deepening our presence in the high growth markets of Indonesia, through our joint venture telkomtelstra, and China, through our joint venture, Telstra PBS.

Telstra is also pursuing new opportunities in Asia, through Telstra Health, Telstra Software Group and Telstra Ventures. In FY16 this included signing a Memorandum of Understanding with the Shanghai Institute of Medical Quality to make Telstra Health's hospital data tools available in China and expanding our connections to the ventures community in South East Asia through an investment in Monk's Hill Ventures.

During the year we sold 47.4 per cent of the total issued shares in Chinese online business Autohome for US$1.6 billion to Ping An Insurance Group, realising significant value for Telstra shareholders after a period of rapid growth since we invested in 2008. We retain a 6.5 per cent interest in Autohome.

Pacnet
In 2015 Telstra acquired Pacnet Limited, a provider of connectivity, managed services and data centre services to carriers, multinational corporations and governments in the Asia-Pacific region. In FY16 we achieved our integration milestones by exceeding our planned cost synergies, combining our teams in more than 10 locations and creating one service experience. Industry analyst Gartner now recognises the combined business as "visionary", and rates Telstra number one for high capacity and low latency networks in Asia.

telkomtelstra
It was a significant year for telkomtelstra, with the business becoming fully operational and the first suite of products and services being offered in the market. telkomtelstra signed on a significant number of customers and moved into new, state-of-the-art facilities in Jakarta housing an immersive Customer Experience Centre, which is the only one of its kind in Indonesia.

Network Applications & Services (NAS)
During the year we continued to execute our NAS strategy of combining organic and inorganic growth to support our key solutions and offerings in Australia and internationally.

We acquired Kloud, a company that provides professional and managed services to enterprises across Australia and the Asia-Pacific region. Kloud also supplies solutions for productivity, identity, security, application development, and cloud infrastructure for enterprise cloud applications. This has enhanced our consulting-led capabilities by expanding our professional and managed services, complementing previous acquisitions such as NSC, 02 Networks and Bridge Point.

Telstra Ventures
Telstra Ventures, our corporate venture capital arm, continued to invest in high growth technology companies that Telstra can leverage to develop new products and services for our customers.

In FY16, Ventures completed 11 new investments: Boomtown, Cloopen, Compare88, Instart Logic, Monk's Hill Ventures, NGINX, Qiniu, Singular, Snapchat, Uhana, and vArmour. This included our first two Ventures investments in China in Cloopen and Qiniu, and leading US-based companies like Instart Logic, NGINX and vArmour, that we can collaborate with to create services for enterprise customers.

Telstra Health
Telstra Health strengthened its position as one of Australia's leading providers of eHealth services in FY16 by continuing to focus on the use of technology to improve healthcare outcomes for patients and providers.

Since 2013, we have invested more than $235 million to acquire, invest or partner with 18 health-related companies, including acquiring hospital resource optimisation designer Health IQ and software product ComCare in FY16, which will help us to transform and improve the efficiency of the healthcare sector.

These capabilities enable Telstra to offer technology services designed to reduce inefficiency, improve productivity and increase quality of health care. For example, an independent evaluation by the Northern Territory Government highlighted that the National Telehealth Connection Service run by Telstra Health contributed to their ability to grow the use of telehealth by more than 700 per cent over a 14 month period, with an estimated reduction in travel costs of $1.1 million.

New services launched in FY16 include Telstra ReadyCare®, a 24/7 telemedicine service that connects Australians to an experienced GP by phone or video and is now used by consumers, business and government.

Telstra Health was also selected by the Commonwealth Department of Health to deliver the National Cancer Screening Register under a five year contract. Telstra will build and operate the Register that will help manage bowel and cervical cancer screening programs for more than 11 million Australians by integrating existing databases and improving access for patients and practitioners to medical records.

Bringing to life what it means to be a world class technology company

Telstra is building innovative growth businesses in new markets and industries, as well as driving innovation within our existing business, to help meet our ambition of becoming a world class technology company.

We define innovation as new ideas, new products or new services that overcome a problem or do something in a better, simpler way for our customers. There are four parts to our innovation approach – incubation, collaboration, new methods and, most importantly, people.

We are working on innovations that create opportunities and new possibilities for the things that matter, such as keeping people healthy, safe and creating a more liveable world.

Telstra Software Group
Software remains a key focus area as we drive growth through new businesses and digital ecosystems. Telstra Software Group aims to create long-term global growth in markets adjacent to Telstra's core business.

Software Businesses
The Ooyala family of Over The Top (OTT) premium video platform capabilities has grown, as the acquisitions of Videoplaza and Nativ have been successfully integrated into the company. The Ooyala impairment we recognised in the year reflects the changing dynamics in the intelligent video market and the business performance.

Ooyala remains a young and exciting company with leading offerings in intelligent video which continue to evolve and scale.

This growing portfolio of products services Ooyala's 500 worldwide customers, including broadcasters, media companies and high profile enterprises. Ooyala collectively serves 220 million unique viewers with 3.5 billion events every day, and was recently announced as the Media Solutions Partner for Facebook Live[+++].

muru-D startup accelerator
Telstra's startup accelerator muru-D operates out of Sydney and Singapore with a partner program also successfully trialed in Brisbane this year. Since October 2013, muru-D has funded 44 startups and established a network of more than 390 active mentors, supporting 110 entrepreneurs who have collectively generated $4.2 million in revenue and raised $8.9 million in capital. This year we announced partnerships with leading accelerators, 500 Startups in Silicon Valley, The Junction in Tel Aviv, and HAX and Chin accelerator in Shanghai, significantly expanding muru-D's global reach and network.

We opened a dedicated Innovation Lab – Gurrowa
In August 2015, we opened our Gurrowa Innovation Lab in Melbourne, an open innovation environment where Telstra, our enterprise customers, partners, incubators, vendors, and research institutes can connect and collaborate on cutting-edge technology.

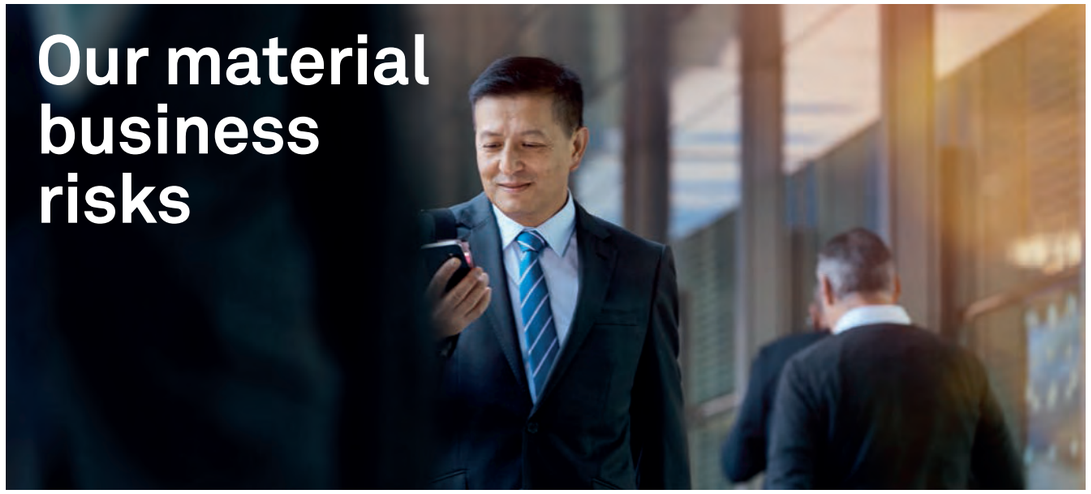
We captured new ideas through our hackathons
Telstra hosted two hackathons at Gurrowa during the year, on the subjects of IT and Data Science, bringing together inventors, innovators and entrepreneurs from Australia and around the world. Participants created technology innovations in the health, bio-science and fit-technology space, and developed innovative and creative insights, visualisations and predictions based on a given dataset. In November 2015, we hosted our own Internet of Things Challenge hackathon in partnership with City of Melbourne, where participants spent a week creating a connected "thing" to improve life in the city.

Proquo – our quid pro quo service for business

Telstra partnered with NAB to create a new digital marketplace for the more than two million Australian small businesses. 'Proquo*' will help grow small businesses, offering an online platform to network, share skills and trade with each other.

Proquo – helping small business owners connect.

Our material business risks



We're pursuing our strategy in an environment characterised by technology convergence, aggressive competition, and evolving policy and regulatory frameworks.

These trends and issues contribute to the different risks that pose a challenge to Telstra achieving our strategic objectives, including our growth ambitions and future financial performance.

The following describes the material business 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 order of significance, nor are they all encompassing. Rather, they reflect the most significant risks identified at a whole-of-entity level. We have identified these risks through our risk management process.

Further detail about our risk management process is set out in the Governance at Telstra section of this report.

Industry disruption and competition

Material Business Risk and key drivers

The risk that we are unable to cost effectively and productively respond to, or take advantage of, rapidly changing business models, consumer behaviours, technologies and our competitors, and manage the shift in our earnings composition through execution of our strategy.

Our ability to operate as a global business and be agile in responding to these market conditions can impact our ability to: achieve our productivity ambitions that will make us more innovative and competitive; reengineer our business to deliver world class experiences, products and services for our customers; and further enhance our brand and reputation in global markets in our effort to become a world class technology company that empowers people to connect.

This risk is exacerbated as we expand our operations overseas and enter new markets that have varied legal, regulatory and geo-political environments. Telstra's strategic objectives and growth ambitions remain vulnerable to events associated with established competitors and other global companies seeking growth within these same markets.

Plans to manage

Our strategy to manage this risk involves a combination of driving efficiencies in our business, monitoring emerging technology trends and disruptive technologies, and actively investing ourselves in innovation and technology driven business opportunities. Examples of recent initiatives in this area are included on pages 10-15.

We are focused on developing our capability to innovate internally, whilst accessing and acquiring the required people capability, technology innovations and business models through our relationships with global technology companies, key suppliers, and joint venture partners (more about how we're developing our innovation capability can be found on page 15).

To improve our responsiveness and agility, and rationalise our cost base, we are undertaking a multi-year portfolio of work which is currently focused on simplifying our systems, processes, and technology. Our renewed approach to simplifying the business is focused on providing enhanced products and better customer experiences (examples of which are provided on page 13). Internationally, we are executing on country level strategies to tap into local market dynamics, to enhance our understanding of the legal and regulatory environment, and to establish greater penetration and presence in these markets.

We also continue to pursue growth opportunities from emerging markets, and are focused on attracting the world class talent required to execute our growth strategy, to realise the value from our mergers and acquisitions and joint venture partnerships, and to further strengthen our brand and reputation (more about how we're building new growth businesses is covered on pages 14-15).

Business resilience

Material Business Risk and key drivers

The risk of planned, or unplanned, disruption to the services we provide to our customers.

There are multiple threats to Telstra's 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. These threats, along with our complex and diverse technology environment, expanding global operations and organisation, create an environment in which business resilience requirements continually change.

Sustained or significant disruption to our services can significantly impact our reputation with our customers and the communities which we serve and could also significantly affect our corporate reputation.

Plans to manage

We continue to develop our business capability to prevent, respond to and recover from network interruptions. We have continuity strategies in place for our critical business processes so we can mitigate the loss of key dependencies during a disruptive event, and continually review these strategies so we can address any existing or emerging gaps to the greatest extent possible.

In response to a number of network interruptions in the second half of the financial year, a full core network and IT system review has been undertaken with the assistance of independent international experts. We are continuing to address these issues and implement the recommendations of the review, and have summarised on page 13 the actions we're taking.

We also continue to review and strengthen our capability to perform crisis and incident management across the company, particularly in regards to our international business operations, and have ongoing programs in place to strengthen our technology service continuity capability.

Data management

Material Business Risk and key drivers

The risk of collecting, using, retaining or managing customer and corporate data in a way that is inconsistent with our regulatory obligations and customer expectations.

This is a growing risk as our business changes, data volumes grow, cyber-security threats become more sophisticated, and some data sets converge. Emerging technologies and future business models will also further enhance the focus on privacy and information security.

Failure to manage our customer and corporate data can result in significant reputational, financial and regulatory implications. It can also damage the trust our customers have in our ability to keep their information secure.

Plans to manage

We have implemented a number of company-wide controls to manage this risk. In terms of data security, we have mandatory data security awareness training for our staff and business partners, and have commenced a cyber-security awareness program. We also continually review and update the security controls on our network based on known security threats and the latest intelligence.

We have a group wide program of work to support compliance with our privacy obligations, which is underpinned by our privacy policy and mandatory privacy training, and have commenced a company-wide program of work to enhance decision making with regard to the use of customer and corporate data. Further information on how we protect and respect customer data and privacy is available in 'Customer Experience' in the Sustainability section.

Regulatory environment

Material Business Risk and key drivers

The risk that we fail to adapt, respond to and influence the rapidly evolving regulatory and policy environment. This can result in the emergence of unfavourable regulatory requirements and increased complexity and cost of doing business. Telstra's exposure to this risk has broadened as we now operate in jurisdictions with governments and regulatory environments that are less familiar.

In Australia, the risk of regulatory intervention on issues like consumer protection, service and competition remains high, given Telstra's prominence in the telecommunications sector and the increasing reliance on the services which we provide. We also envisage policy reform in areas such as privacy, security, media ownership and copyright, due to evolving technology and security threats.

Plans to manage

Our risk management strategy is designed to monitor and limit the adverse consequences of existing and new regulations so that we can meet the needs of our customers in a way that is efficient and minimises compliance costs (refer to page 44).

We proactively develop relationships with relevant regulatory stakeholders and policy makers, community groups and industry. In particular, we engage with the Australian Consumer and Competition Commission and Australian Communications and Media Authority on the scope and outcomes from regulation, with all our stakeholders on regulatory reform opportunities, and with the Commonwealth Government in an effort to achieve optimal policy and regulatory decisions. We are also focused on developing our relationships with government and regulators in jurisdictions outside of Australia where Telstra operates.

National Broadband Network

Material Business Risk and key drivers

Risks related to successfully transitioning and serving our customers in a lower margin environment.

Transitioning to **nbn**™ network exposes us to a potential loss in market share and income, increased costs and poor customer experience. A successful transition is necessary to maintain our share in the fixed market and build future products that will drive growth from our core business.

Consideration must also be given to the rollout timelines of **nbn** co and the influence of Government policy, which could impact execution of our strategy.

Plans to manage

To remain competitive and reduce our costs we are focused on simplifying our systems, processes, and technology (our approach towards simplifying our business is covered on page 7), and on adapting and scaling our business so we can deliver services on the different technologies to be used under the MTM **nbn**™ (refer to page 13).

We also have programs in place to enhance our customer engagement, and deliver innovative **nbn**™ products and services for our customers so we can differentiate ourselves from our competitors. We are working to establish a strong 'Why Telstra' value proposition to build differentiation based on speed, security, reliability and end-to-end services, product offerings such as Telstra Air®, next generation calling, smart home solutions, managed network services for businesses, and enhanced content such as Telstra TV®, sport and subscription-on-demand.

People capability

Material Business Risk and key drivers

The risk that we fail to attract and retain global talent and leadership and transform our workforce, so we can realise our strategy and transition to a global technology company.

In our core business we need to have capabilities necessary to simplify our business and deliver innovative products and services. The emergence of new and disruptive technologies also requires a fundamental change in the skills and capabilities we require.

In growth areas, our people capabilities are a critical enabler to achieving our growth targets and realising the benefits of our mergers, acquisitions and joint venture activities.

Plans to manage

We are focused on planning for and delivering the capabilities required to simplify our business, transition to an **nbn**™ operating environment, and extract value from our core. Key capabilities include the areas of IT network simplification, sales order capability, and delivering world class products and services. We're equipping our people with the tools and training required to be inspiring leaders, to foster a global mindset and to deliver increasingly responsive, personalised customer service.

We are also focused on delivering capabilities required for our growth businesses, such as **nbn**™ network and eHealth, and are enhancing an 'employee value proposition' and mobility and remuneration policies and practices that better attract global talent. We have established an experienced recruitment team in Asia to focus on closing international resourcing and capability gaps. Further information on how we attract and retain capable employees so we can better serve our customers is provided in 'Our People' in the Sustainability section.

Reputation and communication

Material Business Risk and key drivers

The risk that we do not effectively protect and enhance our reputation through clear, transparent and timely communication with our stakeholders and the community.

This can undermine our performance in achieving customer advocacy, result in heightened government or regulatory scrutiny and intervention, act as a disincentive to investors, and create employee disruption and engagement issues.

We are also conscious of how we act and communicate through our commercial partners, joint ventures and third parties that are an extension of our brand.

Plans to manage

We know the link between our reputation and customer advocacy is strong so we continue to foster strong relationships with our key stakeholders, manage issues and crises transparently and effectively, build our reputation through ongoing promotion of positive activity and leverage our technology and expertise to make positive contributions to the community.

Our core strategy is to build trust with our stakeholders, to create more robust working relationships and ensure clear, consistent messages are delivered in a way that maximises the potential of positive outcomes. We have a program of work to communicate and engage with our customers and the community through social media and have delivered cross-company social media training to encourage content sharing within the appropriate boundaries.

Further information on how we make positive contributions to the community, including minimising our environmental impacts, is provided in 'Connecting Communities' and 'Environmental Stewardship' in the Sustainability section.

Outlook

Our business is fundamentally changing as a consequence of market developments, increased competition and technology innovations. The accelerating rate of technology innovation is playing an increasingly significant role in influencing our customers' needs and the future shape and direction of our business.

We are also seeing demand for our services continue to grow which creates significant opportunity for us. In this environment, it is more important than ever that we do not stand still and that we are effective in pursuing our vision to become a world class technology company that empowers people to connect.

Over the next five years, the migration to the **nbn**™ network will impact our earnings. The forecast net effect of the **nbn**™ rollout, in transitioning costs and operational access costs will be a reduction of $2-3 billion in EBITDA per annum at the conclusion of the **nbn**™ build.

To offset the impacts of the **nbn**™ network, we remain focused on achieving our productivity ambitions and reengineering our business to deliver world class experiences, products and services for our customers.

Our earnings composition is shifting in line with the income mix of our products and, as our new businesses grow and make a larger contribution to revenue, our profit margins are changing. In the coming year our objective is to manage the dynamics of the **nbn**™ rollout and increased competition while accelerating our productivity program, leveraging our core strengths and driving value through our investments.

In the coming year our objective is to manage the dynamics of the **nbn**™ rollout and increased competition while accelerating our productivity program, leveraging our core strengths and driving value through our investments.

Our customers and our networks are our biggest assets, which is why we need to invest to set new standards and deliver excellent experiences for our customers, and to support our increased aspirations in a measured, prudent manner for shareholders.

The new wave of investment we have announced over the next three years will position us to deliver significant customer benefits and reinforce our market differentiation over the longer-term, as well as deliver business benefits such as capital efficiency, reduced operating costs and increased revenue.

Details of the investment program will be progressively confirmed during FY17 to FY19, and will continue to be aligned with Telstra's capital management framework and targets for return on invested capital (ROIC). Telstra's capex to sales ratio[1] in each of the next three financial years will increase to approximately 18 per cent, the highest since 2008-09 as Telstra was building up its 3G network.

The network investment is about setting the pace for the network and company of the future, just as we have done in each of the previous network generations.

Our vision is to become a world class technology company that empowers people to connect. Our strategy to achieve this is unchanged and remains the right one to deliver for our customers and shareholders. We are determined to maintain our network superiority, to improve our service interactions and the value we offer our customers, to pursue growth opportunities and to create long-term shareholder value.

1. This 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 capex to sales ratio also assumes the **nbn**™ rollout is in accordance with the nbn Corporate Plan 2016 and excludes externally funded capex.

Full year results and operations review

Telstra Customer Insight Centre, Level 2, 400 George Street Sydney.

Summary financial results	FY16 $m	FY15 $m	Change %
Continuing operations			
Total revenue	25,911	25,528	1.5
Total income *(excluding finance income)*	27,050	26,112	3.6
Operating expenses	16,600	15,598	6.4
Share of net profit from joint ventures and associated entities	15	19	(21.1)
EBITDA	10,465	10,533	(0.6)
Depreciation and amortisation	4,155	3,974	4.6
EBIT	6,310	6,559	(3.8)
Net finance costs	710	699	1.6
Income tax	1,768	1,746	1.3
Profit for the year from continuing operations	3,832	4,114	(6.9)
Profit for the year from discontinued operations	2,017	191	n/m
Profit for the year from continuing and discontinued operations	5,849	4,305	35.9
Profit attributable to equity holders of Telstra	5,780	4,231	36.6
Capex[1]	4,045	3,589	12.7
Free cashflow from continuing and discontinued operations[2]	5,926	2,619	126.3
Earnings per share from continuing operations *(cents)*	31.6	33.5	(5.7)

1. Capex is defined as additions to property, equipment and intangible assets including capital lease additions, excluding expenditure on spectrum, measured on an accrued basis. Excludes externally funded capex.
2. Includes proceeds from the sale of Autohome of $1,323 million.

n/m = not meaningful

Reported results

Following the completion of the sale of a 47.4 per cent stake in online business Autohome on 23 June 2016, the numbers and commentary in the segment, product and expense sections have been prepared on a continuing operations basis and align with the statutory financial statements. That is, they exclude the trading results and sale of Autohome shares. We continue to hold a 6.5 per cent stake in Autohome. The financial position section has been prepared on a continuing and discontinued operations basis (that is, they include the trading results and sale of Autohome shares), unless otherwise noted.

Results on a guidance basis[1]	FY16	FY16 guidance
Total income growth[2]	6.3 per cent	Mid-single digit growth
EBITDA growth	2.6 per cent	Low-single digit growth
Capex/sales ratio	15.2 per cent	~15 per cent
Free cashflow	$4.8 billion	$4.6 – $5.1 billion

This guidance assumed wholesale product price stability from the beginning of the financial year and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excluded externally funded capex.

Guidance versus reported results[1]	FY16 Reported results $m	FY16 Adjustments $m	FY16 Guidance basis $m	FY15 Guidance basis $m
Total income[2]	27,050	1,243	28,293	26,607
EBITDA	10,465	554	11,019	10,745
Free cashflow	5,926	(1,130)	4,796	2,619

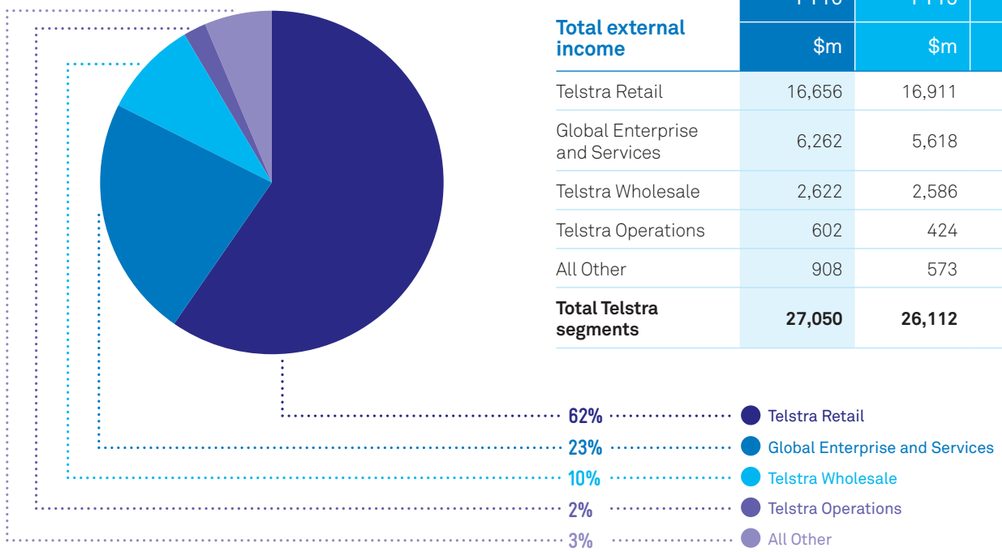
1. Please refer above for details of the guidance adjustments and guidance versus reported results reconciliation on pages 164 and 165 for further information. This reconciliation has been reviewed by our auditors.
2. Excludes finance income.

On 11 August 2016, the Directors of Telstra resolved to pay a fully franked final dividend of 15.5 cents per share. Shares will trade excluding entitlement to the dividend on 24 August 2016 with payment on 23 September 2016.

Segment performance

We present our reportable segments and measure our segment results on the same basis as our internal management reporting structure. Our reportable segments represent the respective business units which offer our main products and services in the market. Further information on each reportable segment can be found in Note 2.1 of the Annual Report.

Segment information from continuing operations



Total external income	FY16 $m	FY15 $m	Change %
Telstra Retail	16,656	16,911	(1.5)
Global Enterprise and Services	6,262	5,618	11.5
Telstra Wholesale	2,622	2,586	1.4
Telstra Operations	602	424	42.0
All Other	908	573	58.5
Total Telstra segments	**27,050**	**26,112**	**3.6**

Telstra Retail
Telstra Retail income declined by 1.5 per cent to $16,656 million while EBITDA declined by 3.9 per cent to $9,220 million. The decline in EBITDA is largely a result of the decline in fixed voice margins and the impact of the migration to the **nbn**™ network. Telstra Retail comprises our Consumer and Business business units.

Income in our Consumer business unit declined by 1.2 per cent. Excluding the impact of the Mobile Termination Access Service (MTAS) decision, on a like-for-like basis, income grew by 1.0 per cent. The MTAS decision relates to regulatory changes to voice and SMS terminating rates which became effective from 1 January 2016. While there was subscriber growth in mobiles and fixed data, lower average revenue per user (ARPU) impacted overall revenue growth. An increase in the take up of bundles and **nbn**™ plans saw fixed data revenue grow by 6.2 per cent. The rate of consumer fixed voice revenue decline was broadly stable at 7.7 per cent. During the year we adjusted mobile data and international roaming rates which impacted revenues in the mobile business. ARPU (excluding the impact of mobile repayment options) decreased as a result, however minimum monthly commitment grew over the period for post-paid handheld.

Pre-paid also experienced lower ARPU's however there was growth in unique users of 2.3 per cent.

In Telstra Business, income declined by 2.4 per cent with mobile services revenue falling by 5.8 per cent as a result of lower excess data and international roaming. On a like-for-like basis, income declined by 1.0 per cent, excluding the MTAS impact. The Network Applications and Services (NAS) portfolio in Telstra Business, in particular managed network services, cloud and unified communications, continued to see good momentum, increasing by 18.3 per cent.

Global Enterprise and Services (GES)
Income for GES increased by 11.5 per cent to $6,262 million. GES International income grew by 55.5 per cent with contributions resulting from our Pacnet acquisition last financial year. Excluding Pacnet, GES International income increased by 18.2 per cent. GES Domestic income increased by 1.1 per cent due to strong growth in NAS and enterprise mobility, in particular in post-paid and machine to machine (M2M). This growth was partially offset by a revenue decline in Data and IP products. Other acquisitions including Bridge Point and O2 also continue to contribute to growth. GES EBITDA was stable at $2,456 million.

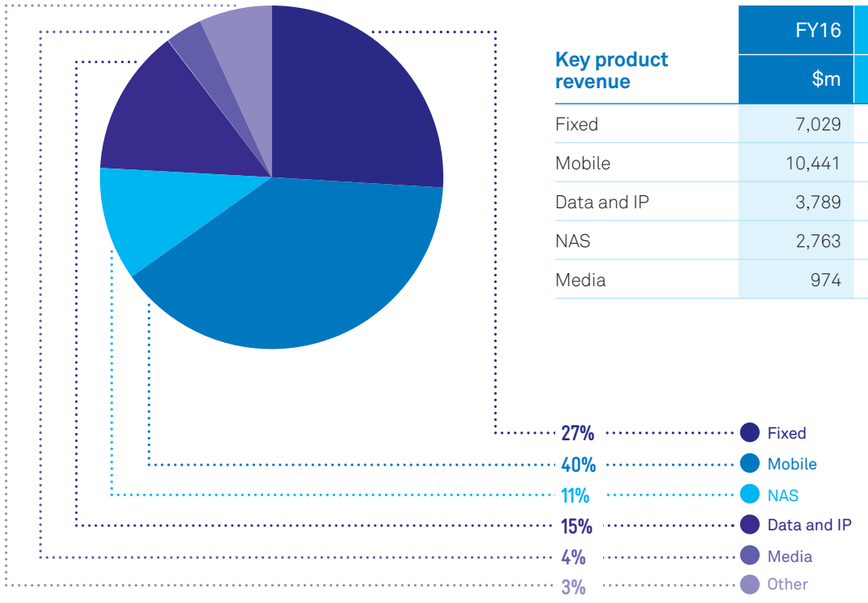
Telstra Wholesale
Telstra Wholesale income grew by 1.4 per cent to $2,622 million. This was largely a result of an increase in Infrastructure Services Agreement ownership receipts which have increased in line with the **nbn**™ rollout, offset by price reductions from the ACCC's fixed line service Final Access Determination (FAD) which became effective on 1 November 2015. EBITDA contribution increased by 1.4 per cent to $2,426 million.

Telstra Operations
Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of other segments. It also has **nbn**™ and property sale revenue. The EBITDA contribution improved by 3.0 per cent with increases in **nbn**™ and property sale revenue, partially offset by higher maintenance costs to support **nbn**™ related 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 Telstra Innovation and Strategy (including the Telstra Software Group), International and New Business (including the Telstra Ventures Group and Telstra Health®) and Media & Marketing.

Product performance

Product sales revenue breakdown



Key product revenue	FY16 $m	FY15 $m	Change %
Fixed	7,029	7,188	(2.2)
Mobile	10,441	10,654	(2.0)
Data and IP	3,789	3,417	10.9
NAS	2,763	2,418	14.3
Media	974	931	4.6

EBITDA margins[1]	FY16 %	FY15 %	1H16 %	2H16 %
Mobile	42	40	39	46
Fixed voice[2]	51	55	54	49
Fixed data[2]	41	41	41	40
Data and IP	62	64	62	62

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.

Fixed
Fixed revenue declined by 2.2 per cent to $7,029 million with fixed voice revenue decreasing by 8.2 per cent to $3,437 million. Excluding the adverse impact of the ACCC Final Access Determination (FAD) decision of $64 million, on a like-for-like basis, fixed revenue declined by 1.3 per cent. The FAD relates to pricing for fixed services, set by the ACCC, which became effective 1 November 2015.

Retail fixed voice line loss in the year was 271,000, a rate consistent with the prior year, taking total retail fixed voice customers to 5.7 million. The decline in fixed voice revenue was partially offset by the growth in fixed data revenue of 5.6 per cent to $2,513 million as a result of growth in subscribers.

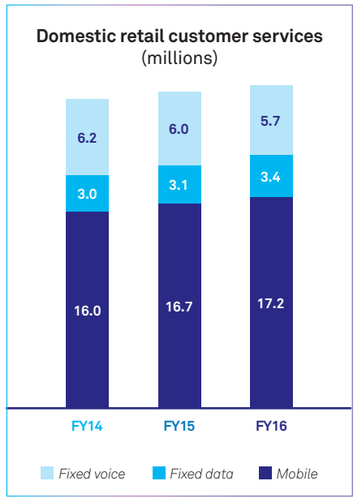
We now have 3.4 million fixed retail data customers, an increase of 235,000 for the year, the highest rate of net adds in over five years. This solid result has been driven by the continued focus on customer retention and momentum from bundling. Our challenger brand Belong® also contributed to the subscriber and revenue growth.

Our bundled products, including our "best value bundle ever", launched in March 2016, and the Telstra BizEssentials Bundles® for our small business customers are both performing well. The total number of retail customers on a bundle increased by 322,000 and there are now 2.7 million retail customers on a bundled plan, or 83 per cent of the retail fixed data customer base.

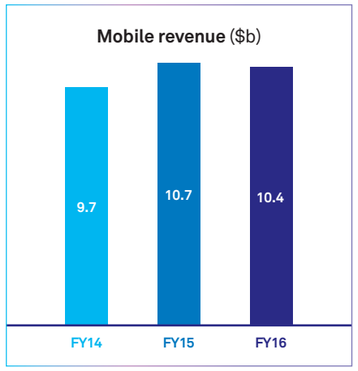
Demand for our **nbn**™ services continues. As at 30 June 2016, we have a total of 500,000 **nbn**™ connections, made up of 407,000 voice and data bundles, 34,000 data only and 59,000 voice only services. This is an increase of 289,000 over the last year.

Other fixed revenue increased by 1.5 per cent to $1,079 million with an increase in global connectivity and inter-carrier access services revenue offset by lower customer premise equipment and other fixed telephony revenue.

The upfront costs of connecting our **nbn**™ customers, and increased operational access costs, principally Access Virtual Circuit (AVC) and Connectivity Virtual Circuit (CVC) payments to **nbn** co, had an impact on our fixed data and fixed voice EBITDA margins. The fixed data EBITDA margin was steady at 41 per cent as these costs were largely offset by the increase in fixed data revenue. Fixed voice EBITDA margins declined by 4 percentage points to 51 per cent as a result of these costs, in addition to a decline in fixed voice revenue.



Mobile



Revenue in our mobile portfolio decreased by 2.0 per cent to $10,441 million for the 2016 financial year. Excluding the impact of the MTAS decision (re-pricing of mobile terminating rates) which became effective from 1 January 2016 of $356 million, on a like-for-like basis, mobile revenue grew by 1.3 per cent.

Retail customer services increased by 560,000, bringing the total number to 17.2 million. We now have 7.5 million post-paid handheld retail customer services, an increase of 169,000. Post-paid handheld revenue was broadly flat at $5,385 million. The subscriber growth was offset by a reduction in ARPU of 1.6 per cent, from $69.51 to $68.40 (excluding the impact of mobile repayment options). ARPU continues to be impacted by lower excess data charges but we have seen growth in minimum monthly commitments.

Pre-paid unique user growth was strong with 83,000 unique users added during the year. With higher voice and data inclusions, recharge frequency declined and pre-paid handheld ARPU declined by 4.3 per cent to $20.40. As a result, pre-paid handheld revenue declined by 3.5 per cent to $959 million.

While M2M revenue grew by 16.8 per cent to $132 million with strong subscriber growth, mobile broadband revenue declined by 4.7 per cent to $1,230 million. This was a result of pre-paid mobile broadband which experienced lower ARPU and a decline in unique users.

Mobile hardware revenue continues to grow, increasing by 10.1 per cent to $2,076 million as a result of higher average recommended retail prices on high end smartphones.

While mobile churn increased slightly in the second half it still remains at world-leading lows. Mobile EBITDA margin increased by 2 percentage points to 42 per cent.

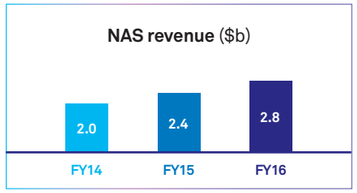
Data and IP

Data and IP revenue increased by 10.9 per cent to $3,789 million largely as a result of revenue received from our GES International customers following the acquisition of Pacnet. The acquisition has opened up significant opportunities for Telstra, positioning us as a leader in international connectivity and elevating our brand globally as a significant Asia centric operator.

Within Data and IP, other data and calling products, which include wholesale internet and data, inbound calling products and other global products and solutions, increased by 30.1 per cent to $2,017 million. This growth is largely a result of the Pacnet acquisition. IP Access revenue declined by 3.0 per cent to $1,169 million due to increased competitive pressures offsetting the growth in IP customer connections. ISDN revenue declined by 8.9 per cent to $603 million as customers continue to migrate from legacy to next generation products, including unified communications within our NAS portfolio.

EBITDA margins were impacted by yield trends in the IP market and domestic revenue decline, decreasing 2 percentage points to 62 per cent.

Network Applications and Services (NAS)



NAS revenue grew by 14.3 per cent to $2,763 million with strong growth in both our domestic and international segments across all NAS portfolios. As highlighted at the first half 2016 results, the growth in NAS revenue in the second half was slower than the first due to the timing of contract milestones.

Within the NAS portfolio, managed network services revenue grew by 6.4 per cent through the expansion of security services. Revenue growth of 7.9 per cent in unified communications was a result of innovative cloud collaboration and contact centre solutions. Industry solutions revenue growth of 19.0 per cent was led by **nbn** commercial works and monitoring services acquisitions. Progress at our telkomtelstra joint venture in Indonesia also contributed to revenue growth.

EBITDA margins improved by 3 percentage points through ongoing operational leverage, scalable standardised offerings, and a lower cost global delivery model.

Media

Media product portfolio revenue increased by 4.6 per cent to $974 million. Telstra Media delivers content experiences, to differentiate and add value to our core access products.

