13 August 2020

Office of the Company Secretary

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The Manager

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

Dear Sir or Madam

ELECTRONIC LODGEMENT

Telstra Corporation Limited - Financial results for the full year ended 30 June 2020

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

1. Appendix 4E – Full Year Report

2. Operating and Financial Review for the full year ended 30 June 2020, which accompanies the Directors Report

3. Directors Report (including the Remuneration Report)

4. Financial Report

Telstra will conduct an analyst briefing on its 2020 full year results from 9.15am AEST and a media briefing from 11.00am AEST. The briefings will be webcast live at https://www.telstra.com.au/aboutus/investors/financial-information/financial-results.

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

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

Authorised for lodgement by:

Sue Laver
Company Secretary

Telstra Corporation Limited

Financial results for the year ended 30 June 2020

Financial results for the year ended 30 June 2020

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

Telstra Corporation Ltd, ABN 33 051 775 556

APPENDIX 4E (ASX LISTING RULE 4.3A)
FINAL REPORT
30 June 2020
Telstra Corporation Limited ABN 33 051 775 556

1. Results for announcement to the market

Telstra Group	Year ended 30 June			
	2020	2019	Movement	
	$m	$m	$m	%
Revenue (excluding finance income) from ordinary activities	23,710	25,259	(1,549)	(6.1)
Other income	2,451	2,548	(97)	(3.8)
Total income	**26,161**	**27,807**	**(1,646)**	**(5.9)**
Finance income	274	238	36	15.1
Profit for the year	**1,839**	**2,149**	**(310)**	**(14.4)**
Profit for the year attributable to equity holders of Telstra Entity	1,819	2,154	(335)	(15.6)
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	1,819	2,154	(335)	(15.6)

2. Dividend information

Telstra Group	Amount per share	Franked amount per share
	cents	cents
Interim ordinary dividend per share	5.0	5.0
Interim special dividend per share	3.0	3.0
Total interim dividend per share for the year	**8.0**	**8.0**
Final ordinary dividend per share	5.0	5.0
Final special dividend per share	3.0	3.0
Total final dividend per share for the year	**8.0**	**8.0**
Total dividend per share for the year	**16.0**	**16.0**
Final dividend dates		
Record date	27 August 2020	
Payment date	24 September 2020	

The above information is based on the consolidated financial statements and notes which have been audited by Ernst & Young (EY). Refer to note 4.1 to the financial statements and the Directors' Report for other dividend-related disclosures.

3. Net Tangible Assets per security information

Telstra Group	Year ended 30 June	
	2020	2019
		Restated
	cents	cents
Net tangible assets per security	59.4	57.5

Net tangible assets are defined as the net assets of the Telstra Group less intangible assets and non-controlling assets. Following the adoption of AASB 16: 'Leases' on 1 July 2019 the net assets as at 30 June 2020 include both right-of-use assets and corresponding lease liabilities accounted for under the new requirements. For further details on the adoption of AASB 16 refer to note 1.5.1 to the financial statements.

The number of Telstra shares on issue as at 30 June 2020 was 11,893 million (2019: 11,893 million).

The net tangible assets per security information as at 30 June 2019 has been restated to reflect the reclassification of long-term network capacity assets from property, plant and equipment to intangible assets. For further details on changes in presentation between tangible and intangible assets refer to note 1.5.3 to the financial statements.

4. Dividend Reinvestment Plan

The Board has determined that the Dividend Reinvestment Plan (DRP) will continue to operate for the final dividend for the financial year 2020. The election date for participation in the DRP is 28 August 2020.

Additional Appendix 4E disclosure requirements and 'Guidance versus Reported Results' reconciliation can be found in the 2020 Financial Report and Directors' Report (including the Operating and Financial Review (OFR) and the Remuneration Report) lodged with this document.

Chairman and CEO message

Dear Shareholders

Companies seldom get to choose the moments that define them. The choices they do have are how they act, and react, and the 2020 Financial Year has been a defining period for Telstra. Through the COVID-19 global pandemic, the bushfire crisis, ongoing market disruption and our transformation initiatives, we continued to execute on our T22 strategy and deliver for our customers and shareholders.

Your company ended the year with good momentum and growing confidence in our ability to deliver our strategic ambitions. As we passed the midway point of our T22 strategy to transform Telstra for the future, we had delivered, or were on track to deliver, three quarters of our T22 objectives.

During the financial year our progress on our T22 transformation was visible across many corners of the business: from new consumer products to passing enterprise milestones and showing financial strength and stability. We are pleased to have many highlights to share.

Consumer and Small Business in-market plans have been cut from 1800 to 20.

Our new loyalty program, Telstra Plus, consulting and professional service business, Telstra Purple, and extensive gaming offers were brought to market.

We completed the release of our new set of technologies to power our systems, simplifying our store processes and assisting us to retire many of the complex legacy systems that had caused delays in the past.

We were number one in major mobile network leadership surveys[1] and continued our clear leadership on 5G. In fact, Telstra 5G now covers around a third of the Australian population – an area that more than 10 million Australians live in, work in or pass through every day. With 5G now in selected areas of 53 cities and towns, we exceeded our FY20 target of deploying 5G in selected areas of 35 cities and towns. Our accelerated rollout means Telstra 5G coverage will reach around 75 per cent of the Australian population by June 2021.

We rolled out Agile at scale and we continued to embed this cross-functional, customer-centric way of working across the organisation, with 10,000 people now working in Agile teams.

Telstra InfraCo became a fully operational standalone infrastructure business unit.

Our employee engagement scores exceeded targets despite the unprecedented disruption that included having to move 25,000 of our people in Australia to work from home arrangements during the COVID-19 pandemic.

In short, it was a year of considerable progress and more information is available on these initiatives in the Strategy and Performance section of this report.

Financial results

Our results showed that through a challenging period Telstra continued to deliver for our customers, support our people and our community, while generating long-term shareholder value.

FY20 proved to be an enormously challenging year for everyone – for governments, businesses, communities, and for all of us as individuals. The emotional, mental and economic stresses as a result of the COVID-19 pandemic and necessary restrictions have been profound.

It says a lot about the strength of our business and strategy that through all this we were able to meet guidance, maintain the dividend and provide guidance for the year ahead. Importantly, we have also retained our strong balance sheet and A-band credit ratings.

On a reported basis Total Income[2] for the year decreased 5.9 per cent to $26.2 billion and NPAT decreased 14.4 per cent to $1.8 billion.

Reported EBITDA was $8.9 billion. After adjusting for lease accounting on a like-for-like basis[3], EBITDA decreased 0.3 per cent to $8.4 billion.

[1] Based on Ookla data that shows we continue to rank first in each quarter of the year in both Ookla speed score and average data speeds. Telstra was also recognised as Best in Test, Best in Voice, and Best in Crowd-Sourced Quality awards in the umlaut (formerly P3) 2019 Australian Mobile Network Benchmark.
[2] Excluding finance income.
[3] Reported lease adjusted EBITDA includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA.

On a guidance basis[4], underlying EBITDA declined 9.7 per cent to $7.4 billion. Excluding the in-year nbn headwind[5] – which gives the clearest view of the long-term business – underlying EBITDA grew by approximately $40 million, with growth in the first half of the year offset by a second half decline.

During the year we reduced our underlying fixed costs[6] by $615 million, or 9.2 per cent. This brought underlying fixed cost reductions achieved since FY16 to $1.8 billion and put Telstra on track to achieve its $2.5 billion net cost reduction target in FY22.

The Board resolved to pay a fully-franked final dividend of 8 cents per share, comprising a final ordinary dividend of 5 cents per share and a final special dividend of 3 cents per share, bringing the total dividend for FY20 to 16 cents per share. This will see $1.9 billion returned to shareholders for the year.

Responding to a challenging year

For all of our progress this year, the enormous disruption caused by the COVID-19 pandemic made 2020 an extraordinarily challenging year and one that highlighted the importance of connectivity in our society, and the role Telstra plays. Forced isolation and social distancing measures during the pandemic drove a huge acceleration in digitisation including in activities like telehealth, online learning, remote working and e-commerce.

This experience once again underlined the critical importance of telecommunications networks. As well as being the connective tissue during the lockdown period, telecommunications and digitisation will be crucial to our future prosperity.

Through this extraordinary disruption, Telstra was challenged to adapt, to find new ways of supporting our customers, our people and the country in a time of need. We are very proud of the way our team responded. The COVID-19 period showed the value of our investments through our T22 strategy to transform Telstra. The reasons we introduced T22 two years ago – a need to rapidly simplify and digitise, to remove customer pain points, to remove legacy systems and processes – have never been more relevant and necessary.

While the progress we made on T22 meant we could fast-track our digitisation and automation efforts during the pandemic and move more customer interactions online, one of the negative impacts was the reduction in our workforce capacity, particularly in India and the Philippines, due to strict COVID-19 lockdowns.

We understand this was a challenging time for many of our customers who experienced delays getting in touch with us and we are sorry for the disruption that caused. Our teams worked incredibly hard throughout this time and we thank them for their efforts, and our customers for their patience.

These challenges forced us to think differently about customer service, enabling our Australian call centre workforce to work from home, and accelerating our digital engagement. By providing more customers with the capability to resolve their enquiry using our digital self-service tools or via messaging, we created more capacity to support customers who had more complex enquiries that were better resolved over the phone, or who were not as comfortable using digital tools.

Our plan is to continue supporting our customers in this way, and this means that over time we will need a smaller call centre workforce. Our aspiration is that by the end of our T22 program all in-bound calls from consumer and small business customers will be answered in Australia. This in turn will enable our teams in the Philippines and India to continue to support the digital experiences we offer.

Meeting our responsibilities

We continued to think deeply about our role and responsibility in the community. We believe the obligations we have to our customers are not defined only by the small print of our contracts but by our organisational purpose, values and code of conduct.

There is also a growing community expectation for businesses to take a stand on important social issues and a broader acceptance that companies will only be successful for their shareholders if their customers, employees and communities enjoy success too.

For Telstra, during the COVID-19 pandemic, that sense of responsibility included many things that we did in the interests of our people, customers and the economy. We introduced a new global epidemic and pandemic leave policy for our people – with paid leave for our casual employees, brought forward capex investments, created relief programs for small business and consumer customers (something we also did during the bushfires), provided temporary unlimited data allowances for home broadband customers and offered additional data to mobile customers.

In March, we put all job reductions on hold for six months to give our people certainty during this difficult time. As we approach the end of that pause, it is clear that the impacts of COVID-19 will be with us for some time. We have therefore made the decision to keep our T22 productivity role reductions on hold for permanent Telstra employees in Australia and internationally until February next year. We know many are doing it tough at the moment and we hope this decision will give some certainty to our people in what is a very challenging time for Australia – and many of the countries in which we operate.

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[4] FY20 guidance assumed wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn rollout and migration in FY20 was broadly in accordance with the nbn Corporate Plan 2020. Guidance was provided on the basis of AASB16 Leases and assumed impacts consistent with management estimates. Capex was measured on an accrued basis and excluded expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets. In-year nbn headwind is defined as the net negative recurring EBITDA impact on our business based on management best estimates including key input of the nbn Corporate Plan 2020.

[5] See note 4. As at 30 June 2020, the in-year nbn headwind was ~$830 million.

[6] Underlying fixed costs excludes one-off nbn DA and nbn net C2C, one-off restructuring costs and guidance adjustments.

There will be some roles that finish in the interim where projects have come to an end or work is no longer required, volumes have declined, or fixed term contracts end particularly related to our involvement in the construction of the NBN Network. However, for the majority of our teams this will continue to give them some certainty at least until the new year.

We believe that being a responsible business also means speaking up on important issues. Not on every issue, but those that are relevant to the business we conduct and that impact our customers and our people.

Climate change is a perfect example of where businesses, including Telstra, should take meaningful action. The business sector is a material contributor to greenhouse emissions and rapid climate change is creating risks that impact our economy, our environment, our communities and each of us individually.

Telstra is one of the largest consumers of energy in the country. Powering networks that cover a continent as big as Australia requires more than 5.6 petajoules of energy each year and in FY20 that resulted in nearly 1.2 million tonnes of greenhouse gas emissions. Compounding this is a rise in demand as businesses, governments and communities increasingly adopt new digital technologies. For example, the traffic on our network grew by 28 per cent this year and is expected to more than triple from June 2020 to June 2025.

While Telstra has long focused on ensuring our networks are energy efficient, we also believed we needed to do more. This year we committed to becoming carbon neutral in 2020, enabling renewable energy generation equivalent to 100 per cent of our consumption by 2025, and reducing our absolute emissions by 50 per cent by 2030.

In July 2020 Telstra received formal carbon neutral certification from Climate Active – well ahead of our initial plan. We achieved this through emissions reductions and purchasing credits from carbon offset projects to counteract our remaining emissions. Two of these projects are based in Australia, including a project that uses the knowledge of traditional landowners to reduce greenhouse gases emitted from savannah fires, which today make up 3 per cent of Australia's total emissions. The other projects contribute to solar and wind energy generation in India where Telstra also has extensive operations.

Facing into challenges

When considering how to be a responsible business, *how* we do things is just as important as *why* we do them. This includes how we interact with customers and support them to access products and services that meet their needs – through initiatives such as removing excess data charges to help prevent customers from incurring high or unexpected costs, and introducing no lock-in contracts to provide customers with flexibility to choose the plan that is right for them at the time.

While we are making progress and a positive contribution in many areas, we acknowledge that we have also let down some of our customers in Indigenous communities. Some years ago, we became aware of an issue where a small number of our partner stores, those operated by third parties under a licence agreement, sold mobile devices and plans to customers that ultimately they could not afford or may not have been appropriate for their needs.

When we investigated, we found there were instances where our processes had not been followed by some frontline staff and that, in some cases, there had been serious misconduct. There were examples where we had not fully understood some of the cultural and customer behaviours unique to these communities.

In our initial response to these complaints we failed to recognise that many of these customers were vulnerable, and our initial remediation was based too much on our terms and conditions and not on our purpose and values. Since 2018 we have been progressively implementing what is now a comprehensive program to address the specific issues, waiving debts, refunding customers, introducing new processes, and rolling out training and tools to assist frontline employees in their interactions with vulnerable customers.

We are cooperating with the Australian Competition and Consumer Commission (ACCC) as they conduct an investigation into this issue, and we continue to engage with them. Having considered all available information at the date of this report we have made a provision of $50 million for any penalties. Please refer to note 7.3.1 to the financial statements in the 2020 Annual Report for more details. There remains a material possibility that the ACCC will commence enforcement action against Telstra.

The lessons we have learned through this experience have informed important changes in how we do business and are helping us re-define our understanding of what responsible business looks like in the new decade.

Executive and board renewal

The Board continues to focus on ongoing renewal and putting in place the right balance of experience, expertise and fresh thinking.

In February, we welcomed experienced Board Director Elana Rubin as a non-executive Director. Elana brings more than 20 years' board experience across the financial service sector, including superannuation and funds management as well as the property, infrastructure and government sectors.

In August 2020, we announced the appointment of Bridget Loudon as a non-executive Director of the Telstra Board. Bridget is an entrepreneur and business leader, having founded Australia's number one skilled talent platform, Expert360, at age 25, and brings a unique perspective to the Board.

Elana and Bridget will stand for election at the Telstra Annual General Meeting later this year.

You can read more about the Board's composition in the Board of Directors section.

In the management team, Kim Krogh Andersen joined from Scandinavian telco Telenor Group to lead the Product & Technology function following the departure of Christian von Reventlow. Carmel Mulhern also stepped down as the Group General Counsel and Group Executive of Legal & Corporate Affairs and we welcomed Lyndall Stoyles from Caltex as Group General Counsel and Group Executive, Sustainability, External Affairs and Legal.

Our year ahead

As we move into FY21, a point where we are closer to the finish of T22 than the start, we look at the year ahead with confidence in our ability to deliver our strategic ambitions.

It is clear that COVID-19 will remain with us for some time, however we will adapt to deal with the challenges this will bring. We remain committed to our strategy and are confident it will enable us to emerge strongly post-COVID-19.

We still have work to do to truly transform Telstra. While we have paused some activity, like job reductions, it is still necessary to come back to them because they are a critical part of continuing to reduce our costs and ensuring we are a sustainable business for the long term. Any decisions that impact our people will not be taken lightly and we will continue to show respect, fairness and transparency during this process.

We are pleased to provide financial guidance for FY21 on a range of metrics[7]. For FY21, Total Income is expected to be in the range of $23.2 to $25.1 billion, underlying EBITDA in the range of $6.5 to $7.0 billion, net one-off nbn DA receipts (less nbn net cost to connect) in the range of $0.7 to $1.0 billion, capital expenditure of $2.8 to $3.2 billion, and free cashflow after operating lease payments of $2.8 to $3.3 billion. The in-year nbn headwind for FY21 is expected to have a negative impact on underlying EBITDA of approximately $700 million. To achieve growth excluding the in-year nbn headwind in FY21, underlying EBITDA will need to be around the mid-point of the guidance range.

Guidance for FY21 underlying EBITDA assumes an estimated negative impact from the COVID-19 pandemic in FY21 of approximately $400 million.

We have also adjusted our T22 target for Return on Invested Capital (ROIC) to be greater than 7 per cent by FY23.

Several things have changed since we set our ROIC ambition as part of the launch of our T22 strategy. We have experienced deeper competition across products and a slower return to growth, especially in mobile. In addition, AASB16 was implemented resulting in a 1 per cent reduction in ROIC, which previously caused us to push out our target by a year. In this same period our WACC has also reduced by approximately 1.5 percentage points.

We have invested, and will continue to invest, for long-term returns and opportunities, especially in mobile and our T22 strategy, the benefits of which will be realised over time. Our long-term ambition is to grow ROIC.

Through all of this we will rely on our purpose and values to guide us.

For more detail on the year ahead please refer to our Outlook section.

Thank you

The Telstra Board and senior management team would like to sincerely thank you, our shareholders, for your patience and support during the year. Thanks also to our millions of customers for their ongoing support. Without them there would be no Telstra.

Thank you also to every Telstra employee who has remained committed, diligent, resilient and led by our purpose and values, despite incredibly challenging circumstances.

We mentioned earlier that companies rarely get to choose the moments that define them. The choices are in how they act and react, and the 2020 Financial Year has been a defining period for Telstra through the actions we have taken, the choices we have made and the value we have built for the future.

Thanks for being part of it.

John P Mullen
Chairman

Andrew R Penn
Chief Executive Officer and Managing Director

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7 FY21 guidance assumes no impairments in and to investments or non-current tangible and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance is based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance. Total income excludes finance income. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets. Guidance for FY21 underlying EBITDA assumes an estimated negative impact from the COVID-19 pandemic in FY21 of approximately $400 million. This estimate is approximately $200 million greater than the estimated negative impact from the COVID-19 pandemic for FY20 underlying EBITDA. In-year nbn headwind is defined as the net negative recurring EBITDA impact on our business. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases. Free cashflow is defined as 'operating cash flows' less 'investing cash flows' less 'payments for operating lease liabilities' and excludes spectrum and guidance adjustments.

The importance of connection: responding to the bushfire and COVID-19 crises

This year is one we will always remember: a year scarred by the bushfire crisis and COVID-19 pandemic. We will proudly remember how our people stepped up and responded to these challenges, driven by our purpose and values.

When considering how to be a responsible business in the 2020s, *how* businesses do things is just as important as *why* they do them. This thinking guided our response to these crises, and our investments in our T22 strategy gave us the capability to move quickly. The reasons we introduced T22 two years ago – a need to rapidly simplify and digitise, to remove customer pain points, to remove legacy systems and processes – are more relevant and necessary than ever before.

It was a year that highlighted the importance of connection to loved ones, to critical services and to communities, and we were passionate about stepping up to provide the connectivity that our communities needed.

Bushfires

When the bushfires hit in late 2019, our people were on the ground supporting those who needed us the most. Our emergency teams and field technicians responded to impacted sites as soon as it was safe to do so, delivering backup generators, installing temporary mobile cells on wheels, and making repairs to our network wherever possible. We provided vital infrastructure for emergency services and community evacuation centres. Our team also created a custom app to help catalogue damage to Telstra infrastructure and get it fixed as quickly as possible.

Telstra has a long and proud history of standing with the communities we are part of in times of crisis and is a passionate supporter of rural and regional Australia. With connectivity being such a vital lifeline, we worked hard to make sure our customers and affected communities stayed in touch. We made our Telstra payphones and Telstra Air Wi-Fi hotspots free nationally during January and February, with more than 2.5 million calls made from our payphones. We made key emergency services sites unmetered for our mobile customers so they could get the latest information on the bushfire situation without having to worry about the data they were using.

With such devastation around them, paying bills became challenging for some of our customers. We answered more than 55,000 calls from customers making enquiries and seeking support after the bushfires and we paid the mobile phone bills of around 10,000 fire fighters and SES volunteers over December and January.

In total, our investment in supporting customers and restoring bushfire damage to our own infrastructure, which continues into FY21, will be around $44 million.

The bushfires forever changed the lives of many Australians and were felt by the nation. We shifted our focus to rebuilding, though it wasn't long before a new challenge was upon us.

Telstra CEO Andy Penn visits a restored mobile tower in Jingellic, NSW. Source: James Wiltshire, The Border Mail.

COVID-19 pandemic

Since the start of the COVID-19 pandemic, Telstra's primary focus was on protecting the health and safety of our employees, helping our customers and communities stay connected, and contributing to the national response.

Supporting our people

The rise of the unprecedented COVID-19 pandemic was an unnerving time and its presence and impact was a source of ongoing uncertainty. It posed risks to our health, our livelihoods and our way of life. In March 2020, we put further job reductions on hold for six months to give our people as much certainty and security as we could. We were also the first major Australian company to introduce a new global epidemic and pandemic leave policy for our people, including paid leave for our casual employees.

After more than six years of our successful flexible working policy, All Roles Flex, we were able to quickly transition around 25,000 office-based employees in Australia to working from home.

In order to keep our stores open and our technicians on the road, we took many steps to help reduce the risk of COVID-19 transmission. This included closing some of our stores to help the rest of the retail network stay fully resourced and open, and introducing new processes to assess the potential risks from COVID-19 at customer properties before our technicians visited.

To help better support our customers we added thousands of temporary roles in Australia while we supported our staff and partners outside Australia, including those from our contact centres in India and the Philippines who were subject to lockdown measures. We understand this was a challenging time and are sorry for the impact it had on our customers, and we thank our people for doing what they could to help. This included those from across the business who volunteered to help our contact centres by taking customer calls and managing queries.

Supporting our customers

As we isolated in our homes, staying connected through phone and internet services became more important than ever.

From March to June 2020, we helped around 2.6 million customers stay connected during the COVID-19 pandemic through a range of initiatives.

We delivered unlimited data for home and small business fixed broadband customers, extra data for consumer and small business mobile customers and unlimited local, national and 13/1300 calls and calls to Australian mobiles for eligible pensioners with a Telstra home phone plan.

We also offered discounts for eligible customers receiving the JobSeeker payment.

For many of our customers who were unable to pay their bills, we temporarily suspended late payment fees and launched a bill assistance hub so customers could get information on the support measures and apply for relief if they were doing it tough because of COVID-19.

Small business customers could suspend their landline and internet services if they had to cease trading, and we provided free or heavily discounted access to specialist online digital business tools and discounted mobile broadband plans to help them rapidly move their business online.

Our teams also worked around the clock to move our Enterprise customers to remote working or learning, delivering innovative business continuity solutions.

We helped connect 30,000 disadvantaged students across the country by providing them with internet access to support their online learning through state education departments and Catholic Education.

We also introduced an NBN Co broadband offer for eligible low-income families at $40 for 12 months, with a Smart Modem included.

Meanwhile, we had teams working tirelessly to keep our international network connected during a time where we experienced 50 per cent spikes in the volume of data being transmitted.

Supporting the nation

It quickly became clear that the pandemic was going to have significant economic implications and we wanted to do what we could to support the nation that had supported us for so long.

That's why we brought forward $500 million of capital expenditure from the second half of FY21 into the 2020 calendar year, providing the economy with much needed investment. We are deploying this investment to increase capacity in our network and further accelerate the roll out of 5G, among other projects supporting the digital enablement of our customers' businesses and operations. We also extended all our sponsorships expiring in 2020 for another 12 months, supporting sporting, education, art communities and more.

It was very important to us that we supported those suffering from the changing social environment, which is why the Telstra Foundation donated $2 million to help fast track the digital enablement of youth mental health services provided by Orygen Digital and ReachOut.

We used our tech capability within Telstra Purple to help develop a brand-new hospital monitoring system in two weeks. The Critical Health Resource Information System (CHRIS) allows healthcare facilities to move patients to the nearest available ICU hospital, and redeploy vital equipment including personal protective equipment, respirators and dialysis machines to those that need it most. It has now been expanded to include hospitals across Australia and New Zealand.

Telstra Health also worked collaboratively with hospitals and healthcare professionals to support them to continue providing care during the summer of natural disasters. We saw demand for virtual healthcare and other digital health solutions increase as a result of the pandemic, demonstrating the importance of high-quality digital health information as well as the availability of options for the public to access care and advice in a socially distanced world.

The new reality

These crises forever changed our community and forever changed our company. Rather than thinking about post-COVID-19 as only a “recovery” and considering how to get back to the way things were, we see an opportunity to grow the economy in the long term and build an even stronger company to best support our customers, our people and deliver returns to our investors. The COVID-19 crisis goes on and we must continue to adapt and embrace our new reality and harness the opportunities that come with rapid change.

Businesses should be thinking about tangible ways to drive Australia to become a more digitised society and economy, so we can do more than just bounce back. This requires reform in five key areas: digital transition, infrastructure, regulation, cyber security, and skills. However, a single company, a single organisation or a single government cannot achieve this on its own so we will continue to advocate for reform by Australian businesses more broadly.

The principles and initiatives that sit at the heart of our T22 program are exactly those that helped us respond to these crises. Indeed, they are exactly those that we will need in order to support our customers and be successful in the future. We will continue to adapt to the needs of our customers while staying focused on building a connected future so everyone can thrive.

Strategy and performance

We are past the midway point in our T22 transformation and it's incredible to see how far we've come.

At its heart our T22 strategy is premised on radically simplifying our business and removing customer pain points, digitising and moving customers to digital channels, simplifying our structure and ways of working, reducing our costs and establishing Telstra InfraCo.

This year challenged our business in some areas and accelerated our transformation in others. In all, we have completed or are on track to complete around three quarters of our T22 milestones.

Our customers' demand for connectivity and digital experiences, and the need for simplicity and adaptability, have reinforced the importance of our T22 strategy. This year we accelerated our digital transformation by building new digital technology solutions and enabling our customers to interact with us more online.

This transformation meant that when COVID-19 restrictions impacted our ability to answer our customers' calls, we were able to provide them with digital self-service capabilities as an alternative way to connect with us.

The four pillars of the T22 strategy are:

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

We launched into FY20 with a set of radically simplified plans for our consumer and small business customers – dropping from 1,800 to 20 in market – and we saw our customers respond positively to these changes. We now have more than 4 million customers on our new plans, exceeding our target to migrate 3 million Consumer and Small Business customers by June 2020.

Many of our customers who moved across were excited by no lock-in contracts and no excess data charges. They told us they loved our simple, month-to-month options that give them flexibility and peace of mind.

Twelve months on from launching our simplified plans we announced the next evolution. We recognised that the way our customers use their devices had changed and as a result included up to 30 gigabytes of extra data for a small price increase, with 5G now included on medium sized plans and above. We also offered existing customers a credit to offset the increase for 12 months if they moved to our new plans before September 30, 2020. In addition to this offer, which effectively cancels out the impact of the price rise for eligible customers who choose to move, we also committed to not raising the price of our new Small, Medium, Large or Extra Large plans for 12 months.

For customers who weren't on our new plans, we introduced Data Bill Guard to cap excess data charges at $300 and help reduce the likelihood of bill shock and improve the customer experience.

Telstra's multi-brand strategy continued to deliver growth in customer numbers, particularly in mobile. During FY20 the business added 240,000 retail postpaid mobile services, including 154,000 from Belong.

As well as strong uptake on Telstra services, more and more Australians are choosing Telstra technology for their home and we have now shipped 2 million Smart Modems and 1.65 million Telstra TV units to customers' homes around the country. Telstra consumer customers can also access Foxtel's new streaming platform, Binge, in addition to our existing streaming line-up of Kayo and Foxtel Now.

Partnering with Microsoft, we entered the gaming market as the exclusive Australian provider of Xbox All Access, which includes an Xbox One console and access to over 100 games and online multiplayer. This is just the beginning of Telstra's gaming journey – we see a big opportunity to provide more premium content and services to Australia's active gaming community on our incredibly-fast, low-latency fixed and 5G networks.

In April 2020 we launched the new My Telstra app, which replaced the Telstra 24x7 app, and had 3.7 million downloads before the end of June (new downloads plus upgrades from 24x7). With high demand for the new app, millions of our customers were provided with access to new digital services. The app provided customers with a new two way in-app messaging service, the ability to track orders and new trouble-shooting tools. We now have more than 4.3 million active app users and 6.3 million active digital users in total, which includes those engaging with Telstra via our website.

Digital engagement grew substantially in the last year and was accelerated somewhat due to the impact of the COVID-19 pandemic. By the end of FY20 over 71 per cent of our service transactions came via digital channels, up from 53 per cent in the prior year. Over 5 million transactions were done digitally every month. New capabilities like asynchronous messaging saw huge growth during COVID-19, increasing from 5 per cent to 45 per cent of human contacts during an 8-week period.

Telstra Plus passed one year of rewarding our customers and reached more than 2 million enrolled members, a milestone that we hit ahead of schedule. We saw 4.3 billion points redeemed from launch to the end of the financial year, which showed us that our members were excited by the opportunity to engage with us and reap rewards.

Our strategic Net Promoter Score (NPS) was up four points against FY19. This surpassed our FY20 target and showed positive sentiment that was also reflected in our reputation and brand measures. However, our episode NPS declined two points for the same period, with significant impacts from COVID-19, particularly our reduced capacity to answer customer calls.

While our NPS is improving, it is not at the levels we want it to be. We are also tracking behind target on the number of services per customer as well as the build of our digital systems, which will enable us to migrate customers across to our new systems at scale. These areas will be a focus in FY21.

Telstra team member Khang Ngo welcomes a customer to our COVID-Safe Sydney Icon store

Small business customers responded well to the release of new services to make business growth easier. These include Telstra Business Cyber Security Services, Telstra Business Tech Services and Telstra Business Digital Marketing Services. They are also now able to earn Telstra Plus points for each eligible dollar spent on Telstra services.

We made strong progress rationalising the number of products offered to our Enterprise customers, down 35 per cent from FY18, and we are on track for a 50 per cent reduction by the end of FY21.

We started migrating our business customers to our new Corporate Mobile Plus plans. The plans operate on our new digital systems and initial results showed a much better customer experience in ordering, provisioning and managing a range of mobile services.

At the 2019 Telstra Vantage event we launched Telstra Purple, Australia's largest technology services business that brought together Telstra Enterprise's business technology services capabilities and those of a number of acquired companies. Since then Telstra Purple has delivered more than 3,000 projects, including developing a single data strategy empowering Genomics England to sequence the future of British healthcare, connecting students in more than 500 schools in South Australia, and helping Intensive Care Units across Victoria manage demand during COVID-19 through near-real-time data.

We continued to see growth in our Internet of Things (IoT) business this year with a 21 per cent increase in M2M (machine to machine) SIOs. We also saw a 600 per cent increase in low-powered wide-area network SIOs, which are those on our Narrowband-IoT and LTE-M networks. This reflected increased traction in the utilities sector, which also saw Sydney Water speak publicly about their proof of concept and rollout of our end-to-end IoT Water Management solution.

Telstra Track and Monitor, our enterprise asset tracking product, grew its customer base by more than 300 per cent this financial year. Research conducted by Telsyte found Australian organisations lose up to $4.3 billion in assets each year, showing the huge opportunity for cost savings. We also shared how our customer SCT Logistics is expecting to offset their technology investment with savings in as little as three years.

Continued innovation included the launch of Telstra Data Hub, a Microsoft and Telstra partnership designed to promote enterprise collaboration through secure data sharing. In nine months, it moved from incubating in Telstra Labs to commercialisation. Some of the projects underway include optimising rural water management with the Queensland government and developing digital farming solutions with Charles Sturt University.

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

Telstra InfraCo is now operating as a standalone infrastructure business unit. At our Investor Day in November 2019, we announced our plans to shift Telstra InfraCo's asset boundaries to include mobile towers, all fibre, and network supporting infrastructure. PSTN, legacy fixed, and satellite infrastructure were moved back into the networks division of Telstra. This move allowed us to maximise the value of our infrastructure assets and strengthen our financial position for our future.

We announced Telstra InfraCo's new structure: a simple, end-to-end operating model that aligns with the consolidation of our core infrastructure assets into the one Telstra function.

On 1 April 2020 we marked the first day of Telstra InfraCo's new matrix operating model and structure, and from 1 July 2020 Telstra InfraCo took accountability for the new asset boundaries. Telstra InfraCo is now accountable for around 250,000 kilometres of fibre optic cable, 360,000 kilometres of ducts, 8,000 mobile towers, masts and poles, 5,000 exchanges, two data centres, and access to 400,000 kilometres of subsea cables.

We also launched a new brand identity to establish Telstra InfraCo as a specialist infrastructure business unit.

By allocating our infrastructure assets to Telstra InfraCo, we created the opportunity to commercialise these assets more effectively to drive more value as well as create optionality for the future.

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

We are a purpose-led organisation driven by our values; one that is also becoming simpler and faster to work in.

We have delivered strongly against the employee metrics on our T22 scorecard. We ended FY20 with an employee engagement score of 83 per cent – 7 points above our target and an increase of 16 points from our FY19 result. Engagement levels began tracking upwards in the second quarter as we started to see the benefits of our T22 strategy. These foundations meant we were able to respond decisively to the COVID-19 pandemic to support our people, who told us they felt pride in Telstra's response and the focus on their health and wellbeing and keeping them informed.

We also saw an increase in ease of doing business within Telstra, up 22 points from our 2018 result as measured by our Organisational Health Index (OHI). This result is testament to the focus we have put into acting on our people's feedback following our previous OHI survey, particularly in the areas of process improvement, role clarity and employee involvement in our transformation.

We have now introduced Agile at scale, a way of working in teams that simplifies how we get work done. It is just over a year since we started rolling it out and 81 per cent of Agile teams are now at level 3 maturity, which is defined as whole teams successfully using agile processes, and demonstrates the progress we've made in embedding this way of working across the organisation. We also guided more than 16,000 of our people through Agile Essentials training to give them the tools to incorporate agile practices into their day-to-day work.

To support our leaders, we rolled out the Leading Transformation program to over 5,000 people across the organisation to enable them to support the transformation we are making in how we work, lead and function as a team.

We also signed agreements with five Australian universities – RMIT University, University of Melbourne, UNSW Sydney, University of Sydney, and University of Technology Sydney – to jointly develop the technology skills and capabilities both Telstra and Australia need. To help build the pipeline of talent supporting our global operations we signed a Memorandum of Understanding (MoU) with Mahindra Ecole Centrale College of Engineering in India.

As technology evolves, we need more skills in software engineering, data analytics, artificial intelligence and cyber security. This is why we are recruiting more people in these areas, while also taking the opportunity to train our existing workforce. To help build these skills we have developed micro-credentials with RMIT Online and UTS, and Telstra employees have started working through these courses.

On 1 July 2019, Telstra formally launched an Innovation and Capability Centre (ICC), based in Bangalore, to bring together talented Telstra and partner employees to focus on innovation, experimentation and process improvements. Currently the centre has people working across fields such as our Automation Centre of Excellence, Data, Reporting and Analytics, and High Performance Software Engineering.

We have announced 12,000 indirect role reductions and 7,300 direct workforce role reductions since we launched T22 in June 2018. As at the end of June 2020, our direct workforce was around 5,700 lower than two years ago. This figure includes 1,600 new roles recruited, like software engineering and cyber security – and some additional roles brought on board in response to COVID-19 to mitigate workforce offshore capacity issues.

Our people voted in favour of a new Telstra Enterprise Agreement 2019-2021 and it was approved by the Fair Work Commission. This reinforced that we met our objective to deliver an agreement that's fair and aligned to the needs of our customers, shareholders, and, importantly, our people.

To create equality for all new parents we changed our Australian parental leave policy to remove the distinction between primary and secondary carers. Eligible parents who have been with us for a year or more can now take up to 16 weeks of paid parental leave within the first 12 months after their child's birth or placement. There's also more flexibility in how this leave can be taken. We did this because equal and shared parenting enables better gender equality in the workplace.

Pillar 4: Industry-leading cost reduction programs and portfolio management

We continued to make further progress in our cost reductions program, reducing underlying fixed costs by $615 million in FY20, which included an additional $36 million provision for bad debts. In total, we've reduced underlying fixed costs by $1.8 billion since FY16 and we're on track to achieve our $2.5 billion net cost reduction target by FY22.

We established an unlisted property trust to own 36 of Telstra's exchange properties and sold a 49 per cent stake to a Charter Hall-led consortium for $700 million. To date, we have monetised a total of $1.5 billion in assets, including the sale and lease-back of our Clayton data centre complex in August 2020. We continue to pursue opportunities in FY21 with a view to getting closer to monetising $2 billion worth of assets.

With Foxtel having faced several years of industry disruption and now facing the impacts of the COVID-19 pandemic, we made a non-cash impairment and wrote down the value of our 35 per cent share in Foxtel from $750 million to approximately $450 million. The non-cash impairment change did not affect Telstra's FY20 results on a guidance basis.

A €500 million (approximately AUD $860 million) bond issue in April 2020 further strengthened our balance sheet. Since mid-March we have also secured an additional $940 million in bank facilities, and we now have a total of $3.8 billion of committed bank facilities. The bond issue and the additional bank facilities were both well below our current average cost of funds.

On 1 April 2020 credit rating agency S&P reaffirmed our A- (stable) credit rating and on 2 April 2020 Moody's reaffirmed the company's A2 (stable) credit rating.

Telstra's continued access to low-cost capital and A-band credit rating demonstrated the strength of the business and attractiveness to global capital markets during this very volatile time.

Building Australia's largest, fastest, safest, smartest and most reliable next generation network

Our purpose is to build a connected future so everyone can thrive and to deliver on that we continued to work on building the largest, fastest, safest, smartest and most reliable network in Australia.

We continued to invest in building a world-leading 5G network. In FY20 we rolled out 5G to around one third of the Australian population, made up of selected areas of 53 cities and towns. More than 10 million Australians now live, work or pass through Telstra's 5G footprint every day.

More than 210,000 5G devices are now connected to 5G on Telstra's mobile network.

5G is already delivering ultrafast speeds, which will continue to improve, and as the technology matures, will increasingly deliver ultra-low latency (less lag between a request for data being sent and received) and greater bandwidth. Our customers are starting to see the benefits across a wide range of experiences, from more responsive gaming to new edge compute use cases (use cases where data is stored and analysed in the same location it is captured, rather than in a centralised data warehouse) for Enterprise customers.

We extended our 5G leadership with two world firsts and five Australian firsts: including making the first Australian 5G standalone call, delivering Australia's first live 5G broadcast, and enabling the first 5G stadium in Australia.

We also started running live trials using mmWave, a technology that operates on higher frequency spectrum and will play an important role in delivering on 5G's potential with super-fast speeds and much greater capacity.

The launch of our 5G online hub[i] gave our customers easy access to information they needed so they could consider purchasing a 5G device, including new interactive network maps showing our 5G coverage across the country. This included providing accurate information on 5G and electromagnetic energy (EME).

We continue to be proactive, transparent and fact-based in our communications regarding EME and comply with the standards set by regulators. Telstra has conducted extensive EME testing and analysis on 5G, and test results showed EME levels were similar to the existing mobile technologies and well below the EME safety limits. 5G meets the safety standards required by independent health authorities here and overseas.

Future 5G capabilities are expected to move in lockstep with IoT networks to provide ultra-reliable low latency communications. By leveraging the capabilities of 5G for IoT, we will be able to expand the role of connected devices to enable new advances both in nationwide and hyper-localised settings.

Telstra's existing IoT networks, LTE-M and Narrowband-IoT, that are designed to connect devices over long distance while using minimal power, are also now formally recognised as 5G technologies. The global mobile network standards body's (3GPP) acceptance of our existing LTE-M and Narrowband-IoT technologies as 5G IoT technologies means we can continue to support these technologies even beyond the lifespan of 4G. This will help drive an expansion of connected things and allow our customers to embrace LTE-M and Narrowband-IoT with confidence in their long-term future.

In FY20 we invested in extending our network to provide coverage to more people in regional and remote places.

With our technology partner, Ericsson, we deployed world-first technology that effectively doubled the range of a 4G mobile base station, increasing it to up to 200km. We also deployed technology that extended the range of our Narrowband-IoT network base stations to up to 120km, which increased our Narrowband-IoT network footprint to nearly four million square kilometres across the country. These are big wins for our regional and remote customers.

In partnership with the Queensland Government, the Torres Strait Regional Authority and the Commonwealth Department of Agriculture, we've committed to delivering high-speed internet access for mobile device users across 14 of the region's islands by 2021. Currently, many islands across the Torres Strait have patchy outdoor coverage, or only have 3G services. This expansion project will not only support essential services like police, health and education providers, but it will also help stimulate local business by creating opportunities for tourism.

By June 2020 we had delivered more than 700 black spot sites to provide mobile coverage to some Australians for the first time. This included 693 under the Federal Government Mobile Black Spot Program and another 17 under the state programs. In addition, as part of our wider commitment to the mobile black spot program Telstra has also completed a further 215 small cells for remote communities at our sole expense.

As part of our program to continually upgrade our network to the latest technology and expand our 4G and 5G coverage, we announced the eventual switch-off of our 3G technology. When this happens, the spectrum that is used to carry data and voice calls over our 3G mobile network technology will be repurposed to help grow 5G. This will not happen until June 2024 – four and a half years from the October 2019 announcement.

Delivering more for our customers on Australia's best mobile network saw Telstra recognised as Best in Test, Best in Voice, and Best in Crowd-Sourced Quality awards in the umlaut (formerly P3) 2019 Australian Mobile Network Benchmark.