Media 'In the Home' includes Foxtel** from Telstra, Telstra TV® device sales, Foxtel on T-Box®, BigPond Movies®, Presto^^, and relationships with all free to air providers. Foxtel from Telstra revenue increased by 8.6 per cent to $719 million. We continued our strategy to bundle these products with our core fixed products with a 20.5 per cent growth in Foxtel from Telstra subscribers. There are now 300,000 Telstra TV devices in market since the launch in October 2015.

Media 'On the Go' revenue declined by 11.4 per cent to $70 million. The On the Go business is transitioning from a bespoke standalone suite of content to one that differentiates the mobility portfolio and adds value to customers.

During the year, we renewed our partnerships with both the AFL and NRL for 2016 and beyond. In May 2016, we also announced a new five-year partnership with Netball Australia, giving all fans the ability to watch every game live on their mobile from 2017.

Cable revenue declined by 6.8 per cent to $110 million due to a reduction in the contracted cable access rate starting from January 2016.

Other

Other sales revenue includes revenue related to **nbn**™ access to our infrastructure. It also includes revenue from Telstra Health and Telstra Software. Other income includes gains and losses on asset and investment sales (including assets transferred under the **nbn**™ Definitive Agreements), income from government grants under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), income from **nbn**™ disconnection fees (Per Subscriber Address Amount (PSAA)), subsidies and other miscellaneous items. The increase in other income of 95.0 per cent during the period is largely a result of an increase in one-off PSAA and Infrastructure Services Agreement receipts in line with the progress of the **nbn**™ rollout.

Expense performance

Operating expenses

Total operating expenses increased by 6.4 per cent to $16,600 million. This is a result of an increase in our core sales costs of 5.1 per cent and new business costs of 66.7 per cent. Core sales costs are direct costs associated with revenue and customer growth. The increase in new business costs supported growth in the Telstra Health and Telstra Software Group as well as Telstra Ventures. Growth in these costs is an investment decision and we are continuing to invest in our new businesses to allow them to grow. Core fixed costs (excluding significant transactions and events) declined by 0.6 per cent. Significant transactions and events that had an impact on fixed costs included increased **nbn**™ commercial works and Definitive Agreement costs, and increased NAS labour costs on large, new contracts.

The following commentary relates to movements in our reported expenses of labour, goods and services purchased, and other expenses.

Operating expenses	FY16 $m	FY15 $m	Change %
Labour	5,041	4,782	5.4
Goods and services purchased	7,247	6,845	5.9
Other expenses	4,312	3,971	8.6
Total operating expenses	16,600	15,598	6.4

Labour

Total labour expenses increased by 5.4 per cent or $259 million to $5,041 million. Total full time staff equivalents (FTE) decreased by 197 to 33,482. The movement in FTE includes the acquisition of Readify completed on 30 June 2016 (193 FTE). There were also FTE increases in Telstra Health (204 FTE) and Telstra Business (37 FTE). Offsetting these increases were reductions in FTE in the core business, in line with restructuring activity conducted throughout the year.

Salary and associated costs increased by 4.0 per cent or $141 million to $3,690 million, largely a result of increased costs in relation to our new business growth of $98 million. This reflects a full 12 months of ownership of acquisitions, in particular Pacnet, which was acquired in April 2015. Salary and associated costs also incorporated a 0.5 per cent increase in fixed remuneration for all employees (except the Telstra Executive Team) to enable superannuation contributions to be increased from 9.5 per cent to 10 per cent without a reduction in take-home pay.

Labour substitution costs increased by 8.1 per cent or $66 million to $882 million. This increase was largely a result of increased outsourcing of field technicians and the establishment of global operations to support the expansion of our NAS business.

Redundancy costs increased by 46.9 per cent or $53 million to $166 million as a result of an increased focus on accelerating restructuring activity throughout the year.

Goods and services purchased

Goods and services purchased increased by 5.9 per cent or $402 million to $7,247 million. Cost of goods sold (COGS) (which includes directly variable costs, including mobile handsets, tablets, dongles and broadband modems) increased by 5.0 per cent or $154 million to $3,204 million impacted by increased mobile handset unit costs (largely a result of a weaker Australian dollar) and increased NAS COGS.

Network payments decreased by 4.3 per cent or $75 million to $1,650 million largely a result of regulatory changes to mobile terminating rates as part of the ACCC's final decision in the Mobile Terminating Access Service FAD process, and lower mobile roaming charges. These were partially offset by increased **nbn**™ access payments as we move customers to the **nbn**™ network and higher offshore network payments within our GES business.

Other goods and services increased by 15.6 per cent or $323 million to $2,393 million. Within other goods and services purchased, managed services cost of sales increased by $140 million. These are costs to connect, migrate, activate and maintain services of Telstra supplied NAS equipment and increased during the period to support domestic NAS revenue growth within our GES and Telstra Business segments. There were also increases in usage commissions ($52 million), service fees ($93 million), in line with the increase in Foxtel from Telstra subscribers, and dealer performance commissions ($17 million).

Other expenses

Total other expenses increased by 8.6 per cent or $341 million to $4,312 million as a result of increased accommodation costs and impairment expenses, partially offset by decreases in promotion and advertising.

Accommodation costs increased by $85 million, largely a result of new business and M&A activity in our GES and Health businesses. Promotion and advertising costs decreased by $13 million as more retail campaigns were undertaken in the previous period. Impairment expenses increased by $253 million as a result of the impairment of goodwill in the Ooyala Holdings Group cash generating unit of $246 million.

Foreign currency impacts
For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to Australian dollars increased our expenses by $184 million on the prior period, across labour, goods and services purchased, and other expenses. This foreign exchange impact has been offset by a benefit to sales revenue, resulting in a favourable EBITDA contribution of $20 million.

Net finance costs
Net finance costs increased by 1.6 per cent or $11 million to $710 million primarily due to lower finance income of $61 million offset by a reduction in finance costs of $50 million.

The reduction in finance income of $61 million was due in part to a reduction in interest earned on cash and liquid investments from holding lower average cash balances compared to the prior period. We also recorded a $42 million accounting adjustment to recognise a reduction in interest rate applied to our Foxtel loan.

Gross borrowing costs increased by $9 million as a result of higher average gross debt largely offset by the refinancing of debt at lower prevailing interest rates. Average physical debt was $15.9 billion (2015: $14.9 billion). This increase reflects in part the issuance of term debt during the period of $2.0 billion ahead of maturities occurring in FY17.

Our average borrowing costs on gross debt for the period was 5.6 per cent compared to 5.8 per cent in financial year 2015. This reflects refinancing at rates below our current cost of funds and a reduction in short term market rates impacting our variable rate debt. We will continue to see the favourable impact of refinancing as debt with higher cost of funds mature.

We continue to see the benefit of the early adoption of AASB 9 (2013) in relation to our hedged borrowings portfolio with favourable re-measurements period on period of $49 million. This is driven both by accounting adjustments resulting from a transition to the new methodology as well as residual volatility associated with market movements remaining low as a result of deferral of hedging costs in equity.

Capitalised interest increased by $9 million compared to the prior period due to lower average interest rates, which are derived from our cost of borrowing, being more than offset by higher capital expenditure.

Summary Statement of Cash Flows	FY16 $m	FY15 $m	Change %
Net cash provided by operating activities	8,133	8,311	(2.1)
Total capital expenditure (including investments)	(4,391)	(6,206)	(29.2)
Sale of business and shares in controlled entities (net of cash disposed)	1,340	1	n/m
Other investing cash flows	844	513	64.5
Net cash used in investing activities	(2,207)	(5,692)	(61.2)
Free cashflow	5,926	2,619	126.3
Net cash used in financing activities	(3,777)	(6,882)	(45.1)
Net increase/(decrease) in cash and cash equivalents	2,149	(4,263)	150.4
Cash and cash equivalents at the beginning of the year	1,396	5,527	(74.7)
Effects of exchange rate changes on cash and cash equivalents	5	132	(96.2)
Cash and cash equivalents at the end of the year	3,550	1,396	154.3

Financial position

Capital expenditure and free cashflow
Our operating capital expenditure for the year was 15.2 per cent of sales revenue or $4,045 million, in line with our financial year 2016 guidance of around 15 per cent of sales. Compared to the previous year spend of $3,589 million, we are spending much of the increased capital expenditure on mobile, in particular to extend our 4G and 4GX™ services to deliver more square kilometres of coverage, more reliable voice and data, fewer dropouts and faster download speeds.

Reported free cashflow was $5,926 million, representing an increase of $3,307 million on the prior period. On a guidance basis, free cashflow was $4,796 million. Guidance has been adjusted in the current period for free cashflow associated with the sale of Autohome ($1,323 million) and mergers and acquisitions (M&A) activity of $126 million.

Funding and net debt
Our gross debt position as at 30 June 2016 was $16,009 million, comprising borrowings of $17,302 million and net derivative assets of $1,293 million. The increase of $1,047 million compared to 30 June 2015 reflects $1,581 million debt maturities offset by a $2,628 million increase in debt. The increase in debt can be seen in the following table.

Increase in debt	$m
Drawn bank loans and facilities[1]	300
Capital markets debt issuance	1,631
Net short term commercial paper issuances	514
Other loans[2]	39
Finance lease additions	144
Total	**2,628**

1. During the period we also drew down, and subsequently repaid, a further $1,850 million under our bank facilities. This is shown on a gross basis in our Statement of Cash Flows.
2. Includes loans from associated entities of $35 million.

During the year we raised $1,631 million of new capital markets financing through two new debt issuances, including a $498 million ($500 million face value) domestic bond in September 2015, and a ten year €750 million Euro bond (Australian dollar equivalent $1,133 million) in April 2016.

Debt maturities included $1,415 million of term debt, $36 million loans from associated entities and $101 million finance lease repayments. The remainder of $29 million is due to non-cash revaluation impacts such as unrealised movements on our derivatives.

Net debt decreased by $1,107 million to $12,459 million as a result of an increase in cash and cash equivalents of $2,154 million offsetting the increase in gross debt. This is driven by reported free cashflow of $5.9 billion, more than offsetting outflows from interest, dividends, and other financing flows of approximately $4.7 billion, as well as non-cash movements such as foreign exchange of $0.1 billion.

At 30 June 2016, liquidity was $3,550 million which includes receipt of proceeds from our sale of 47.4 per cent of total issued shares in Autohome. This liquidity will be used to fund our capital management program in FY17.

Financial settings	FY16 Actual	Comfort zones
Debt servicing[1]	1.2x	1.3 – 1.8x
Gearing[2]	43.9%	50% to 70%
Interest cover[3]	13.0x	>7.0x

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

We remain at the conservative end of our comfort zones for our credit metrics. Our gearing ratio is 43.9 per cent following the sale of our Autohome stake, down from 48.3 per cent at 30 June 2015. Debt servicing (net debt/EBITDA) was 1.2 times. We also monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover was 13.0 times. Our comfort zone for interest cover is in excess of 7.0 times.

Summary Statement of Financial Position	30 June 2016 $m	30 June 2015 $m	Change %
Current assets	9,340	6,970	34.0
Non current assets	33,946	33,475	1.4
Total assets	43,286	40,445	7.0
Current liabilities	9,188	8,129	13.0
Non current liabilities	18,191	17,806	2.2
Total liabilities	27,379	25,935	5.6
Net assets	15,907	14,510	9.6
Total equity	15,907	14,510	9.6
Return on average assets (%)	16.2	18.2	(2.0)pp
Return on average equity (%)	25.7	29.5	(3.8)pp

Statement of Financial Position
Our balance sheet remains in a strong position with net assets of $15,907 million.

Current assets increased by 34.0 per cent or $2,370 million to $9,340 million largely a result of an increase in cash and cash equivalents of $2,154 million. This increase is predominantly due to the gross cash proceeds of approximately $2.1 billion from the sale of 47.4 per cent of the total issued shares in Autohome.

Non current assets increased by 1.4 per cent or $471 million to $33,946 million. An increase of $390 million in derivative financial assets was driven by 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 derivative position is largely offset by corresponding movements in borrowings and reserves (equity). Investments – other also increased by $257 million largely a result of the recognition of our residual 6.5 per cent interest in Autohome. Autohome was previously recorded as a controlled entity. These movements were offset by a decrease in intangible assets, mainly due to the Ooyala impairment of $246 million, and a reduction in defined benefit asset of $281 million due to an actuarial loss on our defined benefit plan assets with the discount rate falling from 4.3 per cent at 30 June 2015 to 3.3 per cent at 30 June 2016.

Current liabilities increased by 13.0 per cent or $1,059 million to $9,188 million. Current borrowings increased by $1,159 million primarily due to a reclassification of debt due to mature within the next 12 months, including a Euro bond of face value €1 billion more than offsetting maturities during the year. Short term commercial paper, which is held principally to support working capital and liquidity requirements, also increased. The movement in current borrowings was partially offset by a reduction in current tax payables of $115 million due to an increase in PAYG instalments paid during the year.

Non current liabilities increased by 2.2 per cent or $385 million to $18,191 million. Borrowings increased by $509 million primarily as a result of long term debt issuance, offset by the reclassification of debt due to mature within 12 months to current borrowings. Also driving the increase were unfavourable exchange rate movements impacting our offshore borrowings. As we hedge all foreign currency risk arising from offshore borrowings, this movement is fully offset by the increase in our net derivative asset position.

The decrease in non current derivative financial liabilities of $248 million was driven by foreign currency movements and other valuation impacts arising from measuring to fair value.

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

Nick, Managed Services

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

We seek to identify ways we can use our technology, expertise, skills and scale to operate more responsibly, better serve vulnerable customers and help safeguard the environment to create long term value for us and the community. We deliver on this ambition by identifying and responding to the key sustainability issues and opportunities that are important to our business and stakeholders.

This section highlights some of the more significant aspects of sustainability at Telstra and how we create value. Our Bigger Picture 2016 Sustainability Report, available online at **telstra.com/sustainability/report,** provides a more detailed overview of our performance for FY16.

At Telstra, we have three key sustainability priorities:

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

Environmental leadership
We continue to build a more strategic approach to managing the environmental risks and opportunities across our value chain. We use technology to minimise our environmental impacts, and are helping our customers and suppliers to do the same.

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

Customer experience

Kelly Jamieson, Edible Blooms, Telstra SA Business of the Year

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

Keeping vulnerable customers connected

Through our Access for Everyone (A4E) program, we help people on low incomes or facing financial hardship to stay connected. Since its inception in 2002, we've provided benefits to the value of more than $2 billion and have worked with more than 2,000 community organisations across Australia to deliver these programs. In FY16, the benefit provided to vulnerable customers through our A4E programs was $107 million, a reduction of 16 per cent compared to FY15, largely reflecting a lower take-up of our pensioner discount on fixed-line home phone services as more customers move to bundles. Around 758,000 pensioners received the discount this year to the value of $86 million, compared to 885,000 people and a value of $101 million in FY15. We provided home phone line rental relief for about 51,000 households and distributed around 95,000 pre-paid payphone and mobile phone calling cards (including Phonecards) and mobile phone recharge cards this year, compared to around 81,000 cards in FY15. Every month we also provided rebates on Telstra bills for around 1,700 customers seeking emergency relief.

Protecting our customers' data

Our customers trust us to protect their privacy and keep their data secure, and we continue to work diligently to respect this trust. Our priority is to ensure we keep customers' personal information safe and secure, and that we're transparent in the way we manage this information.

We are committed to managing privacy risks as technology, and the way we use it, continues to evolve. We continue to implement privacy controls throughout our business and supply chain to improve the protection of our customers' personal information. We have in place comprehensive security and network controls, business-wide policies and procedures, a network of business based privacy officers and mandatory training for all employees. Information on how we responded to privacy incidents during FY16 is available in the Customer experience chapter of our Bigger Picture 2016 Sustainability Report.

This year the Federal Government's Data Retention Scheme came into effect, requiring Telstra and all other internet service providers to collect and store customer data for two years, and make it available upon lawful request. The Attorney General's Department has given us until early 2017 to implement the scheme and we will be using this time to make sure we have the right protections in place.

To find out more, visit **telstra.com/privacy.**

Being transparent with our customers

Telstra's Transparency Report aims to give our customers more information about our legal obligations as a telecommunications carrier. Like all telecommunications companies that provide services in Australia, we are required by law to assist Australian Government agencies for defined purposes, such as investigating and solving crimes. We also provide assistance to emergency services agencies in response to life-threatening situations and Triple Zero emergency calls.

We take protecting customer data very seriously and scrutinise any requests we receive from law enforcement agencies to ensure we only comply with lawful requests. Between 1 July 2015 and 30 June 2016, Telstra received and acted on 92,882 requests for customer information.

To view our full Transparency Report, visit **telstra.com/transparency.**

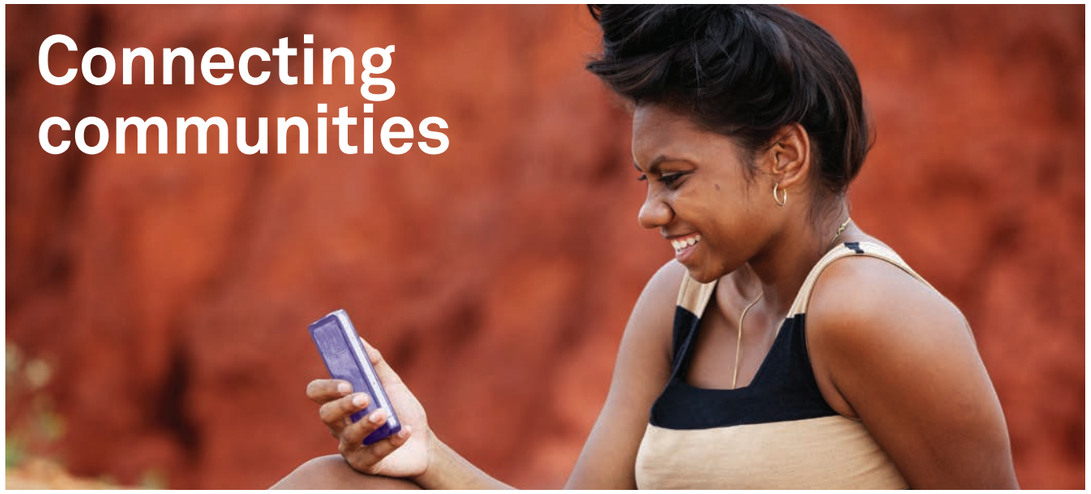
Being safe and responsible online

We want to empower people to participate safely in the online world and provide the networks, products, services and advice that make it easy to do so.

This year we continued to build awareness and knowledge around cyber safety issues in the community. We delivered face-to-face cyber safety presentations to more than 2,700 children, teenagers and parents. We also refreshed our cyber safety website with new resources available for children and young people, and a new section on personal mobile safety, along with our existing suite of cyber safety tips and information.

To access our free cyber safety materials, visit **telstra.com/cybersafety.**

Connecting communities



Digital connectivity is increasing in importance, with access to the internet now supporting everything from social interactions to employment and social services. With this in mind we're using our technology, expertise, scale and local presence to make a difference in the community.

Promoting digital literacy

Being confident and literate with technology is an essential skill in the digital age. This year, our digital literacy portfolio, which consists of our Tech Savvy Seniors program, Telstra Digital Ambassadors and our Cyber Safety Awareness programs, reached more than 59,000 people through face-to-face training as well as the use of instructional videos and guides.

In the past year, we recommitted to our Tech Savvy Seniors partnerships with the New South Wales and Victorian state governments and, for the first time, entered into partnership with the Queensland state government. These partnerships help to increase digital inclusion, reduce social isolation, improve access to government information and services via the internet, and improve awareness and resilience to online fraud and financial abuse.

Supporting victims of family violence

In November 2014, we launched Telstra Safe Connections® in partnership with the Women's Services Network (WESNET) to help women impacted by family violence to stay safely connected to their friends, family, essential services and vital information. This year we increased our commitment to WESNET, announcing we would provide up to 20,000 smartphones over the next three years, as well as $30 pre-paid starter kits and information on the safe use of technology.

Telstra Foundation

Telstra's philanthropic arm, the Telstra Foundation believes that combining social innovation with digital connection can transform lives. In FY16, it continued to invest in partnerships with non-profits that are tackling some of the tough issues facing young people today – including reducing youth suicide and improving outcomes for young people living with disability.

eSmart Libraries
Our $8 million, six year partnership with Alannah & Madeline Foundation has been designed to equip libraries and library users with the skills they need for the smart, safe and responsible use of technology. eSmart Libraries is now in almost half of all Australian libraries.

Indigenous Digital Excellence
This year we continued to implement our $5 million, multi-year Indigenous Digital Excellence (IDX) partnership with the National Centre of Indigenous Excellence. In April this year, we ran a three day residential IDX National Summit to inform the development of the country's first Indigenous digital excellence strategy. Through the event participants developed a strategic roadmap including key focus areas to strengthen Indigenous participation, practice and entrepreneurship in the digital economy.

Delivering mental health solutions for young people

In February this year with the support of the Telstra Foundation, ReachOut Australia launched the Orb – an online interactive game that provides teenagers with tools and strategies to improve and sustain their wellbeing.

The game draws on positive psychology principles and is aligned to the Australian high school curriculum to help young people develop personal strengths, savour positive experiences and strengthen mental wellbeing and resilience. The nationwide launch of the Orb follows a successful pilot trial with teachers and students.

ReachOut Australia's Orb in action

Our people

Technology is evolving rapidly, customer expectations are changing and we're facing a more competitive global market. To ensure we thrive in these conditions, we're embracing diversity and investing in programs to attract and retain employees with the skills and passion to help transform Telstra into a world class technology company.

Engaging our employees

This year in our employee engagement survey (EES) we shifted our key metric to sustainable engagement, a more rigorous measure that provides a deeper understanding of the key drivers of performance – how engaged, enabled and energised our people are in their roles.

We achieved a sustainable engagement score of 71 per cent with an 80 per cent response rate. This score is close to our global peers, with the global high technology companies' norm being 73 per cent, but well short of the global high performing companies' norm of 80 per cent that we aspire to.

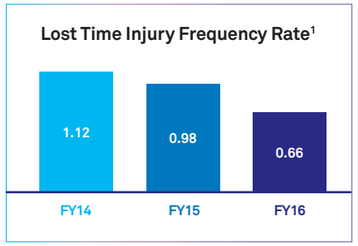
Over the coming months we will develop action plans to help us to improve employee advocacy and further empower our people to create brilliant customer experiences by reducing complexity and improving customer processes. The survey also showed that our employees remain proud of Telstra's purpose, integrity, diversity and social and environmental performance.

Employee health and safety

We are making good progress in our efforts to continuously improve the Health, Safety and Environment (HSE) culture. This year we reviewed our enterprise-wide HSE Management System and introduced a set of 10 Global HSE Standards. These are organisation-wide standards that the business strives to achieve and our performance is measured against. They are supported by minimum HSE requirements for our critical and key HSE risks as well as procedures and guidelines to support effective implementation.

Our proactive, risk based approach to health and safety management is helping to prevent incidents from occurring. Throughout FY16 our injury rates continued to improve. Our risk reduction programs and enhancements to injury management and claims management delivered positive results. Our employee Lost Time Injury Frequency Rate (LTIFR) reduced by 33 per cent this year.

The health and safety of our people is paramount to us and we have robust risk management programs and standards in place. However, in February this year a contractor tragically died after he fell from a mobile telecommunications tower in the Northern Territory. We responded by reinforcing Telstra's requirements for employees and contractors when working at height and conducted an audit of all relevant work at height activities across Australia to provide reassurance our standards were being followed. We also provided ongoing support to affected employees and contractors, as well as their families. Telstra has fully co-operated with Comcare during its investigation of this incident.



1. LTIFR is the reported number of accepted workers' compensation claims for work-related injury or disease that incur lost time for each million hours worked. Includes Telstra Corporation Ltd employees only, not including subsidiaries or contractors.

A diverse and inclusive organisation

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.

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.

Working towards gender equality
We are committed to gender equality and have a broad range of policies, programs and engagement initiatives in place to help us achieve this goal. Gender representation targets are in place across all business units, supported by expectations of gender-balanced shortlists for recruitment and gender-balanced selection panels.

We encourage our people to get involved by joining our Brilliant Connected Women network – a forum that now has over 2,000 members, male and female, who are committed to advancing gender equality in our business.

This year we saw a decrease in female representation across Telstra Corporation Limited and its wholly owned subsidiaries of 0.4 per cent. This decrease reflects a reversal of a consistent company-wide trend of previous years that saw female commencements exceeding female exits.

Gender pay equity continues to be a key area of focus and we remain vigilant about how we administer and apply policy to avoid any bias in performance assessment and remuneration decisions. To work towards gender pay equity, we examine our remuneration data across all business units every year to identify any pay disparities that can't be explained by differences in length of service, or levels of performance or role type. Each business unit has a dedicated budget for correcting disparities and we closely monitor the application of this budget to ensure funds are distributed in line with the core principles.

Representation of women as at 30 June 2016

Role	Number	%
Board *Non-executive Directors*	3	33.3%
Executive management[1] *Bands A, B and C within the Telstra Executive Team*	70	25.5%
Middle management[1] *Band 1 or 2, or equivalent*	3,014	28.1%
Operational[1] *Bands 3 or 4, or equivalent*	6,959	31.8%
Telstra Total[1]	**10,046**	**30.6%**
Telstra Group Total[2]	**10,535**	**30.4%**

1. 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.
2. Includes full time, part time and casual staff in controlled entities within the Telstra Group, excluding contractors and agency staff.

Information regarding the controlled entities in the Telstra Group can be found on our website at **telstra.com/investor** (Latest Results).

Balancing work and life
Flexibility is the starting point for all roles at Telstra. This year we rolled out the second phase of All Roles Flex, focusing on global mobility and location flexibility.

Lesbian, Gay, Bisexual, Transgender and Intersex (LGBTI) inclusion
We want our people to bring their whole selves to work and to feel comfortable doing so. This year we celebrated the seventh anniversary of our Spectrum network for LGBTI employees and allies. We also launched guidelines to help our people to understand how they can provide support for colleagues going through a gender transition.

Our stance on marriage equality
Earlier this year there was commentary regarding Telstra's position on marriage equality. While we initially advised that we would not actively participate in the marriage equality debate, out of respect for the wide range of views on the subject, it became clear to us that Telstra should step forward on this topic. We have renewed our active participation on marriage equality and are in discussions with Australians for Equality about what role Telstra might play in support of their campaign.

Employment pathways
We are committed to providing employment pathways for candidates with diverse backgrounds and needs. This year 182 Telstra employees identified as being of Indigenous descent through our EES. Key initiatives included providing mentoring alongside traineeship and internship opportunities to support retention and career development. In this year's EES, 2,546 Telstra employees identified as living with a disability. This year we were the largest corporate provider of the Australian Network on Disability Stepping Into internship program, which provides a paid internship program to university students with disability.

Ageing workforce
In Australia, people aged 45 and over make up the fastest-growing employee category. We have developed a return to work program for older people who have been out of the workforce for an extended period of time, which will be rolled out across Telstra in FY17.

More information on Diversity and Inclusion at Telstra, including our Diversity Measurable Objectives, can be found in our 2016 Corporate Governance Statement which is available on our website at **telstra.com/governance.**

Developing our employees

As our business changes, it's important that our culture, values and behaviours are consistent and that we have the necessary knowledge and skills to manage change and complexity.

In FY16 we invested $45 million (not including labour costs) across the Telstra Group in learning and development opportunities. This supported the rollout of a suite of Telstra Leader programs for aspiring, new, experienced and executive leaders and our Core Capabilities development programs which enable our people to further develop key business skills.

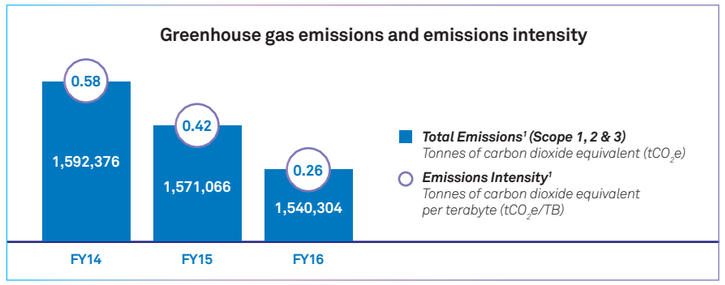
Our Business Essentials training program helps ensure our people are aware of their legal, regulatory and compliance responsibilities. Mandatory refresher training is completed annually, with each compliance topic covered every two years at a minimum. As at 30 June 2016, 97.7 per cent of Telstra Group employees and contractors had completed this year's mandatory refresher course.

Volunteering and giving

We encourage our people to get involved in the community. Our people contributed 8,186 days volunteering their time and expertise to a range of community organisations. Our dollar for dollar matched payroll giving resulted in a total contribution of more than $1.5 million in donations to over 350 charities.

Environmental stewardship

Along with managing our own impacts, we have a responsibility to improve efficiency across our value chain. Our extensive network coverage and depth of technical expertise means we have an opportunity to support government, businesses, customers and the community in addressing long-term sustainability challenges.



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

Environment Strategy

We are working to minimise our environmental impacts, and help our suppliers and customers to do the same. Our Environment Strategy provides a framework for addressing our most important environmental issues and opportunities. Our strategy seeks to advance the environmental performance of our operations and our stakeholders, right across our value chain.

- **Operational Excellence**: actively identifying and minimising material environmental impacts and operating costs.
- **Environmental Customer Value Proposition**: quantifying and communicating how our products and services can enable our customers to reduce their environmental impacts, particularly energy use and greenhouse gas emissions.
- **Sustainable Supply Chain**: working with and influencing suppliers to manage and reduce the environmental and social impacts of their operations and of the products and services they provide to Telstra.

Improving energy efficiency whilst reducing emissions

Energy use in our networks is our most material environmental impact, accounting for around 95 per cent of our total greenhouse gas (GHG) emissions (Scope 1, 2 and 3) in FY16. Large amounts of energy are required to power our network equipment and keep it at an optimum operating temperature.

In FY14 we set a long-term target to reduce our 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. Our GHG emissions intensity has reduced by 56 per cent from our FY14 baseline year, meaning we achieved our FY17 target this year.

While data loads carried over our network increased by 62 per cent in FY16, total GHG emissions (Scope 1, 2 and 3) decreased by two per cent, as a result of both a reduction in the emission factors published by the Australian Federal Government for the reporting period and our energy efficiency initiatives.

Managing electronic waste

Australia is one of the highest per capita producers of electronic waste (e-waste) in the world. We've recognised the importance of electronics reuse and recycling. This year we recycled 99.9 per cent of the 5,549 tonnes of e-waste collected. We also helped our customers deal more effectively with e-waste. Throughout FY16 we collected 16 tonnes of mobile phones and accessories from Telstra retail stores, offices and repair centres through the MobileMuster[2] program. We also launched a pilot eCycle program in July 2015, offering small businesses a free collection and recycling service for a wide range of electrical equipment. eCycle recovered more than 60 tonnes of e-waste this year from more than 600 businesses across Australia.

2. MobileMuster is the official product stewardship program of the mobile phone industry and is managed by the Australian Mobile Telecommunications Association.

Responsible business

Mike, Network Operations

Our long-term ability to prosper depends on our response to the changing social and environmental expectations of our employees, customers, investors, regulators and the wider public.

Responding to global challenges

The Sustainable Development Goals (SDGs) were launched by the United Nations in September 2015 and offer a common, global framework for considering and addressing the world's most significant development challenges.

Business is a key stakeholder and will play an important part in achieving the SDGs. This year we identified some initial priorities that reflect our business context, key risks and impacts and current social and environmental focus.

For more context including the specific targets we are working to achieve and where they are most relevant across our value chain, please refer to the Sustainability at Telstra chapter of our Bigger Picture 2016 Sustainability Report.

We remain 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.

Managing our tax affairs

We comply with all taxation laws and obligations and pay tax in accordance with the laws of the countries we operate in.

We maintain a conservative tax risk profile and are committed to continuous improvement of tax compliance systems, processes and practices. All transactions entered into are based on commercial considerations and we do not take positions that are tax driven, artificial or contrived or interpret a tax law beyond its spirit and intent. Where appropriate, we minimise tax risk and uncertainty by obtaining sign-offs from revenue authorities. We are committed to full transparency and disclosure in all dealings with revenue authorities.

More detail is provided in the Responsible business chapter of our Bigger Picture 2016 Sustainability Report.

Sustainable supply chain management

This year, the Telstra Group purchased $7.4 billion in goods and services from about 4,400 suppliers.

The Telstra Supplier Code of Conduct sets out our minimum standards in the areas of labour and human rights, health and safety, environment, ethical dealings and supply chain diversity and is modelled on other codes including the Electronic Industry Citizen Coalition Code of Conduct. We expect suppliers to meet the standards described in our Supplier Code of Conduct and we are working with them to achieve this.

Our spend can be leveraged to positively influence the behaviour and actions of our suppliers and, in turn, benefit the environment and communities.

We continue to partner with 14 non-profit groups around Australia to create employment opportunities for people with disability or who are disadvantaged. At 30 June 2016, 533 people were employed through the program.

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 Organization (WHO) and actively contribute to scientific research in EME and health.

Helping our customers and the community keep abreast of the latest information is important to us. We provide information on EME on our website at **telstra.com/eme.** We also invite customers to go directly to the WHO, ARPANSA and 'EMF Explained' websites for further information. This year, we continued our mobile safety SMS campaign, sending out almost 17 million messages referring customers to **telstra.com/mobiletips,** our information site for safe and responsible phone use.

We have a dedicated EME help desk and team that proactively reviews new site proposals, develops community consultation plans and works with the community to determine acceptable sites for new base stations.

Board of directors

Board of Directors (left to right): Chin Hu Lim, Steven Vamos, Andrew Penn, Margaret Seale, Peter Hearl, Craig Dunn, Nora Scheinkestel, Russell Higgins AO, John Mullen, Trae Vassallo.

Board of directors

John P Mullen
Age 61, 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.

Mr Mullen has been the Managing Director and Chief Executive Officer of Asciano Ltd since 2011 and he will be fully transitioning from these obligations in the near future. Mr Mullen has worked for more than two decades in a multitude of senior positions with different multinationals in the logistics industry including 10 years with the TNT Group – two years of those as its Chief Operating Officer. From 1991 to 1994, he held the position of Chief Executive Officer of TNT Express Worldwide. Mr Mullen joined Deutsche Post DHL Group in 1994, becoming Chief Executive Officer of DHL Express Asia Pacific in 2002 and joint Chief Executive Officer, DHL Express in2005. Mr Mullen was then Global Chief Executive Officer, DHL Express, from 2006 to 2009.

Directorships of listed companies (past three years): Director, Asciano Ltd (from 2011), Brambles Limited (2009-2011).

Other directorships/appointments: Member, Australian Graduate School of Management (from 2005) and Councillor of the Australian National Maritime Museum (from 2016).

Andrew R Penn
Age 53, MBA (Kingston), AMP (Harvard), FCCA, HFAIPM

Chief Executive Officer and Managing Director since 1 May 2015.

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

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

Craig W Dunn
Age 52, 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): Director, Westpac (from 2015).

Other directorships/appointments: 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). Member, ASIC External Advisory Panel (from 2015) and NSW Government Financial Services Knowledge Hub (from 2015).

Peter R Hearl
Age 65, B Com (UNSW), MAIM, GAICD, 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): Director, Santos Ltd (from 2016), Treasury Wine Estates (from 2012) and Goodman Fielder Ltd (2010-2015).

Other directorships/appointments: Member, UNSW's Australian School of Business Alumni Leaders Group and previously honorary Chairman of the US-based UNSW Study Abroad-Friends and US Alumni Inc.

Russell A Higgins AO
Age 66, 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).

Chin Hu Lim
Age 57, B Applied Science, Dip EEE

Non-executive Director since August 2013 and elected in October 2013. Member of the Nomination Committee.

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

Directorships of listed companies (past three years): Director, Kulicke & Soffa Industries Inc (NASDAQ: KLIC) (from 2011), Keppel DC Reit Pte Ltd (from 2014).

Other directorships/appointments: Director, Heliconia Capital Management Pte Ltd (from 2014), Citibank Singapore Ltd (from 2013), G-Able (Thailand) Ltd (from 2011) and Changi General Hospital & Integrated Health Information Systems (from 2009). Member, Singapore Stock Exchange Listings Advisory Committee (from 2015) and Infocomm Development Authority – Personal Data Protection Advisory Committee (from 2013). Fellow, Singapore Institute of Directors.

Nora L Scheinkestel
Age 56, LLB (Hons), PhD, FAICD

Non-executive Director since August 2010 and last re-elected in 2013. Chairman of the Audit & Risk Committee.