We continued to invest in our connection to the rest of the world. In FY20 we strengthened our investment in the Southern Cross Cable Network's existing cable infrastructure while planning for future growth. We acquired a 25 per cent equity interest in the existing network, making it an important addition to other investments in our subsea cable infrastructure.

Maintaining cables 4,000 metres below the surface of some of the roughest oceans in the world isn't a simple task. We've partnered with leading geospatial specialist, Fugro to operate a fleet of maritime submersible robots out of a new Remote Operations Centre based in Perth. Using our satellite infrastructure, Fugro can now maintain assets without having to take manned vessels on rough seas to get close to the monitoring equipment.

New digital platforms

Our strong progress on T22 would not have been possible without the successes we've had on our digitisation journey. Several big steps in FY20 brought us closer to providing our customers with an intuitive, seamless digital experience which in turn will continue to make things easier for our people.

We continued to replace our legacy tools and complex manual processes with fully automated, world class digital applications. In rolling out these new digital systems, including the My Telstra app, our frontline teams now have access to more technologies on our new digital stack that provide straight-through provisioning for orders, speeding up order time and improving the experience they can offer customers.

This acceleration of new digital product launches will allow us to cease the sale of mobile plans and nbn plans on our legacy systems in 2021.

We also launched a bill explainer tool, which was key to our ambition of providing digital services for our customers. This tool has already helped thousands of customers by providing a clear and easy to understand way to navigate their bill.

Telstra Enterprise achieved its target of 4,000 active customers using the digital self-service tool, Telstra Connect. This result, driven by COVID-19 impacts, was an important step forward to achieving a key deliverable of our T22 strategy: providing market leading digital experiences for our customers. As some of our overseas partners became unable to work due to the pandemic it was critical to move customers to a digital self-service platform to do things like track orders, raise incidents or service requests and monitor their network.

T22

<table>
<tr><td>Strategic pillars</td><td colspan="3">Radically simplify our product offerings, eliminate customer pain points and create all digital experiences</td><td colspan="3">Establish a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout</td><td colspan="3">Greatly simplify our structure and ways of working to empower our people and serve our customers</td><td colspan="3">Industry leading cost reduction program and portfolio management</td></tr>
<tr><td rowspan="2">Enabled by our up to $3b investment program</td><td colspan="12">New digital platforms</td></tr>
<tr><td colspan="12">Australia's largest, fastest, safest, smartest and most reliable next generation network</td></tr>
<tr><td>Delivering</td><td colspan="2">Market leading customer experience</td><td colspan="2">Simplified products, business and operating model</td><td colspan="2">Extended network superiority and 5G leadership</td><td colspan="2">Achieve Global High Performance Norm in employee engagement</td><td colspan="2">Net cost productivity of $2.5b by FY22</td><td colspan="2">Post-nbn ROIC > 7%[1]</td></tr>
</table>

1 Post-nbn defined as FY23 on AASB16 basis. Targeted outcome reduced from >10% in August 2020.

[i] Telstra.com.au/5g

Our material risks

While Telstra has long operated in a rapidly evolving environment, the challenges and pressures of the ongoing global COVID-19 pandemic and climate change-induced extreme weather events are accelerating the pace of change. The importance of continuing to identify, measure and monitor the most material risks to our business is more heightened than ever, and is crucial in enabling us to manage our challenges and take the right opportunities. Failure to effectively manage our material risks could affect the success of our strategy, as well as adversely impact customer experience and outcomes, our reputation, financial position and capacity to pay dividends.

The following describes the material risks that could affect Telstra, including any material exposure to environmental or social risks, and how we seek to manage them.

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

Transformation and market forces

Two years ago, Telstra launched the T22 strategy. More than halfway into the transformation program, we have made good progress in addressing customer pain points, digitising customer experiences, simplifying our structure and ways of working, and setting up Telstra InfraCo as a standalone business unit. We have successfully taken new, simplified and easy-to-understand customer plans to market in the consumer and small business segments and have seen very promising take-up of these plans by our customers. Similarly, we are transforming the way our enterprise customers engage with us and developing new offerings that give them greater control.

Notwithstanding this progress, the COVID-19 pandemic has created uncertainty that may accelerate several macro market trends. These include the acceleration of shifts to digital business models leveraging automation, and balancing resiliency and efficiency of supply chains and business models. Broader macroeconomic factors may also increase the potential for customers in some segments to reduce their spend on our products.

To manage these risks, we regularly monitor business performance and forecasts against changes in the external environment, and stress test our approach against various market scenarios. We have also performed several assessments to monitor our reliance on key suppliers and their level of resilience to ensure we are taking steps to mitigate against the risk of suffering downstream impacts if their business continuity is impacted.

The impact of the COVID-19 pandemic on Telstra internally poses the risk that the implementation of our transformation agenda is impacted or delayed. It is essential that we continue to effectively manage our risks as they relate to our transformation objectives. We continue to have a strong focus on maintaining effective governance and leadership of these programs to ensure we identify, escalate and manage transformation risks, including to our digitisation program.

To mitigate the risks associated with this transformation, we have robust internal processes to monitor and report on our key programs of work and the risks relating to those programs. We also ensure our people have access to the right tools.

People and culture

In order to successfully deliver T22, it is vital that we continue to attract, develop and retain a skilled and engaged workforce capable of delivering our strategic objectives. Pillar 3 of T22 seeks to build an agile, enabled culture focused on simplicity and accountability, and to build a workforce that can pivot dynamically in response to industry changes. It is also focused on maintaining a purpose and values-led culture that reflects the expectations and standards of the broader community in line with our commitment to responsible business practices, which we have identified as a priority as part of our sustainability strategy.

The challenges of maintaining our culture are heightened by the COVID-19 pandemic’s impact on the way our business operates and its impact on our people. We have recognised the risks associated with these developments, as well as the broader risks of failing to develop a culture of simplicity, change and accountability.

We have several mechanisms to manage our people and culture risks, including our employee engagement surveys, monitoring our capability coverage in key talent segments, and ensuring we have critical role succession coverage. We remain focused on establishing our new operating model and enabling our organisational change teams to train and uplift the capability of our people. We have also invested heavily in our Early Career Strategy for our more junior employees, and our Learning Strategy for all employees.

Health, safety, wellbeing, environment

Telstra’s operating environment, core business activities and infrastructure pose a level of inherent health, safety, wellbeing, environment and protective security (HSWE) risks. These include direct risks faced by our employees, partners and members of the public, and more indirect environmental risks resulting from our infrastructure, facilities and products and services.

We recognise that failure to manage these risks effectively could cause harm to our people, partners, communities or the environment. In turn, this poses potential consequences to our community and stakeholder reputation, as well as regulatory and litigious action.

We continue to actively monitor and manage safety outcomes across a diverse portfolio of risk, including to the physical safety in our varied workplaces, the security of our people and places of work, our people's mental health and wellbeing (including the wellbeing risks associated with transformation) and the potential for harm to our environment and the communities in which we work.

We continue to evolve our approach to apply learnings and respond to emerging risks, such as those experienced during the challenging summer 2019-20 Australian bushfire season and impacts of the COVID-19 pandemic to our operations, the way we work in the community and our people's health and wellbeing, particularly through ongoing changes to restrictions and lockdowns.

Network and technology resilience

One of Telstra's competitive advantages is the scale, speed and resilience of our network. The importance of our communities having access to seamless and high-quality connectivity has been highlighted recently by the changed nature of work and education due to the COVID-19 pandemic and the 2019-20 summer bushfires.

Given so many Australian consumers and businesses depend on our network and its quality, we recognise the high impacts that may arise as a result of network congestion and outages. Such events can be disruptive and frustrating for both consumers and businesses, and significant for us in terms of reputation and the trust people have in our brand.

The resilience of our network can be undermined by natural disasters, unforeseen spikes in demand, malicious actors and their activity, human error, failure in our equipment, or failure in the underlying electricity grid that supplies power to our network. Increasingly, we are cognisant of the impact and increasing frequency of extreme weather events arising from climate change. We raise and assess such risk scenarios through our mature risk management approach and respond to them through a range of strategies and processes that seek to prevent, respond to, and recover from service and network disruptions. We have several indicators in place to dynamically monitor network performance and resilience, and we proactively track risk remediations and improvements in our network over time to progressively reduce our risk exposure.

Our technology and its resilience may be undermined by several factors including poor change management controls, data quality, or single points of failure. Failure to have an effective technology strategy could lead to a number of consequences, including poor technology architecture, which may drive increased complexity and cost in our business. The digitisation of our systems and processes is a key enabler of our T22 strategy that aims to simplify our products and achieve our efficiency goals. As technology continues to evolve, we are conscious of emerging risks in relation to artificial intelligence and machine learning, and have governance programs in place to consider these risks.

We continue to implement a cross-company resilience approach which manages end-to-end resilience of key products and services, including all elements that can potentially impact a customer service – including disruptions to network, IT, technology, cyber, business continuity and suppliers.

Responsible Business

Telstra has continued to work to ensure that our business practices are in line with our purpose and values and the expectations of the broader community. We recognise that there has never been a more important time for businesses to think deeply about the role they play in society. Through our response to last summer's bushfire crisis, our commitment to addressing climate change and our response to COVID-19, we have attempted to do our part not only for our customers and employees but also the community.

We know that our responsibility to do the right thing goes well beyond exceptional events and to the core of our operational practices, particularly those that have the potential to impact customers in vulnerable circumstances. We acknowledge that we have not always got this right. (Read about an investigation into our sales, complaint handling and debt collection practices in the Chairman and CEO message).

The risks of not getting this right are extensive, including on the community's trust in us as a responsible corporate citizen, on our reputation with stakeholders and in terms of the potential regulatory and financial implications.

We are committed to ensuring that we can fulfil those responsibilities in conducting our business through a range of measures, including those which relate to fair sales practices, providing products and plans which meet our customers' needs, a well-considered approach to hardship and the inculcation of a broader culture that supports our people to act responsibly and in line with stakeholder and societal expectations.

Privacy and cybersecurity

We treat the protection of our customers' data and networks very seriously and put data privacy, information and cyber security at the forefront of everything we do. The threat represented by cybercrime is not new. What is new is society's increased cyber-dependency, which allows crime, protests, espionage and errors to happen at an unprecedented pace, scale and reach.

We design, build and manage the security for our global network in three main ways:

Technology - we use a range of technologies and security controls to minimise the likelihood and impact of unauthorised access to our networks and systems. These include logging and monitoring capabilities to pre-empt and proactively prepare for internal and external threats and industry-standard infrastructure configuration. We continuously invest in our security capabilities, including maintaining and enhancing our existing technologies to continue to stay ahead of new security threats. We also deploy new technologies to ensure we can adapt to the range of changing security threats.

Process - our approach to cyber security risk management ensures appropriate ownership, oversight and ongoing risk management is applied to IT systems, data and risks. Cyber security subject matter experts provide oversight, and our risk and internal audit functions independently assure the process. We also have security processes that include technical reviews of projects and solutions; and due diligence of third parties, to test the presence and effectiveness of security controls at critical points.

People - cyber security is as much about people as it is about technology. We deliver programs designed to foster a strong cyber security culture. We invest in our people to prepare them against a range of different cyber threats. We have mandatory annual training for all employees and contractors and run regular drills on our employees to test its effectiveness.

We have also recently announced a Cleaner Pipes initiative, which focuses on further reducing instances of customer data being compromised through malware, ransomware and phishing.

We regularly update our privacy statement and procedures, ensuring we are compliant with our legal obligations and consider society's expectations in relation to collection, storage and use of our customers' personal information. Please refer to the Corporate Governance Statement for more detail on how Telstra manages privacy.

We also continue to work with the Australian Government as it executes its 2020 Cyber Security Strategy, with our CEO Andrew Penn chairing the Industry Advisory Panel.

Climate change

Telstra has publicly acknowledged climate change as one of the most important issues of the decade, and – as one of the largest consumers of power in the country – our responsibility in leading from the front in terms of climate action. As evidenced by the recent devastating bushfires, the threat of more and increased extreme weather events resulting from climate change is real and poses a significant challenge to society and business.

As part of our response we committed to being carbon neutral in our operations from 2020, enabling renewable energy generation equivalent to 100 per cent of our consumption by 2025, and reducing absolute emissions by at least 50 per cent by 2030.

While we are proud of these commitments, we acknowledge the risks of inaction and the broader challenge climate change poses. These include the ongoing threat of further extreme weather events and ensuing damage to lives and infrastructure, risks associated with the transition to a lower carbon economy and the reputational issues companies such as Telstra face for not showing leadership.

This year we have begun to align our reporting with the recommendations of the Taskforce on Climate Related Financial Disclosures (TCFD) which can be found in the climate change and energy section of our FY20 Sustainability Report.

Major regulatory change and stakeholder engagement

As the leading provider in a heavily regulated industry, Telstra's products and services and the way we deliver them are subject to constant scrutiny from a range of regulators and agencies. We continue to maintain proactive relationships with all relevant regulators, consumer and community groups, and policy makers in an effort to ensure fair, balanced and socially appropriate policy and regulatory decisions are made.

We recognise the importance of transparent and timely communications with our stakeholders, including customers, shareholders, investors and regulators, as well as the risks associated with not doing so, which may impact our ability to execute our strategy. This includes helping inform the community about the safety and benefits of new technology, such as 5G. We also recognise the importance of our relationships with partners and suppliers, and the need to ensure their actions meet our standards and our customers' standards in order to protect our reputation and deliver good customer experiences.

The key regulatory matters currently relevant to Telstra relate to regulatory compliance, responsible business practices, NBN Co regulation and policy, consumer safeguards and service standards, spectrum allocation, and universal service policy. These and other regulatory and policy matters may directly impact our strategy and business model as well as raise the risk of additional regulatory cost and complexity being imposed on our business. We have a strong framework to manage this risk and proactively engage with regulators, government bodies, industry and customer groups and other stakeholders.

Further detail about our risk management framework and how we manage our risks is provided in our 2020 Corporate Governance Statement available at www.telstra.com/governance.

Further information about our sustainability related risks is provided in our FY20 Sustainability Report, available at www.telstra.com/sustainability/report.

Outlook

As we enter financial year 2021, our local and global economies and the communities we are a part of face significant challenges. The continued impact of the COVID-19 pandemic creates volatility and risk, and this is likely to have an impact on confidence, employment and growth.

While Telstra has shown strength and stability since the beginning of this pandemic, we acknowledge that our business and our customers will not be immune from further disruption and difficulty. The COVID-19 pandemic will continue to impact our business into FY21, for example through reduced income from international roaming, the potential of increased bad debt as some customers face hardship, and reduced professional services revenue.

We provided financial guidance for FY21 on a range of metrics[1]. For FY21, Total Income is expected to be in the range of $23.2 to $25.1 billion, underlying EBITDA in the range of $6.5 to $7.0 billion, net one-off nbn DA receipts (less nbn net cost to connect) in the range of $0.7 to $1.0 billion, capital expenditure of $2.8 to $3.2 billion, and free cashflow after operating lease payments of $2.8 to $3.3 billion. The in-year nbn headwind for FY21 is expected to have a negative impact on underlying EBITDA of approximately $700 million. To achieve growth excluding the in-year nbn headwind in FY21, underlying EBITDA will need to be around the mid-point of the guidance range.

Guidance for FY21 underlying EBITDA assumes an estimated negative impact from the COVID-19 pandemic in FY21 of approximately $400 million.

The principles and initiatives that sit at the heart of our T22 strategy have helped us respond to the crises we have seen in FY20 and these will also enable us to deal with a future that is increasingly hard to predict. Having passed the midpoint of our strategic transformation, some of our key priorities as we head towards the end of T22 will be ongoing simplification, completing our digitisation program, maturing our new operating model and delivering the full $2.5 billion in underlying fixed cost reductions.

In FY21 we will focus on further rationalising the number of products we offer our Enterprise customers, delivering growth in the volume of data on our networks while keeping associated costs flat, and further reducing the number of times our customers need to call us.

Globally the telco sector has struggled to deliver strong returns on invested capital (ROIC) over the last decade. Increased investment driven by demand for more coverage, speed, capacity and resilience has driven up capital expenditure as a percentage of sales across the industry. At the same time average revenues have been broadly flat, which has led to falling ROIC globally. We saw this trend play out in FY20 and anticipate it will continue in FY21. We have also adjusted our T22 target for Return on Invested Capital (ROIC) to be greater than 7 per cent by FY23.

Notwithstanding this, telcos have followed a cyclical pattern through the generations of mobile technologies. Revenues have generally grown through the first half of a technology's deployment and declined as technology and networks mature. Telstra is well positioned to capitalise if this trend continues, through our leadership in 5G at the beginning of this cycle.

We will extend our leadership in 5G by continuing to grow our network, giving around 75 per cent of Australia access to Telstra 5G's faster speeds and lower latency by June 2021. Additional advancements in 5G during FY21 will include further access to mmWave spectrum in Australia and second and third generation 5G chipsets and handset devices, which will bring faster and better experiences for our customers. We will continue to develop products and services which utilise the unique capabilities of 5G, particularly in the enterprise market.

We will further improve our productivity so that we are able to continue to invest in world-leading infrastructure, technology and products for our customers. In FY21 we have set ourselves a target to reduce our costs by a further $400 million, as we move closer to delivering our target of $2.5 billion in underlying fixed cost reductions from FY16 to FY22.

In FY20, NBN Co announced changes to its business triggered by the reported completion of the initial rollout – a significant milestone for the Australian telecommunications industry. However, Telstra will continue to experience a strong financial headwind from the nbn as customers continue to migrate from our legacy technologies. In FY21 this headwind is expected to be approximately $700 million. Sustainable nbn access pricing will remain critical to the success of Australia's broadband market, and Telstra will continue to advocate for nbn access price reductions.

During FY20, we fine-tuned the scope of assets and the internal arrangements between Telstra InfraCo and the rest of Telstra. In FY21 we will continue to take important steps in maximising the value of our infrastructure assets, increasing our optionality, and maintaining our network differentiation.

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[1] FY21 guidance assumes no impairments in and to investments or non-current tangible and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance is based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance. Total income excludes finance income. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets. Guidance for FY21 underlying EBITDA assumes an estimated negative impact from the COVID-19 pandemic in FY21 of approximately $400 million. This estimate is approximately $200 million greater than the estimated negative impact from the COVID-19 pandemic for FY20 underlying EBITDA. In-year nbn headwind is defined as the net negative recurring EBITDA impact on our business. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases. Free cashflow is defined as 'operating cash flows' less 'investing cash flows' less 'payments for operating lease liabilities' and excludes spectrum and guidance adjustments.

We go into FY21 in a strong position with a keen awareness of the challenges our community, our economy, our customers and our people face. We will continue to be guided by our purpose and our values, and focus on creating long term shareholder value.

Full year results and operations review

Summary financial results	FY20 $m	FY19 $m	Change %
Revenue (excluding finance income)	**23,710**	25,259	(6.1)
Total income (excluding finance income)	**26,161**	27,807	(5.9)
Operating expenses	**16,951**	19,835	(14.5)
Share of net profit/(loss) from equity accounted entities	**(305)**	12	n/m
EBITDA	**8,905**	7,984	11.5
Depreciation and amortisation	**5,338**	4,282	24.7
EBIT	**3,567**	3,702	(3.6)
Net finance costs	**771**	630	22.4
Income tax expense	**957**	923	3.7
Profit for the period	**1,839**	2,149	(14.4)
Profit attributable to equity holders of Telstra Entity	**1,819**	2,154	(15.6)
Capex[1]	**3,233**	4,140	(21.9)
Free cashflow	**4,034**	3,068	31.5
Earnings per share (cents)	**15.3**	18.1	(15.5)

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

Reported results

Telstra delivered FY20 results in line with guidance as we continued to deliver for customers, supported our people and the community, while generating long-term shareholder value through a challenging period.

On a reported basis, total income declined 5.9 per cent and NPAT declined 14.4 per cent. Underlying EBITDA declined 9.7 per cent on a guidance basis while underlying EBITDA excluding the in-year nbn headwind increased by approximately $40 million. The underlying EBITDA decline included an estimated net negative impact from COVID-19 of approximately $200 million across international roaming, financial support for customers, delays in NAS professional services contracts, and additional bad debt provisions.

We have made good progress on our T22 strategy with nearly three quarters of the measures used to monitor progress against now either completed or on track for delivery. Digital engagement grew with over 71 per cent of our service transactions occurring via digital channels by the end of FY20, a new Telstra InfraCo organisational structure and operating model was implemented, and we continued to make progress on our $2 billion asset monetisation target to strengthen our balance sheet. We are now past the halfway point in delivering T22 and while we expect to see challenging conditions continue in FY21, our strategy means we are well positioned to respond to whatever lies ahead.

Progress on T22, including our focus to rapidly simplify and digitise, remove customer pain points, and remove legacy systems and processes, helped reduce underlying fixed costs by $615 million or 9.2 per cent. This brought the total underlying fixed cost reductions to $1.8 billion since FY16 and we remain on track to achieve our FY22 target of $2.5 billion.

Our multi-brand strategy continued to deliver growth, particularly in mobile where we added 240,000 retail postpaid handheld mobile services including 154,000 from Belong, 171,000 retail prepaid handheld unique users, and 347,000 Wholesale services. We continued our clear leadership in 5G with more than 10 million people now living, working or passing through the 53 cities and towns in our 5G footprint every day, and approximately one third of the population is covered with 5G. Telstra has always been a leader in telecommunications technology and we are the clear leader in Australia in 5G, as well as being at the forefront globally.