Dr Scheinkestel is an experienced company director with a background as a senior banking executive in international and project financing. She consults to government, corporate and institutional clients in areas such as corporate governance, strategy and finance. She is also an Associate Professor in the Melbourne Business School at Melbourne University and a 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 and North Limited. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

Directorships of listed companies (past three years): Chairman, Macquarie Atlas Road Limited (from 2015 (Director from 2014)), Director, Macquarie Atlas Roads International Limited (from 2015), Stockland Group (from 2015), Orica Limited (2006-2015), Insurance Australia Group Limited (2013-2014), Pacific Brands Limited (2009-2013) and AMP Limited (2003-2013).

Margaret L Seale
Age 55, 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 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).

Other directorships/appointments: Chairman, Penguin Random House Australia and New Zealand (from 2015 (Director from 2001)).

Steven M Vamos
Age 58, 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): Director, Fletcher Building Limited (from 2015), David Jones Limited (2012-2014).

Other directorships/appointments: Chairman, JobVibe (from 2016). Director, 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 A N Vassallo
Age 44, 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 also a strategic advisor to Kleiner Perkins Caufield & Byers (KPCB), where she was a general partner. She serves on the Board of Directors of Enlighted Inc., a private company which provides smart energy efficiency solutions, and on the advisory board of several early stage technology companies.

Over 10 years at KPCB Ms Vassallo 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: Director, Enlighted Inc. (from 2011).

Senior management team

In 2016 we made a change to our corporate structure and new appointments to our senior management team.

In March we introduced a new business unit, Technology Innovation and Strategy which reflects our greater focus on innovation and our ambition to become a world class technology company.

We made a number of important external appointments with Stephen Elop and Kevin Russell joining the company, as well as Alexandra Badenoch who will join us in August. We also announced three internal appointments with Cynthia Whelan, Joe Pollard and Will Irving joining the senior leadership team.

We farewelled Gordon Ballantyne, Karsten Wildberger and Tracey Gavegan from Telstra. Stuart Lee stood down from the role of Group Executive Telstra Wholesale and has since given notice of his retirement, and Kate McKenzie also recently announced her retirement from Telstra. We thank our outgoing executives for their service and the significant contributions they have made to Telstra.

Andrew Penn

Warwick Bray

Alexandra Badenoch

David Burns

Stephen Elop

Will Irving

Carmel Mulhern

Joe Pollard

Brendon Riley

Kevin Russell

Tony Warren

Cynthia Whelan

Andrew Penn
Chief Executive Officer

Mr Penn became Chief Executive Officer in May 2015. Prior to his appointment as Chief Executive, Andrew led the Finance and Strategy and International teams as Chief Financial Officer and Group Executive International.

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.

David Burns
Acting Group Executive, Global Enterprise and Services

Global Enterprise and Services provides enterprise and Government customers in Australia and around the world with leading networks, advanced products and solutions, together with supporting services to enable the connected business world.

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 and Chief Scientist. TIS is also responsible for the Telstra Software Group, which was created to drive long-term global growth where software is disrupting traditional business – this includes a focus on high growth areas such as intelligent video solutions and building a thriving digital ecosystem via our start up accelerator program muru-D®.

Will Irving
Group Executive, Telstra Wholesale

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

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
Acting Chief Operations Officer, Telstra Operations

Telstra Operations is responsible for the planning, design, engineering, construction, operation, maintenance, service installation, security and restoration of Telstra's networks, solutions, information technology systems, property and facilities. The group is also responsible for the negotiation and delivery of Telstra's commercial agreements with **nbn** co.

Kevin Russell
Group Executive, Telstra Retail

Telstra Retail 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

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

Cynthia Whelan
Group Executive, International and New Businesses

International and New Businesses includes some of Telstra's key growth opportunities including Telstra Health, Home and Premium Services, Connected Business, Ventures and Energy. The group is also responsible for the company's international operations as Telstra expands its presence in global markets.

Governance at Telstra

Board of Directors, Telstra Annual General Meeting 2015

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 corporate governance statement, which provides detailed information about governance at Telstra, is available on our website at **telstra.com/governance.**

Our governance framework includes:

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

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 FY16 these included:

- **Retail shareholder information briefings** – as we have done in recent years, before our 2015 Annual General Meeting (AGM) we held four retail shareholder information briefings with the CEO, CFO or other senior executives. Briefings were held in Sydney, Brisbane, Adelaide and Perth and attended by about 600 retail shareholders. We intend to hold similar briefings again this year ahead of our 2016 AGM.
- **Encouraging questions in advance of our AGM** – we encouraged shareholders to provide us with their questions ahead of our 2015 AGM, consistent with our approach in previous years, and we received more than 800 questions and comments. This helped us understand shareholder issues and concerns and enabled us to address the key areas of shareholder feedback.
- **Electronic communications** – we continued to encourage shareholders to provide us with their email addresses so we could communicate with them electronically about events and matters relevant to our company such as our results announcements, dividend payments and AGM.
- **Investor briefings** – we held various briefings for investors during the year. In May 2016, we held an Investor Day which included presentations on our strategy, capital management and network resilience. Following the event, we communicated with our electronic shareholders, informing them where they could view the presentations and a recording of the event.
- **Webcasting important company events** – we webcast important events such as our financial results briefings, our AGM and other investor events discussing the performance and strategy of our business.

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.

Composition and renewal

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

During FY16, there were a number of changes to the Telstra Board:

- In February 2016, we announced Catherine Livingstone AO would be retiring as Chairman and a Director, having been Chairman since May 2009 and a Director since November 2000, and would be succeeded as Chairman by John Mullen. Ms Livingstone retired from the Board in April 2016, which provided a smooth transition through our Chairman succession.
- Geoffrey Cousins AM and John Zeglis retired at the conclusion of our AGM in October 2015, each having completed three three-year terms.
- Trae Vassallo was elected as a non-executive Director at our AGM held in 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.
- Craig Dunn joined the Board as a non-executive Director in April 2016. Mr Dunn is a highly regarded business leader with more than 20 years of experience in financial services, pan-Asian business activities and strategic advice for government and major companies. Mr Dunn will stand for election at our AGM in October 2016.

In addition, in April 2016 we announced a number of changes to our Board Committee membership, with:

- John Mullen becoming Chairman of the Nomination Committee
- Peter Hearl becoming Chairman of the Remuneration Committee, succeeding John Mullen (who ceased as a member at that time), and
- Russell Higgins AO, Chin Hu Lim and Craig Dunn becoming a member of the Remuneration Committee, Nomination Committee and Audit & Risk Committee respectively.

On 11 August 2016, the Board announced the appointment of experienced director and former Accenture regional managing director Jane Hemstritch as a non-executive Director and member of the Remuneration Committee, with effect from 12 August 2016. She will also stand for election at our AGM in October.

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

Each of the areas of 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.

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.

For FY16, the Board's objective about Board diversity was that there would be at least three women on the Board, representing a female gender representation among non-executive Directors of at least 30 per cent, with an additional aspiration to achieve 40 per cent female representation among non-executive Directors by 2020. For FY17, the Board has maintained this diversity objective. As at 30 June 2016, there were three female Directors on the Board (including the Chairman of the Audit & Risk Committee), representing a female gender representation among non-executive Directors of 33 per cent.

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. These performance reviews are conducted both internally and, on a periodic basis, externally with the assistance of a facilitator.

As the FY15 review was conducted with the assistance of an external facilitator, the FY16 review of Board, Committee and Director performance was conducted internally. The overall conclusion was that the Board continues to operate well in the discharge of its duties and oversight of Telstra.

In the context of the significant degree of renewal on the Board in recent times, including the retirement of three long standing Directors during the year, the Board intends to undertake an external Board performance review in the second half of 2016, to assist the Board in actively monitoring its performance and ensuring it continues to operate effectively.

Board operating rhythm

The Board has an established Board cycle, which provides a high level overview of items to be considered over a 12 month period. Its key purpose is to link the Board program with strategic and operational priorities and to ensure the Board devotes appropriate time to consideration of the various dimensions of our business across the cycle.

The items covered across the cycle include matters ranging from implementation of our strategy, performance against our corporate plan, the status of our material business risks and matters requiring Board approval, to matters relating to our people, culture and governance framework.

The Board cycle is reviewed on an ongoing basis to ensure it reflects the current needs of the Board and the business.

Some of the activities and areas of focus of the Board during FY16 included:

- continued in depth consideration of our strategy over the short, medium and longer term
- renewal and succession planning, at both Board and senior management level
- network resilience and the work being undertaken following the network interruptions which occurred in the second half of FY16, and
- a Board visit to the US, which provided an opportunity for Directors to engage with other companies to gain insights on topics relevant to Telstra's strategy, as well as our market challenges and opportunities.

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 Telstra Group and our shareholders.

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

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

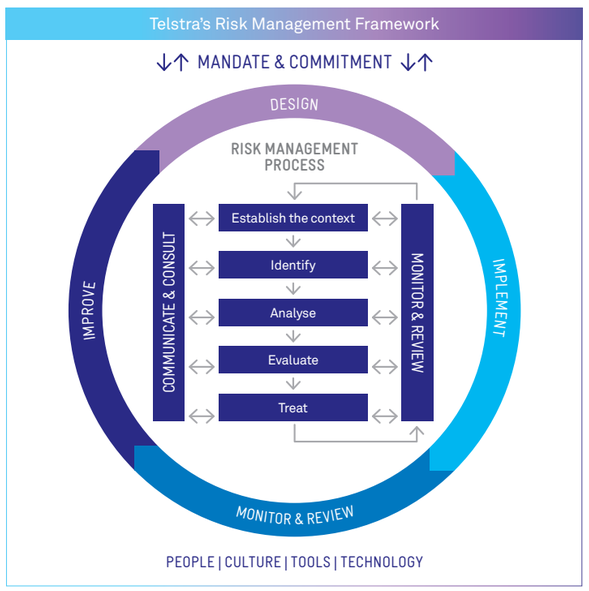
- **First Line** – business stakeholders and operational management who are responsible for identifying, assessing and managing their risks
- **Second Line** – the Chief Risk Office and risk management teams in the business units, which are responsible for risk and compliance frameworks, oversight and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

One of the core components of our framework is the risk management process which provides the business with a process for assessing our risks. Through this risk management process, we identify, monitor and report on risks to the achievement of our plans and objectives.

The risk management process is inclusive of all types of risks from internal and external sources, including strategic, operational, financial and regulatory, as well as economic, environmental and social sustainability risks.

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

Our key operational risks, which are operational in nature, are monitored and reported to our Management Risk Committee and the Audit & Risk Committee.



We consider economic, environmental and social sustainability factors as part of our consideration of both our strategic and operational risks. Each year we undertake an assessment to help us determine those risks and opportunities that are most important to our business and stakeholders. Other important topics identified this year included: customer experience; digital inclusion; ethics, values and governance; strengthening our workforce; privacy and data protection; and climate change and energy efficiency. More information about this assessment, along with our approach to sustainability and performance throughout FY16, is available in the 2016 Bigger Picture Sustainability Report at **telstra.com/sustainability/report.**

Also core to our framework are the activities we undertake to monitor and review its design and implementation. We conduct reviews and self-assessments of our framework across the enterprise and report the results to our Management Risk Committee and the Audit & Risk Committee. We use the results of those reviews, as well as recommendations from Group Internal Audit, our third line of defence, to identify and implement opportunities for improving our framework. In respect of FY16, the Audit & Risk Committee has reviewed Telstra's risk management framework and satisfied itself that it continues to be sound.

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.

Our purpose	**Why we exist**	
Our values	**What we stand for**	**How we do things**
Our strategy	**Where we are going**	**What we are going to do**

Our Telstra 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**

Our Code of Conduct and policy framework

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

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

Our People

- **Health and Safety** – recognising our commitment to the health, safety and wellbeing of our staff, contractors and community. In addition to highlighting the importance of caring about health and safety, it sets out our commitment to providing a safe and healthy workplace and our expectations of our staff, contractors and suppliers. More information about health and safety at Telstra can be found in the Sustainability (Our people) section of this report.
- **Diversity and Inclusion** – 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. Further information about diversity and inclusion can be found in the Sustainability (Our people) section of this report.
- **Discrimination and Bullying** – aiming to ensure we have a workplace free of all forms of unlawful discrimination, harassment, bullying and victimisation.

Our Customers

- **Privacy** – 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. Further information on privacy at Telstra can be found in the Sustainability (Customer experience) section of this report and on our website at **telstra.com/privacy** (which includes our Privacy Statement).

Good corporate governance and responsible business practice

- **Anti-Bribery and Anti-Corruption** – aiming to ensure we comply with all applicable anti-bribery and anti-corruption laws. We also seek to ensure that gifts, prizes and hospitality are not given or accepted in inappropriate circumstances, including where the offering or acceptance may (or may be perceived to) compromise independence or be construed as a bribe.
- **Conflicts of Interest and Outside Activities** – helping our employees and contractors understand what would be a conflict of interest, how to avoid actual, potential or apparent conflicts of interest, and how to manage them if a conflict arises.
- **Market Disclosure** – outlining responsibilities and the process for the approval of our ASX announcements, including where Board approval is required, as well as the role of our CEO, CFO and Continuous Disclosure Committee in relation to disclosure matters.

  We aim to ensure that we provide our shareholders, investors and the financial community with appropriate and timely information while ensuring we fulfil our statutory reporting obligations under the Corporations Act and the ASX Listing Rules.
- **Securities Trading** – setting out the rules and restrictions relating to buying, selling and otherwise dealing in Telstra securities by our Directors, CEO, senior management, specified other employees and their closely related parties, through a trading windows approach.
- **Social Media** – providing guidance to employees and contractors who use social media, either as part of their job or in a personal capacity, about our expectations when they talk online about us, our products and services, our people, our competitors and/or other business related individuals or organisations.
- **Sustainability** – seeking to manage our business to produce an overall positive impact for our customers, employees, shareholders, the wider community and other stakeholders, while minimising our environmental impacts. Information about our approach to sustainability can be found in the Sustainability section of this report, our 2016 Bigger Picture Sustainability Report and on our website at **telstra.com/sustainability.**
- **Whistleblowing** – providing an avenue for anyone to report suspected unethical, illegal or improper behaviour. Our whistleblowing process is supported by an independent service provider and all disclosures are treated confidentially and can be made anonymously. Our Group Whistleblowing Committee monitors disclosures, investigations, recommendations and where appropriate the implementation of actions, and our Audit & Risk Committee oversees the whistleblowing process.

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 2016. Financial comparisons used in this report are of results for the year ended 30 June 2016 compared with the year ended 30 June 2015.

The historical financial information included in this Directors' Report has been extracted from the audited Financial Report on pages 76 to 154 of the Annual Report accompanying this Directors' Report.

Principal activity

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

Review and results of operations

Information on the operations and financial position for the Telstra Group is set out in our Operating and Financial Review (OFR), consisting of Our business, Highlights FY16, Chairman and CEO message, Strategy and performance and Full year results and operations review on pages 2 to 27of this Annual Report.

Dividends

On 11 August 2016, the Directors resolved to pay a final fully franked dividend of 15.5 cents per ordinary share ($1,893 million), bringing dividends per share for financial year 2016 to 31 cents per share. The record date for the final dividend will be 25 August 2016, with payment being made on 23 September 2016. Shares will trade excluding entitlement to the dividend on 24 August 2016.

The Dividend Reinvestment Plan (DRP) continues to operate for the final dividend for financial year 2016. The election date for participation in the DRP is 26 August 2016.

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 2015	13 Aug 2015	25 Sept 2015	15.5 cents	1,893
Interim dividend for the year ended 30 June 2016	18 Feb 2016	1 Apr 2016	15.5 cents	1,894

Capital management

On 2 May 2016, Telstra announced a capital management program of at least $1.5 billion to commence in the first half of the financial year 2017. On 11 August, the Board resolved to undertake an off-market share buy-back of up to approximately $1.25 billion and an on-market share buy-back of up to approximately $250 million as part of our capital management program. The shares bought back will be cancelled by the Company, reducing the number of shares the Company has on issue. The off-market and on-market buy-backs will be funded from Telstra's cash reserves reflected in Telstra's surplus cash and accumulated retained profits (including profits from the recent sale of Autohome shares).

The off-market buy-back will be available to eligible shareholders and implemented by way of a tender process and at a discount to the market price, and will be made up of a capital and a dividend component. The dividend component will be fully franked and our estimate of the decrease in franking credits is $376 million, based on the assumption of Telstra's ASX listed share price of $5.60, buy-back discount of 14 per cent and a non-resident shareholding of 22.35 per cent. These estimated impacts could change depending upon the outcomes of the tender process.
The on-market share buy-back will be conducted in the ordinary course of trading over the next 12 months after completion of the off-market buy-back.

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 2016.

Business strategies, prospects and likely developments

The OFR sets out information on the business strategies and prospects for future financial years, and refers to likely developments in Telstra's operations and the expected results of those operations in future financial years (see Our business, Highlights FY16, Chairman and CEO message, Strategy and performance and Full year results and operations review on pages 2 to 27 of this Annual Report). Information in the OFR is provided to enable shareholders to make an informed assessment of the business strategies and prospects for future financial years of the Telstra Group. Detail that could give rise to likely material detriment to Telstra (for example, information that is commercially sensitive, is confidential or could give a third party a commercial advantage) has not been included. Other than the information set out in the OFR, information about other likely developments in Telstra's operations and the expected results of these operations in future financial years has not been included.

Events occurring after the end of the financial year

Apart from the off-market and on-market share buy-backs to be conducted as part of our $1.5 billion capital management program, the final dividend for the financial year 2016 and the DRP operating in respect of that dividend, the Directors are not aware of any matter or circumstance that has arisen since the end of the financial year, that, in their opinion, has significantly affected, or may significantly affect in future years, Telstra's operations, the results of those operations or the state of Telstra's affairs.

Details of Directors and executives

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

- Trae A N Vassallo was appointed as a non-executive Director on13 October 2015
- Craig W Dunn was appointed as a non-executive Director effective 12 April 2016
- Geoffrey A Cousins AM retired as a non-executive director on 13 October 2015. Mr Cousins joined the Board in November 2006 and was a member of the Nomination Committee and a member of the Remuneration Committee from 2007
- John D Zeglis retired as a non-executive director on 13 October 2015. Mr Zeglis (BSc Finance, JD Law (Harvard)) joined the Board in May 2006 and chaired the Technology Committee from 2009 and 2012
- Catherine B Livingstone AO retired as a non-executive director and Chairman of the Board on 27 April 2016. Ms Livingstone (BA (Hons), Hon DBus (Macquarie), Hon DSc (Murdoch), Hon DLitt (USyd), Hon DBus (UTS), FCA, FTSE, FAICD, FAA) joined the Board in November 2000 and served as Chairman from May 2009. She was Chairman of the Nomination Committee from 2009 and a member of the Audit and Risk committee from 2000 and a member of the Remuneration Committee from 2009.

On 11 August 2016, the Board announced the appointment of experienced director and former Accenture regional managing director Jane Hemstritch as a non-executive Director and member of the Remuneration Committee, with effect from 12 August 2016. She will also stand for election at our AGM in October.

Information about our Directors and senior executives is provided as follows:

- names of our current Directors and details of their qualifications, experience, special responsibilities, periods of service and directorships of other listed companies are given in the Board of Directors section on pages 38 to 39 of this Annual Report
- details of Director and senior executive remuneration are set out in the Remuneration Report on pages 52 to 73 which forms part of this Directors' Report.

Details of Directors' shareholdings in Telstra as at 11 August 2016 are shown in the table below:

Director	Number of shares held [1]
John P Mullen	26,159
Andrew R Penn [2]	986,763
Craig W Dunn	16,073
Peter R Hearl	45,000
Russell A Higgins	93,985
Chin Hu Lim	20,274
Nora L Scheinkestel	89,063
Margaret L Seale	212,500
Steven M Vamos	40,000
Trae A N Vassallo	-
Geoffrey A Cousins [3]	101,765
John D Zeglis [3]	103,993
Catherine B Livingstone [3]	178,000

1 The number of shares held refers to shares held either directly or indirectly by Directors as at 11 August 2016. 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 2016. For Margaret Seale includes 175,000 shares held by a related party and for Russell Higgins includes 422 shares held by another person, in each case which the Director has relevant interest.
2 Andrew Penn also holds 1,425,669 Performance Rights.
3 The number of shares disclosed is the number held as at the date of cessation as a Director.

Board and Committee meeting attendance

Details of the number of meetings held by the Board and its Committees during financial year 2016, and attendance by Board members, are set out below:

	Board		Committees [1]					
			Audit and Risk		Nomination		Remuneration	
	a	b	a	b	a	b	a	b
J P Mullen [2]	14	13	-	(1)	6	6	4	3(1)
A R Penn	14	14	-	(6)	-	-	-	(5)
C W Dunn [3]	4	4	1	1	-	-	-	-
P R Hearl [4]	14	13	-	-	6	6	5	5
R A Higgins [5]	14	14	6	6	-	(6)	1	1(1)
C H Lim [6]	14	14	-	-	1	1(5)	-	-
N L Scheinkestel	14	14	6	6	-	(6)	-	(1)
M L Seale	14	14	6	6	-	(6)	-	(1)
S M Vamos	14	13	-	-	6	6	5	5
T A N Vassallo [7]	11	11	-	(1)	-	(5)	-	(1)
G A Cousins [8]	3	3	-	-	1	1	2	2
J D Zeglis [8]	3	3	-	-	-	(1)	-	-
C B Livingstone [9]	11	10	5	4	5	4	4	4
Total number of meetings held during the year	**14**		**6**		**6**		**5**	

Column a: number of meetings held while a member.
Column b: number of meetings attended.
1 Committee meetings are open to all Directors to attend. Where a Director has attended a meeting of a Committee of which he or she was not a member, this is indicated by ( ).
2 Appointed as Chairman of Directors and Chairman of the Nomination Committee effective 27 April 2016. Ceased as Chairman (and a member) of the Remuneration Committee effective 11 April 2016.
3 Appointed as non-executive Director and a member of the Audit & Risk Committee effective 12 April 2016.
4 Appointed as Chairman of the Remuneration Committee effective 11 April 2016.
5 Appointed as a member of the Remuneration Committee effective 11 April 2016.
6 Appointed as a member of the Nomination Committee effective 11 April 2016.
7 Elected as non-executive Director on 13 October 2015.
8 Retired as non-executive Director effective 13 October 2015.
9 Retired as non-executive Director and as Chairman of Directors effective 27 April 2016.

Company Secretary

Damien Coleman B Ec, LLB (Hons), FCIS

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. This indemnity applies only if the liability was incurred in the officer's or employee's capacity as an officer of that other company. This indemnity is to the maximum extent permitted by law, as if that liability had been incurred in the capacity as an officer of Telstra. Telstra's constitution also allows it to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in Telstra's constitution.

(b) Deeds of indemnity in favour of directors, officers, 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 subsidiaries of Telstra,

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

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

(c) Directors' and officers' insurance

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

Environmental regulation and performance

Information on Telstra's environmental and sustainability performance is included in the Sustainability section on pages 28 to 35 of this Annual Report, our accompanying Bigger Picture Sustainability Report and on the Telstra website.

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

(a) Fines and prosecutions

Other than in relation to the following matter, Telstra has not been prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.

As disclosed previously in the 2015 Directors' Report, on 6 July 2015 Telstra received an infringement notice penalty of $8,538 for contravention of the Environmental Protection Act 1994 (Qld) as a result of a diesel spill from a fuel storage tank at a Telstra site in Cape Kimberley that occurred in April 2015. Telstra subsequently undertook clean-up work to remediate the site. Telstra paid the penalty on 28 July 2015.

(b) Greenhouse gas emissions

In Australia, Telstra is subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007. The Act 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 2016 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 4 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, having submitted its notification of compliance by 5 December 2015.

Non-audit services

During financial year 2016, 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.

The Directors are satisfied, based on advice provided by the Audit & Risk Committee that the provision of non-audit services during financial year 2016 is consistent with the general standard of independence for auditors imposed by the Corporations Act 2001 (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
- fees earned from non-audit work undertaken by EY are capped at 1.0 times the total audit and audit related fees
- the provision of non-audit services by EY is monitored by the Audit & Risk Committee via periodic reporting to the Audit & Risk Committee.

A copy of the auditor's independence declaration is set out in the Auditor's Independence Declaration to the Directors of Telstra Corporation Limited on page 74 and forms part of this Directors' Report.

Auditor

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

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

Reasons supporting this decision included:

- Mr Ferguson's appointment as lead auditor for Telstra occurred during the second half of FY2011. As such, whilst he had full carriage of the audit in relation to Telstra's FY2011 reporting, in practical terms, by the FY2015 audit, he had been involved in the audit for only approximately 4 calendar years. In that context the Audit & Risk Committee considered that approving Mr Ferguson continuing as lead auditor for an additional financial year would allow the company to enjoy the benefits of Mr Ferguson's experience in the role for a full five years and contribute to the efficiency of the audit, without compromising auditor independence. In addition, the Audit & Risk Committee had just completed the identification of a suitable successor as lead auditor and intended that a transition process would be undertaken. The Audit & Risk Committee considered that the continuation of Mr Ferguson as lead auditor in FY2016 would facilitate an effective handover. The scale and complexity of Telstra's business is such that continuity throughout the duration of the handover process was desirable to maintain the quality of the audit for the financial year ending 30 June 2016 and beyond
- The Audit & Risk Committee was satisfied with the quality of EY and Mr Ferguson's work as auditor. Mr Ferguson had led a process of continuous improvement which was ongoing and the Audit & Risk Committee believed this would continue if Board approval to the extension of Mr Ferguson's term was granted
- The Company maintains, and will continue to maintain, robust auditor independence policies and controls to ensure the independence of the auditor is maintained. The Audit & Risk Committee was satisfied that the independence of the auditor had been maintained to date in accordance with these policies and controls, including the Audit & Risk Committee's oversight of the Company's relationship with the external auditor. The Audit & Risk Committee was not aware of:
  - any reason why granting approval for Mr Ferguson to continue as lead auditor for an additional financial year would compromise the auditor's independence or impartiality or alter the Committee's view that the auditor remains independent; or
  - any conflict of interest situation that will, or is likely to arise, as a result of the Board granting the recommended approval.

A copy of the Board resolution granting approval has been lodged with the Australian Securities and Investments Commission in accordance with section 324DAC of the Act. This is available from the corporate governance section of our website (www.telstra.com/governance).

The Board has undertaken a process and agreed upon the new lead auditor, Mr Andrew Price, who has now succeeded Mr Ferguson as our lead auditor following completion of the FY16 audit.

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 2016 (FY16).

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 changes in FY16

The overall structure of our Remuneration Report remains consistent with the way in which it has been presented for the last few years.

However, leading up to the 2015 Telstra Annual General Meeting (AGM) we received feedback that the market wished to see a greater level of disclosure with regard to any adjustments that are made to the Free Cashflow Return On Investment (FCF ROI) outcome of the Long Term Incentive (LTI) plan. In response to this feedback, we have provided more information on adjustments to reported results in accordance with the FCF ROI definition or where the Board exercised discretion to ensure there were no windfall gains or losses. We also show the impact of those adjustments on the LTI plan outcome (see section 3.3).

There have also been a number of changes in KMP outlined in detail on page 54.

Remuneration outcomes in FY16

The overall structure and philosophy of Telstra's approach to remuneration remained consistent throughout FY16. Our remuneration philosophy is based on linking financial rewards directly to employee contributions and company performance. Telstra has delivered solid results for shareholders, however we have not made enough progress on improving customer experience. The remuneration outcomes for FY16 therefore reflect the performance of the business.

The key outcomes under our incentive plans this year were:

SHORT TERM INCENTIVES (STI)

Senior Executives received an average of 40.5% of the maximum opportunity available based on the assessment of financial, customer advocacy and individual performance. This reflects Telstra's financial performance on the Free Cashflow (FCF) and EBITDA measures. We did not achieve our Total Income and Net Promoter Score (NPS) gateways resulting in no payment on those components. Telstra Wholesale performed strongly against all of its STI targets.

LONG TERM INCENTIVES (LTI)

The FY14 LTI plan was tested on 30 June 2016. The outcome was that 53.0% of the maximum opportunity vested as Restricted Shares. The results of the two plan measures were that the Telstra Relative Total Shareholder Return (RTSR) ranked at the 52nd percentile of the comparator group and Telstra achieved a FCF ROI outcome of 15.9%, which exceeded the target of 15.1% for the FY14 LTI plan.

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1.0 Remuneration snapshot

1.1 Key Management Personnel

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.

Those that are assessed to be KMP for FY16 are:

Non-executive Directors

John P Mullen

Craig W Dunn (appointed 12/04/16)

Peter R Hearl

Russell A Higgins AO

Chin Hu Lim

Nora L Scheinkestel

Margaret L Seale

Steven M Vamos

Trae A N Vassallo (appointed 13/10/15)

Catherine B Livingstone AO (retired 27/04/16)

Geoffrey A Cousins AM (retired 13/10/15)

John D Zeglis (retired 13/10/15)

Senior Executives

Chief Executive Officer & Managing Director (CEO)
Andrew Penn

Chief Financial Officer (CFO)
Warwick Bray

Chief Operations Officer (COO)
Kate McKenzie

Group Executive Global Enterprise & Services (GES)
Brendon Riley

Group Executive Telstra Retail
Gordon Ballantyne (until 07/10/15)
Karsten Wildberger (09/10/15 – 31/03/16)
Kevin Russell (from 26/04/16)

Group Executive Telstra Wholesale
Stuart Lee (until 31/03/16)
Will Irving (from 26/04/2016)

Group Executive Telstra Retail
Gordon Ballantyne stepped down from the role on 7 October 2015 but continued to be employed until 31 December 2015. Karsten Wildberger was appointed effective 9 October 2015 until he ceased employment on 31 March 2016. Kevin Russell became the Group Executive (GE) Telstra Retail effective 26 April 2016.

Group Executive Telstra Wholesale
Stuart Lee stepped down from the role on 31 March 2016 before going on long service leave. Will Irving was appointed effective 26 April 2016. Mr Lee subsequently gave notice of his retirement on 16 May 2016 and will cease employment on 30 November 2016.

Chief Operations Officer
Subsequent to the reporting date of 30 June 2016, Kate McKenzie stepped down from the role of Chief Operations Officer on 25 July 2016 and will retire on 30 September 2016.

1.2 Actual pay and benefits which crystallised in FY16

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 2016. 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 5.1 (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 FY16.

Our approach to presenting this table has been as follows:

- The amounts shown in this table include Fixed Remuneration (FR), STI payable as cash under the FY16 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 in either June 2016 or August 2016, to show the link between executive remuneration outcomes and the relevant performance year.
- The pay and benefits for Mr Irving are shown for the full duration of FY16 even though he was only a Senior Executive for part of FY16, as he was employed by Telstra for the whole of FY16.
- Our share price growth over the past four years has driven much of the value in the table below. The Telstra volume weighted average share price (VWAP) used to determine the share quantity allocated under the FY13 LTI plan was $3.81 and at 30 June 2016 the closing share price was $5.56. This increase of 45.9 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[2] $	Short Term Incentive payable as cash[3] $	Value of STI Restricted Shares that became unrestricted[4,5] $	Value of LTI that became unrestricted[4,6] $	FY16 Total $
Andrew Penn	2,325,000	11,274	1,199,700	437,650	2,794,890	6,768,514
Warwick Bray	1,100,000	10,153	625,350	319,633	–	2,055,136
Will Irving[1]	962,529	16,260	531,598	220,004	1,896,800	3,627,191
Kate McKenzie	1,200,000	11,857	464,400	335,841	1,996,357	4,008,455
Brendon Riley	1,350,000	10,574	696,600	326,088	2,595,258	4,978,520
Kevin Russell	198,361	–	102,354	–	–	300,715

1. As per the information provided in section 1.2, Mr Irving's remuneration for the entire FY16 has been included.
2. Includes the cost of personal home security services provided by Telstra, the provision of car parking and Telstra products and services.
3. Amount relates to the cash component (75 per cent) of STI earned for FY16, which will be paid in September 2016. The remaining 25 per cent will be provided as Restricted Shares. The Restriction Period for half of the shares will end on 30 June 2017 and the other half on 30 June 2018.
4. Equity in this table has been valued based on the Telstra closing share price on 30 June 2016 of $5.56.
5. 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 or around 30 June 2016. These represent 50 per cent of the Restricted Shares relating to each of the FY14 and FY15 performance periods. In the case of Mr Bray, the value also includes Restricted Shares allocated under the FY13 STI Deferral Plan that had a three year Restriction Period ending on 30 June 2016.
6. Amount relates to Performance Rights with a final test date of 30 June 2015, which vested as Restricted Shares under the FY13 LTI plan. The Restriction Period for these shares ends in August 2016. Mr Bray and Mr Russell did not participate in the FY13 LTI plan.

1.3 Looking forward to FY17 and changes proposed

In the FY16 STI Plan, Strategic NPS was the sole metric for the customer measure. Strategic NPS was chosen as it helps us understand how our customers feel about Telstra and whether they would recommend us to others.

In FY17, we want to increase the focus on our customers' overall experience through their direct interactions with us and will be introducing an additional metric to support this. The customer measure will be a mix of Strategic NPS and a new Service Experience Index (SEI) which is a measure of our key process episodes and is already part of our NPS program. Strategic NPS and SEI will each contribute half of the total customer measure.

The change will mean that the customer measure will not only reflect the broader perception customers have of Telstra but also the end-to-end customer experiences we are delivering.

Other than changes to the FY17 customer measure, we do not anticipate any other changes in our approach to Senior Executive remuneration. In particular, there will be no Fixed Remuneration increases and no changes to the STI and the LTI opportunities as a percentage of Fixed Remuneration for the Senior Executives.

2.0 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 to ensure employees performing at similar levels in similar roles are remunerated within a broadly similar range
- ensure that all reward decisions are made free from bias and support diversity within Telstra
- support commercially responsible pay decisions.

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

(a) The Remuneration Committee
The Remuneration Committee monitors and advises the Board on remuneration matters and consists only of independent non-executive Directors. It assists the Board in its responsibilities by 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 Board generally and the Remuneration Committee in particular. We regularly review our policies to ensure that remuneration outcomes for our executives continue to be aligned with company performance.

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

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

(c) Incentive design and performance assessment
The Remuneration Committee oversees the process of setting robust measures and targets to encourage strong Senior Executive performance and behaviour that is aligned to our values.

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

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

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, which is set at 200 per cent of Fixed Remuneration. The maximum level is only paid if there is significant over achievement of targets. There is no incentive awarded unless a threshold level of performance is achieved.

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

(d) Engagement with consultants
External consultants are required to engage directly with the Remuneration Committee Chairman as the first point of contact whenever market data for Senior Executive positions is supplied to Telstra. To assess market competitiveness in FY16, the Committee engaged Guerdon Associates for the provision of ASX20 market data but did not require a remuneration recommendation.

2.2 Policy and practice
(a) Plan variation guidelines
The Board may, in its absolute discretion, amend the basis of determining the performance results or targets of the STI and LTI plan where an 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 events and their impacts.

During FY16 no plan terms were amended, however the Board exercised its discretion in determining the outcome of the FY16 STI plan and the FY14 LTI plan as outlined in 3.2(b) and 3.3(a) respectively.

(b) 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 STI and LTI plans will continue to be developed using the most up to date forecasts for the financial impacts of the NBN Transaction.

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

Adjustments for the NBN Transaction were made for both the FY16 STI plan and the Telstra Wholesale FY16 STI plan as outlined in 3.2(b). The NBN Transaction adjustments made in determining the FY14 LTI plan outcome are outlined in 3.3(a).

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

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

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

Progress is monitored on an ongoing basis. Where applicable, all Senior Executives met the shareholding requirement as at 30 June 2016.

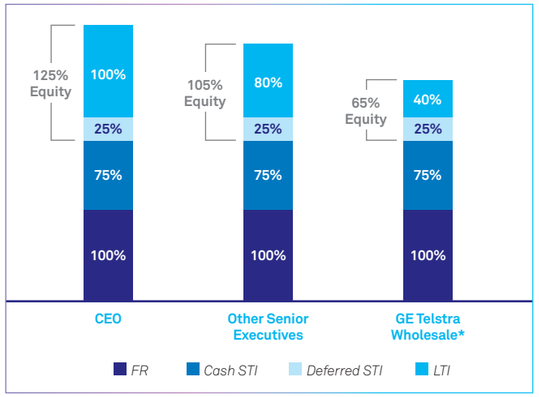
(d) Restrictions and governance
All KMP must comply with Telstra's Securities Trading Policy, which includes a requirement that Telstra securities can only be traded during specified trading windows and with prior written approval. KMP must also consider how any proposed dealing in Telstra securities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

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

KMP are prohibited from entering into any hedging arrangement that limits the economic risk of holding Telstra securities (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 mix for Senior Executives
The graph below shows the FY16 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).



* The former GE Telstra Wholesale remuneration mix was FR: 100%, STI (cash): 56.25%, Deferred STI (equity): 18.75% and LTI (equity): 40%.

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.

Remuneration structure

Attract, motivate and retain highly skilled people	Reinforce values and cultural priorities	Reward achievement of financial and strategic objectives	Align to long term shareholder value creation
FIXED REMUNERATION	**SHORT TERM INCENTIVE (AT RISK)**		**LONG TERM INCENTIVE (AT RISK)**
Cash		Equity	
• Base salary plus superannuation • Set based on market and internal relativities, performance, qualifications and experience	• 75% of STI outcome paid in September after the financial year end • STI outcome based on Telstra's financial, customer and individual performance	• 25% of the STI outcome is deferred as Restricted Shares • Half of the shares are restricted for 1 year and the other half for 2 years • Subject to clawback and forfeiture in circumstances outlined below	• Performance Rights subject to performance conditions • 50% subject to RTSR and 50% subject to FCF ROI • Performance is measured over 3 years with an additional 1 year Restriction Period • Subject to clawback and forfeiture in circumstances outlined below
Market competitive base reward	Encourages sustainable performance in the medium to longer term and provides a retention element		

(b) FY16 STI Plan and Deferral
For FY16, 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 plans are structured as follows:

Plan component	Detail	
	Senior Executive STI Plan	GE Telstra Wholesale STI Plan
Performance measures	Telstra Group: • FCF for STI • EBITDA • Total Income • Strategic Net Promoter Score • Individual Performance	Telstra Wholesale: • EBITDA • Total Income • Net Promoter Score • Individual Performance
Performance period	1 July 2015 to 30 June 2016	
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.	

The Board selected the performance measures outlined above 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 FY16 financial plan and strategy
- the Strategic NPS supports Telstra's strategy of creating customer advocates. An explanation of the way in which Strategic NPS is calculated is included in section 3.2(b)
- the individual performance objectives were set at the beginning of FY16 or at the time of appointment, and were based on each Senior Executive's expected individual contribution to the achievement of our strategy.

The performance measures of the STI plan operate independently of each other and each measure has a defined performance threshold, target and maximum. Each Senior Executive has a maximum STI opportunity of 200 per cent of their Fixed Remuneration depending on the role they perform.

The FY16 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 FY16 are provided in section 3.2.

(c) FY16 LTI Plan
Performance Rights form the basis of the reward under the LTI plan. Senior Executives are not required to pay for the Performance Rights. However, for any Performance Rights to vest as Restricted Shares, a minimum threshold performance against the relevant measure must be satisfied.

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

The plans are structured as follows:

Plan component	Detail	
Participants	Telstra's Executive Committee (13 in total which includes the Senior Executives in this report, with the exception of the GE Telstra Wholesale).	
Performance measures and weighting	RTSR 50%	FCF ROI 50%
Minimum threshold for vesting	50th percentile of peer group	16.7%
Vesting schedule	25% vests at 50th percentile, straight-line vesting to 75th percentile where 100% vests.	50% vests at target of 16.7%, straight line vesting to stretch target of 18.3% where 100% vests.
Equity instruments granted	Performance Rights which vest into Restricted Shares, subject to performance conditions.	
Performance period	1 July 2015 to 30 June 2018	
Restriction period end date	30 June 2019	
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 FY16 LTI plan, no entitlement to receive dividends and no voting rights in relation to those shares.	
Forfeiture conditions	**Non-Permitted Reason:** 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). **Permitted Reason:** 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 2019. The pro rata portion relating to the Senior Executive's completed service may still vest subject to achieving the performance measures of the FY16 LTI plan on 30 June 2018.	
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 FY16 LTI plan are provided in section 5.

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 global peers.

The comparator group for the FY16 LTI plan is the following large market capitalisation telecommunication firms:

FY16 LTI plan comparator group

- 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
- Telekom Austria AG
- Telecom Italia SpA
- Telefonica SA
- Telenor ASA
- Telia Company AB
- Verizon Communications Inc
- Vodafone Group Plc.

The FY16 LTI plan comparator group is consistent with the FY15 LTI plan except that Portugal Telecom SGPS SA has been removed due to a significant restructure during FY16.

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 FY18, 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 FY16 LTI plan.

(d) Group Executive Telstra Wholesale
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.

In FY16, the former GE Telstra Wholesale, Stuart Lee, was allocated 66,031 Restricted Shares in lieu of the FY15 LTI plan, based on performance against his FY15 STI measures. The Restriction Period for these shares ends on 30 June 2018.

The current GE Telstra Wholesale, Mr Irving, will begin to participate in this plan from FY17 onwards rather than the Senior Executive LTI plan. In lieu of participation in the Senior Executive FY17 LTI plan, Mr Irving will be allocated Restricted Shares in FY18 based on his performance against his FY17 STI plan measures, namely Wholesale Total Income, Wholesale EBITDA, Wholesale NPS and individual performance. However, any existing equity plans that were granted to Mr Irving prior to his appointment will remain on foot in accordance with the terms and conditions of those arrangements and in compliance with the requirements of the SSU.

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:

Performance measures	FY16 $m	FY15 $m	FY14 $m	FY13[1] $m	FY12 $m
Earnings					
Total Income[2]	**27,050**	26,112	26,296	24,776	25,503
EBITDA[2]	**10,465**	10,533	11,135	10,168	10,234
Net Profit[3]	**5,780**	4,231	4,275	3,739	3,405
Shareholder value					
Share price ($)[4]	**5.56**	6.14	5.21	4.77	3.69
Total dividends paid per share (cents)	**31.0**	30.0	28.5	28.0	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. From FY13 and onwards, 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 FY11 was $2.89.

3.2 FY16 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 2016 for the period they were KMP, is expressed as a percentage of the maximum potential payout in the following table:

Performance measures	FY16	FY15	FY14	FY13	FY12
STI received as % of maximum	**40.5**	61.0	53.6	66.0	65.6

(b) Overall FY16 STI Plan outcomes

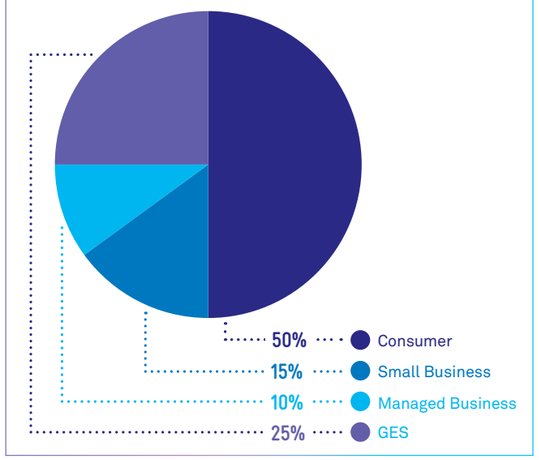
At the end of FY16, the Board reviewed Telstra's audited financial results and the results of the other performance measures for the FY16 STI plan and the FY16 STI plan for the GE Telstra Wholesale. The Board has assessed performance against each measure and determined the percentage of STI that is payable, of which 25 per cent will be provided through Restricted Shares, except for Stuart Lee and Kate McKenzie who will receive their 25 per cent component as cash, consistent with the retirement provisions of Telstra's STI policy.

The Board determined the outcomes of the financial measures to ensure there were no windfall gains or losses due to the timing of the nbn™ network rollout, spectrum purchases and material acquisitions and divestments. The Board included the Ooyala impairment as reflected in the results and exercised discretion to consider and include the profit on sale of Autohome in determining the final outcome.

The calculation of the Strategic NPS measure was based on asking Telstra's customers, via third party surveys, to rate their likelihood of recommending Telstra, out of a score of 10.

The overall Strategic NPS result for Telstra was the weighted average of the surveys from:

Strategic NPS Result Weighting



The FY16 outcome was based on the three month average from 1 April 2016 to 30 June 2016 for Consumer and Business, and the six month consolidated result from 1 January 2016 to 30 June 2016 for Global Enterprise and Services.

The Wholesale NPS measure that applied to the GE Telstra Wholesale, was calculated based on a survey of Wholesale customers only, undertaken by a third party research company from 2 May 2016 through to 30 May 2016 and is based on the 12 month consolidated result. The final result was audited by Telstra's Group Internal Audit team.

The Board believes the methods of calculating the financial and NPS outcomes are appropriate, and a rigorous assessment of Telstra's performance for FY16.

Senior Executive STI outcomes (excluding the Group Executive Telstra Wholesale)

Measure	Outcome (% of max)
Total Income	0.0%
EBITDA	100.0%
Free Cashflow	44.0%
Strategic NPS	0.0%

Group Executive Telstra Wholesale STI

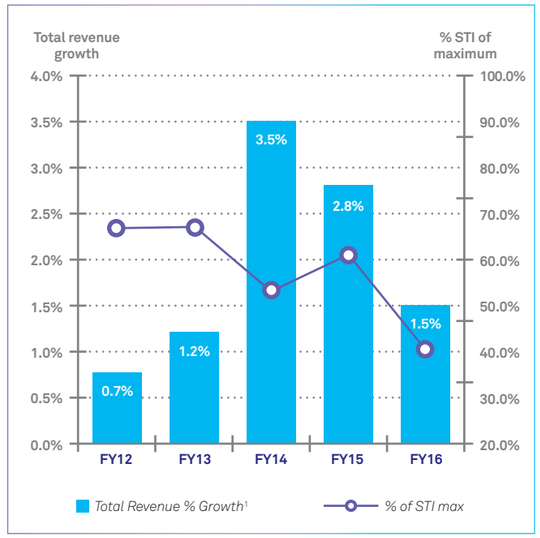
Measure	Outcome (% of max)
Wholesale Total Income	87.5%
Wholesale EBITDA	85.0%
Wholesale NPS	100.0%

(c) FY16 STI plan payment results

The table below displays STI payments for Senior Executives as at 30 June 2016 for the period they were KMP, expressed as a percentage of Fixed Remuneration and also as a percentage of the maximum opportunity for both FY16 and FY15 STI plans:

Name	FY16 % of FR	FY16 % of max	FY15 % of max
Andrew Penn	68.8	34.4	66.7
Warwick Bray	75.8	37.9	64.2
Will Irving	152.0	76.0	–
Kate McKenzie	51.6	25.8	65.7
Brendon Riley	68.8	34.4	66.1
Kevin Russell	68.8	34.4	–
Senior Executive Average:	**81.0**	**40.5**	**65.7**

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 FY14 Long Term Incentive plan outcomes

The performance period for the FY14 LTI plan concluded on 30 June 2016. The vesting table is detailed below, reflecting performance up to 30 June 2016 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 2017.

(a) FY14 LTI Plan testing as at 30 June 2016

Test date	Performance measure	% of total plan vested
30 June 2016	RTSR (31.0% vesting)	15.5%
	FCF ROI (75.0% vesting)	37.5%
Total:		**53.0%**

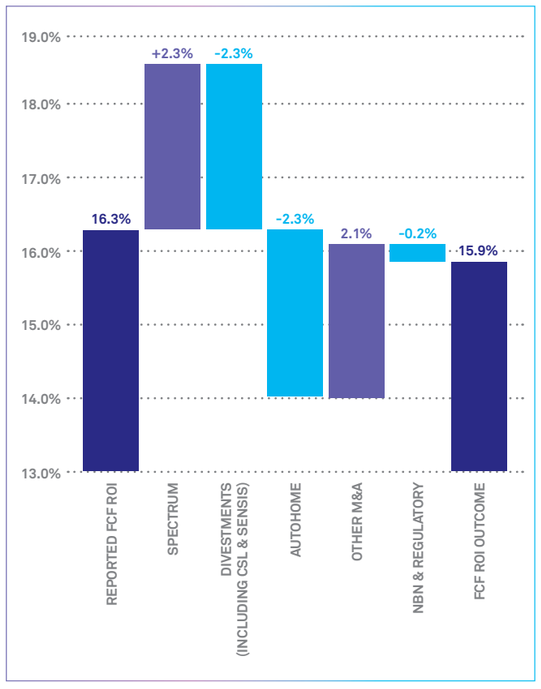
The results of Telstra's RTSR was calculated by an external provider and audited by Telstra's Group Internal Audit team. The RTSR vesting result was based on Telstra ranking at the 52nd percentile of the global peer group. As Sprint Nextel Corporation was acquired by Softbank Corporation in FY15 and Portugal Telecom SPSG went through a significant restructure in FY16, the Board exercised its discretion under the LTI plan terms to remove both companies from the comparator group prior to calculation of the results.

The Board determines the FCF ROI outcome by adjusting reported results to remove spectrum and other acquisitions and divestments in line with the FCF ROI definition. In addition, 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 FY14 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 (mainly CSL and the Sensis advertising and directories business). The Board also excluded the cash proceeds from the Autohome divestment, but included the negative effect of the profit on sale on the FCF ROI outcome.

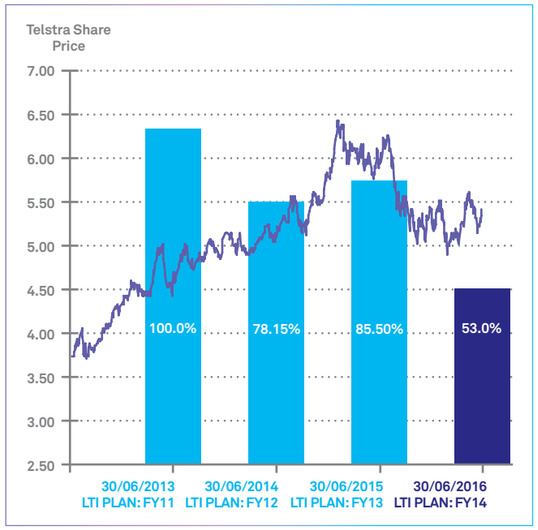
The Board exercised its discretion and removed the regulatory impact of the Fixed Access Determination and Mobile Terminating Access Service pricing changes and the NBN Transaction. This adjustment did not have a significant impact to the outcome as at the time, due to the uncertainty regarding the nbn™ network, the FCF was underestimated but effectively aligned with the NBN Transaction cash outcome over the performance period.

FY14 LTI Plan FCF ROI adjustments:



The FCF ROI outcome decreased from 16.3% to 15.9% against the target of 15.1%. This had the effect of decreasing the FY14 LTI plan vesting outcome from 59.25% to 53.00% (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 vesting 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	Fixed Remuneration at the end of FY16	Notice period	Termination payment
Andrew Penn	2,325,000	6 months	6 months
Warwick Bray	1,100,000	6 months	6 months
Will Irving	1,000,000	6 months	6 months
Kate McKenzie	1,200,000	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 2016.

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 Non-executive Director remuneration

4.1 Remuneration structure

The Telstra Board and Committee fee structure (inclusive of superannuation) during FY16 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 has been no change to non-executive Director or Committee fees during FY16.

Telstra's non-executive Directors are remunerated in accordance with Telstra's Constitution, which provides for an aggregate fee pool that is set, and varied, only by approval of a resolution of shareholders at the 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 FY16 remained within the approved fee pool.

(a) Changes to the Board and Committee composition
Catherine Livingstone AO retired from the Telstra Board and as Chairman of Directors on 27 April 2016. She was succeeded by John Mullen as Chairman of Directors, and as Chairman of the Nomination Committee with effect from 27 April 2016.

During the year, Geoffrey Cousins and John Zeglis both retired from the Board on 13 October 2015 and Trae Vassallo and Craig Dunn were appointed to the Board effective 13 October 2015 and 12 April 2016, respectively.

In addition, with effect from 11 April 2016, Peter Hearl was appointed as Chairman of the Remuneration Committee succeeding John Mullen (who ceased as a member at that time), Russell Higgins AO was appointed as a member of the Remuneration Committee and Chin Hu Lim was appointed as a member of the Nomination Committee. Also, with effect from 12 April 2016, Craig Dunn was appointed as a member of the Audit & Risk Committee.

4.2 Remuneration policy and strategy

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

To align the non-executive Directors' interests with the interests of our shareholders, the Board has established a policy which encourages non-executive Directors to hold Telstra shares equivalent to at least 50 per cent of the annual non-executive Director base fee. 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 11 August 2016 are set out in the Directors' Report on page 49 of this Annual Report.

4.3 Remuneration components

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

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

Table 5.5 provides full details of non-executive Director remuneration for FY16.

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

5.0 Remuneration tables and glossary

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

5.1 Senior Executives remuneration (main table)
The table below has been prepared in accordance with the requirements of the Corporations Act and the relevant Australian Accounting Standards. The figures provided under the equity settled share-based payments columns are based on accounting values and do not reflect actual payments received by Senior Executives in FY16.

		Short term employee benefits			Post-employment benefits	Termination benefits	Other long term benefits	Equity settled share-based payments			
								Accounting value (at risk) ($)[6,7,8]			
Name and title	Year	Salary and fees ($)[1]	Short term incentives (cash) ($)[2]	Non-monetary benefits ($)[3]	Superannuation ($)[4]	Termination benefits ($)[5]	Accrued leave benefits ($)	Short term incentive shares[9]	Long term incentive performance rights[10]	Other shares[11]	Total ($)
Andrew Penn Chief Executive Officer	**2016**	**2,305,692**	**1,199,700**	**11,274**	**19,308**	**–**	**57,172**	**458,445**	**1,587,629**	**–**	**5,639,220**
	2015	1,606,491	1,638,696	32,612	18,783	–	40,075	465,562	1,008,683	20,345	4,831,247
Warwick Bray Chief Financial Officer	**2016**	**1,065,000**	**625,350**	**10,153**	**35,000**	**–**	**27,049**	**211,303**	**361,190**	**–**	**2,335,045**
	2015	180,697	177,034	1,885	3,139	–	4,533	30,272	33,289	–	430,849
Will Irving GE Telstra Wholesale	**2016**	**176,846**	**205,574**	**2,933**	**3,482**	**–**	**4,434**	**37,592**	**95,083**	**–**	**525,944**
	2015	–	–	–	–	–	–	–	–	–	–
Kate McKenzie Chief Operations Officer	**2016**	**1,180,692**	**464,400**	**11,857**	**19,308**	**–**	**29,508**	**281,796**	**970,838**	**–**	**2,958,399**
	2015	1,181,217	1,181,850	14,209	18,783	–	29,589	350,229	978,139	–	3,754,016
Brendon Riley GE Global Enterprise and Services	**2016**	**1,330,692**	**696,600**	**10,574**	**19,308**	**–**	**33,197**	**324,413**	**1,157,186**	**–**	**3,571,970**
	2015	1,331,217	1,337,550	9,443	18,783	–	33,288	359,672	1,217,553	–	4,307,506
Kevin Russell GE Telstra Retail	**2016**	**194,879**	**102,354**	**–**	**3,482**	**–**	**4,878**	**14,216**	**–**	**–**	**319,809**
	2015	–	–	–	–	–	–	–	–	–	–
Gordon Ballantyne Former GE Telstra Retail	**2016**	**353,797**	**325,013**	**25,143**	**11,367**	**1,324,977**	**8,979**	**(21,522)**	**93,356**	**–**	**2,121,110**
	2015	1,311,249	975,038	214,591	38,751	–	33,288	341,572	690,276	–	3,604,765
Stuart Lee Former GE Telstra Wholesale	**2016**	**766,914**	**890,820**	**5,687**	**14,507**	**–**	**19,215**	**109,697**	**–**	**485,661**	**2,292,501**
	2015	1,021,217	569,205	13,229	18,783	–	25,644	261,370	–	595,326	2,504,774
Karsten Wildberger Former GE Telstra Retail	**2016**	**516,724**	**–**	**33,182**	**9,232**	**–**	**12,933**	**(86,720)**	**(568,224)**	**–**	**(82,873)**
	2015	–	–	–	–	–	–	–	–	–	–
Total current and former KMP	**2016**	**7,891,236**	**4,509,811**	**110,803**	**134,994**	**1,324,977**	**197,365**	**1,329,220**	**3,697,058**	**485,661**	**19,681,125**
	2015	6,632,088	5,879,373	285,969	117,022	–	166,417	1,808,677	3,927,940	615,671	19,433,157

The total for FY15 of $19,433,157 in this table is less than the total for FY15 in the FY15 Remuneration Report of $30,489,168 as it does not include the $7,779,060 for the former CEO, David Thodey and the $3,276,951 for the former GE Business Support & Improvement, Robert Nason, reported in last year's report.

1. Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and Fringe Benefits Tax (FBT).
2. Short term incentives (cash) relates to performance in FY16 and FY15 respectively and is based on actual performance for Telstra and the individual. Mr Ballantyne received the deferred component of his FY15 STI of $325,013 as cash rather than equity as his departure was announced prior to the date of equity allocation under the FY15 STI Deferral Plan, consistent with the provisions of Telstra's STI Policy. This sum was earned during FY15 and paid in FY16.
3. Includes the cost of personal home security services provided by Telstra, the cost of personal use of Telstra products and services and the provision of car parking. In the case of Dr Wildberger it also includes return flight benefits to Germany and assistance with taxation services provided under the terms of his service agreement. As for Mr Ballantyne, the amount includes the value of taxation services as provided under the terms of his service agreement. For Mr Irving and Mr Lee, the amount includes the value of non recourse loans under TESOP 99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 "First-time Adoption of Australian Equivalence to International Financial Reporting Standards"). The value of non-monetary benefits have been grossed up for FBT by the relevant FBT rates.
4. Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives.
5. Termination benefits for Mr Ballantyne of $1,324,977 is comprised of $354,098 payment in lieu of notice and $294,029 termination payment, both as per his service agreement, plus $676,850 pro rata at target for his FY16 STI payment consistent with the provisions of Telstra's STI Policy. The total termination benefit of $1,324,977 was paid in compliance with Part 2D.2, Division 2 of the Corporations Act.
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 Mr Irving, Mr Ballantyne, Mr Lee and Dr Wildberger, 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, "Share-based Payment" accounting expense that was previously recognised as remuneration has been reversed in both FY16 and FY15 if the service condition or the non-market performance condition (FCF ROI) was not met. In relation to LTI Performance Rights, for FY16, this occurred for a portion of the FY14 plan that failed to satisfy the FCF ROI performance target at 30 June 2016, resulting in equity instruments lapsing. Similarly for FY15, this occurred for a portion of the FY13 LTI plan that failed to satisfy the FCF ROI performance target at 30 June 2015, resulting in equity instruments lapsing. Refer to section 3.3 on LTI outcomes for FY16 for further information. For Dr Wildberger, the negative amounts reported include the reversal of current year and prior years' accounting value of STI and LTI instruments forfeited in FY16 as the result of his resignation effective 31 March 2016.
9. This includes the amortised value of Restricted Shares allocated under the FY13 (only applicable to FY15 comparatives), FY14, FY15 and FY16 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 the amortised value of LTI Performance Rights allocated under FY12 (only applicable to FY15 comparatives), FY13, FY14, FY15 and FY16 LTI plans. For Mr Bray only, the FY15 comparative also includes the amortised value of 60,000 Performance Rights which were allocated under a retention plan in FY13 and subsequently vested in July 2015.
11. For Mr Penn, the FY15 comparative relates to the second and final tranche of the Performance Shares allocated in FY12 and subsequently vested in FY15. For Mr Lee, this includes the amortised value of Restricted Shares allocated to him in FY13 (only applicable to FY15 comparatives), FY14, FY15 and FY16 under the GE Telstra Wholesale LTI replacement plans. Refer to section 2.3(d) for further information on the GE Telstra Wholesale LTI replacement plan.

5.2 STI Payments (cash and shares)

Name	Current year grant of STI ($)[2]						
	Year	Maximum potential STI opportunity ($)[1]	75% cash component[3]	25% deferred shares component[4]	% of the maximum potential opportunity earned	% of the maximum potential opportunity forfeited	Total grant of STI ($)
Andrew Penn	**2016**	**4,650,000**	**1,199,700**	**399,900**	**34.4%**	**65.6%**	**1,599,600**
	2015	3,275,753	1,638,696	546,232	66.7%	33.3%	2,184,928
Warwick Bray	**2016**	**2,200,000**	**625,350**	**208,450**	**37.9%**	**62.1%**	**833,800**
	2015	367,671	177,034	59,011	64.2%	35.8%	236,045
Will Irving	**2016**	**360,656**	**205,574**	**68,525**	**76.0%**	**24.0%**	**274,099**
	2015	–	–	–	–	–	–
Kate McKenzie	**2016**	**2,400,000**	**464,400**	**154,800**	**25.8%**	**74.2%**	**619,200**
	2015	2,400,000	1,181,850	393,950	65.7%	34.3%	1,575,800
Brendon Riley	**2016**	**2,700,000**	**696,600**	**232,200**	**34.4%**	**65.6%**	**928,800**
	2015	2,700,000	1,337,550	445,850	66.1%	33.9%	1,783,400
Kevin Russell	**2016**	**396,721**	**102,354**	**34,118**	**34.4%**	**65.6%**	**136,472**
	2015	–	–	–	–	–	–
Gordon Ballantyne[5]	**2016**	**730,328**	**–**	**–**	**n/a**	**n/a**	**–**
	2015	2,700,000	975,038	325,013	48.2%	51.8%	1,300,051
Stuart Lee	**2016**	**1,172,131**	**890,820**	**–**	**76.0%**	**24.0%**	**890,820**
	2015	1,560,000	569,205	189,735	48.7%	51.3%	758,940
Karsten Wildberger	**2016**	**1,051,913**	**–**	**–**	**0.0%**	**100.0%**	**–**
	2015	–	–	–	–	–	–

1. Represents the maximum potential STI specific to their time as Senior Executives for FY16 and FY15 respectively, adjusted for any variation in Fixed Remuneration throughout FY16 and FY15 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 FY16 and FY15 were approved by the Board on 10 August 2016 and 12 August 2015 respectively. These values represent their time as Senior Executives.
3. In accordance with the retirement provisions of Telstra's policy for the FY16 STI plan, no STI deferral will be made for Mr Lee. His FY16 STI payment will be paid as 100% cash. As Kate McKenzie announced her retirement subsequent to the reporting date of 30 June 2016 but prior to the date of equity allocation under the FY16 STI deferral plan, her 25% deferred shares component will be paid as cash.
4. The Restricted Shares awarded are expected to be allocated in November 2016 and are subject to a Restriction Period. Half are restricted for one year and half for two years ending 30 June 2017 and 30 June 2018 respectively, subject to the Senior Executive's continued employment. Refer to 2.3(b) for further details. These values represent their time as Senior Executives and are different to those in table 5.1 which are prepared in accordance with AASB 2 "Share-based Payment".
5. Refer to footnote 5 of table 5.1 for further information on Gordon Ballantyne's termination benefits which includes a payment for his FY16 STI as per Telstra STI policy.

5.3 Summary of LTI plans as at 30 June 2016

Name[1]	Plan	Performance period	Restriction Period end date[2]	Future financial years in which grants may Vest[3]	Accounting value yet to vest[4]	
					Min ($)	Max ($)
Andrew Penn	FY13	1/07/12 – 30/06/15	17/08/2016	FY17	nil	–
	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	nil	288,718
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	nil	814,894
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	nil	1,977,006
Warwick Bray	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	nil	51,090
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	nil	162,978
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	nil	748,287
Will Irving	FY13	1/07/12 – 30/06/15	17/08/2016	FY17	nil	–
	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	nil	189,187
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	nil	193,566
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	nil	242,376
Kate McKenzie	FY13	1/07/12 – 30/06/15	17/08/2016	FY17	nil	–
	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	nil	207,081
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	nil	651,916
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	nil	816,309
Brendon Riley	FY13	1/07/12 – 30/06/15	17/08/2016	FY17	nil	–
	FY14	1/07/13 – 30/06/16	30/06/2017	FY17	nil	268,806
	FY15	1/07/14 – 30/06/17	30/06/2018	FY18	nil	733,403
	FY16	1/07/15 – 30/06/18	30/06/2019	FY19	nil	918,351
Kevin Russell[5]	–	–	–	–	–	–
Total					**nil**	**8,263,968**

1. Mr Lee, Mr Ballantyne and Dr Wildberger have been excluded from the table above as they ceased to be Senior Executives before 30 June 2016.
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. Mr Russell did not participate in any LTI plans during FY16.

5.4 Number and value of LTI and other equity instruments granted, vested and exercised during FY16

			Equity movements					Equity outcomes	
Name	Instrument	Total held at 30 June 2015[1]	Granted during FY16[2]	Value of instruments granted[3]	Vested/ exercised during FY16[4]	Value of instruments exercised[5]	Other changes[6]	Total held at 30 June 2016[7]	Achieved performance target during FY16[8]	Achieved performance target as at 30 June 2016[9]
Andrew Penn	Performance Rights	1,384,006	758,564	$2,636,010	–	–	(214,223)	1,928,347	241,573	744,251
Warwick Bray	Performance Rights	225,760	287,112	$997,714	(60,000)	$364,800	(37,906)	414,966	42,748	42,748
Will Irving[10]	Performance Rights	833,893	–	–	–	–	(140,372)	693,521	158,294	499,445
	TESOP99	400	–	–	–	–	–	400	–	–
Kate McKenzie	Performance Rights	1,408,354	313,212	$1,088,412	(381,955)	$2,371,941	(153,650)	1,185,961	173,266	532,323
Brendon Riley	Performance Rights	1,776,683	352,364	$1,224,465	(502,572)	$3,120,972	(199,449)	1,427,026	224,911	691,684
Kevin Russell	Performance Rights	–	–	–	–	–	–	–	–	–
Gordon Ballantyne	Performance Rights	807,338	–	–	–	–	–	807,338	–	–
Stuart Lee[10]	Restricted Shares	367,243	66,031	$404,770	(116,371)	$708,699	–	316,903	–	–
	TESOP99	400	–	–	–	–	–	400	–	–
Karsten Wildberger	Performance Rights	804,852	143,556	$498,857	–	–	(948,408)	–	–	–

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. Until it has been released from restriction and provided to the executive, it is treated as a Performance Right in this table in accordance with the Australian Accounting Standards. Table 5.6 includes details of such Restricted Shares provided during FY16.

All service and performance conditions for rights granted in previous financial years and that have vested or been exercised in FY16 are summarised in the remuneration report for each relevant year of grant. Each equity instrument granted, vested or exercised in FY16 (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. STI Restricted Shares are excluded from this table, refer to tables 5.2 and 5.6 for further information.

1. For Mr Irving, Mr Russell and Dr Wildberger, the balance reported at 30 June 2015 reflects the number of equity instruments held as at the date on which they started to hold the KMP position. For Mr Irving, the opening balance includes 92,998 Performance Rights granted under the FY16 LTI plan with a fair value of $323,168. Mr Russell did not participate in the FY16 LTI plan.
2. Performance Rights granted relate to the FY16 LTI plan and Restricted Shares granted relate to the FY16 GE Telstra Wholesale Restricted Share LTI plan, made in lieu of participation in the FY15 LTI plan. Both plans were allocated on 9 November 2015. Refer to 2.3(c) for more information.
3. The fair value of the RTSR and FCF ROI Performance Rights granted in FY16 at the grant date of 14 October 2015 is $2.26 and $4.69 respectively. The fair value reflects the valuation approach required by AASB 2 "Share-based Payment" using an option pricing model, as explained in note 5.2 to the financial statements. The fair value of the Restricted Shares granted during FY16 at the grant date of 14 August 2015 was $6.13 and was based on the market value of Telstra shares.
4. Relates to Restricted Shares coming out of restriction or Performance Rights vesting as defined above. Performance Rights vested during FY16 relate to the FY12 LTI plan and for Mr Bray only, includes Performance Rights that were allocated as a part of a retention share plan on 2 July 2012. Restricted Shares vested during FY16 relate to the FY13 GE Telstra Wholesale LTI plan. For more information on our KMP interests in Telstra Shares refer to table 5.6.
5. The value of the equity instruments vested/exercised reflects the market value at the date the instruments vested and were released from restriction.
6. Relates to Performance Rights that lapsed due to the specified performance hurdles or service conditions not being achieved. Performance rights in this column relate to the FY14 LTI plan that was performance tested at the end of FY16 and resulted in 47.0% of the plan lapsing. For Dr Wildberger only, this relates to performance rights lapsing due to service condition not being met.
7. For Mr Lee, Mr Ballantyne and Dr Wildberger, the balance reported at 30 June 2016 reflects the number of equity instruments held as at the date on which they 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 2016 and met the specified performance hurdles. Performance Rights in this column relate to the FY14 LTI plan that was performance tested at the end of FY16 and resulted in 53.0% of the plan to be provided as Restricted Shares in early FY17. Mr Ballantyne has been excluded from this column as he ceased being KMP before 30 June 2016. Following his departure in December 2015, Mr Ballantyne's FY14 LTI plan and FY15 LTI plan allocations remain subject to the original performance conditions and restriction period of the plan terms. 140,570 of his FY14 LTI Performance Rights will vest as Restricted Shares. He will retain 143,616 of his 382,978 FY15 LTI Performance Rights.
9. Relates to instruments that have met the specified performance hurdles as at 30 June 2016. Performance Rights in this column include the FY14 LTI plan that were performance tested at the end of FY15 and will be provided as Restricted Shares in the next financial year. This balance also includes Performance Rights that were performance tested under the FY13 LTI plan at the end of FY15 and have been provided as Restricted Shares during FY16. For more information on our KMP interests in Telstra shares refer to table 5.6.
10. Mr Irving and Mr Lee were 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 5.1 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 or their related parties. As at 30 June 2016, there were no options or Performance Rights vested, vested and exercisable or vested and unexercisable.

5.5 Non-executive Director remuneration

Name	Short term employee benefits			Post–employment benefits	
	Year	Salary and fees ($)[1]	Non-monetary benefits ($)[2]	Superannuation ($)	Total ($)
John P Mullen Chairman	**2016**	**356,285**	**1,106**	**19,308**	**376,699**
	2015	273,217	–	18,783	292,000
Craig W Dunn[3] Director	**2016**	**54,189**	**–**	**4,827**	**59,016**
	2015	–	–	–	–
Peter R Hearl Director	**2016**	**253,225**	**–**	**19,308**	**272,533**
	2015	202,314	–	16,467	218,781
Russell A Higgins AO Director	**2016**	**256,225**	**705**	**19,308**	**276,238**
	2015	251,217	–	18,783	270,000
Chin Hu Lim[5] Director	**2016**	**232,445**	**–**	**4,104**	**236,549**
	2015	230,923	–	4,077	235,000
Nora L Scheinkestel Director	**2016**	**285,692**	**–**	**19,308**	**305,000**
	2015	292,327	–	18,783	311,110
Margaret L Seale Director	**2016**	**250,692**	**–**	**19,308**	**270,000**
	2015	251,217	–	18,783	270,000
Steven M Vamos Director	**2016**	**247,692**	**1,252**	**19,308**	**268,252**
	2015	248,217	–	18,783	267,000
Trae A N Vassallo[3,5] Director	**2016**	**165,292**	**–**	**2,932**	**168,224**
	2015	–	–	–	–
Catherine B Livingstone AO[4] Former Chairman and Director	**2016**	**620,173**	**4,208**	**19,308**	**643,689**
	2015	738,573	7,304	18,783	764,660
Geoffrey A Cousins AM[4] Former Director	**2016**	**70,504**	**–**	**6,094**	**76,598**
	2015	248,217	–	18,783	267,000
John D Zeglis[4,5] Former Director	**2016**	**63,287**	**2,941**	**4,131**	**70,359**
	2015	231,022	–	3,978	235,000
Total	**2016**	**2,855,701**	**10,212**	**157,244**	**3,023,157**
	2015	2,967,244	7,304	156,003	3,130,551

1. Includes fees for membership on Board Committees.
2. For FY16, Telstra has included the cost value of Telstra products and services (such as Foxtel) provided to directors without charge to allow them to famaliarise themselves with Telstra's products and services and with recent technological developments. These sums were not disclosed in FY15 as Telstra applied the exemption for transactions with KMP that are not remuneration and are trivial or domestic in nature (Corporations Regulation 2M.3.03 (3B)). The non-monetary value of $7,304 for FY15 is the value of a car parking benefit. The value of non-monetary benefits have been grossed up for FBT by the relevant FBT rates.
3. Mr Dunn and Ms Vassallo both qualify as KMP from 12 April 2016 and 13 October 2015, respectively, being the dates they were both appointed as non-executive Directors.
4. Mr Cousins AM and Mr Zeglis both retired from the Board on 13 October 2015. Ms Livingstone AO retired from the Board and as Chairman of Directors on 27 April 2016.
5. As Mr Lim, Ms Vassallo and Mr Zeglis are overseas residents, their superannuation contributions for FY16 are less than the contributions for Australian resident non-executive Directors.