The Telstra Board resolved to pay a fully franked final dividend of 8 cents per share, comprising a final ordinary dividend of 5 cents and a final special dividend of 3 cents. The total dividend for FY20 is 16 cents per share, fully franked. Telstra also provided financial guidance including assumptions on a range of metrics for FY21, giving the market clarity on its expectations for the year ahead.

Other information

The new accounting standard AASB16 Leases (“AASB16”) was adopted from 1 July 2019.

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution which differs from our EBITDA. Refer to note 2.1.1 in the Financial Report for further detail.

Commentary reflects statutory and management accounts reporting.

Results on a guidance basis[1]	FY20	FY20 Guidance[2]
Total income[3]	**$26.1b**	$25.3b to $27.3b
Underlying EBITDA[4]	**$7.4b**	$7.4b to $7.9b
Net one-off nbn DA receipts less nbn net cost to connect	**$1.5b**	$1.3b to $1.7b
Restructuring costs	**$0.2b**	~$0.3b
Capex	**$3.2b**	$2.9b to $3.3b
Free cashflow after operating lease payments	**$3.4b**	$3.3b to $3.8b

Guidance versus reported results[1]	FY20	FY20	FY20	FY19
	Reported results $m	Adjustments $m	Guidance basis $m	Guidance basis $m
Total income	**26,161**	(20)	26,141	27,804
Underlying EBITDA[4]	**8,905**	(1,496)	7,409	8,203
Free cashflow[5]	**4,034**	(619)	3,415	3,186

1. This guidance assumed wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn rollout and migration in FY20 was broadly in accordance with the nbn Corporate Plan 2020. Guidance was provided on the basis of AASB16 Leases and assumed impacts consistent with management estimates. Capex was measured on an accrued basis and excluded expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases. Refer to the *Guidance versus reported results* schedule. The adjustments within the tables in this schedule have been reviewed by our auditors.
2. FY20 guidance revised on 2 September 2019 after nbn co released the nbn Corporate Plan 2020.
3. Total income excludes finance income.
4. Underlying EBITDA excluded net one-off nbn DA receipts less nbn net cost to connect, guidance adjustments including one-off restructuring costs, but included depreciation of mobile lease right-of-use assets.
5. FY20 free cashflow defined as operating cash flows less investing cash flows less operating leases (reported in financing cash flow under AASB16 Leases).

On 13 August 2020, the Directors of Telstra Corporation Limited resolved to pay a final fully franked dividend of 8 cents per ordinary share, comprising a final ordinary dividend of 5 cents per share and a final special dividend of 3 cents per share. Shares will trade excluding entitlement to the final dividend from 26 August 2020 with payment to be made on 24 September 2020.

The total dividend for FY20 is 16 cents per share, fully franked, including 10 cents ordinary and 6 cents special. The ordinary dividend represents a 99 per cent payout ratio on FY20 underlying earnings[1] while the special dividend represents a 66 per cent payout ratio of FY20 net one-off nbn receipts[2]. The FY20 ordinary dividend is higher than the range indicated in our capital management framework to pay a fully franked ordinary dividend of 70 to 90 per cent of underlying earnings. In determining the FY20 final ordinary dividend, the Board has taken into account a number of factors including the objectives and principles of the capital management framework, the impacts we have estimated resulting from COVID-19, and our free cashflow which is higher than accounting earnings due to lower in-year capex. Our FY20 underlying earnings were $1,224 million while net one-off nbn receipts were $1,075 million compared with underlying earnings of $1,970 million and net one-off nbn receipts of $1,129 million in FY19.

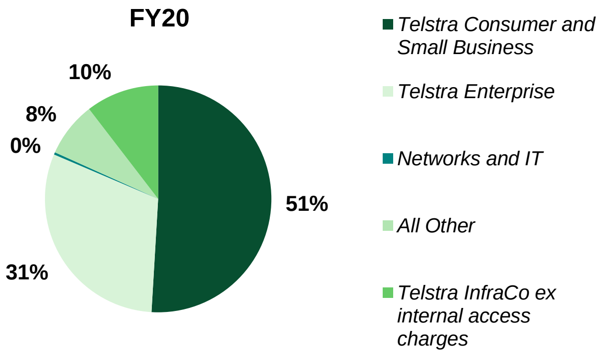
1. "underlying earnings" is defined as net profit after tax from continuing operations excluding net one-off nbn receipts (as defined in footnote 2) and guidance adjustments (as defined in footnote 3).
2. "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
3. Guidance adjustments include one-off restructuring costs, impairments in and to investments or property, plant and equipment and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.

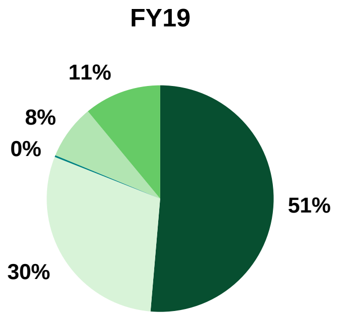
Segment performance

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

Income related to recurring nbn Infrastructure Services Agreement (ISA) amounts and nbn commercial works are included in Telstra InfraCo. One-off nbn Definitive Agreement (nbn DA) and ISA amounts are included in All Other, and non-nbn commercial works are included in Telstra Enterprise.

Segment total income





Total external income	FY20	FY19	Change
	$m	$m	%
Telstra Consumer and Small Business	**13,326**	14,281	(6.7)
Telstra Enterprise	**7,970**	8,243	(3.3)
Networks and IT	**87**	70	24.3
All Other	**2,045**	2,156	(5.1)
Telstra InfraCo including internal access charges	**4,423**	4,948	(10.6)
Internal access charges	**(1,690)**	(1,891)	10.6
Total	**26,161**	27,807	(5.9)

Telstra Consumer and Small Business
Telstra Consumer and Small Business provides telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small business customers in Australia.

Income in this segment decreased by 6.7 per cent to $13,326 million, impacted by an 8.4 per cent decline across fixed products including ongoing standalone fixed voice and a 5.2 per cent decline in mobile services revenue as declining Average Revenue Per User (ARPU) more than offset customer net additions. Network Applications and Services (NAS) revenue in Small Business continued to grow, increasing by 13.8 per cent primarily due to growth in unified communications.

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

Income for Telstra Enterprise decreased by 3.3 per cent to $7,970 million as growth in international was more than offset by a decline in domestic. Telstra Enterprise domestic income decreased by 5.5 per cent largely due to declines in Data & IP legacy calling and legacy fixed products. However, NAS and mobility revenues were broadly stable. Telstra Enterprise international income grew by 3.6 per cent mainly due to growth in higher margin Data & IP, increased traffic from Australia and targeted one-off transactions.

Networks and IT
Networks and IT is responsible for the overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions. It primarily supports the revenue generating activities of other segments. Networks and IT income increased by 24.3 per cent to $87 million.

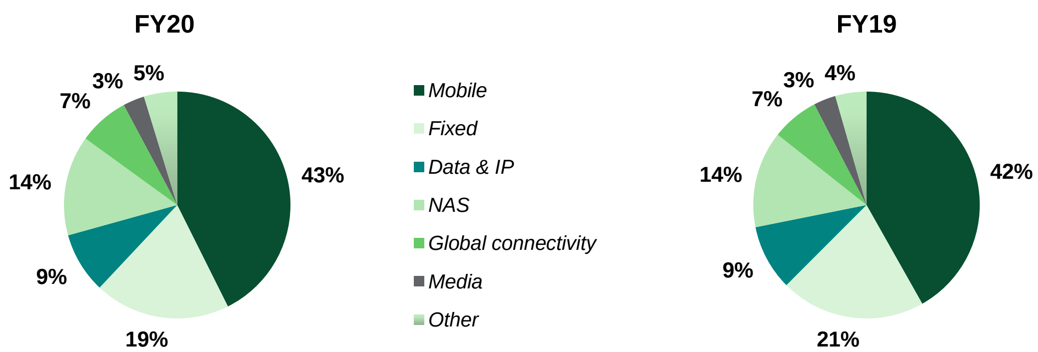
Telstra InfraCo
Telstra InfraCo is a standalone infrastructure business unit within Telstra. It is responsible for key network assets including data centres and exchanges, most of our fibre network, the copper and hybrid fibre coaxial networks, international subsea cables, poles, ducts and pipes. From 1 July 2020, Telstra InfraCo's asset accountabilities will also include our whole fibre network (including mobile backhaul) and mobile towers, but exclude PSTN and legacy fixed, and satellite related assets.

Telstra InfraCo income excluding internal access charges decreased by 10.6 per cent to $2,733 million due to expected declines from Telstra Wholesale legacy fixed products and commercial works for nbn co. This was partly offset by increased recurring nbn DA receipts in line with the progress of the nbn™ network rollout and receipts for access to passive infrastructure, and an increase in wholesale mobility. Including internal access charges, income decreased by 10.6 per cent to $4,423 million.

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 Product and Technology Group, Global Business Services (GBS) and New Business (including Telstra Health). Income decreased by 5.1 per cent mainly due to declines in ISA ownership receipts and nbn commercial works (sales of assets component), partly offset by an increase in Per Subscriber Address Amount (PSAA) receipts in line with the progress of the nbn™ network rollout.

Product performance

Product revenue breakdown



Key product revenue	FY20 $m	FY19 $m	Change %
Mobile	**10,084**	10,545	(4.4)
Fixed	**4,591**	5,223	(12.1)
Data & IP	**2,052**	2,358	(13.0)
NAS	**3,379**	3,477	(2.8)
Global connectivity	**1,706**	1,700	0.4

EBITDA contribution margins[1]	FY20 %	2H20 %	1H20 %	FY19 %
Mobile	**34.7**	33.7	35.6	35.6
Retail Fixed (including nbn cost to connect)	**1.8**	(1.9)	5.2	18.1
Data & IP	**62.2**	63.7	60.8	65.6
NAS	**17.5**	19.2	15.7	10.4
Global connectivity	**26.6**	25.8	27.3	21.4

1. The data in this table includes minor adjustments to historic numbers to reflect changes in product hierarchy.

On a reported basis, total income (excluding finance income) declined by 5.9 per cent to $26,161 million. On a guidance basis, total income (excluding finance income) was $26,141 million, in line with guidance. Competitive pressure, legacy product and service declines, and the nbn™ network rollout continued to negatively impact income. Remediation and customer initiatives in response to bushfires, floods and COVID-19 were also reflected by a decline in performance. The decline has been partly offset by improving profitability in NAS and global connectivity, and positive signs in mobile with continued growth in customer services and an increase in postpaid Transacting Minimum Monthly Commitment (TMMC). More detail on each of the products are outlined below on a reported basis unless otherwise stated.

Mobile

Mobile revenue declined by 4.4 per cent to $10,084 million largely due to declines in postpaid and prepaid ARPU and lower hardware volumes. Retail customer services increased by 437,000 bringing the total to 18.8 million. We now have 8.5 million postpaid handheld retail customer services, an increase of 240,000 including 154,000 from Belong and a strong contribution from Enterprise as customers adapt their operations.

Postpaid handheld revenue decreased by 4.6 per cent to $5,048 million as net adds were offset by an 8.2 per cent ARPU decline from $54.77 to $50.29. Excluding the international roaming decline, ARPU decreased by 6.8 per cent due to impacts of FY19 price competition washing through the base, lower out of bundle revenue, modest dilution from an increase in Belong customer mix, and accounting for new plans which allocate more revenue to hardware. However, there was a positive contribution from plans sold in FY20 with TMMC around $2 higher in FY20 compared with FY19.

Prepaid handheld revenue declined by 6.8 per cent to $773 million as a 171,000 increase in unique users was more than offset by lower ARPU. Revenue stabilised in 2H20 as the average voucher size increased.

Mobile broadband revenue decreased by 4.9 per cent to $640 million as an increase in ARPU was offset by a 469,000 reduction in customer services, which included the deactivation of 365,000 $0 services in 1H20. Revenue showed signs of stabilising in 2H20, with demand increasing as more people began working and studying from home, however ultimately declined as lower prepaid customer services offset gains in postpaid.

Internet of Things (IoT) revenue grew by 3.0 per cent to $209 million while increasing customer services by 652,000. We launched our consumer Telstra Locator Cat-M1 Tag which uses our LTE network, launched further solutions in areas of Track and Monitor, Smart Metering and Connected Building, and won recognition for our Telstra Locator and water management solutions.

Wholesale services revenue increased 10.0 per cent to $221 million. Wholesale customer services including IoT increased by 347,000 bringing the total to 1.6 million as plans offered by Mobile Virtual Network Operators (MVNO) on the Telstra mobile network continued to rise in popularity.

Mobile hardware revenue decreased by 3.3 per cent to $3,002 million largely due to lower handset sales.

Mobile EBITDA contribution margin declined by 0.9 percentage point to 34.7 per cent largely due to lower services revenue, partly offset by lower costs and improved hardware margin.

Fixed

Fixed revenue declined by 12.1 per cent to $4,591 million impacted by nbn migration alongside ongoing voice and legacy decline.

Retail bundles and standalone data revenue declined by 1.9 per cent to $3,226 million due to a 4.4 per cent ARPU decline from $75.07 to $71.75 caused by migration to in-market plans and a higher Belong mix. There were 80,000 retail bundles and standalone data net subscriber additions including 79,000 additions from Belong bringing total bundles and standalone data customers to 3.8 million.

Retail standalone voice revenue decreased by 31.1 per cent to $607 million with lower customer services driven by standalone voice line abandonment and migration to nbn and bundles. ARPU decreased by 2.2 per cent from $43.62 to $42.64. There were 452,000 retail standalone voice net subscriber losses taking total standalone voice customers to 960,000.

We continue to lead the nbn market with a total of 3.2 million nbn connections, an increase of 620,000. Our nbn market share is now 46 per cent (excluding satellite). The Telstra Smart Modem is now being utilised by 71 per cent of our fixed data consumer base, providing a better experience on the nbn with strong Wi-Fi connectivity and enhanced back up speeds.

Other retail fixed revenue, which includes hardware, once off revenue (activation fees), Platinum, and fixed interconnect, decreased by 18.6 per cent to $201 million.

Retail Fixed (including net one-off nbn cost to connect) EBITDA contribution margin declined by 16.3 percentage points to 1.8 per cent due to high margin revenue reduction, growing network payments to nbn co, legacy decline and nbn migration costs, partly offset by fixed cost reduction.

Data & IP
Data & IP revenue decreased by 13.0 per cent to $2,052 million reflecting declines in legacy volumes associated with the nbn™ network rollout, and competitive pricing pressures in data access and connectivity.

To provide greater visibility of our ongoing and legacy products, we have split Data & IP into four areas – data access and connectivity, legacy calling, connectivity services, and wholesale products.

Data access and connectivity revenue, which includes private networks and internet connections on Telstra fibre, nbn, legacy copper and other fixed technologies, optical and legacy data, declined 5.5 per cent to $1,151 million due to legacy copper terminations partly offset by growth in fibre and nbn customer services. ARPU declined due to price competition and an ongoing technology shift enabling alternate and lower cost solutions.

Legacy calling revenue, which includes ISDN, declined 30.3 per cent to $431 million due to the termination of ISDN customer services in line with the planned exit of this product by 2022, and migration of associated voice services to NAS.

Connectivity services revenue, which includes professional media solutions, security solutions and the Telstra Programmable Network (TPN), decreased by 9.6 per cent to $103 million due to a decline in monitored security solutions. This was partly offset by growth in TPN which enables real time on-demand connectivity to clouds, data centres and a partner ecosystem through one portal.

Wholesale products revenue declined 10.0 per cent to $367 million due to ethernet pricing pressures and a decline in transmission.

Data & IP EBITDA contribution margin declined by 3.4 percentage points to 62.2 per cent reflecting declining revenue on high margin legacy products with a moderate decline in cost.

Network Applications and Services (NAS)
NAS revenue declined by 2.8 per cent to $3,379 million reflecting a continued focus on profitable revenue growth, lower nbn commercial works and a decline in discretionary spending on professional services observed during COVID-19. Excluding low margin hardware sales and nbn commercial works, revenue increased by 3.8 per cent.

Managed network services revenue decreased by 4.0 per cent to $622 million due to lower professional services revenue as many businesses went into hibernation or scaled back discretionary projects in 2H20, and a shift to lower priced cloud based managed data network technologies, partly offset by managed security growth.

Unified communications revenue increased by 5.7 per cent to $1,067 million reflecting new collaboration and calling service growth, and migration from legacy calling services.

Cloud services revenue increased by 0.9 per cent to $434 million as growth in public cloud annuity products was broadly offset by lower spend by customers on professional services.

Industry solutions revenue decreased by 11.6 per cent to $1,047 million largely due to an expected decline in revenue from contracts outside of the nbn DAs in line with the maturity of the nbn™ network rollout. Excluding nbn commercial works, revenue declined by 8.7 per cent.

Integrated services revenue increased by 1.5 per cent to $209 million mainly from a rise in consulting and project management and other service management, partly offset by a decline in managed IT services.

NAS EBITDA contribution margin increased by 7.1 percentage points to 17.5 per cent due to a focus on profitable revenue growth, growth in unified communications and significant cost reduction.

Global connectivity
Global connectivity represents the international business of Telstra Enterprise. Revenue increased by 0.4 per cent on a reported basis and decreased by 4.6 per cent in constant currency (CC) terms with growth in more profitable Data & IP products offset by declining fixed legacy voice revenues.

Fixed legacy voice revenue decreased by 24.1 per cent (CC) due to continued market decline and strategic focus on profitable revenue. Data & IP revenue grew by 1.7 per cent (CC) from existing and new capacity due to investment in cable, and one-off benefits from targeted early customer contract terminations. NAS and other revenue decreased by 4.6 per cent (CC) but with improved profitability due to reduction in lower margin equipment sales.

Global connectivity EBITDA contribution margin (CC) increased by 5.2 percentage points to 26.6 per cent reflecting continued focus on higher profit revenue, productivity and one-off benefits.

Media
Media revenue excluding cable decreased by 8.9 per cent to $726 million mainly due to the performance of Foxtel from Telstra and decline in mobility from lower digital subscriptions. Foxtel from Telstra revenue declined by 5.9 per cent to $625 million and had 98,000 subscriber exits reflecting a broader industry transition from Broadcast to IPTV. There are now 1.7 million Telstra TV devices in the market, an increase of 114,000. Sports Live Pass users increased by 370,000 to 3.4 million across AFL, NRL, Netball and FFA with most users receiving the service as part of their mobile subscription.

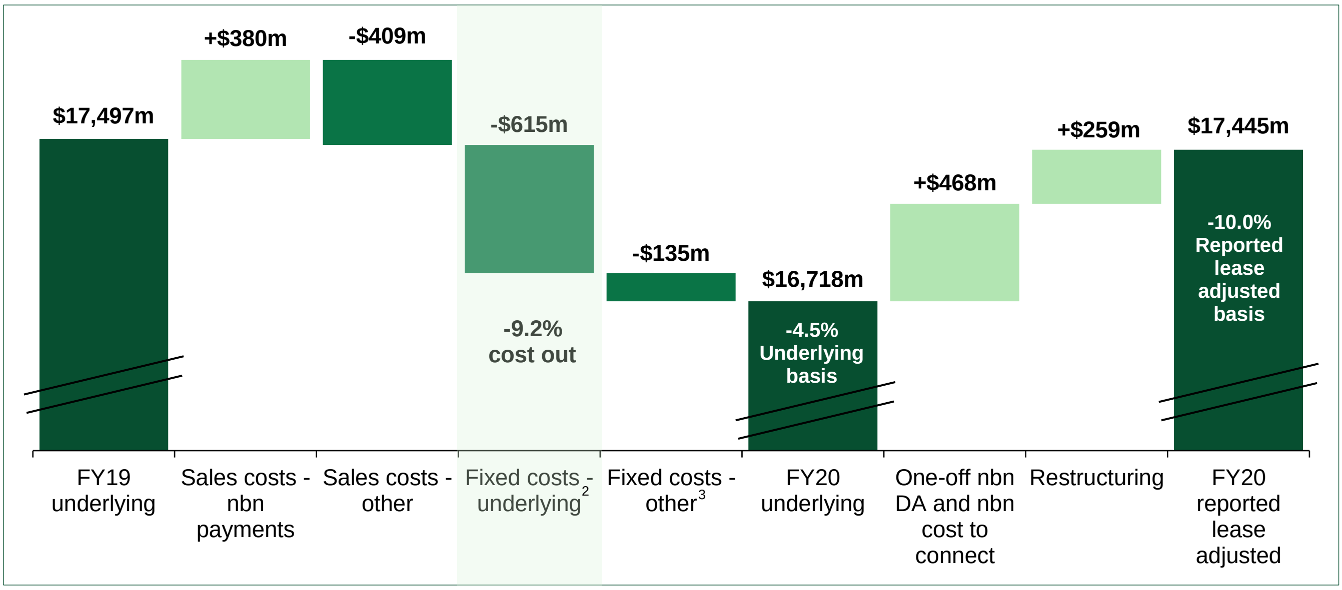
Other
Other revenue includes recurring revenue related to nbn co access to our infrastructure (nbn DA), late payment fees and revenue from Telstra Health.