5.6 KMP interests in Telstra shares

During FY16, our KMP and their related parties held Telstra shares directly, indirectly or beneficially as follows:

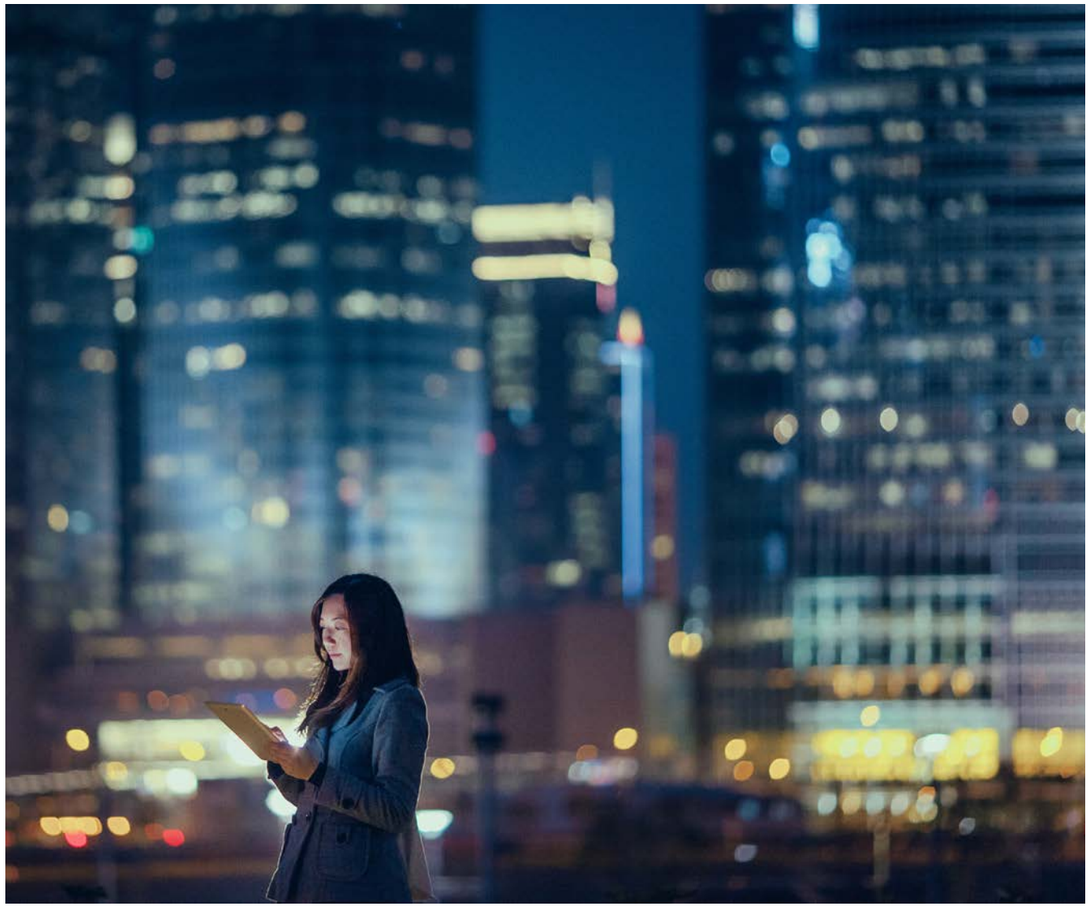
	Total shares held at 30 June 2015[1,2]	Equity instruments vested/ exercised	STI Restricted Shares granted[3]	LTI Restricted Shares received during FY16[4]	Net shares acquired or disposed of and other changes[5]	Total shares held at 30 June 2016[1,6]	Shares held nominally at 30 June 2016[7]
Non-Executive Directors							
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	–
Russell A Higgins AO	88,404	–	–	–	5,159	93,563	93,563
Chin Hu Lim	10,000	–	–	–	10,274	20,274	–
Nora L Scheinkestel	86,504	–	–	–	5,045	91,549	91,549
Margaret L Seale	286,641	–	–	–	(17,101)	269,540	269,540
Steven M Vamos	40,000	–	–	–	–	40,000	40,000
Trae A N Vassallo	–	–	–	–	–	–	–
Geoffrey A Cousins AM	101,765	–	–	–	–	101,765	21,765
Catherine B Livingstone AO	195,816	–	–	–	8,000	203,816	191,275
John D Zeglis	103,993	–	–	–	–	103,993	37,493
Total	**1,003,455**	**–**	**–**	**–**	**11,377**	**1,014,832**	**789,817**
Senior Executives							
Andrew Penn	394,979	–	89,106	502,678	–	986,763	684,745
Warwick Bray	87,578	60,000	29,252	–	–	176,830	72,114
Will Irving	1,160,406	–	–	–	–	1,160,406	429,779
Kate McKenzie	637,555	–	64,264	359,057	(441,586)	619,290	451,592
Brendon Riley	930,448	–	72,732	466,773	(180,000)	1,289,953	1,289,953
Kevin Russell	–	–	–	–	–	–	–
Gordon Ballantyne	334,378	–	–	–	–	334,378	29,710
Stuart Lee	1,255,110	–	30,950	66,031	101	1,352,192	470,507
Karsten Wildberger	72,350	–	38,060	–	(60,441)	49,969	–
Total	**4,872,804**	**60,000**	**324,364**	**1,394,539**	**(681,926)**	**5,969,781**	**3,428,400**
	5,876,259	**60,000**	**324,364**	**1,394,539**	**(670,549)**	**6,984,613**	**4,218,217**

Each equity instrument exercised or granted in FY16 (where applicable) in the table above, was issued by Telstra and resulted or will result in one ordinary Telstra share per equity instrument exercised or granted.

1. Total shareholdings include shares held by our KMP and their related parties. Unless related to our employee share plans, shares acquired or disposed by our KMP and their related parties during FY16 were on an arm's length basis at market price.
2. For those non-executive Directors and Senior Executives who qualified as a KMP during the financial year, the balance as at 30 June 2015 represents shares held as at the date on which they became KMP. Refer to section 1.1 for further information.
3. STI Restricted Shares granted during FY16 relate to the FY15 STI plan which was allocated on 9 November 2015. However, the allocation of Restricted Shares under the FY16 STI plan will be made after the reporting date of 30 June 2016, therefore they have not been included in the table above.
4. This column relates to those equity instruments that have been provided as Restricted Shares during this financial year. For FY16, this relates to the FY13 LTI plan that was performance tested last financial year. However, for Mr Lee only, this relates to the FY16 GE Telstra Wholesale Restricted Share LTI plan.
5. For Ms Seale, refers to shares which she does not hold directly, indirectly or beneficially and which no longer meet the requisite criteria for a related party shareholding.
6. For those non-executive Directors and Senior Executives who ceased as a KMP during the financial year, the balance as at 30 June 2016 represents shares held as at the date on which they ceased being KMP. Refer to section 1.1 for further information.
7. Nominally refers to shares held either indirectly or beneficially by KMP and shares held by their related parties, including (for non-executive Directors) those acquired under Directshare, as well as (for Senior Executives) certain Restricted Shares. These shares are subject to a restriction period, such that the non-executive Director or Senior Executive is restricted from dealing with the shares until the restriction period ends. Refer to note 5.2 to the financial statements for further details.

5.7 Glossary

Average Investment	Average investment over the period is the average of the sum of net debt and shareholders' funds over the entire three year performance period.
Clawback Event	Includes fraud or gross misconduct 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.
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation.
EBITDA for STI	Earnings Before Interest, Tax, Depreciation and Amortisation (excluding profit/loss on land and building disposals).
FCF for LTI	Annual FCF adjusted for interest paid and non-recurring factors such as spectrum licence purchases, acquisitions (i.e. the removal of trading cashflows and purcxe entities acquired), divestments (i.e. 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.
FCF ROI	The average of the annual FCF for LTI over the period of the scheme expressed as a percentage of the Average Investment over the period of the scheme.
FCF for STI	FCF adjusted for spectrum license purchases, acquisitions and divestments.
Fixed Remuneration	Base salary plus company and private salary sacrificed superannuation contributions.
FCF	Free Cashflow from operating and investing activities.
GE	Group Executive
GMD	Group Managing Director
KMP	Key Management Personnel
LTI	Long Term Incentive
NBN Transaction	Agreements with **nbn**™ and the Government in relation to Telstra's participation in the rollout of the **nbn**™ network. This includes the entire Definitive Agreement receipts, any impacts the **nbn**™ has on our existing products, costs associated with connecting customers to the **nbn**™ network and any tax, interest or debt impacts of **nbn**™ related changes in profit or cash. Any **nbn**™ related commercial works are excluded from this definition.
NPS	Net Promoter Score. A non financial measure in Telstra's STI plan. Refer to 3.2(b) for further information.
Performance Right	A right to a Restricted Share at the end of a performance period, subject to the satisfaction of certain performance measures.
Permitted Reason	For both LTI plans and STI Deferral plans death, total and permanent disablement, certain medical conditions, redundancy, and retirement or mutual separation (where notice of retirement is given or the separation agreement is entered six months after the actual date of allocation) are permitted reasons.
Performance Share	A right to a Telstra share at the end of a performance period, subject to the satisfaction of certain performance measures.
Restricted Share	A Telstra share that is subject to a Restriction Period.
Restriction Period	A period during which a Telstra share is subject to a service condition and cannot be traded. Restricted Shares are transferred to a Senior Executive on the first day after the end of the Restriction Period that the Senior Executive is able to deal in shares under Telstra's Securities Trading Policy.
RTSR	Relative Total Shareholder Return



Senior Executive	Refers to the CEO and those executives who are KMP with authority and responsibility for planning, directing and controlling the activities of the company and Group, directly or indirectly.
Service Agreement	A Senior Executive's contract of employment.
SSU	Structural Separation Undertaking
STI	Short Term Incentive
STI Deferral plan	Senior Executives are provided with a percentage of their actual STI payment in the form of Restricted Shares.
Straight-line Vesting	Describes the vesting calculation between target and stretch of an LTI plan, where the payout between two levels is based on equal increments determined by performance.
Total Income	Total Telstra income excluding profit/loss on land and building disposals.
Total Remuneration	The sum of all the fixed and variable components of remuneration as detailed in table 5.1 for Senior Executives, and all the remuneration components as detailed in table 5.5 for non-executive Directors.

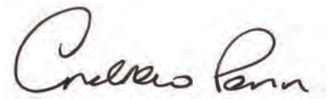
Directors' Report

Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and issued pursuant to section 341(1) of the Corporations Act 2001. As a result, amounts in this 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 11 August 2016 in accordance with a resolution of the Directors.

John P Mullen
Chairman
11 August 2016



Andrew R Penn
Chief Executive Officer and Managing Director
11 August 2016

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

As lead auditor for the audit of Telstra Corporation Limited for the financial year ended 30 June 2016, 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

SJ Ferguson
Partner
Sydney
11 August 2016

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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 2016

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 2016.

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).

Over the past year we have reviewed the content and structure of our financial report in order to make it less complex and more relevant to users. This included:

- a review of content to eliminate immaterial disclosures that may undermine the usefulness of the financial report by obscuring important information
- reorganisation of the notes to the financial statements into separate sections to help users understand our financial performance
- moving our accounting policies and key estimates and judgements used in preparation of the financial statements to the relevant notes in order to provide the appropriate context.

The purpose of these changes is to provide users with financial information that is more understandable and better structured to explain our financial performance and financial position.

This financial report was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 11 August 2016. The Directors have the power to amend and reissue the financial report.

Reading the financials

Section introduction

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

Note and topic summary

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

Narrative table

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

Information panel

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

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Income Statement

For the year ended 30 June 2016

Telstra Group	Note	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Continuing operations			
Income			
Revenue (excluding finance income)	2.2	25,911	25,528
Other income	2.2	1,139	584
		27,050	**26,112**
Expenses			
Labour		5,041	4,782
Goods and services purchased		7,247	6,845
Other expenses	2.3	4,312	3,971
		16,600	**15,598**
Share of net profit from joint ventures and associated entities	6.3	15	19
		16,585	**15,579**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**10,465**	**10,533**
Depreciation and amortisation	2.3	4,155	3,974
Earnings before interest and income tax expense (EBIT)		**6,310**	**6,559**
Finance income	2.2	86	147
Finance costs	2.3	796	846
Net finance costs		**710**	**699**
Profit before income tax expense		**5,600**	**5,860**
Income tax expense	2.4	1,768	1,746
Profit for the year from continuing operations		**3,832**	**4,114**
Discontinued operations			
Profit for the year from discontinued operations	6.4	2,017	191
Profit for the year from continuing and discontinued operations		**5,849**	**4,305**
Attributable to			
Equity holders of Telstra Entity		5,780	4,231
Non-controlling interests		69	74
		5,849	**4,305**
Earnings per share from continuing operations (cents per share)		cents	cents
Basic	2.5	31.6	33.5
Diluted	2.5	31.5	33.5
Earnings per share (cents per share)			
Basic	2.5	47.4	34.5
Diluted	2.5	47.3	34.5

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

Statement of Comprehensive Income

For the year ended 30 June 2016

Telstra Group	Note	Year ended 30 June 2016 $m	Year ended 30 June 2015 $m
Profit for the year from continuing and discontinued operations			
Attributable to equity holders of Telstra Entity		5,780	4,231
Attributable to non-controlling interests		69	74
		5,849	**4,305**
Items that will not be reclassified to the income statement			
Retained profits			
- actuarial (loss)/gain on defined benefit plans attributable to equity holders of Telstra Entity	5.3	(302)	233
- income tax on actuarial gain/(loss) on defined benefit plans		91	(69)
Fair value of equity instruments reserve			
- gains from investments in equity instruments designated at fair value through other comprehensive income		8	7
- income tax on gains from investments in equity instruments		-	(1)
Foreign currency translation reserve			
- translation differences of foreign operations attributable to non-controlling interests		7	48
- translation differences of foreign operations attributable to non-controlling interests derecognised on disposal of controlled entities		(19)	-
		(215)	**218**
Items that may be subsequently reclassified to the income statement			
Foreign currency translation reserve			
- translation differences of foreign operations attributable to equity holders of Telstra Entity		52	196
- income tax on movements in the foreign currency translation reserve		-	9
- translation differences transferred to the income statement on disposal of controlled entities		(78)	2
Cash flow hedging reserve	4.3		
- movements in the cash flow hedging reserve		30	11
- income tax on movements in the cash flow hedging reserve		(9)	(3)
Foreign currency basis spread reserve			
- changes in the value of the foreign currency basis spread		(3)	72
- income tax on movements in the foreign currency basis spread reserve		1	(22)
		(7)	**265**
Total other comprehensive income		**(222)**	**483**
Total comprehensive income for the year		**5,627**	**4,788**
Total comprehensive income attributable to equity holders of Telstra Entity from			
- continuing operations		3,711	4,479
- discontinued operations		1,859	187
		5,570	**4,666**
Total comprehensive income attributable to non-controlling interests		**57**	**122**

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

Statement of Financial Position

As at 30 June 2016

Telstra Group	Note	As at 30 June 2016 $m	As at 30 June 2015 $m
Current assets			
Cash and cash equivalents	2.6	3,550	1,396
Trade and other receivables	3.3	4,737	4,721
Inventories	3.4	557	491
Derivative financial assets	4.3	62	7
Current tax receivables		8	9
Prepayments		426	346
Total current assets		**9,340**	**6,970**
Non-current assets			
Trade and other receivables	3.3	1,293	1,171
Inventories	3.4	29	32
Investments – accounted for using the equity method	6.3	171	201
Investments – other	4.4	394	137
Property, plant and equipment	3.1	20,581	20,450
Intangible assets	3.2	9,229	9,332
Derivative financial assets	4.3	2,180	1,790
Deferred tax assets	2.4	54	66
Defined benefit asset	5.3	15	296
Total non-current assets		**33,946**	**33,475**
Total assets		**43,286**	**40,445**
Current liabilities			
Trade and other payables	3.5	3,948	4,080
Employee benefits	5.1	913	844
Other provisions		92	126
Borrowings	4.3	2,655	1,496
Derivative financial liabilities	4.3	286	214
Current tax payables		176	291
Revenue received in advance		1,118	1,078
Total current liabilities		**9,188**	**8,129**
Non-current liabilities			
Other payables	3.5	66	74
Employee benefits	5.1	169	147
Other provisions		127	137
Borrowings	4.3	14,647	14,138
Derivative financial liabilities	4.3	663	911
Deferred tax liabilities	2.4	1,493	1,558
Defined benefit liability	5.3	4	4
Revenue received in advance		1,022	837
Total non-current liabilities		**18,191**	**17,806**
Total liabilities		**27,379**	**25,935**
Net assets		**15,907**	**14,510**
Equity			
Share capital	4.2	5,167	5,198
Reserves	4.2	62	372
Retained profits		10,642	8,533
Equity available to Telstra Entity shareholders		**15,871**	**14,103**
Non-controlling interests		36	407
Total equity		**15,907**	**14,510**

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

Statement of Cash Flows

For the year ended 30 June 2016

Telstra Group	Note	Year ended 30 June 2016 $m	2015 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		31,163	29,521
Payments to suppliers and employees (inclusive of GST)		(21,179)	(19,621)
Government grants received		182	166
Net placement of deposits by Autohome Inc. that are not part of cash equivalents		(173)	-
Net cash generated by operations		**9,993**	**10,066**
Income taxes paid		(1,860)	(1,755)
Net cash provided by operating activities	2.6	**8,133**	**8,311**
Cash flows from investing activities			
Payments for property, plant and equipment		(3,051)	(2,845)
Payments for intangible assets		(1,143)	(2,257)
Capital expenditure (before investments)		**(4,194)**	**(5,102)**
Payments for business and shares in controlled entities (net of cash acquired)	6.1	(92)	(986)
Payments for joint ventures and associated entities	6.3	(38)	(48)
Payments for other investments		(67)	(70)
Total capital expenditure (including investments)		**(4,391)**	**(6,206)**
Proceeds from sale of property, plant and equipment		470	94
Proceeds from sale of business and shares in controlled entities (net of cash disposed)		1,340	1
Proceeds from sale of other investments		56	3
Distributions received from joint ventures and associated entities		82	184
Interest received		131	167
Other		105	65
Net cash used in investing activities		**(2,207)**	**(5,692)**
Operating cash flows less investing cash flows		**5,926**	**2,619**
Cash flows from financing activities			
Proceeds from borrowings		4,987	1,793
Repayment of borrowings		(3,954)	(3,413)
Repayment of finance lease principal amounts		(101)	(47)
Share buy-back		-	(1,004)
Purchase of shares for employee share plans		(68)	(54)
Proceeds from sale of controlled entity shares		-	333
Finance costs paid		(860)	(916)
Dividends paid to equity holders of Telstra Entity	4.1	(3,787)	(3,699)
Other		6	125
Net cash used in financing activities		**(3,777)**	**(6,882)**
Net increase/(decrease) in cash and cash equivalents		**2,149**	**(4,263)**
Cash and cash equivalents at the beginning of the year		1,396	5,527
Effects of exchange rate changes on cash and cash equivalents		5	132
Cash and cash equivalents at the end of the year	2.6	**3,550**	**1,396**

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

Statement of Changes in Equity

For the year ended 30 June 2016

Telstra Group	Share capital $m	Reserves $m	Retained profits $m	Total $m	Non-control-ling interests $m	Total equity $m
Balance at 1 July 2014	**5,719**	**(228)**	**8,331**	**13,822**	**138**	**13,960**
Profit for the year	-	-	4,231	**4,231**	74	**4,305**
Other comprehensive income	-	271	164	**435**	48	**483**
Total comprehensive income for the year	**-**	**271**	**4,395**	**4,666**	**122**	**4,788**
Dividends	-	-	(3,699)	**(3,699)**	(1)	**(3,700)**
Share buy-back (net of income tax)	(509)	-	(494)	**(1,003)**	-	**(1,003)**
Non-controlling interests on acquisitions	-	-	-	**-**	22	**22**
Non-controlling interests on disposals	-	-	-	**-**	(13)	**(13)**
Transactions with non-controlling interests	-	356	-	**356**	113	**469**
Transfers to the income statement	-	(27)	-	**(27)**	-	**(27)**
Amounts repaid on share loans provided to employees	2	-	-	**2**	-	**2**
Additional shares purchased	(54)	-	-	**(54)**	-	**(54)**
Share-based payments	40	-	-	**40**	26	**66**
Balance at 30 June 2015	**5,198**	**372**	**8,533**	**14,103**	**407**	**14,510**
Profit for the year	-	-	5,780	**5,780**	69	**5,849**
Other comprehensive income	-	1	(211)	**(210)**	(12)	**(222)**
Total comprehensive income for the year	**-**	**1**	**5,569**	**5,570**	**57**	**5,627**
Dividends	-	-	(3,787)	**(3,787)**	(1)	**(3,788)**
Non-controlling interests on disposals	-	-	-	**-**	(466)	**(466)**
Transactions with non-controlling interests	-	16	-	**16**	(13)	**3**
Transfers from reserves to retained profits	-	(327)	327	**-**	-	**-**
Amounts repaid on share loans provided to employees	2	-	-	**2**	-	**2**
Additional shares purchased	(68)	-	-	**(68)**	-	**(68)**
Share-based payments	35	-	-	**35**	52	**87**
Balance at 30 June 2016	**5,167**	**62**	**10,642**	**15,871**	**36**	**15,907**

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
Average estimated customer life	2.2	89
Impact of revised NBN Definitive Agreements (NBN DAs) on sales revenue and other income	2.2	90
Estimating provision for income tax	2.4	93
Unrecognised deferred tax assets	2.4	93
Cash generating units (CGUs) for impairment assessment	3.1	97
Useful lives and residual values of tangible assets	3.1	97
Impact of revised NBN Definitive Agreements (NBN DAs) on our fixed asset base	3.1	98
Determining CGUs and their recoverable amount for impairment assessment	3.2	100
Capitalisation of development costs	3.2	103
Determining fair value of identifiable intangible assets	3.2	103
Useful lives of intangible assets	3.2	103
Estimating allowance for doubtful debts	3.3	104
Estimating net realisable value	3.4	105
Long service leave provision	5.1	127
Defined benefit plan	5.3	135
Accounting for business combinations	6.1	138
Significant influence over our investments	6.3	145
Joint control of our investments	6.3	145

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 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

Our operating segments are reported on a continuing operations basis. This means they exclude results of discontinued operations of the Autohome Group and Sensis Group, which represent a reconciling item between our segment results and the Telstra Group's reported EBITDA. Refer to note 6.4 for further details regarding discontinued operations.

During the period, the following operating segments were created:

- International & New Business, which includes Telstra International Group (excluding the Autohome Group results disclosed as discontinued operations) and Telstra Ventures Group (both previously included in 'All Other' category) and Telstra Health (previously part of Telstra Retail segment)
- Media & Marketing (previously part of Telstra Retail segment), which includes advertising revenue and cash distributions from our joint venture Foxtel. Pay TV/IPTV and digital content revenues and associated costs continue to be reported in Telstra Retail segment.
- Technology Innovation & Strategy, which includes Telstra Software Group (previously part of Global Enterprise and Services segment), Chief Technology Office (previously part of Telstra Operations segment) and Corporate Strategy (previously included in 'All Other' category).

The above operating segments do not meet the disclosure requirements for a reportable segment and therefore, they are reported in the 'All Other' category together with business units that do not qualify as operating segments in their own right.

Segment comparatives have been restated to present a like-for-like view.

We have four reportable segments as follows:

Segment	Operation
Telstra Retail (TR)	• 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 • the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network • online self-service capabilities for customers, from browsing to buying, billing and service requests
Global Enterprise and Services (GES)	• sales and contract management for large business and government customers in Australia and globally • management of Telstra's networks outside Australia • product management for advanced technology solutions and services, including Data and Internet Protocol (IP) networks and Network Applications and Services (NAS) products such as managed network, unified communications, cloud, industry solutions and integrated services in Australia and globally • development of industry vertical solutions based on Telstra's networks and technology
Telstra Operations (TOps)	• overall planning, design, engineering and architecture and construction of Telstra networks, technology and information technology solution • service delivery centre supporting the revenue-generating activities of TR, GES and TW segments, including operational and risk management services • provider of certain network services to nbn co under the revised NBN Definitive Agreements and commercial contracts • provider of various telecommunication services to meet Telstra Universal Service Obligation Performance Agreement (TUSOPA)

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.1 Operating segments (continued)

Segment	Operation
Telstra Wholesale (TW)	• provider of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to other carriers, carriage service providers and internet service providers • provider of certain network assets and services to nbn co under the revised NBN Definitive Agreements

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

In addition, the following 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
- 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 certain expenses in relation to the installation and maintenance of Hybrid Fibre Coaxial (HFC) cable network, while the running costs of the HFC cable network is managed by Media & Marketing operating segment (included in the 'All Other' category)
- domestic promotion and advertising expenses for the Telstra Entity are recorded centrally in the Media & Marketing operating segment (included in the 'All Other' category)
- the TW segment result includes rental revenue and income from the transfer of Telstra assets under the revised NBN Definitive Agreements, 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. Telstra Group's reported total income includes $2,621 million (2015: $495 million) of total income from discontinued operations of the Autohome and Sensis groups. However, our segment results are reported only on a continuing operations basis, therefore the results of the discontinued operations constitute a reconciling item between segment results (i.e. EBITDA contribution from continuing operations) and Telstra Group's reported profit before income tax expense. Refer to note 6.4 for further details on discontinued operations.

Table A Telstra Group	TR $m	GES $m	TOps $m	TW $m	All Other $m	Total $m
	Year ended 30 June 2016					
Continuing operations						
Revenue from external customers	16,590	6,248	342	2,408	323	**25,911**
Other income	66	14	260	214	585	**1,139**
Total income from continuing operations	**16,656**	**6,262**	**602**	**2,622**	**908**	**27,050**
Share of net profit from joint ventures and associated entities					15	**15**
EBITDA contribution from continuing operations	**9,220**	**2,456**	**(2,652)**	**2,426**	**(985)**	**10,465**
Depreciation and amortisation						(4,155)
Telstra Group EBIT from continuing operations						**6,310**
Net finance costs						(710)
Profit before income tax expense from continuing operations						**5,600**
Profit before income tax expense from discontinued operations						2,048
Telstra Group profit before income tax expense						**7,648**
	Year ended 30 June 2015					
Continuing operations						
Revenue from external customers	16,851	5,608	266	2,444	359	**25,528**
Other income	60	10	158	142	214	**584**
Total income from continuing operations	16,911	5,618	424	2,586	573	**26,112**
Share of net profit from joint ventures and associated entities	-	-	-	-	19	**19**
EBITDA contribution from continuing operations	9,591	2,457	(2,733)	2,393	(1,175)	**10,533**
Depreciation and amortisation						(3,974)
Telstra Group EBIT from continuing operations						**6,559**
Net finance costs						(699)
Profit before income tax expense from continuing operations						**5,860**
Profit before income tax expense from discontinued operations						232
Telstra Group profit before income tax expense						**6,092**

Section 2. Our performance (continued)

2.1 Segment information (continued)

2.1.2 Segment results (continued)

EBITDA contribution from continuing operations in 'All Other' segment includes an impairment loss of $246 million from the Ooyala Holdings Group cash generating unit (CGU). Refer to note 3.2.1 for further details.

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 $214 million (2015: $187 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 $18 million (2015: $23 million) of inter-segment expenses treated as external revenue in the TW segment and eliminated in the 'All Other' category.

Information about our geographical operations is presented in Table B.

Table B Telstra Group	Year ended/As at 30 June	
	2016	2015
	$m	$m
Revenue from external customers		
Australian customers	24,608	24,770
Offshore customers excluding discontinued operations	1,303	758
Revenue from external customers from continuing operations	**25,911**	**25,528**
Discontinued operations	827	495
Revenue from external customers from continuing and discontinued operations	**26,738**	**26,023**
Carrying amount of non-current assets		
Located in Australia	27,600	27,225
Located offshore	2,381	2,758
	29,981	**29,983**

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

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

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

Table C Telstra Group	Note	Year ended 30 June	
		2016	2015
		$m	$m
Total income from continuing operations (excluding finance income)			
Fixed		7,029	7,188
Mobile		10,441	10,654
Data & IP		3,789	3,417
Network applications and services		2,763	2,418
Media		974	931
Other sales revenue [1]		838	742
Other revenue [2]	2.2	77	178
Other income	2.2	1,139	584
	2.2	**27,050**	**26,112**

1 Other sales revenue mainly includes nbn co access to our infrastructure and other miscellaneous revenue. It also includes revenue from Telstra Health and Telstra Software.

2 Other revenue primarily consists of distributions from our Foxtel Partnership and rental income.

Section 2. Our performance (continued)

2.2 Income

Telstra Group	Note	Year ended 30 June	
		2016	2015
		$m	$m
Continuing operations			
Sales revenue			
Rendering of services		22,685	22,527
Sale of goods		2,651	2,426
Construction contracts		498	397
		25,834	**25,350**
Other revenue (excluding finance income)		77	178
Total revenue (excluding finance income)		**25,911**	**25,528**
Other income			
Net gain on disposal of property, plant and equipment and intangibles		335	156
Net gain/(loss) on disposal of business and investments		3	(2)
Net foreign currency translation gains		-	21
Government grants		212	138
NBN disconnection fees		503	163
Other miscellaneous income		86	108
		1,139	**584**
Total income (excluding finance income)		**27,050**	**26,112**
Finance income		86	147
Total income from continuing operations		**27,136**	**26,259**
Total income from discontinued operations (excluding finance income)	6.4	2,621	495
Finance income	6.4	15	10
Total income from discontinued operations		**2,636**	**505**

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

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

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Recognition and measurement (continued)

Average estimated customer life

We apply management judgement to determine the estimated customer contract life over which we defer installation and connection fees.

Based on our reviews of historical information and customer trends, the average estimated customer life is 5 years (2015: 5 years).

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)

(c) Sales incentives (continued)

Impact of revised NBN Definitive Agreements (NBN DAs) 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 revised NBN DAs. 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).

Under the revised NBN DAs, we receive Infrastructure Ownership Payments (IOPs) for the transfer of LICs, certain copper and HFC assets and associated passive infrastructure over the duration of the nbn™ network rollout. IOPs are CPI adjusted and linked to the level of nbn™ network rollout progress.

We also provide to nbn co long-term access to certain infrastructure, including dark fibre, exchange rack space, ducts and pits. Payments for access to ducts and pits, i.e. Infrastructure Access Payments (IAPs), are also indexed to CPI, will grow in line with the nbn™ network rollout and will continue for an average contracted period of 30 years.

IOPs and IAPs 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 (addressable market).

For any given period, the IOPs and IAPs amounts ultimately received from nbn co may vary from the amounts recognised in the income statement depending on how quickly the nbn™ network rollout progresses and the final size of the nbn™ network fixed line footprint. A change in the nbn™ network rollout progress and/or the final size of the nbn™ network fixed line footprint could result in a material change to the amount of IOPs and IAPs recognised in the income statement.

We have applied management judgement to determine our best estimate of the amounts of IOPs and IAPs recognised for the financial year 2016. The changes in these estimates in the current year had no material impact on the amounts recognised in the income statement. Should evidence exist in future reporting periods that changes these best estimates, other income and sales revenue will be adjusted in 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	Note	Year ended 30 June 2016 $m	2015 $m
Continuing operations			
Included in our labour expenses are the following			
Employee redundancy		166	113
Share-based payments		38	40
Defined contribution plan expense		252	221
Defined benefit plan expense		60	61
Cost of goods sold		3,204	3,050
Other expenses			
Impairment losses		482	229
Rental expense on operating leases		660	580
Service contracts and other agreements		1,549	1,553
Promotion and advertising		301	314
General and administration		972	983
Other operating expenses		348	312
		4,312	**3,971**
Depreciation and amortisation			
Depreciation of property, plant and equipment		2,957	2,915
Amortisation of intangible assets		1,198	1,059
		4,155	**3,974**
Finance costs			
Interest on borrowings		884	875
Other		(15)	35
		869	**910**
Less: interest on borrowings capitalised		(73)	(64)
		796	**846**
Total expenses from discontinued operations	6.4	**588**	**273**

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

- impairment losses include a $200 million (2015: $189 million) impairment of trade and other receivables and a $246 million (2015: nil) impairment of goodwill. Refer to note 3.2.1.
- interest on borrowings has been capitalised using a capitalisation rate of 5.6 per cent (2015: 6.2 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.

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.

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	
	2016	2015
	$m	$m
Major components of income tax expense		
Current tax expense	1,781	1,722
Deferred tax resulting from the origination and reversal of temporary differences	16	67
Under/(over) provision of tax in prior years	2	(2)
	1,799	**1,787**
Effective income tax rate	23.5%	29.3%
Reconciliation of notional income tax expense to actual income tax expense		
Profit before income tax expense from continuing operations	5,600	5,860
Profit before income tax expense from discontinued operations	2,048	232
Profit before income tax expense	**7,648**	**6,092**
Notional income tax expense calculated at the Australian tax rate of 30% (2015: 30%)	2,294	1,828
Notional income tax expense differs from actual income tax expense due to the tax effect of		
Different tax rates in overseas jurisdictions	(28)	14
Non-taxable and non-deductible items	(470)	(39)
Amended assessments	1	(14)
Under/(over) provision of tax in prior years	2	(2)
Income tax expense on profit from continuing and discontinued operations	**1,799**	**1,787**
Comprising income tax from		
- continuing operations	1,768	1,746
- discontinued operations	31	41
Income tax (benefit)/expense recognised directly in other comprehensive income or equity during the year	(83)	85

The effective income tax rate of 23.5 per cent (2015: 29.3 per cent) was calculated as income tax expense divided by profit before income tax expense from continuing and discontinued operations. The current year effective income tax rate on continuing operations was 31.6 per cent, i.e. at the level of the comparative period. However, there was no tax payable on the accounting gain on the sale of the Autohome Group (i.e. discontinued operation) as the corresponding capital gain for tax purposes was reduced to nil after available capital losses were applied.

Non-taxable and non-deductible items in the current period include:
- the accounting gain on sale of the Autohome Group and related expenses on which there was no tax payable as the corresponding capital gain for tax purposes was reduced to nil after available capital losses were applied ($548 million)
- the non-deductible impairment loss related to the Ooyala Holdings Group CGU ($74 million)
- non-taxable gains on disposal of land and buildings ($25 million)
- tax losses not recognised ($28 million)
- various other items ($1 million).

Section 2. Our performance (continued)

2.4 Income taxes (continued)

2.4.1 Income tax expense (continued)

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 (liabilities)/assets

Table B 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 B Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Deferred tax items recognised in the income statement		
Property, plant and equipment	(1,245)	(1,175)
Intangible assets	(1,011)	(953)
Provision for employee entitlements	364	342
Trade and other payables	112	140
Defined benefit (asset)/liability	93	99
Borrowings and derivative financial instruments	(22)	(17)
Revenue received in advance	169	55
Allowance for doubtful debts	34	29
Provision for workers' compensation and other provisions	17	27
Income tax losses	34	34
Other	(3)	(9)
	(1,458)	**(1,428)**
Deferred tax items recognised in other comprehensive income or equity		
Defined benefit (asset)/liability	(97)	(188)
Financial instruments	115	123
Other	1	1
	19	**(64)**
Net deferred tax liability	**(1,439)**	**(1,492)**
Comprising		
Deferred tax assets	54	66
Deferred tax liabilities	(1,493)	(1,558)
	(1,439)	**(1,492)**

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 2015, our deferred tax asset not recognised in the statement of financial position included an estimate of the capital tax loss on disposal of the Sensis Group in February 2014.

During the financial year 2016, we sought and received a Private Binding Ruling from the Australian Taxation Office which confirmed the cost base of the directories business goodwill disposed of, which increased our capital tax losses on disposal of the Sensis Group.

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

Table C Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Income tax losses	324	316
Capital tax losses	1,349	549
Deductible temporary differences	251	311
	1,924	**1,176**

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.

Current tax expense includes an estimate of the tax payable on 2016 taxable income for the Australian tax consolidated group of $1,742 million (2015: $1,711 million).

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.

Section 2. Our performance (continued)

2.4 Income taxes (continued)

2.4.3 Tax consolidated group (continued)

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 $28 million (2015: $41 million) and payable by the Telstra Entity of $80 million (2015: $73 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 to 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.

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.

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	
	2016	2015
	$m	$m
Earnings used in the calculation of basic and diluted EPS		
Profit for the year attributable to equity holders of Telstra Entity from		
- continuing operations	3,851	4,114
- discontinued operations	1,929	117
	5,780	**4,231**
Weighted average number of ordinary shares	Number of shares (millions)	
Weighted average number of ordinary shares used in the calculation of basic EPS	12,202	12,264
Dilutive effect of certain employee share instruments	14	16
Weighted average number of ordinary shares used in the calculation of diluted EPS	**12,216**	**12,280**
Basic EPS	cents	cents
Basic EPS from continuing operations	31.6	33.5
Basic EPS from discontinued operations	15.8	1.0
Basic EPS	**47.4**	**34.5**
Diluted EPS	cents	cents
Diluted EPS from continuing operations	31.5	33.5
Diluted EPS from discontinued operations	15.8	1.0
Diluted EPS	**47.3**	**34.5**

The weighted average number of ordinary shares used in the calculation of basic EPS is adjusted 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.

In the prior year, the weighted average number of ordinary shares used in the calculation of basic EPS included the effect of the off-market share buy-back completed on 6 October 2014. Refer to note 4.2 for further details.

Section 2. Our performance (continued)

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	
		2016	2015
		$m	$m
Profit for the year from continuing operations		3,832	4,114
Profit for the year from discontinued operations		2,017	191
Profit for the year		**5,849**	**4,305**
Add/(subtract) items classified as investing/financing activities			
Finance income		(101)	(157)
Finance costs		796	846
Distribution from Foxtel Partnership	6.3	(37)	(125)
Net gain on disposal of property, plant and equipment and intangibles		(335)	(156)
Net (gain)/loss on disposal of controlled entities and business		(1,791)	2
Fair value gain on equity instruments		-	(6)
Add/(subtract) non-cash items			
Depreciation and amortisation		4,165	3,983
Share-based payments		87	66
Defined benefit plan expense		60	61
Share of net profit from joint ventures and associated entities	6.3	(15)	(19)
Impairment losses (excluding inventories, trade and other receivables)		266	17
Foreign exchange gain		(1)	(21)
Other		(18)	(39)
Cash movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)			
Increase in trade and other receivables		(389)	(457)
Increase in inventories		(99)	(122)
Increase in prepayments and other assets		(605)	(208)
Increase in trade and other payables		178	165
Increase in revenue received in advance		151	143
(Decrease)/increase in net taxes payable		(69)	32
Increase in provisions		41	1
Net cash provided by operating activities		**8,133**	**8,311**

2.6.2 Cash and cash equivalents

Table B Telstra Group	Year ended 30 June	
	2016	2015
	$m	$m
Cash at bank and on hand	269	581
Bank deposits and negotiable certificates of deposit	3,281	815
Cash and cash equivalents in the statement of cash flows	**3,550**	**1,396**

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 under payables.

Section 3. Our core assets and working capital

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

3.1 Property, plant and equipment

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

Table A Telstra Group	Land and site improve-ments	Buildings	Commu-nication assets	Other plant, equipment and motor vehicles	Total property, plant and equipment
	$m	$m	$m	$m	$m
Net book value at 1 July 2014	**51**	**603**	**18,706**	**482**	**19,842**
- additions	-	82	2,322	201	**2,605**
- acquisitions of controlled entities	5	9	776	27	**817**
- disposals	(2)	(2)	(3)	(2)	**(9)**
- impairment losses	-	(3)	(7)	-	**(10)**
- depreciation expenses from continuing operations	-	(64)	(2,721)	(130)	**(2,915)**
- depreciation expenses from discontinued operations	-	-	-	(7)	**(7)**
- net foreign currency exchange differences	-	12	40	15	**67**
- transfers	(2)	10	69	(17)	**60**
Net book value at 30 June 2015	**52**	**647**	**19,182**	**569**	**20,450**
At cost	52	1,267	62,156	1,854	**65,329**
Accumulated depreciation and impairment	-	(620)	(42,974)	(1,285)	**(44,879)**
Net book value at 1 July 2015	**52**	**647**	**19,182**	**569**	**20,450**
- additions	-	57	2,913	118	**3,088**
- acquisitions of controlled entities	-	-	24	1	**25**
- disposals	-	-	(18)	-	**(18)**
- disposals though sale of controlled entities	-	(3)	(1)	(17)	**(21)**
- impairment losses	-	-	(11)	(2)	**(13)**
- depreciation expenses from continuing operations	-	(89)	(2,710)	(158)	**(2,957)**
- depreciation expenses from discontinued operations	-	-	-	(9)	**(9)**
- net foreign currency exchange differences	-	(7)	37	(4)	**26**
- transfers	-	16	13	(19)	**10**
Net book value at 30 June 2016	**52**	**621**	**19,429**	**479**	**20,581**
At cost	52	1,277	61,755	1,876	**64,960**
Accumulated depreciation and impairment	-	(656)	(42,326)	(1,397)	**(44,379)**

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 $42 million (2015: $40 million) of capitalised borrowing costs directly attributable to qualifying assets
- buildings include leasehold improvements and a $49 million (2015: $58 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 2016, we had property, plant and equipment under construction amounting to $795 million (2015: $598 million). As these assets were not installed and ready for use, no depreciation has been charged on these amounts.

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.

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

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.

Cash generating units (CGUs) for impairment assessment

We apply management judgement to establish our CGUs.

We have determined that under the revised NBN Definitive Agreements (NBN DAs) our ubiquitous telecommunications network now also includes the Hybrid Fibre Coaxial (HFC) cable network, which used to be treated as a separate CGU for impairment assessment. This change resulted mainly from the fact that under the revised NBN DAs 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 2016 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	
	2016	2015
Buildings	4 - 48	4 - 52
Communication assets	2 - 57	2 - 53
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 as 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 an $84 million (2015: $166 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 revised NBN Definitive Agreements (NBN DAs) on our fixed asset base

Under the revised NBN DAs, we need to progressively transfer the relevant Telstra assets to nbn co. These assets include lead-in conduits (LICs), certain copper and HFC assets and associated passive infrastructure (being infrastructure that supports the relevant copper and HFC assets).

As at 30 June 2016, the net book value of assets that are in scope to be potentially transferred to nbn co under the revised NBN DAs amounted to $1,004 million. This represented 4.9 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 2016, we have applied management judgement in assessing the useful lives of these assets based on our best estimate of the expected consequential impacts of the nbn™ network rollout. The result of our assessment is included in the net effect of our useful lives assessment.

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

(c) Leased property, plant and equipment (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.

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

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

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 cash generating units (CGUs) with their recoverable amounts determined using a 'value in use' calculation. The value in use calculations use key assumptions such as cash flow forecasts, discount rates and terminal growth rates.

Table A
Telstra Group

	Goodwill	Software assets	Licences	Deferred expen-diture	Other intan-gibles	Total intan-gible assets
	$m	$m	$m	$m	$m	$m
Net book value at 1 July 2014	**395**	**4,265**	**816**	**843**	**63**	**6,382**
- additions	-	1,035	1,336	950	1	**3,322**
- acquisition of business	-	2	-	-	2	**4**
- acquisition of controlled entities	1,173	130	12	-	164	**1,479**
- impairment losses	-	(4)	-	-	(1)	**(5)**
- amortisation expense from continuing operations	-	(917)	(128)	(838)	(14)	**(1,897)**
- amortisation expense from discontinued operations	-	(2)	-	-	-	**(2)**
- net foreign currency exchange differences	84	21	1	-	3	**109**
- transfers	-	(65)	5	-	-	**(60)**
Net book value at 30 June 2015	**1,652**	**4,465**	**2,042**	**955**	**218**	**9,332**
At cost	1,652	9,518	2,441	1,823	330	**15,764**
Accumulated amortisation and impairment	-	(5,053)	(399)	(868)	(112)	**(6,432)**
Net book value at 1 July 2015	**1,652**	**4,465**	**2,042**	**955**	**218**	**9,332**
- additions	-	1,194	7	1,056	1	**2,258**
- acquisition of business	3	1	-	-	4	**8**
- acquisition of controlled entities	61	5	-	-	19	**85**
- impairment losses from continuing operations	(246)	(4)	-	-	-	**(250)**
- amortisation expense from continuing operations	-	(1,003)	(168)	(868)	(27)	**(2,066)**
- amortisation expense from discontinued operations	-	(1)	-	-	-	**(1)**
- disposal through sale of controlled entities	(137)	(2)	-	-	(7)	**(146)**
- net foreign currency exchange differences	13	3	-	-	3	**19**
- transfers	-	2	(12)	-	-	**(10)**
Net book value at 30 June 2016	**1,346**	**4,660**	**1,869**	**1,143**	**211**	**9,229**
At cost	1,592	10,431	2,436	2,186	336	**16,981**
Accumulated amortisation and impairment	(246)	(5,771)	(567)	(1,043)	(125)	**(7,752)**

During the financial year 2016 the following transactions impacted our goodwill balance:

- we recognised $64 million (2015: $1,173 million) goodwill on acquisition of controlled entities and businesses, including $31 million for Readify Limited and $29 million for The Silverlining Consulting Group Pty Ltd known as the Kloud Group (2015: $614 million for Pacnet Limited and its controlled entities and $317 million for Ooyala Inc.)
- we recognised a $246 million impairment loss against goodwill for the Ooyala Holdings Group CGU. Refer to note 3.2.1 for further details
- we disposed of $137 million of goodwill, of which $130 million related to Autohome Inc. and its controlled entities (the Autohome Group). Refer to note 6.4 for further details on the sale of the Autohome Group.

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 2016, we had software assets under development amounting to $438 million (2015: $335 million). As these assets were not installed and ready for use, no amortisation has been charged on the amounts
- software assets include $31 million (2015: $24 million) of capitalised borrowing costs directly attributable to qualifying assets
- software assets mostly comprise internally generated assets
- licences include $1,321 million for the 700 MHz, 1800 MHz and 2.5GHz spectrum licences acquired in the financial year 2015.

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 exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. 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, with the exception of Autohome Group, whose recoverable amount in the prior reporting period was determined using fair value less cost of disposal.

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.

During the financial year 2016, we recognised a $246 million impairment loss against goodwill for the Ooyala Holdings Group 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	
	2016 $m	2015 $m
CGU		
GES International Group [1]	629	-
Pacnet Group [1]	-	619
Ooyala Holdings Group [1]	251	-
Ooyala Group [1]	-	361
Autohome Group [1]	-	130
Telstra Enterprise & Services Group	122	122
Telstra UK Group [1]	66	74
Videoplaza Group [1]	-	73
Nativ Group [1]	-	58
O2 Networks Group	57	57
Readify Group [2]	31	-
Kloud Group [2]	29	-
Fred IT Group	21	21
HealthConnex Group	17	16
1300 Australia Group	16	16
Other	107	105
	1,346	**1,652**

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 during the period. Refer to note 6.1 for further details on acquisitions during the year.

2 Refer to note 6.1 for further details on acquisitions during the year. There are no indicators of impairment in relation to these assets since their acquisition dates.

The following paragraphs detail changes in our CGUs with allocated goodwill:

- during the financial year 2016, the operations of Pacnet Group integrated into the GES International Group (GESI) to generate combined cash inflows for the group. Prior to their integration, the Pacnet Group was treated and assessed individually
- during the financial year 2016, we combined the businesses of Ooyala, Videoplaza and Nativ. The assets of these businesses are being used to generate combined cash inflows for the Ooyala Holdings Group. Prior to their integration, the businesses were treated and assessed individually. At 30 June, a $246 million impairment loss was recognised
- on 23 June 2016, we disposed of the controlling interest in our Autohome Group. Refer to note 6.4 for further details
- the Telstra Enterprise and Services Group includes goodwill from past acquisitions integrated into this business.

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

3.2 Goodwill and other intangible assets (continued)

3.2.1 Impairment assessment (continued)

(b) Value in use

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite useful life intangible assets have been allocated:

Table C
Telstra Group

	Discount rate		Terminal value growth rate	
	2016 %	2015 %	2016 %	2015 %
GES International Group	9.0	n/a	3.0	n/a
Ooyala Holdings Group	24.0	n/a	3.0	n/a
Ooyala Group	-	11.1	-	3.0
Telstra Enterprise & Services Group	13.1	13.7	3.0	3.0
Telstra UK Group	6.6	6.6	3.0	3.0
O2 Networks Group	10.7	11.1	3.0	3.0
Fred IT Group	13.6	10.4	3.0	3.0
HealthConnex Group	14.4	10.6	3.0	3.0
1300 Australia Group	9.9	10.4	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.

As at 30 June 2016, the carrying value of our assets in the Ooyala Holdings Group CGU was assessed for impairment. The recoverable amount of the CGU was determined using a value in use calculation, and it was lower than the carrying value. As a result, we recognised in the income statement a $246 million impairment loss against goodwill of this CGU, reflecting changing dynamics in the intelligent video market and business performance. This resulted in an increase in the discount rate. Our value in use assumptions take into consideration the factors noted above.

Sensitivity analysis also examined the effect of a change in a key assumption on the other tested CGUs. The discount rate would need to increase by 100 basis points (2015: 210 basis points) or the terminal value growth rate would need to be 0.2 per cent (2015: 0.5 per cent) before the recoverable amount of any of the CGUs would equal its carrying value.

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

3.2 Goodwill and other intangible assets (continued)

3.2.2 Recognition and measurement

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

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

3.2 Goodwill and other intangible assets (continued)

3.2.2 Recognition and measurement (continued)

Capitalisation of development costs

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

Determining fair value of identifiable intangible assets

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

(a) Amortisation

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

Table D Telstra Group	Expected benefit (years) As at 30 June	
	2016	2015
Software assets	8	8
Licences	15	15
Deferred expenditure	6	4
Other acquired intangibles	10	9

Useful lives of intangible assets

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

We review the useful lives of our identifiable intangible assets each year. The net effect of the reassessment of useful lives for the financial year 2016 was a $67 million (2015: $51 million) decrease in amortisation expense.

3.3 Trade and other receivables

3.3.1 Current and non-current trade and other receivables

Table A Telstra Group	Note	As at 30 June 2016 $m	 2015 $m
Current			
Trade receivables		3,343	3,438
Allowance for doubtful debts		(134)	(113)
		3,209	**3,325**
Finance lease receivables		111	102
Accrued revenue		1,324	1,172
Other receivables		93	122
		1,528	**1,396**
		4,737	**4,721**
Non-current			
Trade receivables		476	476
Amounts owed by joint ventures and associated entities	6.3	411	452
Finance lease receivables		233	201
Other receivables		173	42
		1,293	**1,171**

(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. All credit and recovery risk associated with trade receivables has been provided for.

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

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

3.3 Trade and other receivables (continued)

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

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

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

Table B Telstra Group	As at 30 June			
	2016		2015	
	Gross	Allow-ance	Gross	Allow-ance
	$m	$m	$m	$m
Not past due	2,704	(15)	2,727	(13)
Past due 0 - 30 days	710	(10)	732	(13)
Past due 31 - 60 days	159	(8)	197	(6)
Past due 61 - 90 days	74	(7)	75	(7)
Past due 91 - 120 days	49	(23)	62	(12)
Past 120 days	123	(71)	121	(62)
	3,819	**(134)**	**3,914**	**(113)**

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 2016, trade receivables with a carrying amount of $996 million (2015: $1,087 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 2016, 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	
	2016	2015
	$m	$m
Opening balance	**(113)**	**(120)**
- additional allowance from continuing operations	(70)	(55)
- amount used	46	52
- amount reversed from continuing operations	3	12
- foreign currency exchange differences	-	(2)
Closing balance	**(134)**	**(113)**

Estimating allowance for doubtful debts

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

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

(b) Finance lease receivables

We enter into finance lease arrangements predominantly for communication assets dedicated to solutions management that we provide to our customers. The weighted average term of these finance leases is 5.5 years (2015: 5.3 years). Table D presents detailed information about our finance lease receivables.

Table D Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Amounts receivable under finance leases		
Within 1 year	130	116
Within 1 to 5 years	195	182
After 5 years	86	55
Total minimum lease receivables	**411**	**353**
Less unearned finance income	(67)	(50)
Present value of minimum lease receivables	**344**	**303**
Included in the financial statements as		
Current finance lease receivables	111	102
Non-current finance lease receivables	233	201
	344	**303**

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average contracted effective interest rate was 5.8 per cent (2015: 6.0 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.

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

3.3 Trade and other receivables (continued)

3.3.2 Recognition and measurement (continued)

(a) Leased property, plant and equipment (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.

Rental 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	
	2016	2015
	$m	$m
Current		
Construction work in progress		
Contract costs incurred and recognised profits	510	655
Progress billings	(391)	(561)
	119	**94**
Raw materials recorded at cost	113	86
Finished goods recorded at cost	228	234
Finished goods recorded at net realisable value	97	77
	438	**397**
	557	**491**
Non-current		
Finished goods recorded at net realisable value	29	32
Total current and non-current inventories	**586**	**523**

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.

(b) Construction contracts

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

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

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

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

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

3.5 Trade and other payables

Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Current		
Trade creditors	1,465	1,256
Accrued expenses	1,265	1,675
Accrued capital expenditure	279	271
Accrued interest	305	313
Contingent consideration	11	20
Other creditors	623	545
	3,948	**4,080**
Non-current		
Contingent consideration	5	4
Other creditors	61	70
	66	**74**

Trade creditors and other creditors are non-interest bearing liabilities. Our payment terms vary but we generally make payments 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

Dividends paid during the financial year 2016 included the previous year final dividend and the current year interim dividend.

This note also provides information about the current year final dividend to be paid. No provision for the current year final dividend has been raised as it was not determined or publicly recommended by the Board as at 30 June 2016.

Table A provides details about dividends paid during the financial year 2016.

Table A Telstra Entity	Year ended 30 June			
	2016	2015	2016	2015
	$m	$m	cents	cents
Dividends paid				
Previous year final dividend paid	1,893	1,866	15.5	15.0
Interim dividend paid	1,894	1,833	15.5	15.0
Total dividends paid	**3,787**	**3,699**	**31.0**	**30.0**

On 11 August 2016, the Directors of Telstra Corporation Limited resolved to pay a fully franked final dividend of 15.5 cents per ordinary share. The record date for the final dividend will be 25 August 2016, with payment being made on 23 September 2016. On 24 August 2016, shares will trade excluding the entitlement to the dividend.

The final dividend will be fully franked at a tax rate of 30 per cent. As at 30 June 2016 the final dividend for the financial year 2016 was not determined or publicly recommended by the Board, therefore no provision for the dividend has been recorded in the statement of financial position. However, provision for dividend payable amounting to $1,893 million has been raised as at the date of resolution.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the final dividend, except for $812 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Board has determined that the Dividend Reinvestment Plan (DRP) will continue to operate for the final dividend for the financial year 2016 to be paid in September 2016. The election date for participation in the DRP is 26 August 2016.

During the financial year 2015, we completed an off-market share buy-back, which included a fully franked dividend component of $494 million. Refer to note 4.2 for further details.

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

Table B Telstra Group	Year ended 30 June	
	2016	2015
	$m	$m
Franking credits available for use in subsequent reporting periods		
Franking account balance	234	32
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)	158	232
	392	**264**

We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our 2016 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	
	2016	2015
	$m	$m
Contributed equity	5,284	5,284
Share loan to employees	(13)	(15)
Shares held by employee share plans	(109)	(93)
Net services received under employee share plans	5	22
	5,167	**5,198**

Section 4. Our capital and risk management (continued)

4.2 Equity (continued)

4.2.1 Share capital (continued)

(a) Contributed equity

We have 12,225,655,836 (2015: 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.

On 2 May 2016, Telstra announced a capital management program of up to approximately $1.5 billion. The details of the capital management program are disclosed in note 7.5.

In the prior financial year we completed an off-market share buy-back of 217,418,521 ordinary shares (or 1.75 per cent of our total shares on issue on 6 October 2014). The ordinary shares were bought back at $4.60 per share, which represented a 14 per cent discount to the Telstra market price and comprised a fully franked dividend component of $2.27 per share (or $494 million in total) and a capital component of $2.33 per share (or $506 million in total). The shares bought back were subsequently cancelled. The total cost of the share buy-back amounted to $1,003 million, including $3 million of associated transaction costs (net of income tax).

(b) Shares held by employee share plans

As at 30 June 2016, the number of shares held by employee share plans totalled 19,058,155 (2015: 17,584,122). During the financial year, 11,009,677 shares were acquired on market by Telstra Growthshare Trust at an average price of $6.15 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 trans-lation reserve	Cash flow hedge reserve	Foreign currency basis spread reserve	Fair value of equity instru-ments reserve	General reserve	Total reserves
	$m	$m	$m	$m	$m	$m
Balance at 1 July 2014	**(86)**	**(122)**	**-**	**-**	**(20)**	**(228)**
Other comprehensive income	207	8	50	6	-	**271**
Transfers to income statement	-	-	-	-	(27)	**(27)**
Transactions with non-controlling interests	-	-	-	-	356	**356**
Balance at 30 June 2015	**121**	**(114)**	**50**	**6**	**309**	**372**
Other comprehensive income	(26)	21	(2)	8	-	**1**
Transactions with non-controlling interests	-	-	-	-	16	**16**
Transfer from general reserve to retained profits	-	-	-	-	(327)	**(327)**
Balance at 30 June 2016	**95**	**(93)**	**48**	**14**	**(2)**	**62**

Section 4. Our capital and risk management (continued)

4.2 Equity (continued)

4.2.2 Reserves (continued)

During the financial year 2016 due to issue of shares to employees, we decreased our ownership of Autohome Inc. from 54.3 per cent at 30 June 2015 to 53.9 per cent prior to Autohome Inc. disposal.

On 23 June 2016, we disposed of 47.4 per cent of our 53.9 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. Refer to note 6.4 for further details.

In the prior financial year, we decreased our ownership percentage of Autohome Inc. shares from 63.2 per cent to 54.3 per cent due to Autohome Inc.'s share buy-back of $333 million, subsequent initial public offering of $116 million and employee share issues. None of these transactions resulted in a change in control; therefore their impact has been recognised in the general reserve in our equity.

Table below details the nature and purpose of our reserve balances.

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

4.2.3 Recognition and measurement

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

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

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

Net services received under employee share plans (i.e. share-based payments) increase our share capital balance. 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.

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 (2015: 50 to 70 per cent) and it is calculated as:

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 risk.

For further discussion on financial risks, refer to note 4.4.

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

Table A Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Borrowings	(17,302)	(15,634)
Derivative financial instruments	1,293	672
Cash and cash equivalents	3,550	1,396
Net debt	**(12,459)**	**(13,566)**

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	
	2016	2015
	$m	$m
Opening net debt	**(13,566)**	**(10,521)**
Debt issuance	(1,970)	(1,398)
Net commercial paper	(514)	220
Debt repayments	1,451	2,798
Finance lease repayments	101	47
Net cash (inflow)/outflow	**(932)**	**1,667**
Fair value (losses)/gains impacting		
Equity	33	85
Other expenses	(2)	22
Finance costs	(2)	(26)
Other non-cash movements		
Debt on acquisition of Pacnet Limited	-	(580)
Finance lease additions	(144)	(82)
Total (increase)/decrease in gross debt	**(1,047)**	**1,086**
Net increase/(decrease) in cash and cash equivalents (includes foreign exchange differences)	2,154	(4,131)
Total decrease/(increase) in net debt	**1,107**	**(3,045)**
Closing net debt	**(12,459)**	**(13,566)**
Total equity	(15,907)	(14,510)
Total capital	**(28,366)**	**(28,076)**
	%	%
Gearing ratio	43.9	48.3

(a) Borrowings and repayment of debt

During the year ended 30 June 2016, we repaid $1,415 million of term debt (Australian dollar equivalent) using existing cash balances and bank facilities. This included:

- $781 million Euro bond
- $203 million United States dollar private placements
- $431 million Japanese yen private placements.

The above includes the cash settlement of derivative financial instruments used to hedge the borrowings.

We also repaid $36 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)

Term debt issuance during the period included:

- On 14 April 2016 we issued a $1,133 million (EUR 750 million) bond which is repayable on 14 April 2026. The bond has a coupon of 1.125 per cent. The proceeds are fully hedged and were swapped back into Australian dollars
- On 16 September 2015 we raised a $500 million Australian dollar bond maturing on 16 September 2022
- On 24 July 2015 we drew down a $300 million term loan note which is repayable on 15 September 2022.

In the financial year 2016 we also drew down $1,850 million under our bank loan facilities in varying tranches. All amounts were repaid as at 30 June 2016, including a $200 million bilateral loan facility drawn on 23 September 2015. 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	Carrying value	Fair value	Carrying value	Fair value
	As at 30 June 2016		As at 30 June 2015	
	$m	$m	$m	$m
Current borrowings				
Domestic borrowings	(395)	(397)	(37)	(36)
Offshore borrowings	(1,492)	(1,546)	(1,211)	(1,225)
Bank loans	(2)	(2)	(1)	(1)
Commercial paper	(648)	(648)	(154)	(154)
Finance leases	(118)	(118)	(93)	(93)
	(2,655)	**(2,711)**	**(1,496)**	**(1,509)**
Non-current borrowings				
Domestic borrowings	(2,463)	(2,690)	(2,315)	(2,508)
Offshore borrowings	(11,605)	(12,917)	(11,562)	(12,697)
Bank loans	(310)	(304)	(10)	(10)
Finance leases	(269)	(269)	(251)	(251)
	(14,647)	**(16,180)**	**(14,138)**	**(15,466)**
Total borrowings	**(17,302)**	**(18,891)**	**(15,634)**	**(16,975)**

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.2 Borrowings (continued)

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

Generally all our borrowings are unsecured, except for finance leases as noted above. No assets are pledged as security for our borrowings. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities and other organisations.

The notional (face) value of our total borrowings is $16,874 million (2015:$15,316 million).

(a) Maturity of borrowings

We reduce refinancing risk by ensuring that our borrowings mature at different periods. Refer to Table G in note 4.4 which shows 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
Initial recognition and measurement	All loans and borrowings are initially recorded at fair value, which typically reflects the proceeds received, net of directly attributable transaction costs.
Subsequent measurement	After initial recognition, all interest bearing loans and borrowings are stated at amortised cost, using the effective interest method. Any difference between proceeds received net of direct transaction costs and the amount payable at maturity is recognised over the term of the borrowing using the effective interest method. Loans or borrowings that are in designated fair value hedge relationships are adjusted for fair value movements attributable to the hedged risk. Refer note 4.3.3 for our hedging policies.
Impact to the income statement	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 accounting policy.

(c) Finance costs

Interest on our borrowings is shown in Table D. 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	
	2016	2015
	$m	$m
Interest expense on		
Domestic borrowings	138	151
Offshore borrowings	666	670
Bank loans	17	2
Commercial paper	27	16
Finance leases	24	21
Other	12	15
Total interest on borrowings	**884**	**875**

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 instrument.

Table E Telstra Group	As at 30 June 2016		As at 30 June 2015	
	Assets	Liabilities	Assets	Liabilities
	$m	$m	$m	$m
Current derivative financial instruments				
Cross currency swaps	-	(192)	-	(201)
Interest rate swaps	49	(56)	2	(11)
Forward foreign exchange contracts	9	(34)	5	(2)
Foreign exchange options	4	(4)	-	-
	62	**(286)**	**7**	**(214)**
Non-current derivative financial instruments				
Cross currency swaps	1,259	(82)	994	(300)
Interest rate swaps	921	(581)	796	(611)
	2,180	**(663)**	**1,790**	**(911)**
Total derivative financial instruments	**2,242**	**(949)**	**1,797**	**(1,125)**

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. These are classified as current assets or liabilities.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives (continued)

(a) Recognition and measurement (continued)

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

(b) Utilisation of derivatives to manage risks

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

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

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

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives (continued)

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

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

Table F Telstra Group	Carrying value	Notional value	Carrying value	Notional value
	As at 30 June 2016		As at 30 June 2015	
	$m	$m	$m	$m
Borrowings by hedge designation				
Fair value hedges	(5,530)	(4,904)	(6,294)	(5,779)
Cash flow hedges	(8,674)	(8,717)	(7,597)	(7,635)
Not in a hedge relationship	(3,098)	(3,253)	(1,743)	(1,902)
Total borrowings	**(17,302)**	**(16,874)**	**(15,634)**	**(15,316)**
Derivative assets by hedge designation				
Fair value hedges	988	482	769	399
Cash flow hedges	1,243	670	1,025	547
Not in a hedge relationship	11	9	3	3
Total derivative assets	**2,242**	**1,161**	**1,797**	**949**
Derivative liabilities by hedge designation				
Fair value hedges	-	-	(69)	(73)
Cash flow hedges	(915)	(216)	(1,056)	(423)
Not in a hedge relationship	(34)	(36)	-	-
Total derivative liabilities	**(949)**	**(252)**	**(1,125)**	**(496)**
Total gross debt	**(16,009)**	**(15,965)**	**(14,962)**	**(14,863)**

(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	
	2016	2015
	$m	$m
Notional value as at 30 June	(4,904)	(5,779)
Unamortised discounts/premiums	22	28
Amortised cost	**(4,882)**	**(5,751)**
Cumulative fair value hedge adjustments	(648)	(543)
Carrying amount	**(5,530)**	**(6,294)**

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	
	2016	2015
	(Gain)/ loss	(Gain)/ loss
	$m	$m
Re-measurement of hedged item used to measure ineffectiveness	274	184
Change in value of hedging instruments	(267)	(178)
Net loss before tax from ineffectiveness	**7**	**6**
Net loss after tax	5	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)

(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	
	2016	2015
	$m	$m
Cash flow hedging reserve		
- changes in fair value of cash flow hedges	32	91
- changes in fair value transferred to other expenses	(196)	(277)
- changes in fair value transferred to goods and services purchased	(7)	(13)
- changes in fair value transferred to finance costs	204	212
- changes in fair value transferred to property, plant and equipment	(3)	(2)
- income tax on movements in the cash flow hedging reserve	(9)	(3)
	21	**8**

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	
	2016	2015
	$m	$m
Non-capital items		
Within 1 year	(956)	(801)
Capital items		
Within 1 year	(162)	(135)
After 1 year	-	(2)
Borrowings		
Within 1 year	(2,068)	(539)
Within 1 to 5 years	(2,477)	(4,168)
After 5 years	(5,672)	(4,559)
	(11,335)	**(10,204)**

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) Net investment hedges

During the period we used derivatives (forward foreign exchange contracts) to hedge a portion of the translation risk of the Autohome Group. This was formally designated as a net investment hedge meaning that the foreign exchange movement on the forward foreign exchange contract were transferred to equity to offset the gains or losses on translation of the net investment in the Autohome Group into Australian dollars.

(b) 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.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.4 Other hedge accounting policies (continued)

(c) 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
- other financial liabilities or other host contracts are treated as separate financial instruments when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

4.4 Financial instruments and risk management

Our underlying business activities result in exposure to operational risks and a number of financial risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks in order to reduce volatility on our financial performance and to support the delivery of our financial targets. Financial risk management is carried out centrally by our treasury department under policies approved by the Board.

This note summarises how we manage these financial risks.

All our financial instruments are accounted for under AASB 9 (2013): 'Financial instruments', which we early adopted in the prior financial year.

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 (refer also 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 year to June using interest rate swaps, by reporting our fixed to floating ratio pre and post the impact of derivatives.

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)

(a) Exposure (continued)

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 which at 30 June 2016 primarily includes a Euro €1 billion which matures in March 2017 and has been swapped into fixed Australian dollars (AUD carrying value $1,492 million).

Table A **Telstra Group**	Note	Pre-hedge borrowings	Post-hedge borrowings	Pre-hedge borrowings	Post-hedge borrowings
		As at 30 June 2016		As at 30 June 2015	
		$m	$m	$m	$m
Fixed rate		(16,069)	(10,813)	(15,202)	(9,189)
Floating rate		(1,233)	(6,489)	(432)	(6,445)
Total borrowings	4.3	**(17,302)**	**(17,302)**	**(15,634)**	**(15,634)**

Table B shows our financial assets and liabilities with exposure to interest rate risk at 30 June. The classification between fixed and floating takes into account applicable hedge instruments. As we have currently swapped all borrowings into Australian dollars, and actively manage other foreign exchange positions (refer note 4.4.2), we have not included balances exposed to foreign interest rates as they are not significant.

Table B **Telstra Group**	As at 30 June 2016		As at 30 June 2015	
	Principal/ notional	Weighted average	Principal/ notional	Weighted average
	$m	%	$m	%
Financial assets				
Fixed rate				
Finance lease receivable	344	5.84	303	6.02
Amounts owed by joint ventures	411	10.50	451	12.00
Variable rate				
Cash and cash equivalents	3,377	2.49	502	2.32
Financial liabilities				
Fixed rate				
Post hedge borrowings	(8,260)	6.48	(7,124)	6.66
Domestic borrowings (including bank loans)	(1,560)	6.12	(1,061)	7.12
Loans from associates	(35)	8.00	(34)	8.00
Offshore borrowings	(140)	6.10	(140)	6.10
Finance lease payable	(323)	5.85	(272)	5.79
Weighted average rate on fixed rate liabilities		**6.41**		**6.69**
Variable rate				
Post hedge borrowings	(4,417)	3.95	(5,837)	4.00
Domestic borrowings (including bank loans)	(311)	3.04	(3)	4.90
Commercial paper	(208)	2.59	(154)	2.28
Net forward foreign exchange contract liability	(468)	2.67	-	-
Weighted average rate on floating rate liabilities		**3.73**		**3.96**

Yields represent 'as at' calculations rather than average yields on balances held during the year.

Cash and cash equivalents includes only interest bearing Australian dollar balances.

Net forward foreign exchange contract liability includes final pay legs of $1,450 million (2015: $654 million) as described in Table E. The $468 million notional value above represents forward foreign exchange contracts used to hedge United States dollar commercial paper borrowings at 30 June 2016.

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 C shows the results of our sensitivity analysis.

Table C Telstra Group	As at 30 June			
	2016		2015	
	Gain/(loss)			
	Net profit or loss	Equity	Net profit or loss	Equity
	$m	$m	$m	$m
Interest rates (+10%)	(24)	61	(24)	53
Interest rates (-10%)	24	(63)	24	(55)

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 D shows the carrying value of offshore borrowings by underlying currency. At 30 June 2016 all offshore borrowings were swapped into Australian dollars as shown above (June 2015: all Australian dollars).

At 30 June 2016 we also held $443 million (USD $330 million) United States dollar denominated commercial paper which was converted into Australian dollars using foreign exchange swaps.

Table D Telstra Group	As at 30 June	
	2016	2015
	$m	$m
United States dollar	(2,672)	(2,786)
Euro	(9,612)	(8,920)
Japanese Yen	(136)	(396)
Swiss Franc	(325)	(336)
Other	(352)	(335)
Total offshore borrowings	**(13,097)**	**(12,773)**

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 increasingly sensitive to movement in foreign exchange rates. Accordingly 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 E summarises the impact of outstanding forward foreign exchange contracts that are hedging our transactional currency exposures at 30 June.

Table E Telstra Group	As at 30 June 2016				As at 30 June 2015			
	Exposure	Forward foreign exchange contract receive/(pay)			Exposure	Forward foreign exchange contract receive/(pay)		
	Local currency		Austra-lian dollars	Average exchange rate	Local currency		Austra-lian dollars	Average exchange rate
	m	m	$m	$	m	m	$m	$
Commercial paper borrowings								
United States dollars	(330)	330	(468)	0.705	-	-	-	-
Loans to and from WOCE								
British pounds sterling	(24)	22	(41)	0.523	(13)	13	(24)	0.522
United States dollars	(316)	287	(382)	0.750	(80)	58	(75)	0.773
Other (various currencies)			(2)				(2)	
Forecast transactions								
United States dollars	(580)	221	(300)	0.730	(569)	274	(358)	0.765
Philippine peso	(6,002)	4,802	(139)	34.635	(5,848)	4,600	(134)	34.280
Other (various currencies)			(13)				(17)	
Other assets and liabilities								
United States dollars	(71)	71	(96)	0.720	(34)	34	(44)	0.771
Other (British pounds sterling)	(4)	4	(9)	0.462	-	-	-	-
Total in Australian dollars			**(1,450)**				**(654)**	

(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)

(c) Natural offset (continued)

(i) Sensitivity

We have performed a sensitivity analysis based on our foreign currency risk exposures existing at balance date. Table F shows the impact that a 10 per cent shift in applicable exchange rates would have on our profit after tax and on equity.

Table F Telstra Group	As at 30 June			
	2016		2015	
	Gain/(loss)			
	Net profit or loss	Equity	Net profit or loss	Equity
	$m	$m	$m	$m
Exchange rates (+10%)	31	(41)	25	(31)
Exchange rates (-10%)	(38)	50	(30)	38

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 an 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. We do not have any significant credit risk exposure to a single customer or group of customers. Ageing analysis and ongoing credit evaluation are performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debts is raised. In addition, receivable balances are monitored on an ongoing basis so that our exposure to bad debts is not significant. Refer to note 3.3 for further details about our trade and other receivables.

(b) Treasury credit risk

We are exposed to credit risk from the investment of surplus funds (primarily deposits) and from the use of derivative financial instruments. We have Board approved policies that limit the amount of credit exposure to any single counterparty. These risk limits are regularly monitored.