Other income includes gains and losses on asset and investment sales (including assets transferred under the nbn DAs), income from government grants under the Telstra Universal Service Obligation Performance Agreement (TUSOPA), income from nbn[TM] network disconnection fees (PSAA), subsidies and other miscellaneous items. The decrease in other income of 3.8 per cent is largely due to a 45.8 per cent decline in ISA income to $210 million in line with the progress of the nbn[TM] network rollout, partly offset by PSAA receipts which grew by 6.9 per cent to $1,721 million reflecting nbn migrations in the period.

Expense performance

Underlying fixed costs declined by 9.2 per cent or $615 million. In June 2018, we announced we would target a $2.5 billion annual reduction in underlying fixed costs by FY22 compared with restated underlying fixed costs of ~$7.9 billion in base year FY16. We have now achieved $1.8 billion of annual cost out since FY16 and remain on track to achieve our FY22 target.

Operating expenses[1]	FY20	FY19	Change	
	$m	$m	$m	%
Sales costs	***8,802***	*8,831*	*(29)*	*(0.3)*
- nbn payments	**1,731**	1,351	380	28.1
- other	**7,071**	7,480	(409)	(5.5)
Fixed costs	***7,916***	*8,666*	*(750)*	*(8.7)*
- underlying[2]	**6,083**	6,698	(615)	(9.2)
- other[3]	**1,833**	1,968	(135)	(6.9)
Underlying	**16,718**	**17,497**	**(779)**	**(4.5)**
One-off nbn DA and nbn cost to connect	**468**	503	(35)	(7.0)
Restructuring	**259**	801	(542)	(67.7)
Other guidance adjustments[4]	**-**	584	(584)	n/m
Reported lease adjusted[5]	**17,445**	**19,385**	**(1,940)**	**(10.0)**
Lease adjustments[6]	(494)	450	(944)	n/m
Reported	**16,951**	**19,835**	**(2,884)**	**(14.5)**



1. Sales and fixed costs exclude costs associated with one-off nbn DA and nbn cost to connect.
2. Fixed costs - underlying was ~$7.9b in FY16 on a restated basis and targeted to decline by our net cost productivity target of $2.5b by FY22. Underlying fixed costs are costs excluding other fixed costs (as defined in footnote 3).
3. Fixed costs - other includes items supporting revenue growth including relevant NAS costs, mobile handset lease, and product impairment.
4. Other guidance adjustments in FY19 include $493 million asset impairment and $91 million M&A expenses.
5. 'Reported lease adjusted' includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA.
6. Refer to note 4 of the *Guidance versus reported results* schedule.

Total operating expenses declined by 14.5 per cent to $16,951 million on a reported basis and declined by 10.0 per cent to $17,445 million on a reported lease adjusted basis largely due to the $615 million reduction in underlying fixed costs from our productivity program, a $542 million decrease in restructuring costs associated with T22 initiatives, and guidance adjustments of $584 million in FY19 including a $493 million impairment of our legacy IT assets. Sales costs, which are direct costs associated with revenue and customer growth, decreased by 0.3 per cent to $8,802 million due to a $409 million decline in other sales costs as a result of lower hardware costs, partly offset by a $380 million increase in nbn access payments. Other fixed costs decreased by 6.9 per cent while one-off nbn DA and nbn cost to connect declined 7.0 per cent in line with the progress of the nbn™ network rollout. On an underlying basis, total operating expenses declined by 4.5 per cent as underlying fixed cost reduction exceeded increased nbn access payments.

Our progress on achieving our productivity target is reported through the above operating expenses table. The detail below provides commentary on the operating expenses as disclosed in our statutory accounts.

Operating expenses on a reported basis	FY20	FY19	Change
	$m	$m	%
Labour	**4,058**	5,279	(23.1)
Goods and services purchased	**9,107**	9,138	(0.3)
Net impairment losses on financial assets	**202**	184	9.8
Other expenses	**3,584**	5,234	(31.5)
Total	**16,951**	19,835	(14.5)

Labour
Total labour expenses decreased by 23.1 per cent or $1,221 million to $4,058 million. Salary and associated costs declined by $457 million due to lower headcount, redundancy costs decreased by $485 million due to the level of redundancies in FY19, and labour substitution costs declined by $232 million from a reduction in labour outsourcing.

Total full time staff equivalents (FTE) decreased by 2.7 per cent or 810 to 28,959 including the additional FTE recruited to assist with customer service in response to COVID-19.

Goods and services purchased
Total goods and services purchased decreased by 0.3 per cent or $31 million to $9,107 million.

Cost of goods sold, which includes mobile handsets and accessories, tablets, cellular Wi-Fi, broadband modems and other fixed hardware decreased by 7.5 per cent or $281 million to $3,490 million mainly due to lower handset and NAS equipment sales in 2H20 from slower trading activity.

Network payments increased by 13.0 per cent or $364 million to $3,155 million, including a $380 million increase in nbn access payments as customers migrate across to nbn services. Offshore network payments were $33 million lower mainly due to improved network optimisation which resulted in network cost savings.

Other goods and services purchased declined by 4.4 per cent or $114 million to $2,462 million mainly due to a reduction in Foxtel service fees as a result of a decline in Foxtel from Telstra subscribers.

Net impairment losses on financial assets
Total net impairment losses on financial assets increased by 9.8 per cent or $18 million to $202 million including an additional $36 million allowance for doubtful debts to reflect risks and uncertainties brought about by COVID-19.

Other expenses
Total other expenses decreased by 31.5 per cent or $1,650 million to $3,584 million.

Service contracts and other agreements expenses declined by 7.4 per cent or $117 million due to productivity and cost reduction programs. Other impairment expenses declined by 78.8 per cent or $479 million to $129 million largely due to a $493 million impairment of our legacy IT assets in FY19. Other expenses decreased by 34.7 per cent or $1,054 million primarily due to a $1,093 million decline in leasing costs following the adoption of AASB16.

Share of net profit/(loss) from equity accounted entities

Our investment in NXE Australia Pty Limited was impaired and a loss of $308 million was recognised in our share of net loss from joint ventures and associated entities. The impairment reflected the challenges of disruption in the industry and the impact of COVID-19 as global sports were put on hold, pubs temporarily closed, and advertisers forced to carefully reconsider their investments.

Depreciation and amortisation
Depreciation and amortisation increased by 24.7 per cent or $1,056 million to $5,338 million largely due to a $1,017 million increase in depreciation of right-of-use assets following the adoption of AASB16. Excluding depreciation of right-of-use assets, depreciation and amortisation increased by 0.9 per cent or $39 million. Review of asset service lives during FY20 resulted in a $37 million decrease in depreciation expense and an $87 million decrease in amortisation expense.

Foreign currency impacts
For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to Australian dollar (AUD) increased our expenses by $93 million across labour, goods and services purchased, and other expenses. This foreign exchange impact was offset by a $102 million sales revenue increase resulting in a favourable EBITDA contribution of $9 million.

Net finance costs
Net finance costs increased by 22.4 per cent or $141 million to $771 million. Interest on borrowings decreased by $93 million due to

a reduction in our average gross borrowing cost from 4.9 per cent to 4.6 per cent and lower debt on issue. The increase in net finance costs came from a combination of the adoption of AASB16 which required interest costs to be recognised for leases previously classified as operating leases, a reduction in interest capitalised due to a decrease in capital expenditure, and other non-cash financing items largely relating to contracts with customers as set out in note 4.3.2(b).

Financial position

Summary statement of cash flows	FY20 $m	FY19 $m	Change %
Net cash provided by operating activities	**7,010**	6,683	4.9
Net cash used in investing activities	**(2,976)**	(3,615)	17.7
- Capital expenditure (before investments)	**(3,442)**	(4,370)	21.2
- Other investing cash flows	**466**	755	(38.3)
Free cashflow	**4,034**	3,068	31.5
Net cash used in financing activities	**(4,138)**	(3,088)	(34.0)
Net increase/(decrease) in cash and cash equivalents	**(104)**	(20)	n/m
Cash and cash equivalents at the beginning of the period	**604**	620	(2.6)
Effects of exchange rate changes on cash and cash equivalents	**(1)**	4	n/m
Cash and cash equivalents at the end of the period	**499**	604	(17.4)

Capital expenditure and cash flow

Free cashflow generated from operating and investing activities was $4,034 million representing an increase of $966 million or 31.5 per cent, positively impacted by a $928 million decline in capital expenditure (including spectrum payments) and a $1,015 million benefit from operating leases being reclassified as financing cashflow following the adoption of AASB16. This was partly offset by a $657 million increase in working capital investment largely due to increases in handset receivables from the exit of mobile lease plans and introduction of longer repayment options, and restructuring.

Net cash provided by operating activities increased by 4.9 per cent or $327 million to $7,010 million mainly due to an $853 million decrease in payments to suppliers and employees, a $202 million reduction in income taxes paid, and from operating leases being reclassified as a financing cashflow. This was partly offset by a decline in group revenue, an increase in working capital investment largely due to increases in handset receivables and restructuring, and a decrease in one-off nbn receipts in line with the progress of the nbn™ network rollout.

Net cash used in investing activities decreased by 17.7 per cent or $639 million to $2,976 million primarily reflecting lower capital expenditure for the period.

Net cash used in financing activities increased by 34.0 per cent or $1,050 million to $4,138 million. This was largely due to a $1,925 million increase in repayment of borrowings and a $993 million increase in payments for the principal portion of lease liabilities following the adoption of AASB16, partly offset by an $807 million increase in proceeds from borrowings, a $698 million increase in proceeds from the sale of exchanges in a controlled trust, and a $356 million decline in dividends paid.

Our accrued capital expenditure for the year on a guidance basis was $3,233 million or 14.2 per cent of sales revenue.

On a guidance basis free cashflow after operating lease payments was $3,415 million, in line with guidance. Performance against guidance has been adjusted for free cashflow associated with M&A (-$39 million), operating lease payments (-$1,015 million) and spectrum ($435 million).

Debt issuance	$m
10 year Euro bond	856
3 year bilateral loan facility	150
Short term commercial paper and revolving bank facilities (net)	515
Other loans	174
Total	**1,695**

Debt repayments	$m
10 year Euro bond	(1,499)
Bilateral loan facility	(800)
1 year AUD floating rate note	(300)
AUD private placements	(60)
Other loans	(122)
Total	**(2,781)**

Debt position

Our gross debt position was $17,343 million comprising borrowings of $15,829 million, lease liabilities of $3,298 million less net derivative assets of $1,784 million. Gross debt increased by 13.1 per cent or $2,012 million due to the adoption of AASB16 which resulted in our leases previously classified as operating leases (Telstra as a lessee) being included in gross debt. Gross debt excluding lease liabilities decreased by $995 million reflecting a cash reduction of $1,086 million partly offset by a non-cash increase of $91 million. The cash reduction comprised debt issuance of $1,695 million less debt repayments of $2,781 million.

The net increase in debt from lease liabilities was $3,007 million comprising $3,644 million on transition to AASB16 and non-cash additions of $356 million offset by $993 million in lease payments shown as a financing cash outflow. The lease liability includes the reclassification of $291 million previously included within borrowings under previous lease accounting requirements.

Net debt increased by 14.4 per cent or $2,117 million to $16,844 million, comprising the increase in gross debt and a $105 million decrease in cash balances.

Financial settings	FY20 Actual	FY20 Comfort zone
Debt servicing[1]	1.9x	1.5x to 2.0x
Gearing[2]	52.7%	50% to 70%
Interest cover[3]	11.7x	>7x

1. Debt servicing ratio is calculated as net debt/EBITDA (comfort zone recalibrated in FY20 to reflect adoption of AASB16).
2. Gearing ratio is calculated as net debt/total net debt plus equity.
3. Interest cover is calculated as EBITDA/net interest on borrowings.

Financial settings for FY20 reflect the adoption of AASB16 (FY19 settings have not been restated). The comfort zone for debt servicing has been recalibrated to reflect the capitalisation of operating leases onto the statement of financial position and the increase in EBITDA under this new reporting framework. We remain within our comfort zones for our credit metrics on a post AASB16 basis. Our debt servicing is 1.9 times (30 June 2019: 1.8 times), gearing ratio is at 52.7 per cent (30 June 2019: 50.3 per cent) and interest cover is 11.7 times (30 June 2019: 10.5 times).

Summary statement of financial position	30 Jun 2020	30 Jun 2019	Change
	$m	$m	%
Current assets	**6,534**	7,303	(10.5)
Non-current assets	**37,869**	35,286	7.3
Total assets	**44,403**	42,589	4.3
Current liabilities	**10,094**	9,553	5.7
Non-current liabilities	**19,162**	18,506	3.5
Total liabilities	**29,256**	28,059	4.3
Net assets	**15,147**	14,530	4.2
Total equity	**15,147**	14,530	4.2
Return on average assets (%)	**8.0**	8.8	(0.8)pp
Return on average equity (%)	**12.5**	14.8	(2.3)pp

Statement of financial position
Our balance sheet remains in a strong position with net assets of $15,147 million.

Current assets decreased by 10.5 per cent to $6,534 million. Trade and other receivables and contract assets declined by $271 million while prepayments declined by $192 million, of which $161 million was due to the adoption of AASB16. Assets classified held for sale decreased by $121 million which reflects assets held for sale in FY19, including three data centres within the Telstra Enterprise segment. We subsequently sold of one of the data centres but did not receive the consents required for sale of the remaining two (see note 3.10).

Non-current assets increased by 7.3 per cent to $37,869 million. Right-of-use assets increased by $3,030 million due to the adoption of AASB16 while trade and other receivables and contract assets increased by $648 million largely due to the exit of mobile lease plans and introduction of longer repayment options. This was partly offset by a $401 million decline in investments accounted for using the equity method including a $308 million impairment of our investment in NXE Australia Pty Limited, a $337 million decrease in property, plant and equipment due to lower capital expenditure, and a $294 million decline in intangible assets mainly due to lower software additions.

Current liabilities increased by 5.7 per cent to $10,094 million. Lease liabilities increased by $611 million due to the adoption of AASB16 which resulted in the recognition of operating leases onto the statement of financial position while borrowings increased by $541 million primarily from an increase in commercial paper and drawn bank facilities. This was partly offset by a $548 million decline in trade and other payables mainly due to volume and timing of handset orders with large suppliers.

Non-current liabilities increased by 3.5 per cent to $19,162 million. Lease liabilities increased by $2,687 million due to the adoption of AASB16 partly offset by a $1,965 million decline in borrowings. The decline in borrowings was largely from reclassification to current liabilities of debt maturing within the next 12 months, reclassification of lease liabilities under previous lease accounting and early repayment of bilateral loan facilities partly offset by debt issuance during the year, foreign currency and other valuation impacts.

Guidance versus reported results

This schedule details adjustments made to the reported results for the current and comparative periods to reflect the performance of the business on the basis on which we provided guidance to the market, which is EBITDA on an underlying basis and assuming wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn rollout and migration in FY20 was broadly in accordance with the nbn Corporate Plan 2020. Underlying EBITDA excluded net one-off nbn DA receipts less nbn net C2C, guidance adjustments including one-off restructuring costs, but included depreciation of mobile lease right-of-use assets.
The following adjustments provide a detailed reconciliation from reported to guidance results for each guidance measure:

	Total Income			Underlying EBITDA			Free Cashflow	
	FY19	FY20		FY19	FY20		FY19	FY20
	$m	$m		$m	$m		$m	$m
Reported[1] Total Income	**27,807**	**26,161**	**Reported[1] EBITDA**	**7,984**	**8,905**	**Reported[1] Free Cashflow**	**3,068**	**4,034**
			Adjustments					
M&A[2]	(3)	(20)	M&A[2]	88	(20)	M&A[2]	89	(39)
Impairment[3]	n/a	n/a	Impairment[3]	493	308	Impairment[3]	n/a	n/a
Lease[4]	n/a	n/a	Lease[4]	450	(494)	Lease[4]	n/a	(1,015)
Restructuring costs[5]	n/a	n/a	Restructuring costs[5]	801	246	Restructuring costs[5]	n/a	n/a
Net one-off NBN receipts[6]	n/a	n/a	Net one-off NBN receipts[6]	(1,613)	(1,536)	Net one-off NBN receipts[6]	n/a	n/a
Spectrum payments[7]	n/a	n/a	Spectrum payments[7]	n/a	n/a	Spectrum payments[7]	29	435
Guidance Total Income	**27,804**	**26,141**	**Guidance Underlying EBITDA**	**8,203**	**7,409**	**Guidance Free Cashflow**	**3,186**	**3,415**

The adjustments set out in the above tables have been reviewed by our auditor for consistency with the guidance basis as set out on this page.

Note:

1 From 1 July 2019 we have adopted AASB16: 'Leases' on a prospective basis, i.e. no restatement of the comparative period. As a result, Reported EBITDA and Reported Free Cashflow for FY20 exclude impact of leases classified as operating leases in FY19 where Telstra was a lessee. The operating lease expense recognised in 'other expenses' (part of EBITDA) and the operating lease payments included in cash outflows from operating activities for FY19 have been 'replaced' by depreciation of right-of-use assets (below EBITDA) and payments of lease liabilities in cash outflows from financing activities for FY20 respectively.

2 Adjustments relating to acquisition and disposals of controlled entities, joint ventures, associates and other investments and any associated net gains or losses and contingent consideration. During FY20 we disposed of our investment in Chief Entertainment Pty Ltd, Snap Inc and PharmX Pty Ltd, a data centre held by Telstra Singapore Pte Ltd, and executed a warrant we held in Ooyala Inc. We also made additional investments in our interest in the Telstra Ventures Fund II, L.P and Southern Cross Cable Holdings Limited. FY19 included additional investments in our interest in Telstra Ventures Fund II, L.P., the disposal of our investment in Ooyala Inc, Ooyala AB and their controlled entities and Orion Health Group Ltd, deferred consideration we received from our disposal of 1300 Australia Pty Ltd and from the sell down of our interest in the Telstra Ventures Fund II L.P.

3 Adjustments relating to the impairment and write downs of IT legacy assets and WIP in FY19 and the impairment of our investment in NXE Australia Pty Ltd (Foxtel) in FY20.

4 Given different accounting treatment of leases in FY20 compared to FY19 (refer footnote 1) 'Lease' provides a like-for-like view of our mobile handset leases (Telstra as a lessee) which for management reporting purposes continue to be treated as part of operating performance results. In particular FY20 has been adjusted to include the reported depreciation of mobile handsets right-of-use assets in EBITDA and for illustrative purposes FY19 has been adjusted to exclude proforma operating lease expense of all but mobile handset leases from EBITDA. FY20 Free Cashflow has been adjusted to include total payments (principal and interest) for leases previously accounted for as operating leases, which are reported as financing cashflows in FY20 under AASB16.

5 Adjustments for the strategic focus (T22 program) to improve customer experience, simplify structure and cut costs, in addition to our normal business as usual redundancies for the period.

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

7 Adjustment relating to the impact on free cashflow associated with our spectrum purchases and renewals for the period including:
- $28m for renewal of spectrum licences in the 900 MHz band
- $386m for acquisition of spectrum licences in the 3.6GHz band
- payments for spectrum and apparatus licences in various spectrum bands

n/a Adjustment is not relevant to the respective guidance measure

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 2020. Financial comparisons used in this report are of results for the year ended 30 June 2020 compared with the results for the year ended 30 June 2019.

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

Principal activity

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

Review and results of operations

Information on the operations and financial position for the Telstra Group is set out in the Operating and Financial Review (OFR), comprising the Chairman and CEO's message, The importance of connection: responding to the bushfire and COVID-19 crises, Strategy and performance, Our material risks, Outlook and Full year results and operations review sections accompanying this Directors' Report.

Dividend

The objectives of our Capital Management Framework are to maximise returns for shareholders, maintain financial strength and retain financial flexibility. The objectives of the Capital Management Framework are supported by the following principles:

- committed to balance sheet settings consistent with an A band credit rating
- pay a fully-franked ordinary dividend of 70 to 90 per cent of our underlying earnings, which is calculated as net profit after tax excluding net one-off nbn receipts and guidance adjustments
- target capex/sales ratio of around 14 per cent excluding spectrum (capex is measured on an accrued basis and excludes expenditure on spectrum and guidance adjustments, externally funded capex and capitalised leases)
- maintain flexibility for portfolio management and to make strategic investments.

In addition to the ordinary dividend, we intend to return in the order of 75 per cent of net one-off nbn receipts to shareholders over time via fully-franked special dividends.

Minor updates have been made to the concepts of 'underlying earnings' and 'guidance adjustments' to align with our approach to FY21 guidance. Underlying earnings now exclude net one-off nbn receipts, one-off restructuring costs and guidance adjustments. Guidance adjustments include impairments in and to investments or non-current tangible and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. "Net one-off nbn receipts" is defined as the net nbn one-off Definitive Agreement receipts (consisting of Per Subscriber Address Amount, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax. The dividend is subject to no unexpected material events, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with our Capital Management Framework.

On 13 February 2020, the Directors resolved to pay an interim fully franked dividend for the financial year 2020 of 8 cents per ordinary share, comprising an interim ordinary dividend of 5 cents per share and an interim special dividend of 3 cents per share.

On 13 August 2020, the Directors resolved to pay a final fully franked dividend of 8 cents per ordinary share ($951 million), comprising a final ordinary dividend of 5 cents per share and a final special dividend of 3 cents per share. The record date for the final dividend will be 27 August 2020, with payment to be made on 24 September 2020. Shares will trade excluding entitlement to the final dividend on 26 August 2020.

Further information regarding FY20 dividends is set out in the Chairman and CEO message and the Full Year Results and Operations Review accompanying this Directors' Report.

The Dividend Reinvestment Plan (DRP) continues to operate for the final dividend for the financial year 2020. The election date for participation in the DRP is 28 August 2020.

Dividends paid during the year were as follows:

Dividend	Date resolved	Date paid	Fully franked dividend per share	Total dividend ($ million)
Total final dividend for the year ended 30 June 2019	15 Aug 2019	26 Sept 2019	8.0 cents	951
Total interim dividend for the year ended 30 June 2020	13 Feb 2020	27 Mar 2020	8.0 cents	952

Significant changes in the state of affairs

There were no significant changes in the state of affairs of our company during the financial year 2020.

Business strategies, prospects and likely developments

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

Events occurring after the end of the financial year

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected, or may significantly affect in future years, Telstra's operations, the results of those operations or the state of Telstra's affairs, other than

- the final dividend for the financial year 2020 and that the DRP will continue to operate in respect of that dividend
- disposal of Clayton data centre property

Refer to note 7.6, Events after reporting date, of the 2020 Financial Report for details.

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:

- Elana Rubin was appointed as a non-executive Director effective 14 February 2020
- on 11 August 2020 the Board announced the appointment of Bridget Loudon to the role of non-executive Director, effective 14 August 2020.

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

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

Board and Committee meeting attendance

Details of the number of meetings held by the Board and its Committees during financial year 2020, and attendance by Board members, are set out below:

	Board		Committees[1]					
			Audit and Risk		Nomination		People and Remuneration	
	a	b	a	b	a	b	a	b
John P Mullen[3]	16	16	-	(2)	6	6	-	(2)
Andrew R Penn	16	16	-	(6)	-	(5)	-	(4)
Eelco Blok	16	16	-	-	6	6	-	-
Roy H Chestnutt	16	15	6	6	6	6	-	-
Craig W Dunn[3]	16	16	6	6	6	6	-	-
Peter R Hearl[3]	16	16	-	-	6	6	5	5
Elana Rubin[2]	7	7	-	(1)	2	2	1	1
Nora L Scheinkestel	16	15	6	6	6	6	5	4
Margaret L Seale	16	16	6	6	6	6	-	-
Niek Jan van Damme	16	16	-	-	6	6	5	5
Total number of meetings held	**16**		**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. Elana Rubin was appointed as a non-executive Director effective from 14 February 2020.
3. From time to time the Board also establishes ad hoc committees to support the Board in carrying out its responsibilities. During financial year 2020, the Board established a special purpose Board committee to oversee a review into Telstra's sales, complaint handling and debt collection practices (including the matters being investigated by the ACCC referred to in note 7.3, Other provisions, of the 2020 Financial Report and Facing into challenges in the Chairman and CEO message). The members of the Committee were John Mullen, Craig Dunn and Peter Hearl and the Committee met 9 times during the year.

Director shareholdings in Telstra

Details of Directors' shareholdings in Telstra as at 13 August 2020 are shown in the table below:

Director	Number of shares held[1]
John P Mullen	101,159
Andrew R Penn[2]	1,757,235
Eelco Blok	75,000
Roy H Chestnutt	70,000
Craig W Dunn	73,173
Peter R Hearl	100,000
Elana Rubin	51,728
Nora L Scheinkestel	150,265
Margaret L Seale	310,540
Niek Jan van Damme	74,000

1. The number of shares held refers to shares held either directly or indirectly by Directors as at 13 August 2020 or, if earlier, as at the date of cessation as a Director. Shares in which the Director does not have a relevant interest, including shares held by the Directors' related parties (including relatives), are excluded. Refer to the Remuneration Report tables for total shares held by Directors and their related parties directly, indirectly or beneficially as at 30 June 2020. The numbers above include 175,000 shares held by a related party of Margaret Seale. In this case, the Director has a relevant interest.
2. Andrew Penn also holds 941,835 Performance Rights.

Company Secretary

Sue Laver BA, LLB (Hons) (Monash), GAICD, FGIA
Sue was appointed Company Secretary of Telstra Corporation Limited effective 1 February 2018.

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

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

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

Directors’ and officers’ indemnity and insurance

(a) Constitution
Telstra’s constitution provides for it to indemnify, to the maximum extent permitted by law:

- certain officers of Telstra and its related bodies corporate (“Telstra Officers”), for any liability and legal costs they incur in that capacity; and
- Telstra Officers and certain employees asked by Telstra to be an officer of a company that is not related to Telstra, for any liability they incur as an officer of that company, as if that liability had been incurred in the capacity as a Telstra Officer.

Telstra’s constitution also allows for it to indemnify, to the maximum extent permitted by law:

- certain employees of Telstra and its related bodies corporate, for any liability they incur in that capacity; and
- certain other officers of Telstra’s related bodies corporate, for any liability they incur in that capacity.

(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); and
- certain Telstra Group senior managers, employees and other persons that act as nominee directors or secretaries (at Telstra’s request) for entities, including wholly-owned subsidiaries and partly-owned companies of Telstra,

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

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

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

Environmental regulation and performance

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

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

(b) Energy and greenhouse emissions
In Australia, Telstra is subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007, which requires Telstra to report its annual Australian greenhouse gas emissions, energy consumption and energy production. Telstra has implemented systems and processes for the collection and reporting of data and has, in accordance with our obligations, reported to the Clean Energy Regulator on an annual basis. The next report is due on 31 October 2020 and will again be supported with an independent assurance report.

In the United Kingdom, Telstra is subject to the Energy Savings Opportunity Scheme (ESOS) Regulations 2014. Telstra qualifies for ESOS and must carry out energy savings assessments every four years. These assessments are audits of the energy used by our buildings, network facilities and transport to identify cost-effective energy saving measures. Telstra has met our obligations under ESOS for the first two compliance periods ended 5 December 2015 and 5 December 2019.

For more information on environmental performance, including environmental regulation, refer to the Bigger Picture Sustainability Report 2020, which is available online at telstra.com/sustainability/report.

Non-audit services

During financial year 2020, Telstra’s auditor, Ernst & Young (EY), has been employed on assignments additional to its statutory audit duties. Details of the amounts paid or payable to EY for audit and non-audit services provided during the year are detailed in note 7.2 to the financial statements in our 2020 Financial Report.

The Directors are satisfied, based on advice provided by the Audit & Risk Committee that the provision of non-audit services during financial year 2020 is consistent with the general standard of independence for auditors imposed by the Act and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all EY engagements, including non-audit services, were approved in accordance with the external auditor services policy adopted by Telstra 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; and
- the provision of non-audit services by EY is monitored by the Audit & Risk Committee via periodic reporting to the Audit & Risk Committee.

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

Message from the People and Remuneration Committee Chairman

Dear fellow shareholders,

On behalf of your company's People and Remuneration Committee, I am pleased to present Telstra's FY20 Remuneration Report.

As outlined in the Chairman and CEO's message the 2020 Financial Year has been a defining period for Telstra. Through the bushfires and COVID-19 global pandemic we continued to execute on our T22 strategy and deliver for our customers and shareholders.

Our response to COVID-19 and the Bushfires

I am incredibly proud of the way our team has responded during the bushfire crisis and the COVID-19 pandemic. Our executive team has shown great leadership and supported our people, customers, communities, and the Australian economy during these challenging times.

When the bushfires struck in late 2019, while our people were on the ground, supporting our customers and communities, our leadership team moved quickly. During the bushfires, Telstra provided vital infrastructure for emergency services and community evacuation centres, answered more than 55,000 calls from customers making enquiries and seeking support, and paid the mobile phone bills for around 10,000 fire fighters and SES volunteers over December and January. Telstra also provided free access to its payphone network and Telstra Air Wi-Fi hotspots.

Following the bushfire crisis, we were further challenged with the onset of the COVID-19 pandemic. During this time Telstra again has demonstrated great leadership and implemented initiatives that supported our key stakeholders. We estimate the net negative impact from COVID-19 during FY20 was approximately $200 million to Underlying EBITDA.

- In March we provided our people with certainty by putting any further job reductions as a part of our T22 transformation program on hold for 6 months.
- We were able to quickly transition around 25,000 office-based employees in Australia to working from home.
- We were also the first major Australian company to introduce a new global epidemic and pandemic leave policy for our people, including paid leave for our casual employees.
- To help better support our customers we added thousands of temporary roles in Australia while we supported our staff and partners outside Australia, including those from our contact centres in India and the Philippines who were subject to lockdown measures.
- We provided unlimited data for home and small business fixed broadband customers and extra data for consumer and small business mobile customers. For pensioners on landlines we provided unlimited local, national and 13/1300 calls and free calls to Australian mobiles. We also offered discounts for eligible customers receiving the JobSeeker payment.
- For many of our customers who were unable to pay their bills, we temporarily suspended late payment fees and launched a bill assistance hub so customers could get information on the support measures and apply for relief if they were doing it tough because of COVID-19; and
- We helped connect 30,000 disadvantaged students across the country by providing them with internet access to support their online learning through state education departments and Catholic Education.

Enhanced Remuneration Framework

As foreshadowed in our 2019 Remuneration Report we enhanced our Executive Variable Remuneration Plan (EVP) structure for FY20 to ensure that Senior Executive remuneration reflected broader market and community expectations. We increased the weighting of financial performance measures, reduced the proportion of cash and increased the proportion of equity in EVP awards, provided for vesting of the Restricted Share component in four equal tranches over four years and enhanced the performance condition attached to the Performance Right component. The maximum opportunity for the CEO and other Senior Executives was also reduced significantly. Further detail of these enhancements can be found in the key highlights section of the FY20 Remuneration Report.

FY20 Performance

Telstra delivered FY20 results in line with guidance as we continued to deliver for customers, supported our people and the community, and generated long-term shareholder value through a challenging period.

On a reported basis Total Income (excluding finance income) for the year decreased 5.9 per cent to $26.2 billion and on a guidance basis[1] Underlying EBITDA declined 9.7 per cent to $7.4 billion. Excluding the in-year nbn headwind[2], which gives the clearest view of the long-term business, Underlying EBITDA grew by approximately $40 million, with growth in the first half of the year offset by a second half decline.

We have made good progress on our T22 strategy with nearly three quarters of the measures used to monitor progress now either completed or on track for delivery. We are now past the halfway point in delivering T22 and while we expect to see challenging conditions continue in FY21, our strategy means we are well positioned to respond to whatever lies ahead. Progress on T22, including our focus to rapidly simplify and digitise, remove customer pain points, and remove legacy systems and processes, helped reduce underlying fixed costs[3] by $615 million or 9.2 per cent. This brought the total underlying fixed cost reductions to $1.8 billion since FY16 and we remain on track to achieve our FY22 target of $2.5 billion.

Further information on our FY20 performance for the year can be found in the FY20 Full Year Results and Operations Review in this 2020 Annual Report.

FY20 Senior Executive Remuneration Outcomes

Telstra's EVP is designed to ensure a significant portion of remuneration is variable and at-risk. It provides the critical link between delivering Telstra's T22 strategy and Telstra's Corporate Plan, and shareholder value and executive reward. The performance measures and targets were selected by the Board to ensure that the CEO and Group Executives continue to deliver against our T22 strategy, and their financial rewards are directly linked to their individual contribution, company performance and long term shareholder value creation.

The key remuneration outcomes under the FY20 EVP include:

- The CEO's Individual EVP Outcome at 48.3% of the maximum opportunity
- The average Individual EVP Outcome for Senior Executives (including the CEO) at 49.7% of the maximum opportunity.

With respect to the FY20 primary performance measures, positive outcomes were achieved across many financial and non-financial measures demonstrating strong delivery against our FY20 Corporate Plan and T22 strategy.

Notwithstanding the impact COVID-19 had on our business (estimated to be a negative net impact of approximately $200 million to Underlying EBITDA), no adjustments were made for this. Some metrics on the FY20 scorecard were positively impacted and others have been challenged by the pandemic. However, when considering these outcomes on balance, the Board determined that the primary performance measure outcomes and the Base EVP Outcome would be driven by the results achieved and so no relief was given to management for the impact of COVID-19.

Further detail regarding the key FY20 remuneration outcomes for the CEO and other Senior Executives and our non-executive director fees is provided in the report that follows this letter.

Responsible Selling

We recognise the fundamental importance of doing business responsibly, continuously striving to improve outcomes for our customers and taking action where we do not meet the standards we set for ourselves. The matters being investigated by the Australian Competition and Consumer Commission (ACCC) (refer to note 7.3.1 to the financial statements in this 2020 Annual Report for further details) include circumstances where we have not met those standards. Consequently, in determining Individual EVP Outcomes for FY20, the Board has reduced by 10% the individual outcomes under the FY20 EVP for the Senior Executives accountable for the areas of the business where these issues occurred (reducing payments to these executives collectively by $758,000). This reduction has been applied by virtue of the accountability these executives had in their roles, and not because of any specific conduct by them in relation to the matter. The roles where the FY20 individual EVP outcome has been reduced are:

- Chief Executive Officer – Andrew Penn
- Group Executive Telstra Consumer and Small Business (5 September 2017 to 10 September 2018) – Vicki Brady
- Group Executive Telstra Consumer and Small Business (11 September 2018 to current) – Michael Ackland

Once this matter is concluded, the Board will consider any further impacts as appropriate for relevant KMP, including on Individual EVP Outcomes.

People and Remuneration Committee Ongoing Focus

During FY20 the committee expanded its role to include a review of selected people related risks and oversight of culture within Telstra and as a result is now known as the People and Remuneration Committee (previously referred to as the Remuneration Committee). Amongst other things, the People and Remuneration Committee reviews selected people related risks, the risk management plans that management has put in place to deal with those risks and monitors whether Telstra is operating within its risk appetite in respect of those risks. It also oversees culture within Telstra and the effectiveness of management's initiatives to instil and reinforce Telstra's Values and compliance with Telstra's Code of Conduct.

As a People and Remuneration Committee, we remain committed to ensuring the structure of Telstra's executive remuneration practices promote high standards of sustainable performance, long term decision making, shareholder alignment and effective governance.

Information is shared between the People and Remuneration Committee and the Audit and Risk Committee. For each half year and full year, the Chair of the Audit and Risk Committee attends the People and Remuneration Committee meeting and provides an overview of the key issues that have been considered by the Audit and Risk Committee that are likely to be relevant in assessing performance and remuneration outcomes for the CEO and other Senior Executives.

Looking forward to FY21

FY21 has already proven to be a year of significant challenge across economies and communities globally due to COVID-19. Telstra has shown great strength and stability since the beginning of the pandemic and we understand that our shareholders want transparency in an uncertain and disrupted market. We will continue to provide meaningful information to enable shareholders to assess the performance of the company and the relevance of our remuneration targets and outcomes.

We have again provided detail prospectively on our remuneration framework and targets for the coming year. These appear in Section 4 of our FY20 Remuneration Report. We believe this information provides our shareholders with market leading levels of transparency.

In setting annual performance measures for FY21, the Board sought to ensure the targets were robust and sufficiently demanding, taking into account the key deliverables and milestones outlined in our T22 strategy, planned financial outcomes contained within our FY21 Corporate Plan and FY21 guidance (as announced on 13 August 2020 and which takes into account the estimated negative impact on FY21 Underlying EBITDA from the in-year nbn headwind and the COVID-19 pandemic). We have now passed the midway point of our T22 strategy to transform Telstra for the future. The non-financial performance measures and targets for FY21 continue to build on the momentum gained in FY20 in delivering our T22 strategy.

We do not anticipate any increases to non-executive Director fees for FY21. Similarly, we do not anticipate any increases in Senior Executive Fixed Remuneration for FY21, other than on appointment or promotion to a new role or due a significant increase in accountabilities.

On behalf of the People and Remuneration Committee, I would like to thank you for your loyalty as a Telstra shareholder and invite you to read the full report in detail.

Peter R. Hearl
People and Remuneration
Committee Chairman

1. FY20 guidance assumed wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn rollout and migration in FY20 was broadly in accordance with the nbn Corporate Plan 2020. Guidance was provided on the basis of AASB16 Leases and assumed impacts consistent with management estimates. Capex was measured on an accrued basis and excluded expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets. In-year nbn headwind is defined as the net negative recurring EBITDA impact on our business based on management best estimates including key input of the nbn Corporate Plan 2020.

2. See note above. As at 30 June 2020, the in-year nbn headwind was ~$830 million.

3. Underlying fixed costs excludes one-off nbn DA and nbn net C2C, one-off restructuring costs and guidance adjustments.

Remuneration Report

This audited report details the remuneration framework and outcomes for Key Management Personnel (KMP) of the Telstra Group for the year ended 30 June 2020 (FY20).

Remuneration at Telstra and FY20 Remuneration Outcomes - Key Highlights

The following table includes the key highlights and remuneration outcomes for FY20.

Key area of focus or outcome	Highlights / Details
FY20 performance and Executive Variable Remuneration Plan (EVP) outcomes	The Board determined the Base EVP Outcome following an assessment of Telstra's performance against the primary performance measures under the FY20 EVP during the 2020 financial year. This was used as an input in determining each Senior Executive's remuneration outcome under the EVP. The primary performance measures selected for Telstra's FY20 EVP are based on four financial measures and four strategic, customer and transformation measures. For FY20, Telstra exceeded threshold for three of the financial measures (Total Income, FCF and Net Opex Reduction) and one was below threshold (Underlying EBITDA) primarily due to the impact of COVID-19. Of the strategic, customer and transformation measures one exceeded target (Product Simplification), two achieved maximum (Digital Engagement and People, Capability and Engagement) and one was below threshold (Episode NPS). Consideration is also given to each executive's performance during the financial year when determining their individual remuneration outcome. The individual award earned by a Senior Executive under the EVP is referred to as their "Individual EVP Outcome" and is determined by the Board taking into consideration the Base EVP Outcome, the executive's "at target" EVP reward opportunity, their individual performance and other factors in accordance with the Board's decision framework such as any material risk events identified, the severity of their impact and the executive's accountability for the matter. In determining Individual EVP Outcomes for FY20 the Board took into account circumstances being investigated by the ACCC, where our practices have not met the standards we set for ourselves, as outlined in the People and Remuneration Committee Chair Letter and note 7.3.1 to the financial statements in this 2020 Annual Report. As a consequence, the Board has reduced individual remuneration outcomes under the FY20 EVP by 10% for those Senior Executives accountable for the areas of the business where these issues occurred (reducing payments to these executives collectively by $758,000). This reduction has been applied by virtue of the accountability these executives had in their roles, and not because of any specific conduct in relation to the matter. The figures below reflect the reduction applied by the Board. Refer to Section 2.3 for further details of these adjustments and Section 2.4 for Senior Executive Individual EVP Outcomes. For our CEO - Andrew Penn, his Individual EVP Outcome, as a percentage of maximum opportunity, was 48.3% (72.5% of target opportunity). This outcome was determined by the Board following an assessment of Telstra's performance against the primary performance measures under the EVP, as well as his individual performance, during the 2020 financial year and his ultimate accountability, as CEO, for circumstances being investigated by the ACCC, where our practices have not met the standards we set for ourselves, as described above. The average Individual EVP Outcome for current Senior Executives (including the CEO), as a percentage of maximum opportunity, was 49.7% (81.9% of target opportunity). Each Senior Executive's Individual EVP Outcome was similarly determined by the Board taking into account Telstra's performance against the primary performance measures under the EVP during the 2020 financial year, as well as their individual performance during the year (including, in the case of the Group Executives, their performance relative to each other) and their accountability (by virtue of their roles) for circumstances being investigated by the ACCC, where our practices have not met the standards we set for ourselves, as described above. These outcomes demonstrate the alignment between our performance, remuneration structure, effective governance and Board oversight, and executive reward. The form in which the CEO and other Senior Executives receive their Individual EVP Outcome for FY20 is:

- 25% in cash;
- 35% as Restricted Shares, with 25% eligible to vest each year over four years, which may be forfeited if employment ceases other than for a Permitted Reason or if certain claw-back (malus) events occur; and
- 40% as Performance Rights that are subject to a Relative Total Shareholder Return (RTSR) performance condition, which may lapse if employment ceases other than for a Permitted Reason or certain claw-back (malus) events occur, which means the Senior Executives will only receive value from those Performance Rights if they vest at the end of FY24.

Key changes in FY20

As foreshadowed in our 2019 Remuneration Report, we made the following enhancements to our Executive Variable Remuneration Plan (EVP) for FY20:

- **Higher weighting of financial performance measures**: The weighting of financial performance measures within the primary performance measures increased to 60% (previously 50%) with the remaining 40% covering customer, strategic and transformation performance measures.

- **Reduced maximum opportunity**: The maximum EVP opportunity was reduced to 300% of Fixed Remuneration for the CEO and Group Executives (previously 400% and 360% respectively).

- **More shares, less cash**: The CEO and Group Executives are to receive 75% (previously 65%) of their Individual EVP Outcome in the form of Restricted Shares and Performance Rights.