We also manage our credit exposure using a value at risk (VaR) methodology. This 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.

At 30 June 2016, 91 per cent (2015: 90 per cent) of our derivative credit exposure was with counterparties that have a credit rating of A- or better. All deposits and derivative contracts are held with counterparties of investment grade credit rating.

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 and average levels of cash and cash equivalents, which ensures we have readily accessible bank facilities in place
- 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 G 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 G Telstra Group	Contractual maturity									
	As at 30 June 2016					As at 30 June 2015				
	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	(397)	(809)	(1,134)	(800)	**(3,140)**	(39)	(385)	(1,375)	(535)	**(2,334)**
Offshore borrowings	(1,497)	(96)	(2,675)	(8,278)	**(12,546)**	(1,211)	(1,461)	(1,866)	(7,801)	**(12,339)**
Commercial paper	(656)	-	-	-	**(656)**	(155)	-	-	-	**(155)**
Interest on borrowings, excluding finance lease liabilities	(586)	(492)	(1,239)	(599)	**(2,916)**	(583)	(534)	(1,230)	(777)	**(3,124)**
Finance lease liabilities	(143)	(99)	(104)	(186)	**(532)**	(113)	(87)	(93)	(195)	**(488)**
Trade/other creditors and accrued expenses	(3,950)	(8)	(14)	(42)	**(4,014)**	(4,080)	(16)	(19)	(39)	**(4,154)**
Derivative financial assets	3,710	473	3,687	8,951	**16,821**	2,370	1,878	2,867	8,340	**15,455**
Derivative financial liabilities	(4,178)	(607)	(4,020)	(8,170)	**(16,975)**	(2,770)	(2,294)	(3,356)	(7,777)	**(16,197)**
Total	**(7,697)**	**(1,638)**	**(5,499)**	**(9,124)**	**(23,958)**	**(6,581)**	**(2,899)**	**(5,072)**	**(8,784)**	**(23,336)**

(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 H shows our undrawn facilities as at 30 June. During July 2015, our unsecured committed cash standby facilities were cancelled in full. The facilities were undrawn at the time of cancellation.

Table H Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Unsecured committed cash standby facilities	-	195
Unsecured revolving bank loan facilities	1,700	1,500
Unsecured bank term loan facility	-	300
Amount of credit unused	**1,700**	**1,995**

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.5 Valuation and disclosures within fair value hierarchy

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

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

Fair value hierarchy:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: the lowest level input that is significant to the fair value measurement is directly (as prices) or indirectly (derived from prices) observable
- Level 3: one or more key inputs for the instrument are not based on observable market data (unobservable inputs).

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

Level	Financial instrument	Fair value
Level 1	Listed investments	Quoted prices in active markets.
Level 2	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.
Level 3	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 year, there were no transfers between the fair value hierarchy levels of our financial instruments and there were no changes in valuation techniques. Assumptions are based on market conditions existing at each reporting date.

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

Table I Telstra Group	As at 30 June 2016				As at 30 June 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Derivative financial instruments	-	2,242	-	**2,242**	-	1,797	-	**1,797**
Investments in listed securities	216	-	-	**216**	24	-	-	**24**
Investments in unlisted securities	-	-	178	**178**	-	-	113	**113**
	216	**2,242**	**178**	**2,636**	**24**	**1,797**	**113**	**1,934**
Liabilities								
Derivative financial instruments	-	(949)	-	**(949)**	-	(1,125)	-	**(1,125)**
Contingent consideration	-	-	(16)	**(16)**	-	-	(24)	**(24)**
	-	**(949)**	**(16)**	**(965)**	**-**	**(1,125)**	**(24)**	**(1,149)**
Total	**216**	**1,293**	**162**	**1,671**	**24**	**672**	**89**	**785**

Included in investment in listed securities is 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. Telstra holds 7,420,820 shares at 30 June 2016. Refer to section 6.4 for further details.

Table J details movements in the Level 3 unlisted security balances.

The remeasurement recognised in other comprehensive income includes revaluation of Elemental Technologies Inc. ($21 million) and Elastica Inc. ($13 million). Both these entities have been sold during the period for $28 million and $19 million respectively.

The retained interest in a former associated entity represents our former associated 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 4.3.1 are classified as Level 2 in the fair value hierarchy.

Table J Telstra Group	Unlisted securities Level 3 $m
Opening balance 1 July 2015	**113**
Purchases	67
Retained interest in a former associated entity	8
Remeasurement recognised in other comprehensive income	42
Disposals	(52)
Closing balance 30 June 2016	**178**

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.6 Offsetting and netting arrangements

Table K presents financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements.

Table K
Telstra Group

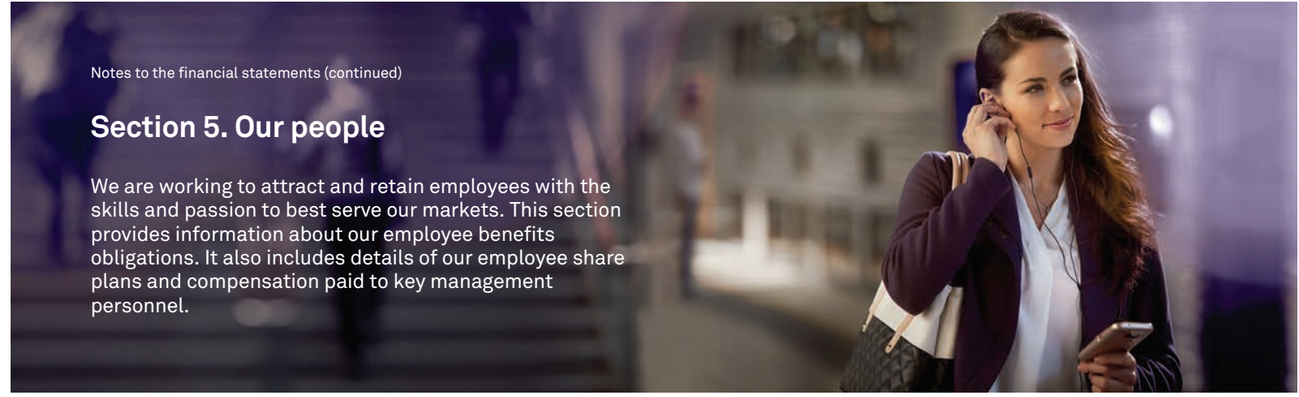
	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Gross amounts not offset in the statement of financial position: Financial instruments	Gross amounts not offset in the statement of financial position: Collateral received or pledged	Net amounts
	$m	$m	$m	$m	$m	$m
	A	B	C=A-B	D	E	F=C-D+E
	As at 30 June 2016					
Trade and other receivables	621	115	**506**	96	(5)	**405**
Trade and other payables	(311)	(115)	**(196)**	(96)	-	**(100)**
Derivative financial assets	2,242	-	**2,242**	713	-	**1,529**
Derivative financial liabilities	(949)	-	**(949)**	(713)	-	**(236)**
Total	**1,603**	**-**	**1,603**	**-**	**(5)**	**1,598**
	As at 30 June 2015					
Trade and other receivables	801	96	**705**	181	(8)	**516**
Trade and other payables	(520)	(96)	**(424)**	(181)	-	**(243)**
Derivative financial assets	1,797	-	**1,797**	781	-	**1,016**
Derivative financial liabilities	(1,125)	-	**(1,125)**	(781)	-	**(344)**
Total	**953**	**-**	**953**	**-**	**(8)**	**945**

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 (refer to note 3.5). Redundancy provisions are included in our other provisions. Table A provides a summary of all these employee obligations.

Table A
Telstra Group

	As at 30 June 2016	As at 30 June 2015
	$m	$m
Current provision for employee benefits	913	844
Non-current provision for employee benefits	169	147
Current redundancy provisions	6	11
Accrued labour and on-costs	364	553
	1,452	**1,555**

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:

- 4.7 per cent (2015: 4.8 per cent) weighted average projected increases in salaries
- 3.3 per cent (2015: 4.4 per cent) discount rate.

The discount rate used to calculate present values have been determined by reference to market yields at 30 June 2016 on 10 year (2015: 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 2016	As at 30 June 2015
	$m	$m
Leave obligations expected to be settled after 12 months	577	524

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.

We no longer disclose the employee share plans of the Autohome Group, which we ceased to control on 23 June 2016.

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. 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. 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
Outstanding at 30 June 2014	**6,114,924**	**$3.46**
Granted	2,460,563	$5.64
Forfeited	(378,465)	$3.50
Exercised	(923,108)	$4.43
Outstanding at 30 June 2015	**7,273,914**	**$4.07**
Granted	2,900,238	$6.13
Forfeited	(367,382)	$5.25
Exercised	(3,197,232)	$3.43
Outstanding at 30 June 2016	**6,609,538**	**$5.22**

As at 30 June 2016, there were no exercisable STI instruments.

The weighted average share price for restricted shares exercised during the financial year was $6.09 (2015: $5.59).

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 2016 or at 30 June 2015.

(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 until the performance rights become restricted shares.

If the performance hurdle is satisfied during the applicable performance period, a specified number of performance rights will become restricted shares.

Although the Trustee holds the shares in trust, the executive will retain beneficial interest (dividends, voting rights, bonus issues and rights issues) in the 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 2016 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.

Table B
Telstra Group

LTI plan component	Detail
Performance measure weighting	50% to RTSR 50% to FCF ROI
Performance period	Three years from 1 July to 30 June
Restriction period after vesting of performance rights	One year
RTSR Performance Rights	
Performance Hurdle - RTSR	RTSR measures the growth in Telstra's total shareholder return (TSR) relative to the growth in total shareholder return of the companies in a peer group over the same period
Vesting schedule	25% vests at minimum threshold target Straight-line vesting from minimum threshold target to stretch target where 100% vests
FCF ROI Performance Rights	
Performance Hurdle - FCF ROI	FCF ROI is calculated by dividing the average annual free cashflow (adjusted for interest paid and specific non-recurring factors) over the performance period by Telstra's average investment over the same period
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).

Although the Trustee holds the shares in trust, the employees retain beneficial interest (dividends, voting rights, bonus issues and right issues) in the shares until the end of the restriction period. The shares are held by the Trustee on behalf of employees until the restriction period ends. For Australian resident 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.

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 National Broadband Network (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 retain a pro rata number of restricted shares. Restricted shares may also be forfeited if certain clawback events occur during the restriction period.

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.2 Description of long-term incentive 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 and GE Telstra Wholesale restricted shares, and the end of the restriction period for 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 from	Performance period to	End date
Growthshare 2012				
RTSR and FCF ROI performance rights	19 Aug 2011	1 Jul 2011	30 Jun 2014	19 Aug 2015
Growthshare 2013				
ESP restricted shares	21 Feb 2013	n/a	n/a	21 Feb 2016
RTSR and FCF ROI performance rights	17 Aug 2012	1 Jul 2012	30 Jun 2015	17 Aug 2016
GE Telstra Wholesale restricted shares	17 Aug 2012	n/a	n/a	17 Aug 2015
Growthshare 2014				
ESP restricted shares	28 Feb 2014	n/a	n/a	28 Feb 2017
RTSR and 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
Growthshare 2015				
ESP restricted shares	27 Feb 2015	n/a	n/a	27 Feb 2018
RTSR and 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
Growthshare 2016				
ESP restricted shares	26 Feb 2016	n/a	n/a	26 Feb 2019
RTSR and 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

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.2 Description of long-term incentive 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 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.

Table D
Telstra Group

	Number of equity instruments					
	Outstanding at 30 June 2015	Granted	Forfeited	Exercised	Expired	Outstanding at 30 June 2016
Growthshare 2012						
RTSR performance rights	**2,244,549**	-	-	(2,244,549)	-	**-**
FCF ROI performance rights	**1,187,584**	-	-	(1,187,584)	-	**-**
Growthshare 2013						
ESP restricted shares	**2,035,500**	-	-	(2,035,500)	-	**-**
RTSR performance rights	**1,896,720**	-	-	-	-	**1,896,720**
FCF ROI performance rights	**1,667,446**	-	-	-	-	**1,667,446**
GE Telstra Wholesale restricted shares	**116,371**	-	-	(116,371)	-	**-**
Growthshare 2014						
ESP restricted shares	**2,367,800**	-	-	(206,600)	-	**2,161,200**
RTSR performance rights	**2,417,210**	-	(814,860)	-	(1,105,616)	**496,734**
FCF ROI performance rights	**2,417,210**	-	(814,859)	-	(400,583)	**1,201,768**
GE Telstra Wholesale restricted shares	**133,595**	-	-	-	-	**133,595**
Growthshare 2015						
ESP restricted shares	**2,442,500**	-	-	(202,900)	-	**2,239,600**
RTSR performance rights	**1,938,147**	-	(731,175)	-	-	**1,206,972**
FCF ROI performance rights	**1,938,147**	-	(731,174)	-	-	**1,206,973**
GE Telstra Wholesale restricted shares	**117,277**	-	-	-	-	**117,277**
Growthshare 2016						
ESP restricted shares	**-**	2,526,200	-	(54,600)	-	**2,471,600**
RTSR performance rights	**-**	1,439,228	(71,778)	-	-	**1,367,450**
FCF ROI performance rights	**-**	1,439,228	(71,778)	-	-	**1,367,450**
GE Telstra Wholesale restricted shares	**-**	66,031	-	-	-	**66,031**

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
Outstanding at 30 June 2014	**23,272,243**	**$2.31**	**7,009,366**	**$4.44**
Granted	3,876,294	$3.83	2,616,677	$6.46
Forfeited	(1,039,747)	$2.68	-	-
Exercised	(9,797,339)	$1.74	(2,413,000)	$3.70
Expired	(604,438)	$2.93	-	-
Outstanding at 30 June 2015	**15,707,013**	**$3.00**	**7,213,043**	**$5.42**
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	-	-
Outstanding at 30 June 2016	**10,411,513**	**$3.29**	**7,189,303**	**$5.42**

The weighted average share prices for 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

The weighted average share prices of instruments exercised during the financial year 2015 were:

- $5.66 for the release of performance rights under the financial year 2011 LTI plan
- $6.10 for the release of restricted shares under the financial year 2015, 2014, 2013 and 2012 ESP plans

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 2016.

(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	Growthshare LTI RTSR and FCF ROI performance rights	
	Measurement date at	
	Oct 2015	Oct 2014
Share price	$5.49	$5.38
Risk free rate	1.81%	2.60%
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	41.3%	59.6%

(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)

5.2.2 Description of long-term incentive share-based payment arrangements (continued)

(g) Fair value measurement (continued)

(ii) GE Telstra Wholesale restricted shares

The fair value of the financial year 2016 GE Telstra Wholesale restricted shares is based on the market value of Telstra shares at the measurement date of 14 August 2015.

5.2.3 Other equity plans

(a) Retention incentive plans

In exceptional circumstances, Telstra has put in place structured retention incentive plans. These are designed to protect Telstra from the loss of employees who possess specific skill sets considered critical to the business. Such retention plans are not restricted to senior executives. The plans are granted on an ad hoc basis and the participants receive Telstra shares subject to satisfaction of certain conditions.

As part of his service agreement negotiated upon appointment for the role of Chief Financial Officer (CFO) in the financial year 2012, Andrew Penn was allocated 96,500 performance shares of which 50 per cent were eligible to vest after two years and the remaining 50 per cent were eligible to vest after three years from the date of commencement of his employment. During the financial year 2015, the second and final tranche of 48,250 performance shares vested on 14 December 2014.

(b) 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 3,264,600 outstanding equity instruments as at 30 June 2016 (2015: 3,474,600) with a total fair value of $18 million (2015: $21 million). This plan did not have a material impact on our results.

The employee share loan balance as at 30 June 2016 was $13 million (2015: $15 million). For TESOP99, the weighted average loan still to be repaid was $3.97 (2015: $4.19) 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. 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 benefits 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	
	2016	2015
	$m	$m
Fair value of defined benefit plan assets	2,638	2,694
Present value of the defined benefit obligation	2,627	2,402
Net defined benefit asset	**11**	**292**
Attributable to		
Telstra Super Scheme	15	296
Other	(4)	(4)
	11	**292**

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.

Section 5. Our people (continued)

5.3 Post-employment benefits (continued)

5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

Telstra Super's board of directors operates and governs the plan, including making investment decisions.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions, which are closed to new members, provide benefits based on years of service and final average salary paid as a lump sum. Post-employment benefits do not include payments for medical costs.

On an annual basis we engage qualified actuaries to calculate the present value of the defined benefit obligations.

Contribution levels made to the defined benefit divisions are determined by Telstra after obtaining the advice of the actuary and in consultation with Telstra Super Pty Ltd (the Trustee). These are designed to ensure that benefits accruing to members and beneficiaries are fully funded as they fall due. The benefits received by members of each defined benefit division take into account factors such as each employee's length of service, final average salary, and employer and employee contributions.

Telstra Super is exposed to Australia's inflation, credit risk, liquidity risk and market risk. Market risk includes interest rate risk, equity price risk and foreign currency risk. The strategic investment policy of the fund is to build a diversified portfolio of assets to match the projected liabilities of the defined benefit plan.

(a) Reconciliation of changes in fair value of defined benefit plan assets

Table B provides a reconciliation of fair value of defined benefit plan assets from the opening to the closing balance.

Table B Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Fair value of defined benefit plan assets at beginning of year	**2,694**	**2,953**
Employer contributions	72	75
Member contributions	48	54
Benefits paid (including contributions tax)	(203)	(554)
Plan expenses after tax	(8)	(19)
Interest income on plan assets	110	119
Actual asset (loss)/gain	(75)	66
Fair value of defined benefit plan assets at end of year	**2,638**	**2,694**

(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	
	2016	2015
	$m	$m
Present value of defined benefit obligation at beginning of year	**2,398**	**2,909**
Current service cost	82	101
Interest cost	101	114
Member contributions	18	21
Benefits paid	(203)	(554)
Actuarial loss/(gain) due to change in financial assumptions	180	(144)
Actuarial (gain) due to change in demographic assumptions	(3)	(29)
Actuarial loss due to experience	50	6
Settlement/curtailment (gain)	-	(26)
Present value of wholly funded defined benefit obligation at end of year	**2,623**	**2,398**

The actual return on defined benefit plan assets was 2.1 per cent (2015: 6.5 per cent).

Net actuarial loss recognised in other comprehensive income for Telstra Super amounted to $302 million (2015: $233 million net gain).

(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	
	2016	2015
	%	%
Equity instruments		
- Australian equity [1]	18	15
- International equity [1]	17	15
- Private equity	7	8
Debt instruments		
- Fixed interest [1]	45	39
Property	4	1
Cash and cash equivalents	6	16
Other	3	6
	100	**100**

1 These assets have quoted prices in active markets.

Section 5. Our people (continued)

5.3 Post-employment benefits (continued)

5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

(c) Categories of plan assets (continued)

(i) Related party disclosures

As at 30 June 2016, Telstra Super owned 32,896,875 (2015: 39,737,735) shares in the Telstra Entity at a cost of $195 million (2015: $152 million) and a market value of $183 million (2015: $243 million). All these shares were fully paid at 30 June 2016. In the financial year 2016, we paid dividends to Telstra Super of $11 million (2015: $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 2016, these securities had a cost of $119 million (2015: $14 million) and a market value of $122 million (2015: $15 million).

All purchases and sales of Telstra shares, promissory notes and bonds by Telstra Super are on arm's length basis and are determined by the Trustee and/or its investment managers on behalf of the members of Telstra Super.

(d) Actuarial assumptions and sensitivity analysis

Defined benefit plan

Management judgement was used to determine the following key assumptions used in the calculation of our defined benefit obligations:

- 3.3 per cent (2015: 3.5 per cent) average expected rate of increase in future salaries
- 3.3 per cent (2015: 4.3 per cent) discount rate.

We have used a nine year high quality corporate bond rate (2015: nine year) to determine the discount rate as the term matches closest to the term of the defined benefit obligations.

Our assumption for the salary inflation rate for Telstra Super reflects our long-term expectation for salary increases.

If the estimates prove to be incorrect, this may materially affect balances in the next reporting period.

Table E summarises how the defined benefit obligation as at 30 June 2016 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	(198)	264
Expected rate of increase in future salaries	171	(136)

(e) Employer contributions

During the year we paid contributions totalling $72 million (2015: $75 million) at the rate of 15 per cent (2015: 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 2017. This contribution rate could change depending on market conditions during the financial year 2017.

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	
	2016	2015
	%	%
Within 1 year	11	7
Between 1 and 4 years	17	21
Between 5 and 9 years	18	22
Between 10 and 19 years	39	41
After 20 years	15	9
	100	**100**

The weighted average duration of the defined benefit plan obligations at the end of the reporting period was nine years (2015: nine years).

5.3.3 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.

Section 5. Our people (continued)

5.3 Post-employment benefits (continued)

5.3.3 Recognition and measurement (continued)

(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.

(ii) Other defined benefit schemes

Our controlled entities also participate in both funded and unfunded defined benefit schemes, which are individually and in aggregate immaterial.

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 provided to our KMP during the financial years 2016 and 2015 and provides information about other transactions with our KMP and their related parties.

5.4.1 KMP aggregate compensation

During the financial years 2016 and 2015, the aggregate compensation provided to our KMP was:

Telstra Group	As at 30 June	
	2016	2015
	$	$
Short-term employee benefits	15,377,763	23,259,768
Post-employment benefits	292,238	323,452
Other long-term benefits	197,365	247,469
Termination benefits	1,324,977	-
Share-based payments	5,511,939	9,789,030
	22,704,282	**33,619,719**

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 2016 and 2015, apart from transactions trivial and domestic in nature and on normal commercial terms and conditions, there were no other transactions with our KMP and their related parties.

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 year ended 30 June 2016. The individually immaterial acquisitions have been summarised below.

On15 April 2015, we acquired 100 per cent shareholding in Pacnet Limited and its controlled entities (Pacnet Group) with the exception of Pacnet Service (USA) Inc. (Pacnet US). Acquisition of Pacnet US was subject to regulatory approval in the United States and was carved out of the acquisition of the Pacnet Group. On 2 July 2015, following the receipt of the US regulatory approval, we completed the acquisition of Pacnet US. This completed our acquisition of the Pacnet Group.

On 8 July 2015 and 30 September 2015, we acquired the businesses of Sesco (Security) Co Pty Ltd and Haste Control Services which provide electronic security and monitoring systems.

On 31 July 2015, we acquired 100 per cent shareholding in Health IQ Pty Ltd (Health IQ). Health IQ provides integration solutions between disparate hospital information systems.

On 30 November 2015, we acquired the business known as EOS Technologies (EOS) which provides aged, disabled and terminally ill people with personal health care services.

On 29 February 2016, we acquired 100 per cent shareholding in The Silver Lining Consulting Group Pty Ltd and its controlled entities (Kloud). Kloud is a leading specialist in cloud and collaboration solutions.

On 30 June 2016, we acquired the network consulting, engineering and services business of CBO Telecommunications Pty Ltd, which provides technologies and networks used in mine sites and other remote locations.

On 30 June 2016, we acquired 100 per cent shareholding in Readify Limited and its controlled entity Huegin Consulting Group Pty Ltd (Readify). Readify provides application development and software-focussed consulting and managed services.

Table A summarises the effects of these acquisitions.

Table A Telstra Group	Year ended 30 June 2016
	$m
Consideration for acquisitions	
Cash consideration	91
Contingent consideration	8
Non-cash consideration	2
Total purchase consideration	**101**
Cash balances acquired	(3)
Contingent consideration	(4)
Non-cash consideration	(2)
Outflow of cash on acquisitions	**92**
	Fair value
Assets/(liabilities) at acquisition date	
Cash and cash equivalents	3
Trade and other receivables	41
Current tax receivables	1
Property, plant and equipment	25
Intangible assets	29
Trade and other payables	(53)
Revenue received in advance	(2)
Provisions	(1)
Current tax payables	(1)
Other liabilities	(3)
Deferred tax liabilities	(6)
Net assets	**33**
Goodwill on acquisition	64
Contingent consideration	4
Total purchase consideration	**101**

Cash consideration includes other completion adjustments related to prior period acquisitions.

Section 6. Our investments (continued)

6.1 Changes in the group structure (continued)

6.1.1 Current year acquisitions (continued)

Contingent consideration paid includes targets achieved by 30 June 2015 related to prior period acquisitions. Provision for contingent consideration is contingent upon the entities acquired achieving financial and non-financial targets between 30 June 2016 to 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.

Table B details impact of the current year acquisitions on our income statement.

Table B Telstra Group	Year ended 30 June 2016
	$m
Acquisition costs incurred	1
Contributions to the Group's performance	
Income since acquisition date	15
Loss before income tax expense since acquisition date	(1)

Acquisition costs incurred are included in other expenses in the income statement.

If all the acquisitions made had occurred on 1 July 2015, our adjusted Telstra Group consolidated income and profit before income tax expense from continuing operations for the year ending 30 June 2016 would have been $27,070 million and $5,843 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 on fair value of net assets are retrospective in nature and have an impact on goodwill recognised on acquisition.

6.1.2 Current year disposals

Proceeds from sale of businesses and shares in controlled entities (net of cash disposed) are $1,340 million of which $1,323 million is related to the sale of Autohome Inc. and its controlled entities on 23 June 2016. Refer to note 6.4 for further details.

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 expensed 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 2016 based on a percentage of earnings before interest, income tax expense, depreciation and amortisation (EBITDA). The ownership percentages represent the relevant percentage of equity held by the subsidiary's immediate and ultimate parent, respectively.

A complete list of our controlled entities is available online at www.telstra.com/investor.

Table A		% of equity held by immediate parent		% of equity held by ultimate parent	
		As at 30 June		As at 30 June	
		2016	2015	2016	2015
Name of entity	Country of incorporation	%	%	%	%
Ultimate parent entity					
Telstra Corporation Limited	Australia				
Controlled entities					
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
Beijing Cheerbright Technologies Co. Ltd [1]	China	-	100.0	-	54.3
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 [2 3]	Australia	50.0	50.0	50.0	50.0
Neto E-Commerce Solutions Pty Ltd	Australia	51.0	51.0	51.0	51.0
02 Networks Pty Ltd	Australia	100.0	100.0	100.0	100.0
Ooyala AB (formerly known as Videoplaza AB) [4 5]	Sweden	100.0	100.0	97.6	97.3
Ooyala Holdings Inc. [4 5]	United States	97.6	97.3	97.6	97.3
Ooyala Inc. [4 5]	United States	100.0	100.0	97.6	97.3
Pacnet Business Solutions (China) [2 3 4]	China	50.0	50.0	50.0	50.0
Pacnet Cable (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Pacnet Cable Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Global (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Pacnet Global (Singapore) Pte Ltd [4]	Singapore	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 Internet (S) Pte Ltd [4]	Singapore	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. [6]	Japan	100.0	100.0	100.0	100.0
Pacnet Services (Taiwan) Inc. [6]	Taiwan	100.0	100.0	100.0	100.0
Pacnet Services (USA) Inc. [7]	United States	100.0	-	100.0	-
Pacnet Services Global (S) Pte Ltd [4]	Singapore	100.0	100.0	100.0	100.0
PT Teltranet Aplikasi Solusi [2 4]	Indonesia	49.0	49.0	49.0	49.0
Telstra Broadcast Services Pty Ltd (formerly known as Globecast Australia Pty Ltd)	Australia	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)

Name of entity	Country of incorporation	% of equity held by immediate parent – As at 30 June 2016	% of equity held by immediate parent – As at 30 June 2015	% of equity held by ultimate parent – As at 30 June 2016	% of equity held by ultimate parent – As at 30 June 2015
		%	%	%	%
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 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	Australia	87.5	87.5	87.5	87.5
Telstra Singapore Pte Ltd	Singapore	100.0	100.0	100.0	100.0
Telstra SNP Monitoring Pty Ltd	Australia	51.0	51.0	51.0	51.0
Telstra Telecommunications Private Limited [4]	India	74.0	74.0	74.0	74.0
Telstra Web Holdings Inc. [6]	Philippines	64.0	64.0	64.0	64.0

1 During the year we decreased our ownership of Autohome Group from 54.3 per cent to 53.9 per cent, due to employee share issues. On 23 June 2016, we sold 47.4 per cent of Autohome Group. Refer to note 6.4 for disposal details. On completion, our 6.5 per cent retained interest was recorded as an investment in listed security as disclosed in note 4.4.5.

2 We have control over these companies through our decision making ability on the board.

3 These companies are not audited by Ernst & Young, our Australian statutory auditor.

4 Pacnet Global (Singapore) Pte Ltd, Pacnet Internet (S) Pte Ltd, Pacnet Services Global (S) Pte Ltd, Ooyala and its controlled entities have a 31 December reporting date. Telstra Telecommunications Private Limited has a 31 March reporting date.

5 We increased our ownership interest in Ooyala Holdings Inc. and it controlled entities from 97.3 per cent to 97.6 per cent at 30 June 2016, via additional equity contributions.

6 The investment in these companies are held by various entities. The immediate percentage reflected represents the ultimate ownership by Telstra Corporation.

7 Refer to note 6.1.1 for details of business combinations for the financial year 2016.

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 Class Order 98/1418 (Class Order) 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 Class Order, 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

Section 6. Our investments (continued)

6.2 Investments in controlled entities (continued)

6.2.2 Deed of cross guarantee (continued)

- Telstra Services Solutions Holdings Limited
- Telstra Ventures Pty Ltd.

These entities were added as parties to the Deed via an assumption deed on 15 June 2016 and are also part of the Closed Group:

- Kloud Solutions (National) Pty Ltd
- Telstra Broadcast Services Pty Ltd
- Telstra Media Pty Ltd
- The Silver Lining Consulting Group Pty Ltd.

Telstra Finance Limited is trustee under the Deed. However, it is not a member of the Closed Group. It is, together with the members of the Closed Group, a member of the extended Closed Group (as defined in the Class Order).

The consolidated statement of comprehensive income and statement of financial position of the entities that are members of the Closed Group are presented in Tables B and C respectively. This excludes Telstra Finance Ltd. All transactions between members of the Closed Group have been eliminated.

Table B
Closed Group

	As at 30 June 2016	As at 30 June 2015
	$m	$m
Current assets		
Cash and cash equivalents	3,421	485
Trade and other receivables	4,044	3,785
Inventories	544	479
Derivative financial assets	62	7
Current tax receivables	-	8
Prepayments	378	294
Total current assets	**8,449**	**5,058**
Non-current assets		
Trade and other receivables	1,284	1,152
Inventories	29	32
Investments – controlled entities	2,342	2,674
Investments – accounted for using the equity method	171	196
Investments – other	392	136
Property, plant and equipment	19,380	19,162
Intangible assets	7,752	7,443
Derivative financial assets	2,180	1,790
Defined benefit asset	15	296
Total non-current assets	**33,545**	**32,881**
Total assets	**41,994**	**37,939**

Table B (continued)
Closed Group

	As at 30 June 2016	As at 30 June 2015
	$m	$m
Current liabilities		
Trade and other payables	3,547	3,558
Provisions	987	954
Borrowings	3,228	1,967
Derivative financial liabilities	286	214
Current tax payables	169	257
Revenue received in advance	1,021	890
Total current liabilities	**9,238**	**7,840**
Non-current liabilities		
Other payables	62	66
Provisions	283	267
Borrowings	14,572	14,058
Derivative financial liabilities	663	911
Deferred tax liabilities	1,367	1,401
Revenue received in advance	599	402
Total non-current liabilities	**17,546**	**17,105**
Total liabilities	**26,784**	**24,945**
Net assets	**15,210**	**12,994**
Equity		
Share capital	5,167	5,198
Reserves	(31)	(54)
Retained profits	10,074	7,850
Equity available to the closed group	**15,210**	**12,994**

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	
	2016	2015
	$m	$m
Continuing operations		
Income		
Revenue (excluding finance income)	24,465	24,773
Other income	1,125	930
	25,590	**25,703**
Expenses		
Labour	4,487	4,428
Goods and services purchased	6,606	6,500
Other expenses	4,167	3,885
	15,260	**14,813**
Share of net profit from joint ventures and associated entities	15	19
	15,245	**14,794**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	10,345	10,909
Depreciation and amortisation	3,855	3,822
Earnings before interest and income tax expense (EBIT)	**6,490**	**7,087**
Finance income	91	148
Finance costs	792	840
Net finance costs	**701**	**692**
Profit before income tax expense	**5,789**	**6,395**
Income tax expense	1,786	1,781
Profit for the year from continuing operations	**4,003**	**4,614**
Profit for the year from discontinued operation	2,213	19
Profit for the year from continuing and discontinued operations available to the Closed Group	**6,216**	**4,633**

Table C (continued) Closed Group	Year ended 30 June	
	2016	2015
	$m	$m
Items that will not be reclassified to the Closed Group income statement		
Retained profits		
- actuarial gain on defined benefit plans	(302)	233
- income tax on actuarial gain on defined benefit plans	91	(69)
Fair value of equity instruments reserve		
- gains from investments in equity instruments designated at fair value through other comprehensive income	8	7
- income tax on gains from investments in equity instruments	-	(1)
	(203)	**170**
Items that may be subsequently reclassified to the Closed Group income statement		
- changes in fair value of cash flow hedging reserve	30	11
- income tax on movements in the cash flow hedging reserve	(9)	(3)
- changes in the value of the foreign currency basis spread	(3)	72
- income tax on movements in the foreign currency basis spread reserve	1	(22)
	19	**58**
Total other comprehensive income for the Closed Group	**(184)**	**228**
Total comprehensive income for the year for the Closed Group	**6,032**	**4,861**

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	
	2016	2015
	$m	$m
Retained profits at the beginning of the financial year available to the Closed Group	**7,850**	**7,193**
Transfers from reserves	4	-
Effect on retained profits from addition of entities to the Closed Group	2	53
Share buy-back (net of income tax)	-	(494)
Total comprehensive income recognised in retained profits	6,005	4,797
Dividends	(3,787)	(3,699)
Retained profits at the end of the financial year available to the Closed Group	**10,074**	**7,850**

Section 6. Our investments (continued)

6.3 Investments in joint ventures and associated entities

We account for joint ventures and associated entities using the equity method. Under this method we recognise the investment at cost and subsequently adjust it for our share of profits or losses, which are recognised in the income statement and our share of other comprehensive income, which is recognised in the statement of comprehensive income. Generally 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	
	2016	2015	2016	2015
	$m	$m	$m	$m
Carrying amount of investments at beginning of year	**5**	**4**	**196**	**192**
Additional investments	2	2	36	46
Disposal of investments	-	-	(29)	-
Reclassification to other investment	-	-	(7)	-
Impairment loss recognised in the income statement	-	-	(2)	(2)
	7	**6**	**194**	**236**
Share of net profit/(loss)	(1)	(1)	16	20
Share of distributions	-	-	(29)	(15)
Share of capital return	-	-	(16)	(45)
Carrying amount of investments at end of year	**6**	**5**	**165**	**196**

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	
			2016	2015
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
Joint ventures				
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 booking	Australia	31.5	34.8
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	50.0	-
Associated entities				
Australia-Japan Cable Holdings Limited (a)	Network cable provider	Bermuda	46.9	46.9
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0
Mandoe Pty Ltd	Signage software provider	Australia	28.4	28.4
IPScape Pty Ltd	Cloud based call centre solution	Australia	25.0	27.3
Whispir Limited	Software as a solution provider	Australia	24.2	23.7
IP Health Pty Ltd	Software development	Australia	32.9	32.1
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	Australia	30.0	30.0
Near Pte Ltd (formerly known as Adnear Pte Ltd) (a)	Location intelligence and analytics	Singapore	13.2	12.3
Panviva Pty Ltd	Cloud based business process guidance software	Australia	22.5	22.4
Gorilla Technology Group Inc. (a)	Video analytics software provider	Taiwan/Cayman Islands	8.9	9.3
Zimperium Inc.	Mobile security system provider	United States of America	-	19.8
enepath (Group Holdings) Pte Ltd (a)	Voice software provider	Singapore	21.4	13.4
PharmX Pty Ltd	Internet based ordering gateway	Australia	30.0	30.0
Asia Netcom Philippines Corporation (a)	Data communication service provider	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	-

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.

We own less than 20 per cent of Near Pte Ltd, Gorilla Technology Group Inc. and enepath (Group Holdings) Pte Ltd, however we have significant influence over these entities through our decision making ability on the board.

In December 2015, our representation on the board of Zimperium Inc. reduced and we no longer have significant influence over this entity. As a result this investment has been classified as other investment. We continue to hold 19.5 per cent interest in Zimperium Inc.

(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 2016 as follows:

- Reach Ltd - 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

The differences in reporting dates are due to jurisdictional requirements. Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in joint ventures and associated entities with different reporting dates is the same at that reporting date as at 30 June unless otherwise noted.