- **Restricted Shares to vest over 4 years**: Restricted Shares will be eligible to vest in four equal tranches, with 25% eligible to vest each year over the four years following the end of the Initial Performance Period (previously one tranche that vested after two years).

- **Vesting of Performance Rights now more challenging:** Vesting of Performance Rights will now be determined on a straight line basis, with 50% of the Performance Rights vesting (previously 100%) if Telstra’s RTSR ranks at the 50th percentile of a comparator group, up to 100% of the Performance Rights vesting if Telstra’s RTSR ranks at the 75th percentile of the comparator group. No Performance Rights vest if Telstra’s RTSR ranks below the 50th percentile when compared with the comparator group. This performance condition will continue to be assessed over a five-year period from the start of the Initial Performance Period.

- **Enhanced our share ownership policies:** the CEO is now required to hold 200% of Fixed Remuneration in Telstra shares (previously 100%) and the Chairman of Telstra is required to hold 200% of the non-executive Director annual base fee (previously 100%) in Telstra shares both within five years of appointment to their respective positions.

For further information and the rationale for why we made these changes, please refer to our 2019 Remuneration Report.

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1.0 Policy

1.1 Key Management Personnel (KMP)

Telstra's KMP are assessed each year and comprise the Directors of Telstra and the 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 Telstra and the Group, directly or indirectly. Each KMP held their position for the whole of FY20, unless stated otherwise.

Our KMP during FY20 were:

Non-executive Directors	Senior Executives	
Current	**Current**	**KMP Position**
John P Mullen	Andrew Penn	Chief Executive Officer & Managing Director (CEO)
Eelco Blok	Michael Ackland	Group Executive (GE) Telstra Consumer & Small Business (C&SB)
Roy H Chestnutt	Kim Krogh Andersen	GE Product & Technology (from 06/01/20)
Craig W Dunn	Alex Badenoch	GE Transformation, Communications & People (TC&P)
Peter R Hearl	Vicki Brady	Chief Financial Officer
Elana Rubin (from 14/02/20)	David Burns	GE Global Business Services (GBS)
Nora L Scheinkestel	Michael Ebeid AM	GE Telstra Enterprise (TE)
Margaret L Seale	Nikos Katinakis	GE Networks & IT
Niek Jan van Damme	Brendon Riley	GE and CEO Telstra InfraCo
	Former	
	Christian Von Reventlow	GE Product & Technology (to 02/10/19)

1.2 Remuneration policy, strategy and governance

Our remuneration policy is designed to:

- support our strategy and reinforce our culture and values
- provide internally consistent and market competitive rewards to attract, motivate and retain highly skilled employees
- link financial reward outcomes directly to employee contribution and company performance
- ensure all reward decisions are made free from bias and support diversity within Telstra.

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

(a) The People and Remuneration Committee

The People and Remuneration Committee assists the Board in discharging its responsibilities on matters relating to remuneration, people, culture, conduct and diversity and consists only of independent non-executive Directors.

Among other things, the Committee:

- reviews and makes recommendations to the Board on non-executive Director, CEO and Senior Executive remuneration, as well as Telstra's overall remuneration framework
- reviews selected people related risks, the risk management plans that management has put in place to deal with those risks and monitors whether Telstra is operating within its risk appetite in respect of those risks
- oversees the culture within Telstra and the effectiveness of management's initiatives to instil and reinforce Telstra's Values and compliance with Telstra's Code of Conduct, including reviewing reports from management on culture and any conduct that is materially inconsistent with the Telstra Values or Code of Conduct (including material breaches and the action taken, or proposed to be taken, in response to those breaches)
- reviews and makes recommendations to the Board on Senior Executive succession plans and talent development plans and also reviews capability more broadly across Telstra.

For each half year and full year, the Chairman of the Audit and Risk Committee attends the People and Remuneration Committee meeting and provides an overview of the key issues considered by the Audit and Risk Committee that are likely to be relevant to assessing the performance and remuneration outcomes for the CEO and other Senior Executives by the People and Remuneration Committee. Information and papers considered by a Committee are also provided to other Committees and the Board as relevant.

The People and Remuneration Committee's name was changed during FY20 (previously referred to as the Remuneration Committee) to reflect its expanded role in relation to the review and oversight of the selected people related risks, culture and issues noted above. This oversight further emphasises the committee's ongoing focus on building a workplace of choice that fosters diversity, talent and career progression. Further detail about the People and Remuneration Committee and its responsibilities is provided in our Corporate Governance Statement available at telstra.com/governance.

(b) Annual remuneration review

As part of its role, the People and Remuneration Committee reviews that CEO and other Senior Executive remuneration packages involve a balance between fixed and incentive pay, reflecting appropriate short and long term performance objectives.

The Committee also monitors that the remuneration arrangements and outcomes for the CEO and other Senior Executives encourage employees to pursue Telstra's strategy and success without rewarding conduct that is contrary to Telstra's Values or risk appetite.

Fixed Remuneration is usually reviewed annually taking into account:

- the employee's level of skill, experience and scope of responsibilities
- business performance, scarcity of talent, economic climate and market conditions
- consistency with increases elsewhere within Telstra
- market movement in external comparator groups (which are used for reference purposes only) made up of companies of similar size and complexity to Telstra

The People and Remuneration Committee and Board review the CEO's fixed and variable remuneration and the CEO undertakes a similar exercise in relation to other Senior Executives. The results of the CEO's annual review of other Senior Executives' performance and remuneration are subject to People and Remuneration Committee and Board review and approval.

(c) Engagement with consultants

During FY20, Telstra did not seek a remuneration recommendation from a remuneration consultant in relation to any of our KMP.

(d) Engagement with shareholders and stakeholders

The Chairman of the Board and the Chairman of the People and Remuneration Committee engage throughout the year with stakeholders to seek feedback and consider opportunities to further enhance the effectiveness of our reward structure with a commitment to the alignment of the interests of our executives with the generation of long term shareholder value. During FY20, numerous meetings were held with shareholders and shareholder advisory organisations.

(e) Incentive design and performance assessment

The People and Remuneration Committee oversees the setting of robust measures and targets to encourage performance and behaviour that is aligned to our values, including the primary performance measures for the EVP. The primary performance measures for the FY20 EVP are summarised in section 2.1.

The Board determines the Base EVP Outcome by assessing performance against each primary performance measure. The Base EVP Outcome is an input into the assessment of each Senior Executive's Individual EVP Outcome.

The primary performance measures operate independently, and each measure has a weighting and defined performance threshold, target and maximum level. Where performance against a primary performance measure is determined by the Board to be at:

- threshold, the outcome for that measure will be 50% of its weighting;
- target, the outcome for that measure will be 100% of its weighting; and
- maximum, the outcome for that measure will be 200% of its weighting

If performance falls between any of those levels, the outcome will be determined proportionately having regard to the percentages outlined above. The Board also has discretion to adjust an outcome to ensure there are no windfall gains or losses.

The Base EVP Outcome is calculated as the total sum of each primary performance measure outcome, although the Board also has discretion to adjust that outcome if it considers it to be inappropriate, taking into account matters which may include Telstra's performance, customer experience and shareholder expectations.

To assess the primary performance measures, the Board reviews the Group's results, including the financial statements which are audited by Ernst & Young (EY), our external auditor. It also reviews other work undertaken by EY and Telstra Group Internal Audit on performance against the primary performance measures. Refer to section 2.2 for further information.

Each Senior Executive's Individual EVP Outcome is determined having regard to the Base EVP Outcome, their target EVP opportunity, their individual performance taking into account a range of considerations including the Senior Executive's individual scorecard performance, leadership behaviour and conduct, effective application of risk management practices and in respect of the Group Executives, their performance relative to each other. The Board may also consider other factors in accordance with its decision framework such as any material risk events identified, the severity of their impact and the executive's accountability for the matter.

(f) Share Ownership Policies

Telstra has in place share ownership policies which apply to the CEO, Group Executives and non-executive Directors. The intent of these policies is to align the interests of the CEO, Group Executives and non-executive Directors with the interests of our long term shareholders.

Under the Executive Share Ownership policy that applies to the CEO and Group Executives, the CEO is required to hold Telstra shares to the value of 200% of his Fixed Remuneration (increased from 100% in August 2019) within 5 years of his appointment as CEO. Group Executives are required to hold Telstra shares to the value of 100% of their Fixed Remuneration within five years of their appointment to Group Executive level. Any shares purchased by Senior Executives are valued, for the purpose of the policy, at their acquisition price. Restricted Shares held by Senior Executives are included in calculating their shareholding for the purpose of the policy. The value attributed to Restricted Shares is the value used by Telstra to determine the number of Restricted Shares granted under the relevant Telstra equity plan (which is based on the volume weighted average price of Telstra shares over a defined period before the Restricted Shares are granted). Performance Rights are not included in calculating a Senior Executive's shareholding for the purpose of the policy, however any shares granted on vesting of Performance Rights are recognised based on Telstra's closing share price on the date that the Performance Right vests. Senior Executives must obtain Board or, in certain circumstances, CEO or Chairman approval before they sell Telstra shares if they have not yet met their share ownership requirements under the policy.

As at 30 June 2020, the CEO held Telstra shares to the value of 352% of his Fixed Remuneration as recognised under the policy. Those Senior Executives who have held a Group Executive position for at least five years have met the shareholding requirement as at 30 June 2020. Progress is monitored on an ongoing basis. For information on Senior Executives' interests in Telstra shares refer to section 2.4(e).

Summary of Share Ownership Policy requirements

Position	Minimum Holding Requirement within 5 years of appointment to the position
CEO	200% of Fixed Remuneration
Group Executives	100% of Fixed Remuneration
Chairman of the Board	200% of the annual non-executive Director base fee
Non-executive Directors	100% of the annual non-executive Director base fee

To align the interests of non-executive Directors with those of our shareholders, non-executive Directors are also required to satisfy a minimum shareholding requirement. The Chairman of the Board is required to hold Telstra shares to the value of at least 200% of the annual non-executive Director base fee within five years of his appointment as Chairman. All other non-executive Directors are required to hold Telstra shares to the value of at least 100% of the annual non-executive Director base fee, within five years of their appointment. The value of such shares is based on their price at the time of acquisition. Progress is monitored on an ongoing basis. In August 2019, the minimum holding requirement for the Chairman was increased from 100% to 200%. As at the date of this report, the Chairman held shares to the value of 160% of the annual non-executive Director base fee and under the policy has until April 2021 to meet the new 200% holding requirement. All other non-executive Directors have met their minimum holding requirement with the exception of one Director who has been on the Board for less than 12 months. Directors' shareholdings as at 13 August 2020 are set out in the Directors' Report.

(g) Securities Trading Policy

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 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 using their Telstra shares; and
- entering into any hedging arrangement that limits the economic risk of holding Telstra securities (including those held under Telstra equity plans).

This helps align our KMP's interests with shareholders' interests.

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

(h) Claw-back (Malus) Policy

Telstra has adopted and implemented a Claw-back (Malus) Policy which sets out the process that is followed to put the Board in a position to determine, before securities vest, whether a claw-back event has occurred and whether to lapse or forfeit unvested Performance Rights, Restricted Shares and Cash Rights.

(i) Board Decision Framework

In August 2019, the Board adopted a decision framework to provide guidance to the Board in exercising its discretion on variable remuneration outcomes and provide greater consistency in remuneration adjustments. The framework was applied in determining the Individual EVP Outcomes under the FY20 EVP.

2.0 Senior Executive remuneration

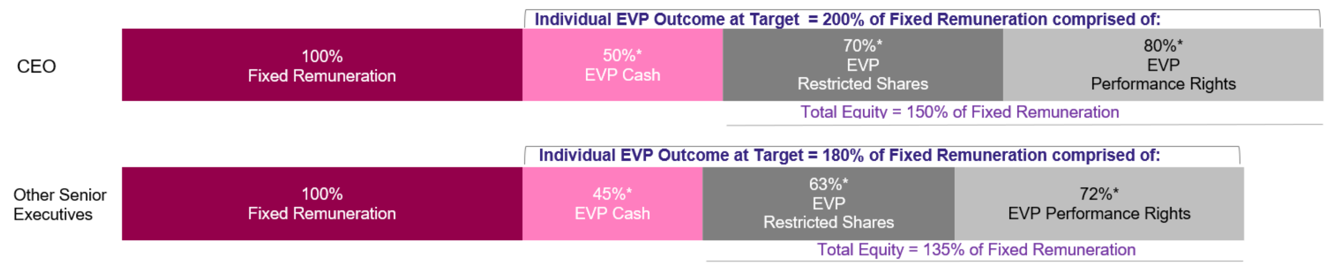
2.1 FY20 Remuneration Structure

The following diagram illustrates the remuneration framework that applied to our Senior Executives during FY20.

Attract, motivate and retain highly skilled people	Reinforce our culture and values	Reward company performance and employee contribution	Align to long term shareholder value creation
Fixed Remuneration	**Executive Variable Remuneration Plan (EVP)**		
Cash		**Equity**	
Base salary plus superannuation	The Base EVP Outcome for FY20 was based on financial, strategic, customer and transformation priorities. Performance over the financial year was measured against stretching financial and non-financial performance targets set at the start of the financial year and communicated in the 2019 Remuneration Report. Each Senior Executive's Individual EVP Outcome was determined having regard to the Base EVP Outcome, their target EVP opportunity and their individual performance, and was ultimately at the discretion of the Board		
Set taking into account: • skills, capabilities, experience and performance • business performance, scarcity of talent, economic climate and market conditions • consistency with increases elsewhere within Telstra • external comparator groups made up of companies of similar size and complexity to Telstra	• 25% of the FY20 Individual EVP Outcome is provided in cash	• 35% of the FY20 Individual EVP Outcome is deferred as Restricted Shares • Restricted Shares are eligible to vest in four equal tranches, with 25% eligible to vest each year over the four years following the end of the Initial Performance Period • May be forfeited if employment ceases other than for a Permitted Reason or a clawback (malus) event occurs	• 40% of the FY20 Individual EVP Outcome is allocated in Performance Rights, which are subject to a 5-year Relative Total Shareholder Return (RTSR) performance condition • May lapse if employment ceases other than for a Permitted Reason or a clawback (malus) event occurs
Market competitive base reward	Recognises sustainable performance in the medium to longer term		
	Rewards annual performance, providing specific focus on strategic priorities.	Recognises the criticality of strategic non-financial measures as drivers of longer term value creation	Focuses on achieving longer-term superior performance for stakeholders

(a) FY20 Remuneration mix for Senior Executives

The graph below shows the FY20 remuneration mix for Senior Executives expressed as a percentage of Fixed Remuneration (FR).



** The percentages shown are calculated from the 25% Cash, 35% Restricted Share and 40% Performance Right components of the FY20 EVP multiplied by the FY20 EVP target opportunity for the CEO (200% of FR) and other Senior Executives (180% of FR).*

(b) Current Senior Executive Fixed Remuneration and contract details

The following table summarises the Fixed Remuneration, notice and termination payment provisions that apply under the ongoing service contracts for current Senior Executives.

Name	Title	FR as at 13 August 2020	Notice Period	Termination Payment
Andrew Penn	CEO	$2,390,000	6 months	6 months
Michael Ackland	GE Consumer & Small Business	$1,150,000	6 months	6 months
Kim Krogh Andersen	GE Product & Technology	$1,000,000	6 months	6 months
Alex Badenoch	GE Transformation, Communications &People	$930,000	6 months	6 months
Vicki Brady	CFO	$1,200,000	6 months	6 months
David Burns	GE Global Business Services	$1,000,000	6 months	6 months
Michael Ebeid AM	GE Telstra Enterprise	$1,150,000	6 months	6 months
Nikos Katinakis	GE Networks & IT	$1,100,000	6 months	6 months
Brendon Riley	GE & CEO Telstra InfraCo	$1,400,000	6 months	12 months*

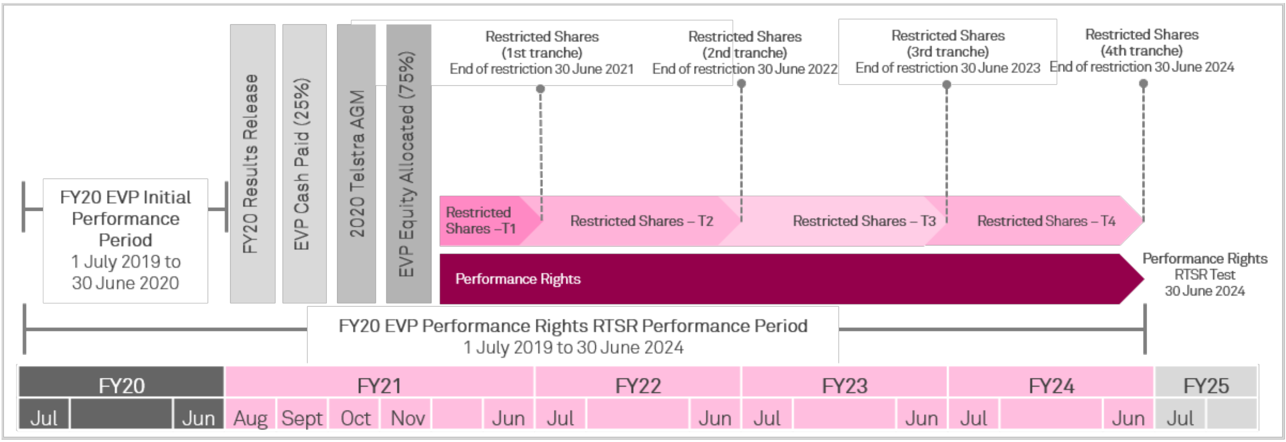
** Brendon Riley has a 12-month termination payment clause in his contract that was negotiated upon commencing employment at Telstra in February 2011. Telstra's current policy is to provide for a six-month termination payment in executive contracts.*

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 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).

(c) FY20 Executive Variable Remuneration Plan (EVP) Structure

The CEO and all Group Executives participated in the FY20 EVP. The construct of the FY20 EVP is illustrated in the diagram below:



At the 2020 AGM to be held on 13 October 2020, we will seek shareholder approval for the Restricted Shares and Performance Rights to be allocated to the CEO under the FY20 EVP.

The table below outlines the key features of the FY20 EVP.

EVP design attributes	Detail
EVP Reward opportunity	**CEO**: 200% of FR at target; 300% of FR at maximum **Group Executives**: 180% of FR at target; 300% of FR at maximum
Initial Performance Period	1 year (1 July 2019 to 30 June 2020)

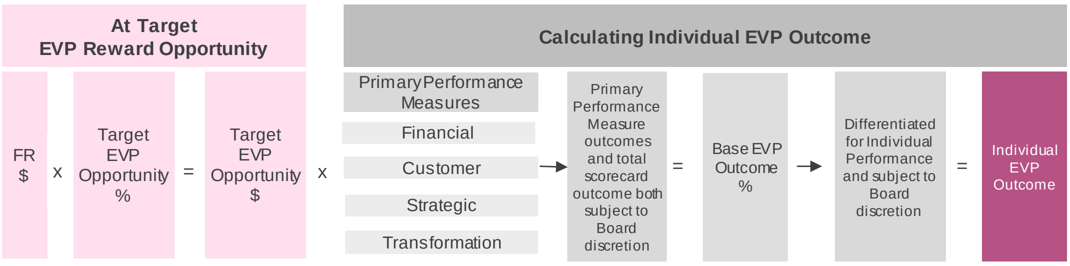
Calculation of Individual EVP Outcomes

<u>Overview</u>

Each Senior Executive's Individual EVP Outcome for FY20 is set out in section 2.4(c).

The CEO's Individual EVP Outcome was determined by the Board taking into consideration the CEO's 'at target' EVP reward opportunity, the Base EVP Outcome, the CEO's performance and other factors in accordance with its decision framework including any material risk events identified, the severity of their impact, and the CEO's accountability for the matter

Each Group Executive's Individual EVP Outcome was determined by the Board taking into consideration their 'at target' EVP reward opportunity, the Base EVP Outcome, their performance (including their performance relative to other Group Executives) and other factors in accordance with its decision framework including any material risk events identified, the severity of their impact, and the executive's accountability for the matter.



Base EVP Outcome

As outlined in section 2.2, the Base EVP Outcome for FY20 as a percentage of maximum was 53.7% for the CEO (80.5% of target) and 51.0% for the other Senior Executives (85.1% of target).

The Base EVP Outcome was determined by the Board following an assessment of Telstra's performance against the primary performance measures (described in detail below) during the 2020 financial year (referred to as the Initial Performance Period).

The primary performance measures operate independently, and each measure was given a weighting and had defined performance threshold, target and maximum levels. Where performance against a primary performance measure was determined by the Board to be at:

- threshold, the outcome for that measure was 50% of its weighting;
- target, the outcome for that measure was 100% of its weighting; and
- maximum, the outcome for that measure was 200% of its weighting.

If performance fell between any of those levels, the outcome was determined proportionately having regard to the percentages outlined above. The Board also had discretion to adjust an outcome to ensure there were no windfall gains or losses. Details of the adjustments approved by the Board for FY20 are outlined in section 2.2(b).

The Base EVP Outcome was calculated as the total sum of each primary performance measure outcome, although the Board also had discretion to adjust that outcome if it considered it to be inappropriate, taking into account matters which may include Telstra's performance, customer experience and shareholder expectations. The Board considered the Base EVP Outcome appropriate and accordingly did not adjust the outcome, refer to section 2.2(b).