Joint control of our investments

We applied management judgment to determine that we 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.

We applied management judgment to determine that we have joint control through our decision making ability on the board of Health Engine Pty Ltd, in which we own 31.5 per cent (2015: 34.8 per cent) of its equity.

(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.

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	
	2016	2015
	$m	$m
Current assets	797	600
Non-current assets	3,427	3,140
Total assets	**4,224**	**3,740**
Current liabilities	1,050	933
Non-current liabilities	3,424	3,166
Total liabilities	**4,474**	**4,099**
Net liabilities	**(250)**	**(359)**
Cash and cash equivalents	40	41
Current financial liabilities	102	8
Non-current financial liabilities	3,313	3,134
Revenue	3,310	3,165
Expenses	2,454	2,267
Depreciation and amortisation	323	387
Interest income	-	1
Interest expense	229	235
Other finance costs	4	2
Income tax expense	29	36
Profit for the year	**271**	**239**
Other comprehensive income	(90)	23
Total comprehensive income for the year	**181**	**262**

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	
	2016	2015	2016	2015
	$m	$m	$m	$m
Carrying amount of investment	**6**	**5**	**165**	**196**
Group's share of				
Profit/(loss) from continuing operations	-	1	12	35
Other comprehensive income	(4)	(18)	(4)	(9)
Total comprehensive income	**(4)**	**(17)**	**8**	**26**

6.3.3 Suspension of equity accounting

Our unrecognised share of (profits)/losses for the period and cumulatively for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount, is shown in Table E.

Table E Telstra Group	Year ended 30 June			
	Period	Cumula - tive	Period	Cumula - tive
	2016	2016	2015	2015
	$m	$m	$m	$m
Joint ventures				
Foxtel	(54)	125	(6)	179
Reach Ltd	(1)	555	(2)	556
Associated entities				
Australia - Japan Cable Holdings Limited	4	105	(14)	101
	(51)	**785**	**(22)**	**836**

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	
	2016	2015
	$m	$m
Income		
Sale of goods and services	240	231
Distribution from Foxtel Partnership	37	125
Interest income from loans to joint ventures and associated entities	7	54
Expenses		
Purchase of goods and services	830	808
Interest expense on loans from joint ventures and associated entities	4	1
Total amounts receivable at 30 June		
Current		
Joint ventures and associated entities – receivables	60	4
	60	**4**
Non-current		
Joint ventures and associated entities – loans	418	459
Allowance for amounts owed by joint ventures and associated entities	(7)	(7)
	411	**452**
Movement in allowance for amounts owed by joint ventures and associated entities		
Opening balance	**(7)**	**(6)**
Foreign currency exchange differences	-	(1)
Closing balance	**(7)**	**(7)**
Total amounts payable at 30 June		
Current		
Joint ventures and associated entities – payables	180	77
Joint ventures and associated entities – loans	-	34
	180	**111**
Non-current		
Joint ventures and associated entities – loans	35	-
	35	**-**

(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 2016 were as follows:

- we purchased pay television services amounting to $752 million (2015: $675 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 $109 million (2015: $117 million).

(b) Distribution from Foxtel joint venture

During the financial year 2016 we received a $37 million (2015: $125 million) distribution from our joint venture Foxtel.

(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 $411 million (2015: $451 million) and Reach Ltd of $7 million (2015: $7 million).

In April 2012, Telstra Corporation Limited provided a loan to Foxtel Management Pty Ltd to fund the acquisition of shares in AUSTAR. During the year, the loan has been amended reducing the applicable interest rate from 12 per cent to 10.5 per cent effective 1 July 2015. This resulted in an initial accounting adjustment of $42 million due to change in the present value of the remaining cash flows, which was recognised as an offset against interest income. The present value difference will unwind over the remaining term of the loan. The loan has a minimum term of just over 10 years and a maximum of 15 years.

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

In the prior year, we had an outstanding loan payable amount of $34 million under a loan agreement with an associated entity, Project Sunshine I Pty Ltd which was repaid during the year together with capitalised interest of $2 million. We subsequently obtained a new loan for $34 million. As at 30 June 2016, the outstanding balance was $35 million which includes capitalised interest. The new 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 other commitments amounting to approximately $3,262 million (2015: $2,779 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 $33 million (2015: $45 million) over the remaining three-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.

6.4 Discontinued operations

6.4.1 Sale of Autohome Group and discontinued operation

On 15 April 2016, we entered into a binding agreement to dispose of 47.4 per cent of our 53.9 per cent shareholding in Autohome Group. The sale was completed on 23 June 2016 for a total consideration of $2,080 million. Profit generated on sale amounted to $1,788 million and included the fair value of our retained 6.5 per cent interest in Autohome Inc. of $234 million.

On completion, we deconsolidated the balance sheet of the Autohome Group including $757 million of cash balances disposed and recorded our retained interest which is classified as other investments in the statement of financial position. The value attributed to our retained interest was based on a Level 1 fair value as it was derived from quoted market prices in an active market. Subsequent changes in fair value from initial recognition are presented in other comprehensive income.

The effect of the disposal is detailed in Table A.

Table A Autohome Group	Year ended 30 June 2016 $m
Cash consideration on disposal	
Consideration received (net of hedging activities)	2,080
Cash and cash equivalents disposed	(757)
Net cash inflows on disposal	**1,323**
Component of gain on disposal	
Consideration received	2,080
Fair value of retained 6.5 per cent interest	234
Total	**2,314**
Assets/(liabilities) at disposal date	
Cash and cash equivalents	757
Trade and other receivables	358
Inventories	36
Prepayments	198
Property, plant and equipment	21
Intangible assets	138
Investments - accounted for using the equity method	29
Deferred tax assets	13
Trade and other payables	(297)
Current tax payables	(36)
Revenue received in advance	(153)
Net assets	**1,064**
Foreign currency translation reserve derecognised	(97)
Adjustment for non-controlling interests	(466)
Net book value of assets disposed	**501**
Transaction costs incurred	25
Gain on disposal	**1,788**

Autohome Group represents a separate major line of business responsible for running a web platform to facilitate transactions for automakers and dealers and allow them to market their inventory and services. Autohome Group also provides auto financing and auto insurance in China. Autohome Inc. is listed on the New York Stock Exchange.

In accordance with AASB 5: 'Non Current Assets Held for Sale and Discontinued Operations', the Autohome Group has been disclosed as a discontinued operation and included as a reconciling item between our segment results and Telstra Group's reported EBITDA in our segment note.

Section 6. Our investments (continued)

6.4 Discontinued operations (continued)

6.4.1 Sale of Autohome Group and discontinued operation (continued)

Financial information related to the discontinued operation is set out in Table B below.

Table B Autohome Group	Year ended 30 June 2016 $m	 2015 $m
Revenue	827	495
Other income	6	-
Expenses	599	292
Net finance income	15	10
Profit before income tax expense	**249**	**213**
Income tax expense	43	41
Profit after income tax expense from discontinued operations	**206**	**172**
Gain on disposal of discontinued operations	1,788	-
Income tax (benefit) on gain on disposal of discontinued operations	(12)	-
Profit after tax on disposal of discontinued operations	**2,006**	**172**
Net cash provided by operating activities	120	175
Net cash provided by investing activities	1,300	6
Net cash provided by financing activities	6	451
Net increase in cash and cash equivalents	**1,426**	**632**

6.4.2 Sensis discontinued operation

Discontinued operations also include $11 million (June 2015: $19 million) adjustments (reduction in other expenses) related to the disposal of the Sensis Group in February 2014.

6.4.3 Profit and earnings per share from discontinued operations

Profit for the year attributable to the equity holders of the Telstra Entity and our earnings per share from our discontinued operations are disclosed in note 2.5.

6.4.4 Recognition and measurement

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

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 adopted AASB 2015-3: 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality' effective from 1 July 2015. The adoption of these amendments had no impact on our annual financial results.

There have been no other changes to our accounting policies.

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 year ended 30 June 2016 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)), AASB 2014-7: 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)' and AASB 2014-8: 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) - Application of AASB 9 (December 2009) and AASB 9 (December 2010)'.

AASB 9 (2014) is the final version of a new principal standard that consolidates requirements 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 are currently assessing the impact of the new impairment model on our financial results.

(b) Revenue from contracts with customers

In December 2014, the AASB issued AASB 15: 'Revenue from Contracts with Customers' and AASB 2014-5: 'Amendments to Australian Accounting Standards arising from AASB 15'. 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. 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 currently assessing the impact of the new revenue standard on our financial results.

(c) New leasing standard

In February 2016, AASB issued AASB 16 'Leases', which replaces the current guidance in AASB 117 'Leases'.

The new standard significantly changes accounting for lessees requiring recognition of all leases on the balance sheet, including those currently accounted for as operating leases. A lessee will recognise liabilities reflecting future lease payments and 'right-of-use assets', initially measured at a present value of unavoidable lease payments. Depreciation of leased assets and interest on lease liabilities will be recognised over the lease term.

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)

(c) New leasing standard (continued)

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

There is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

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

We are currently assessing the impact of the new leasing standard on our financial results.

(d) Other

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	
	2016	2015
	$m	$m
Audit fees		
EY fees for the audit and review of the financial reports	**9.390**	**8.104**
Other services		
Audit related	1.216	1.324
Non-audit services		
- Tax services	0.059	0.015
- Advisory services	0.568	0.105
Total other services provided by EY	**1.843**	**1.444**

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.

The above fees are inclusive of fees charged to the Autohome Group entities, which we ceased to control on 23 June 2016.

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

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 summary of financial information for the Telstra Entity.

Table A Telstra Entity	As at 30 June	
	2016	2015
	$m	$m
Statement of financial position		
Total current assets	9,030	5,720
Total non-current assets	36,169	33,849
Total assets	**45,199**	**39,569**
Total current liabilities	12,553	8,970
Total non-current liabilities	17,515	17,091
Total liabilities	**30,068**	**26,061**
Share capital	5,167	5,198
Cash flow hedging reserve	(93)	(114)
Foreign currency basis spread reserve	48	50
General reserve	194	194
Retained profits	9,815	8,180
Total equity	**15,131**	**13,508**

Table B Telstra Entity	Year ended 30 June	
	2016	2015
	$m	$m
Statement of comprehensive income		
Profit for the year	5,633	4,631
Total comprehensive income	5,441	4,859

Total non-current assets include reversal of impairment of $1,314 million (2015: $1,093 million impairment loss) 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	
	2016	2015
	$m	$m
Total property, plant and equipment expenditure commitments	1,101	666

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 2016, 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 $231 million (2015: $241 million) in respect of the performance of contracts
- indemnities to financial institutions and other third parties in respect of performance and other obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose is $124 million (2015: $131 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 2016, this guarantee remains unchanged and $142 million (2015: $142 million) of the $210 million guarantee facility remains unused. Upon sale of our shareholding in IBMGSA and under the deed of indemnity between shareholders, our liability under these performance guarantees has been indemnified for all guarantees that were in place at the time of sale. Therefore, the overall net exposure to any loss associated with a claim has effectively been offset.

(c) Other

We have contractual commitments to purchase goods and services, which will be used or sold in the ordinary course of business from a variety of suppliers. These amounts do not represent our entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. Certain contractual obligations include non-cancellable quantities of up to $300 million.

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

Capital expenditure commitments contracted for at balance date but not recorded in the financial statements are detailed in Table A.

Table A Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Property, plant and equipment commitments	1,132	684
Intangible assets commitments	426	174

Property, plant and equipment commitments include the Telstra Entity capital expenditure commitments of $1,101 million (2015: $666 million) as disclosed in note 7.3.

7.4.2 Operating lease commitments

Future lease payments for non-cancellable operating leases not recorded in the financial statements are detailed in Table B.

Table B Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Within 1 year	546	570
Within 1 to 5 years	1,206	1,368
After 5 years	1,059	1,003
	2,811	**2,941**

Section 7. Other information (continued)

7.4 Commitments and contingencies (continued)

7.4.2 Operating lease commitments (continued)

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	
	2016	2015
Land and buildings	17	16
Motor vehicles	2	2
Light commercial vehicles (caravan huts and trailers)	4 - 5	4 - 5
Trucks and mechanical aids and heavy excavation equipment	7 - 12	7 - 12
Personal computers, laptops, printers and other related equipment used in non-communications plant activities	3	3

The majority of our operating leases relate to land and buildings. We have several sub-leases with total minimum lease payments of $42 million (2015: $36 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.

Refer to note 3.1 for our lease accounting policy (Telstra as lessee).

7.4.3 Finance lease commitments

Table D includes finance lease commitments of the Telstra Group as a lessee.

Table D Telstra Group	As at 30 June	
	2016	2015
	$m	$m
Finance lease commitments		
Within 1 year	143	113
Within 1 to 5 years	203	180
After 5 years	186	195
Total minimum lease payments	**532**	**488**
Future finance charges on finance leases	(145)	(144)
Present value of net future minimum lease payments	**387**	**344**
The present value of finance lease liabilities is as follows		
Within 1 year	118	93
Within 1 to 5 years	156	139
After 5 years	113	112
Total finance lease liabilities	**387**	**344**

Table E provides information about the assets under our finance leases and their weighted average lease terms.

Table E Telstra Group	Weighted average lease term (years) As at 30 June	
	2016	2015
Property lease in our controlled entity, Telstra Limited (initial life 25 years)	21	22
Computer mainframes, processing equipment and other related equipment	5	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 2016. 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.

Section 7. Other information (continued)

7.5 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 30 June 2016 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 2016 are disclosed in note 4.1.

7.5.2 Capital management

On 2 May 2016, Telstra announced a capital management program of at least $1.5 billion to commence in the first half of the financial year 2017. On 11 August, the Board resolved to undertake an off-market share buy-back of up to approximately $1.25 billion and an on-market share buy-back of up to approximately $250 million as part of our capital management program. The shares bought back will be cancelled by the Company, reducing the number of shares the Company has on issue. The off-market and on market buy-backs will be funded from Telstra's cash reserves reflected in Telstra's surplus cash and accumulated retained profits (including profits from the recent sale of Autohome shares).

The off-market buy-back will be available to eligible shareholders and implemented by way of a tender process and at a discount to the market price, and will be made up of a capital and a dividend component. The dividend component will be fully franked and our estimate of the decrease in franking credits is $376 million, based on the assumption of Telstra's ASX listed share price of $5.60, buy-back discount of 14 per cent and a non-resident shareholding of 22.35 per cent. These estimated impacts could change depending upon the outcomes of the tender process.

The on-market share buy-back will be conducted in the ordinary course of trading over the next 12 months after completion of the off-market buy-back.

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:

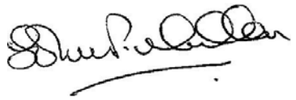
(a) in the Directors' opinion, the financial statements and notes of the Telstra Group for the financial year ended 30 June 2016 set out on pages 76 to 154:
  (i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations (as disclosed 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 2016 and of the performance of Telstra Corporation Limited and the Telstra Group, for the year ended 30 June 2016
  (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

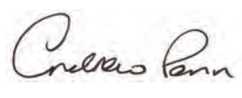
(c) at the date of this declaration, in the Directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable

(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 obligations or liabilities to which they are, or may become subject to, under 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

11 August 2016
Sydney, Australia

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Independent Auditor's report to the Members 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), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2016, 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 comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the Company.

In our opinion:

the accompanying financial report of Telstra Corporation Limited is in accordance with the Corporations Act 2001, including:

a. Giving a true and fair view of the Group's consolidated financial position as at 30 June 2016 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with 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 statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Key audit matter	How our audit addressed the matter
Revenue recognition	
There are three significant judgement areas relating to revenue recognition. These are: • accounting for new products and plans including multiple element arrangements; • accounting for large Network Application Services (NAS) contracts; and • accounting for NBN revenue under the revised Definitive Agreements (DAs) with nbn co and the Commonwealth Government. Disclosures relating to revenue recognition can be found at Note 2.2 Income. 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.	We evaluated the design and operating effectiveness of controls over the capture and measurement of revenue transactions, including evaluating the relevant IT systems. We examined the process and controls over the capture and assessment of the timing of revenue recognition for new products and plans, as well as performed testing of a sample of new plans to supporting evidence. We tested revenue recognition and the process to make adjustments to revenue recognised for a sample of NAS contracts. 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. We assessed the Group accounting policies as set out in Note 2.2 Income, for compliance with the revenue recognition requirements of Australian Accounting Standards (AASBs).

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Key audit matter	How our audit addressed the matter
Reliance on automated processes and controls	
A significant part of the Group's financial processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions. This is a key part of our audit because of the: • Complex IT environment supporting diverse business processes • Mix of manual and automated controls • Multiple internal and outsource support arrangements • Complexity of the billing systems which result in revenue being recognised.	We understood and tested management's controls in 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.
The Group continues to enhance its IT systems and during the year implemented new systems which were material to our audit.	We gained an understanding of material new systems including the design of the automated processes and controls. We assessed the processes put in place to migrate any data from the legacy systems to new systems and tested reconciliations between the systems. We evaluated the design and tested the operating effectiveness of the controls in the new systems and we performed additional audit testing procedures.
Impairment of the goodwill and intangible assets	
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. Determination as to whether or not there is an impairment relating to an asset or Cash Generating Unit (CGU) involves significant judgement about the future cash flows and plans for these assets and CGUs. Further disclosure regarding the Group's impairment can be found in Notes 3.1 and 3.2.	We evaluated the impairment calculations including the testing of the recoverable amount of each CGU. We assessed the reasonableness of the cash flow projections used in the impairment models. We utilised EY 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 Notes 3.1 and 3.2.
Employee entitlements and post employment benefits	
Given the large long term employee workforce as well as the number of employees who are members of the defined benefit scheme, the valuation of employee entitlements and the defined benefit obligations are subject to complex estimation techniques and significant judgement. A small change in assumptions can have a material impact on the financial statements. Further disclosure regarding the Group's employee leave entitlements can be found in Note 5.1 Employee Benefits. Disclosure regarding post employment benefits can be found in Note 5.2 Post-Employment Benefits.	We assessed the reasonableness of actuarial assumptions used in valuing the defined benefit obligations. This included making use of our actuarial specialists to support the testing of the external expert calculations obtained by management. We tested controls around the underlying employee data used in the employee entitlement and defined benefit obligation calculations. We also tested the accuracy of the calculations and models. We evaluated the assumptions applied in calculating employee entitlements such as the discount rate and the probability of long service leave vesting conditions being met. We also tested the accuracy of the calculations and models used to calculate employee entitlement provisions.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do 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 upon the work we have performed, 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.

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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 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 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 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 entity'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 in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity 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 consolidated financial statements represent 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 are also required to 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.

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 52 to 73 of the Directors' Report for the year ended 30 June 2016.

In our opinion, the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2016, 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.

The engagement partner on the audit resulting in this independent auditor's report is Steve Ferguson.

Ernst & Young

SJ Ferguson
Partner
Sydney
11 August 2016

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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 5.1.8(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 www.asx.com.au and, in respect of the NZX, at www.nzx.com. Further information in relation to Telstra's corporate governance practices are set out in the Governance At Telstra section of this Annual Report and in our 2016 Corporate Governance Statement which can be found at www.telstra.com/governance.

Markets on which our debt securities are listed

We also have debt securities listed on the Australian Stock 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 18 July 2016:

Title of class	Identity of person of group	Amount owned	%
Listed Shares	Listed shareholders	12,225,655,836	100

Distribution of shares

The following table summarises the distribution of our listed shares as at 18 July 2016:

Size of Holding	Number of Shareholders	%	Number of Shares	%
1-1,000	644,700	46.24	356,247,077	2.91
1,001-5,000	513,878	36.86	1,234,223,169	10.10
5,001-10,000	126,240	9.06	901,087,894	7.37
10,001-100,000	105,610	7.58	2,508,160,462	20.52
100,001 and over	3,718	0.27	7,225,937,234	59.10
Total	1,394,146	100.00	12,225,655,836	100.00

The number of shareholders holding less than a marketable parcel of shares was 11,282 holding 439,481 shares (based on the closing market price on 18 July 2016).

Shareholder Information

Substantial shareholders

As at 18 July 2016, we are not aware of any substantial shareholders.

Twenty largest shareholders as at 18 July 2016

The following table sets out the Top 20 holders of our shares (when multiple holdings are grouped together):

	Shareholders Name	Number of shares	% of Issued Capital
1	HSBC CUSTODY NOMINEES	1,869,587,702	15.29%
2	J P MORGAN NOMINEES AUSTRALIA LTD	1,647,360,682	13.47%
3	NATIONAL NOMINEES LIMITED	950,975,016	7.78%
4	CITICORP NOMINEES PTY LIMITED	662,334,314	5.42%
5	BNP PARIBAS	564,239,400	4.62%
6	RBC INVESTOR SERVICES AUSTRALIA	93,015,668	0.76%
7	AMP LIFE LIMITED	70,727,406	0.58%
8	NETWORK INVESTMENT HOLDINGS	53,727,868	0.44%
9	AUSTRALIAN FOUNDATION INVESTMENT	52,445,000	0.43%
10	ARGO INVESTMENTS LIMITED	43,004,800	0.35%
11	UBS NOMINEES PTY LTD	41,699,065	0.34%
12	IOOF INVESTMENT MANAGEMENT	36,730,580	0.25%
13	TELSTRA GROWTHSHARE PTY LTD	25,335,745	0.21%
14	NAVIGATOR AUSTRALIA LTD	23,291,751	0.19%
15	EQUITAS NOMINEES PTY LTD	23,218,179	0.19%
16	NETWEALTH INVESTMENTS LIMITED	23,133,323	0.12%
17	NULIS NOMINEES (AUSTRALIA)	21,660,538	0.18%
18	MILTON CORPORATION LIMITED	14,971,253	0.12%
19	SHARE DIRECT NOMINEES PTY LTD	13,819,395	0.11%
20	PACIFIC CUSTODIANS PTY LTD	13,729,573	0.11%
	Total for Top 20	6,245,007,258	51.08%
	Total other Investors	5,980,648,578	48.92%
	Grand Total	12,225,655,836	100.00%

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

Reference tables

Non financial results Key performance indicator	FY16	FY15	FY14
Sustainable engagement[1] *Score (%)*	71	n/a	n/a
Health and safety[2] *Lost Time Injury Frequency Rate (LTIFR)*	0.66	0.98	1.12
Gender equality[3] *Women in executive management (%)*	25.5	25.6	25.9
Volunteering during Telstra time *Total (days)*	8,186	7,225	5,122
Payroll giving *Participation rate (%)*	5.5	5.8	5.3
Social and community investment[4] *Value ($m)*	175	214	217
Everyone Connected *Targeted community programs (people reached) ('000's)*	59[5]	117	143
Greenhouse gas emissions[6] *Tonnes of carbon dioxide equivalent (tCO_2e) ('000s)*	1,540	1,571	1,592
Emissions intensity[6] *tCO_2e per terabyte of data*	0.26	0.42	0.58
E-waste Mobile phones *(tonnes collected)*	16	15.6	15.3

1. We have 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. This data relates to Telstra Corporation Limited only and does not include subsidiaries or contractors.
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 within the Telstra Executive Team.
4. Our social and community investment covers four key focus areas: Everyone Connected (customer and community digital inclusion programs, comprising 85 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 included in FY16. In FY15 DVD loans accounted for more than 80,000 people reached. Our Bigger Picture 2016 Sustainability Report provides more detail on our approach.
6. Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships.

Continuing operations	2016 $m	2015[1] $m	2014 $m	2013[2] $m	2012 $m
Total income *(excluding finance income)*	27,050	26,112	26,296	24,776	25,503
EBITDA[3]	10,465	10,533	11,135	10,168	10,234
EBIT[4]	6,310	6,559	7,185	6,090	5,822
Profit for the year from continuing operations	3,832	4,114	4,549	3,640	3,424
Profit/(loss) for the year from discontinued operations[5]	2,017	191	(204)	151	N/A
Profit for the year from continuing and discontinued operations	5,849	4,305	4,345	3,791	3,424
Dividends declared per share *(cents)*	31.0	30.5	29.5	28.0	28.0
Total assets	43,286	40,445	39,360	38,527	39,525
Gross debt	16,009	14,962	16,048	15,628	17,222
Net debt	12,459	13,566	10,521	13,149	13,277
Total equity	15,907	14,510	13,960	12,875	11,689
Capital expenditure[6]	4,045	3,589	3,661	3,689	3,591
Free cashflow from continuing and discontinued operations	5,926	2,619	7,483	5,024	5,197
Earnings per share from continuing and discontinued operations *(cents)*	47.4	34.5	34.4	30.1	27.5
Dividend payout ratio *(%)*[7]	65	88	86	93	102

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 related 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. Capital expenditure 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 FY16: 98% (FY15: 91%).

Guidance versus reported results

This schedule details the adjustments made to the reported results for the current year to reflect the performance of the business on the basis which we provided guidance to the market.

Our guidance assumed wholesale product price stability from the beginning of the financial year and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Capex to sales guidance excluded externally funded capex.

	Reported			Adjustments June 2016											June 2015	Guidance Basis		
	Full year ended 30 June			M&A: Controlled Entities & Business[1]	M&A: JVs/ Associates[1]	M&A: Other Investments[1]	M&A: Disposals excluding Autohome[1]	Fixed Services FAD[2]	MTAS FAD[3]	DTCS FAD[4]	Ooyala Impairment[5]	Spectrum[6]	Autohome[7]	Autohome[7]	Autohome[7]	Full year ended 30 June		
	2016	2015	Growth													2016	2015	Growth
	$m	$m	%	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	%
Sales revenue	25,834	25,350	1.9%	(14)	0	0	0	64	356	4	0	0	0	827	495	27,071	25,845	4.7%
Total revenue	25,911	25,528	1.5%	(14)	0	0	0	64	356	4	0	0	0	827	495	27,148	26,023	4.3%
Total income (excl. finance income)	**27,050**	**26,112**	**3.6%**	**(14)**	**0**	**0**	**0**	**64**	**356**	**4**	**0**	**0**	**(1,788)**	**2,621**	**495**	**28,293**	**26,607**	**6.3%**
Labour	5,041	4,782	5.4%	(14)	0	0	0	0	0	0	0	0	0	259	139	5,286	4,921	7.4%
Goods and services purchased	7,247	6,845	5.9%	(1)	0	0	0	0	362	0	0	0	0	116	2	7,724	6,847	12.8%
Other expenses	4,312	3,971	8.6%	(1)	0	0	0	0	0	0	(246)	0	0	214	142	4,279	4,113	4.0%
Operating expenses	**16,600**	**15,598**	**6.4%**	**(16)**	**0**	**0**	**0**	**0**	**362**	**0**	**(246)**	**0**	**0**	**589**	**283**	**17,289**	**15,881**	**8.9%**
Share of net profit/(loss) from joint ventures and associated entities	15	19	(21.1%)	0	0	0	0	0	0	0	0	0	0	0	0	15	19	(21.1%)
EBITDA	**10,465**	**10,533**	**(0.6%)**	**2**	**0**	**0**	**0**	**64**	**(6)**	**4**	**246**	**0**	**(1,788)**	**2,032**	**212**	**11,019**	**10,745**	**2.6%**
Depreciation and amortisation	4,155	3,974	4.6%	(1)	0	0	0	0	0	0	0	0	0	10	9	4,164	3,983	4.5%
EBIT	**6,310**	**6,559**	**(3.8%)**	**3**	**0**	**0**	**0**	**64**	**(6)**	**4**	**246**	**0**	**(1,788)**	**2,022**	**203**	**6,855**	**6,762**	**1.4%**
Net finance costs	710	699	1.6%	0	0	0	0	0	0	0	0	0	0	(15)	(10)	695	689	0.9%
Profit before income tax expense	**5,600**	**5,860**	**(4.4%)**	**3**	**0**	**0**	**0**	**64**	**(6)**	**4**	**246**	**0**	**(1,788)**	**2,037**	**213**	**6,160**	**6,073**	**1.4%**
Income tax expense	1,768	1,746	1.3%	1	0	0	0	19	(2)	1	0	0	12	31	41	1,830	1,787	2.4%
Profit for the year	**3,832**	**4,114**	**(6.9%)**	**2**	**0**	**0**	**0**	**45**	**(4)**	**3**	**246**	**0**	**(1,800)**	**2,006**	**172**	**4,330**	**4,286**	**1.0%**
Profit/(loss) for the year from discontinued operations	2,017	191	956.0%	0	0	0	0	0	0	0	0	0	0	(2,006)	(172)	11	19	(42.1%)
Profit for the year from continuing and discontinued operations	**5,849**	**4,305**	**35.9%**	**2**	**0**	**0**	**0**	**45**	**(4)**	**3**	**246**	**0**	**(1,800)**	**0**	**0**	**4,341**	**4,305**	**0.8%**
Attributable to:																		
Equity holders of Telstra Entity	5,780	4,231	36.6%	2	0	0	0	45	(4)	3	240	0	(1,800)	0	0	4,266	4,231	0.8%
Non controlling interests	69	74	(6.8%)	0	0	0	0	0	0	0	6	0	0	0	0	75	74	1.4%
Free cashflow	**5,926**	**2,619**	**126.3%**	**94**	**38**	**67**	**(73)**	**64**	**(6)**	**4**	**0**	**5**	**(1,323)**	**0**	**0**	**4,796**	**2,619**	**83.1%**

This table has been subject to review by our auditors.

Note:

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

1. Mergers & Acquisitions:
   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.
2. Fixed Services Final Access Determination (FAD) adjustments:
   Adjustments for ACCC FAD pricing for fixed services which became effective on 1 November 2015.
3. Mobile Terminating Access Service Final Access Determination (MTAS FAD) adjustments:
   Adjustments for the re-pricing of mobile terminating rates, with Voice termination from 3.60 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.
4. Domestic Transmission Capacity Service adjustments:
   Adjustments for ACCC FAD pricing for Transmission Capacity Service which became effective on 21 April 2016.
5. Ooyala impairment adjustments:
   Adjustments relating to an impairment of goodwill of $246m.
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. Autohome is classified as discontinued operation adjustments:
   The Autohome Group is disclosed as a discontinued operation for the years ended 30 June 2016 and 30 June 2015. The sale was completed on 23 June 2016. Autohome trading results before its disposal have been included for guidance. Adjustments relating to the impact of $1,788m Autohome profit on sale and Free Cashflow associated with the sale ($1,323m) have been made to exclude these from guidance.

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Glossary

Technology Terms

4G
Fourth generation of wireless networks. It gives users faster download and upload speeds and better response times than previous generations. 4G lets customers do things like downloading files, sending large attachments, web browsing and online multi-tasking faster than previous generations. 4G also provides more network capacity and thus delivers benefits for network operators. The faster you can deliver data, the greater the capacity you make available for other users on the network.

4GX
The next 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.

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.

ADSL 2+
Extends the capability of basic ADSL by increasing the potential speeds that customers experience. Telstra's ADSL 2+ service can deliver a maximum download speed of 20Mbps. (The actual customer download speed can vary depending on factors such as distance from the exchange. Typical download speeds are 10Mbps).

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.

Cable
See HFC cable.

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.

eHealth
eHealth is the sharing of health resources and provision of health care by electronic means.

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. Because fibre can deliver faster data transfer speeds than copper, FTTP solutions, which do not depend on copper, offer potential internet speeds faster than FTTN solutions (see definition of FTTN).

Fixed Wireless (nbn™)
The **nbn** co Fixed Wireless network uses advanced wireless technology such as 4G to deliver fixed telephone and broadband services to the premises within each coverage area.

Home hotspots
For home broadband customers who join Telstra Air, a Telstra Air signal may be added to their home gateway, forming a home hotspot. When other Telstra Air customers visit and connect a portion of their home broadband bandwidth is used to access the Internet. When visitors use a customers' home hotspot, it won't affect the host's home broadband allowance.

Hybrid Fibre Coax (HFC)
A way of delivering video, voice and data using both coaxial cables (like the ones used for connecting your television to an antenna) and fibre optic cables. Optical fibre connects a telco's facility (called a headend) to hubs in suburban streets, and then coaxial cables connect the hubs and customer premises. Telstra uses an HFC network to deliver Foxtel** and BigPond® Cable Internet services.

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.

Internet Protocol Television (IPTV)
Television, video signals or other multimedia services that are distributed to subscribers or viewers using Internet Protocol over a broadband connection. Examples include Telstra's T-Box and Foxtel on T-Box services.

Live chat
Telstra LiveChat is an application which allows visitors to **Telstra.com** the opportunity to communicate 'Live' with a Telstra consultant. Customers can have their questions answered and/or purchase any number of products in one single web chat.

Migration plan
The migration plan outlines how Telstra will progressively migrate voice and broadband services from its copper and HFC networks to the **nbn**™ as its fixed line network is rolled out across Australia. The migration plan was originally approved by the ACCC on 27 February 2012 and 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.

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, for example overseas.

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
All wireless communications signals travel through the air via radio frequency, known also as spectrum. The government grants telcos licences for dedicated use of portions (bands) of the spectrum. As people increase their use of wireless networks, more spectrum is required.

Unified Communications
An integrated hardware and software offering that combines enterprise communications on a single platform. It is any communications system that encompasses a broad range of technologies and applications that have been designed as a single communications platform. A unified communications system generally enables companies to use integrated data, video and voice from multiple locations in one supported product.

Voice over LTE (VoLTE)
Voice calls over a 4G (LTE) network, rather than the 3G connections which have been used in the past.

Wi-Fi
The most prevalent form of WLAN technology. Wireless local area networks (WLANs) are small-scale wireless networks with a typical radius of several hundred feet.

Wi-Fi hotspot
A device that other devices can connect to wirelessly in order to access the internet. (Wi-Fi refers to a set of wireless standards commonly used by devices for short-distance wireless communication).

Financial Terms

Capex
Capital expenditure. This is expenditure on assets such as property, equipment, intangible assets, etc.

DPS
Dividend per share.

EBITDA
Earnings before interest, income tax expense, depreciation and amortisation. An indicator of a company's operational profitability.

EPS
Earnings per share. A company's profit divided by the number of shares on issue.

Free cashflow
Represents the cash that a company is able to generate from its operations after spending money required to maintain or expand its asset base.

NPAT
Net profit after tax.

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Online shareholder information

Telstra's Investor Centre at **telstra.com/investor** has all the latest news and information available for shareholders.

Shareholders can also easily manage their shareholding online at **www.linkmarketservices.com.au/telstra.** Shareholders require their SRN/HIN and postcode for access and then can view and update information under the following menu options:

Holdings – transaction history, holding balance and value and latest closing share price.

Payment and Tax – dividend payment history, tax information, payment instructions and TFN details. Update bank details here.

Communication – become an e-Shareholder and update postal/email addresses and communication elections here.

Keeping informed

To keep up to date with the latest news about Telstra:

- follow us on twitter **@Telstra_news**
- follow us on Facebook
- subscribe to our media releases on our website at **telstra.com.au/aboutus/media/rss-feeds**
- visit Telstra Exchange **exchange.telstra.com.au**

Annual Report

Telstra's 2016 Annual Report is available to all shareholders from our Investor Centre at **telstra.com/annualreport.** To receive a hardcopy of the Annual Report (free of charge), you can call our Share Registry on +61 1300 88 66 77 and request a report be sent to you. You may also update your communication preferences online to change the way you receive future copies of the Annual Report. Please refer to the Online Shareholder Information section for instructions on how to do this at **www.linkmarketservices.com.au/telstra.**

Sustainability reporting

Selected graphs and data presented in this Report are included in the Bigger Picture 2016 Sustainability Report, which is available online at **telstra.com/sustainability/report.** Our sustainability report provides more detailed information and analysis for our stakeholders on Telstra's sustainability approach and performance. You can also subscribe to our sustainability newsletter at **telstra.com/sustainability/subscribe.**

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.**

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

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Telstra Corporation Limited

ABN 33 051 775 556
Incorporated in the Australian Capital Territory
Telstra is listed on Stock Exchanges in
Australia and in New Zealand (Wellington)

Websites

Telstra Investor Centre:
telstra.com/investor

Telstra Sustainability:
telstra.com/sustainability

Telstra Customer Enquiries:
telstra.com

Indicative Financial Calendar[1]

Final dividend paid
Friday 23 September 2016

Annual General Meeting
Tuesday 11 October 2016

Half-Year Results announcement
Thursday 16 February 2017

Ex-dividend share trading commences
Wednesday 1 March 2017

Record date for interim dividend
Thursday 2 March 2017

DRP election date
Friday 3 March 2017

Interim dividend paid
Friday 31 March 2017

Annual Results announcement
Thursday 17 August 2017

Ex-dividend share trading commences
Wednesday 30 August 2017

Record date for final dividend
Thursday 31 August 2017

DRP election date
Friday 1 September 2017

Final dividend paid
Thursday 28 September 2017

1. Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).

telstra.com/investor