<u>Individual performance</u>

At the end of the 2020 financial year:

- the CEO's individual performance was assessed by the Board in accordance with the annual performance evaluation process for the CEO, taking into account a range of considerations including his individual scorecard performance, leadership behaviour and conduct and effective application of risk management practices; and
- each Group Executive's individual performance was assessed by the CEO in accordance with an annual performance evaluation process, taking into account a range of considerations including the Group Executive's individual scorecard performance, leadership behaviour and conduct, effective application of risk management practices and performance relative to the other Group Executives. As noted above, each Group Executive's individual performance relative to the other Group Executives was also taken into account in determining their Individual EVP Outcome. The CEO's recommended assessment for each Group Executive was provided to the People and Remuneration Committee for endorsement, and then to the Board for approval.

Board discretion

The Board has the discretion, in determining a Senior Executive's Individual EVP Outcome, to take into account factors in accordance with its decision framework such as any material risk events identified, the severity of their impact, and the executive's accountability for the matter. Refer to section 2.3 for further information on discretion exercised in determining FY20 Individual EVP Outcomes.

Primary Performance Measures

The primary performance measures outlined below were selected for FY20 because they provide the critical link between delivering Telstra's T22 strategy and Telstra's Corporate Plan and increasing shareholder value. The threshold, target and maximum levels for each measure (as outlined in our 2019 Remuneration Report) were set to be robust and sufficiently demanding, taking into account the key deliverables and milestones outlined in our T22 strategy, planned financial outcomes contained within our Corporate Plan and guidance as announced on 15 August 2019. They were subsequently updated to reflect our revised guidance announced on 2 September 2019 following the release of NBN Co's Corporate Plan. We did not make any further adjustments to the threshold, target and maximum levels for each primary performance measure as a result of the impacts that COVID-19 has had on our business. The levels for the financial measures were set to reflect the significant and progressive negative impact of the roll out of the nbn network and the intense competition in the market impacting on average revenues per user (ARPU).

The levels for all financial measures (with the exception of Net Opex Reduction) were evaluated against market guidance, with each target level approximating the midpoint of that guidance and each maximum level equal to or above the maximum guidance range. It remains the Board's view that the levels were robust and demanding in the face of an exceptionally challenging market.

The primary performance measures and the threshold, target and maximum levels for FY20 were as follows.

Performance Measure and Metric		Weighting	FY19	FY20			Rationale for why chosen
			Baseline^	Threshold	Target	Max	
Financial 60% of total weighting	Total Income Telstra External Income (excluding finance income)	15.0%	$27,807m	$25,800m	$26,300m	$27,300m	• Key indicator of financial performance • Ensures continued focus on customer retention and growth • Aligns to Pillar 1 of the T22 strategy
	Underlying EBITDA Underlying EBITDA is Earnings Before Interest, Tax, Depreciation & Amortisation, excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right of use assets	15.0%	$8,203m	$7,548m	$7,748m	$8,048m	• Key indicator of financial performance • Ensures appropriate focus on profit and cost to deliver • A strong indicator of underlying company profitability • Aligns to Pillar 4 of our T22 strategy
	Free Cash Flow (FCF) Free Cashflow excluding M&A and spectrum, plus operating lease payments (reported in financing cash flow under AASB 16)	15.0%	$3,068m	$3,293m	$3,493m	$3,893m	• Key indicator of financial performance • Appropriate for a capital intensive business critical in managing the company's ability to pay a dividend and maintain balance sheet strength.' • Aligns to Pillar 4 of our T22 strategy
	Net Opex Reduction Reduction in operating non-Direct Variable Cost (DVC) expenses	15.0%	$456m	$595m	$630m	$730m	• Active reduction of our costs will be key to competing and delivering strong financial performance in an increasingly competitive market. • Delivering significant absolute cost reduction aligns with intent to drive productivity and reduce costs • Aligns to Pillar 4 of our T22 strategy

	Performance Measure and Metric		Weighting	FY19 Baseline^	FY20			Rationale for why chosen
Strategic, Customer & Transformation 40% of total weighting	Episode NPS Improvement in our Episode NPS		10%	+25	+27	+29	+32	• A key driver of business success and our ability to differentiate in an increasingly competitive market • Key to generating increased share of wallet from existing customers, maintaining a price premium, and attracting new customers • Aligns to Pillar 1 of our T22 Strategy • See further rationale below
	Product Portfolio Simplification	TE Plans TE Number of Active Plans, the target provides progress toward our T22 reduction of 50% by FY21	5%	517	461	441	400	• Will increase the simplicity, transparency and satisfaction that our customers experience and allow the delivery of material cost reductions • Aligns to Pillar 1 of our T22 strategy • See further rationale below
		Services on in-market plans	5%	0.4m	2.5m	3m	4m	
	Digital Engagement	Digital Delivery Requires the build of digital first capability. The 24% target is the average of Q4 FY20 not an average measure for the year	5%	16.8%	22.5%	24.0%	29.0%	• Improves customer experience • Supports our cost reduction focus • Enables delivery of strong financial results • Aligns to Pillar 1 of our T22 strategy • See further rationale below
		Telstra Connect Active Telstra Enterprise customers on Telstra Connect in the last 3 months	5%	1,269	3,500	4,000	5,000	
	People Capability & Engagement People Capability & Engagement Increase employee engagement outcome by 9 points (from FY19 baseline)		10%	67	72	76	78	• Focusses on our employee engagement • Supports our ability to have both the key leadership and technical talent required to deliver on our ambitious strategy • Aligns to Pillar 3 of our T22 strategy

^ Refers to FY19 results calculated on the same basis as the metric definition and includes restatement for AASB 16: *Leases* where applicable.

Relevance of non-financial measures

The Board believes that the strategic, customer and transformation measures directly demonstrate the delivery of critical components of the T22 strategy and are fundamental key drivers of long term value creation.

To assist shareholders understanding of these measures and their relevance to Telstra's performance, further information on each measure is provided below.

	Episode NPS We have maintained Episode NPS in our EVP measures as a continuous focus on improving customer experience and differentiating our products and services in an increasingly competitive market will be a key driver of long term business success. It is in our shareholder interests to have the executive team specifically focused on improving the key interactions that are most important to this customer experience. These interactions are those that are most likely to drive both customer attraction and retention. Episode NPS is the customer metric most directly aligned to the other key T22 initiatives that are improving customer experience and ease of doing business with Telstra, including the simplification of our product portfolio and improving our digital delivery. In addition to increasing the value and innovation that our customers receive in our products, Episode NPS also underpins companywide improvement programs focused on improving our operational excellence by identifying and eliminating the causes of unnecessary customer effort particularly within the Sales and Activation and Assurance episodes for customers connecting to the nbn™ network. Improvement programs include the launch of our new plans and removing traditional pain-points such as excess data charges in Australia on our in market plans and continuously improving the ways in which customers can self-manage their services through My Telstra app. In addition, when customers do contact us, we aim to ensure that customer issues are resolved within the first contact. **Product Portfolio Simplification - TE Plans** In FY19 Telstra delivered against the target for simplification of our product portfolio for our Enterprise customers. We continued to focus on product simplification in FY20 in line with our commitment to rationalise 50% of Enterprise products by FY21. For our Enterprise customers the simplification often requires an individual customer transformation with consultation to ensure a good customer experience and retention of revenue. **Product Portfolio Simplification - Services on In market plans** In FY19 Telstra delivered against the target for simplification of our product portfolio for our Consumer & Small Business customers. Along with maintaining our committed 20 simplified connectivity plans, in FY20 the priority for Consumer & Small Business shifted to moving our customers to these new radically simplified plan constructs. This supports the delivery of improved customer experiences, offers our customers simplicity and ease of dealing with Telstra, and supports readiness for future delivery of digitised experiences for customers. **Digital Engagement - Digital Delivery** In FY19 Telstra delivered against our target to increase digital sales interactions and in FY20 we continued to increase the engagement of our mass market customers through digital sales channels, targeting nearly 1 in 4 sales to occur through digital channels in FY20. Key to achieving this target is maximising the value and ease for our customers in using our digital channels. This strategy is intended to provide customer choice, reduce our servicing cost and improve profit margins. **Digital Engagement - Telstra Connect** Delivering self-servicing solutions for our Enterprise customers is key to improving customer experience and removing cost by reducing servicing calls. For FY20 our target was 4,000 enterprise customers to actively use Telstra Connect. The key to achieving this target is increasing adoption and developing new functionality for this customer base moving away from more traditional service channels. This strategy is intended to enhance our customer connectivity and experience, reduce our servicing cost and improve profit margins. **People Capability & Engagement** Focusing on our people and employee engagement throughout a period of significant disruption is critically important to attract and retain the talent needed to deliver on our strategy. We believe that it is in our shareholder interests to have management strongly focused on maintaining and growing our employee engagement as it will support our ability to have both the key leadership and technical talent required to deliver our ambitious strategy. To ensure the integrity of our employment engagement score, this performance measure only impacts the remuneration of Telstra's senior leaders within Telstra.
EVP outcome - Cash vs equity balance	A Senior Executive's Individual EVP Outcome is provided as a combination of cash (25%), Restricted Shares (35%) and Performance Rights (40%) which are subject to an RTSR performance test. This results in a 25:75 ratio of cash to equity. On vesting of a Performance Right, Telstra has discretion to provide the holder with a share or a cash amount equivalent to the value of a share at vesting. Refer to the secondary performance measures section outlined below for further information on the RTSR performance condition.

Equity allocation methodology

Individual EVP Outcome Components				Equity Allocation Calculation (face value methodology)
25% Cash				
35% Restricted Shares (pro-rata vesting over 4 years)	÷	5 Day VWAP	=	No. of Restricted Shares allocated
40% Performance Rights (subject to 5 year RTSR)				No. of Performance Rights allocated

The number of Restricted Shares and Performance Rights to be granted to a Senior Executive is based on the dollar value of their Individual EVP Outcome, multiplied by 35% for Restricted Shares and 40% for Performance Rights, and then divided by the five day volume weighted average price (VWAP) of Telstra shares commencing on the day after the FY20 results announcement (i.e. a face value allocation methodology).

Issue/exercise price

As the Restricted Shares and Performance Rights form part of a Senior Executive's variable remuneration, no amount is payable by the Senior Executive on grant of the Restricted Shares or on grant or vesting of the Performance Rights. Both the Restricted Shares and any shares to be provided on the vesting of Performance Rights will be purchased on-market.

Restriction and performance periods for equity

Restricted Shares: Restricted Shares will be eligible to vest in four equal tranches, with 25% eligible to vest each year for the four years following 30 June 2020 (being the end of the Initial Performance Period). i.e. on 30 June 2021, 30 June 2022, 30 June 2023, and 30 June 2024.

Performance Rights: As noted above, the Performance Rights will be subject to an RTSR performance condition, tested over a five-year performance period from 1 July 2019 to 30 June 2024. Refer to the secondary performance measures section outlined below.

In certain limited circumstances, such as a takeover event where 50% or more of all issued fully paid shares in Telstra are acquired, the Board may exercise discretion to accelerate vesting of the Performance Rights and accelerate the end of the Restriction Periods for the Restricted Shares.

Secondary Performance Measures

In addition to the primary performance measures (which are assessed over the one year period to 30 June 2020) the Performance Rights component of each Senior Executive's Individual EVP Outcome only vests if, and to the extent that, the RTSR performance condition is satisfied at the end of the five year performance period on 30 June 2024. Any Performance Rights that vest following the testing of the RTSR performance condition will be automatically exercised following the release of Telstra's annual results for FY24 and any Performance Rights that do not vest following the testing will lapse (and expire) at that time. This means Senior Executives have a double hurdle in relation to the Performance Right component of their Individual EVP Outcome, with performance measured over both the Initial Performance Period and the five-year RTSR Performance Period.

RTSR measures the performance of an ordinary Telstra share (including the value of any cash dividends and other shareholder benefits paid during the RTSR Performance Period) relative to the performance of ordinary securities issued by the other entities in the comparator group (being entities in the S&P / ASX100 index as at 1 July 2019 (excluding resources companies)) over the RTSR Performance Period.

The Board believes that RTSR is an appropriate secondary performance measure because it links executive reward to Telstra's share price and dividend performance relative to entities in the comparator group over the long term. This reinforces the ultimate focus on shareholder value creation and helps align actual pay outcomes with returns delivered to long-term shareholders.

Under the RTSR performance condition, the number of Performance Rights that vest will be determined on a straight-line basis with:

- 50% of the Performance Rights vesting if Telstra's RTSR ranks at the 50th percentile of the comparator group; and
- up to 100% of the Performance Rights vesting if Telstra's RTSR ranks at the 75th percentile of the comparator group.

No Performance Rights will vest if Telstra's RTSR ranks below the 50th percentile when compared with the comparator group.

The starting price that will be used to determine Telstra's RTSR at the end of the RTSR Performance Period is $3.78. Both the starting price and end price for the purpose of calculating Telstra's RTSR is the average of Telstra's daily closing share price over the 30 day period to 30 June of the relevant year. Telstra measures its RTSR percentile ranking to two decimal places and rounds up to the nearest whole number if the two decimal places are .50 or above and down to the nearest whole number if the two decimal places are below .50.

Dividends

Restricted Shares: Participants receive dividends on Restricted Shares during the Restriction Periods consistent with other Telstra shareholders.

	Performance Rights: No dividends are paid on Performance Rights prior to vesting. For any Performance Rights that ultimately vest following satisfaction of the RTSR performance condition, a cash payment equivalent to the dividends paid by Telstra during the period between allocation of the Performance Rights and vesting will be made at or around the time of vesting, subject to applicable taxation (Dividend Equivalent Payment).
Leaver	**Before the Restricted Shares and Performance Rights are allocated:** If a Senior Executive ceases employment for a Permitted Reason, the Senior Executive is eligible for a pro-rata Individual EVP Outcome based on the proportion of time they were employed during FY20. The Senior Executive will receive the cash component of their Individual EVP Outcome (pro rata based on the proportion of time they were employed during FY20). The Senior Executive will receive a grant of Cash Rights (or, at the Board's discretion, cash, if the Senior Executive ceases employment due to death, total and permanent disablement or certain medical conditions) in lieu of Performance Rights and Restricted Shares. On vesting, a Cash Right entitles the executive to a cash payment equivalent to the value of a Telstra share at the end of the applicable Restriction Period or the RTSR Performance Period (as applicable) and dividends paid between the date the Cash Right is allocated and the end of the applicable Restriction Period or RTSR Performance Period. Where the Senior Executive receives Cash Rights, there is no change to the Restriction Periods, and the RTSR Performance Period or the RTSR performance condition. If the Senior Executive ceases employment for any other reason, their EVP entitlement is forfeited. The Cash Rights are subject to the same conditions as the equity awards provided to continuing executives which ensures equal treatment for all executives and that departing executives continue to make decisions that are aligned to the long-term interests of our shareholders. **After the Restricted Shares and Performance Rights are allocated:** If a Senior Executive ceases employment for a Permitted Reason after the equity is allocated, Restricted Shares and Performance Rights that have been allocated will remain on foot. There is no change to the Restriction Periods, the RTSR Performance Period, or the RTSR performance condition. If the Senior Executive ceases employment for any other reason, their Restricted Shares and Performance Rights are forfeited.
Claw-back (malus)	The Board has discretion to claw-back Performance Rights and Restricted Shares if certain claw-back events occur before the Performance Rights vest or the Restricted Shares are transferred to the Senior Executive following the end of the applicable Restriction Period. Claw-back events include fraud, dishonesty, gross misconduct or material breach of obligations by the Senior Executive or behaviour that brings Telstra into disrepute or may negatively impact Telstra's long-term financial strength. It also includes where the Senior Executive causes a significant deterioration in Telstra's financial performance or negatively impacts Telstra's standing, reputation or relationship with its key regulators, where the financial results that led to the Performance Rights or Restricted Shares being granted are subsequently shown to be materially misstated, where the Senior Executive fails to fulfil responsibilities under Telstra's risk management framework resulting in a material breach of Telstra's risk management framework, or where the Board determines that the Performance Rights or Restricted Shares are an inappropriate benefit.

(d) Financial performance

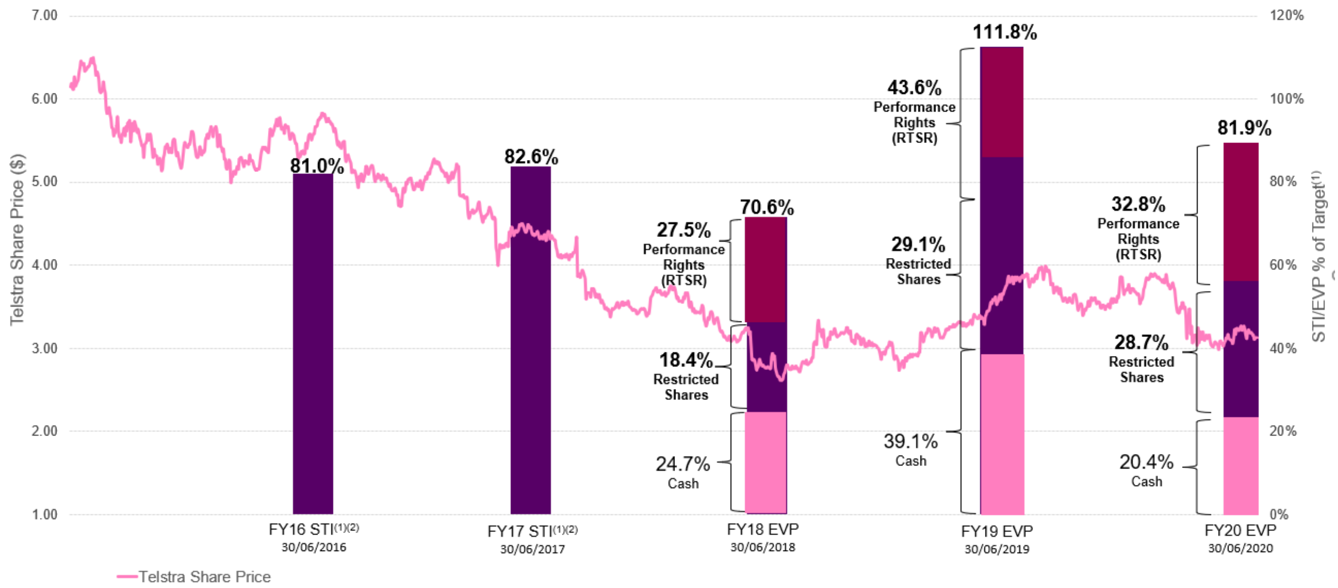
The table below provides a summary of Telstra's key financial results over the past five financial years. Those results are not fully comparable due to changes in the accountings standards over that period. In FY20 we have adopted AASB 16: 'Leases', but the comparative information for FY19 has not been restated and the results from FY16 to FY18 are not prepared on the same basis. Refer to Note 1.5 to the financial statements in the 2020 Annual Report for more details. FY18 results have been restated due to the adoption of AASB 15: 'Revenue from Contracts with Customers'. Refer to Note 1.5 to the financial statements in the 2019 Annual Report for more details. As a result, the FY18, FY19 and FY20 results are prepared in accordance with AASB 15 and FY16 and FY17 are prepared under the superseded revenue standard.

Financial Performance	FY20	FY19	FY18	FY17	FY16
	$m	$m	$m	$m	$m
Earnings					
Total Income[1]	**26,161**	27,807	28,841	28,205	27,050
EBITDA[1]	**8,905**	7,984	10,197	10,679	10,465
Net Profit[2]	**1,819**	2,154	3,591	3,891	5,780
Shareholder Value					
Share Price ($)[3]	**3.13**	3.85	2.62	4.30	5.56
Total Dividend Paid Per Share (cents)[4]	**16.0**	19.0	26.5	31.0	31.0

1. When there is a discontinued operation for the year, Total Income and EBITDA include only results from continuing operations. There have been no discontinued operations since FY16.
2. Net Profit attributable to equity holders of the Telstra entity includes results from continuing and discontinued operations (i.e. this includes the Autohome Group and the Sensis Group for FY16).
3. Share prices are as at 30 June for the respective year. The closing share price for FY15 was $6.14.
4. We currently pay dividends to holders of Telstra's ordinary shares twice a year, an interim and a final dividend. The amounts included in this table relate to dividends paid during the financial year. Therefore, for each respective year, the amount includes the dividend paid for the previous year final dividend and the current year interim dividend. Refer to Note 4.1 to the financial statements in the Financial Report for further information.

(e) Historical Plan Performance relative to Telstra Share Price

The graph below shows the average Individual EVP Outcomes for FY18, FY19 and FY20, plus the STI plan outcomes for FY16 and FY17, as a percentage of the target opportunity, relative to the performance of Telstra's share price over the past five years. Individual EVP Outcomes reflect a combination of Telstra's performance assessed against performance measures and individual performance, similar to how performance was measured under the previous EVP and STI plans, albeit the measures and weightings have changed. We believe that including the historical EVP and STI outcomes in this graph provides a useful comparison of performance.



1. The average EVP/STI outcomes as a percentage of target is shown for all Senior Executives for the relevant period.
2. Excludes FY16 and FY17 LTI plan awards which were previously granted at the maximum opportunity of 200% of Fixed Remuneration for the CEO and 160% of Fixed Remuneration for Group Executives.

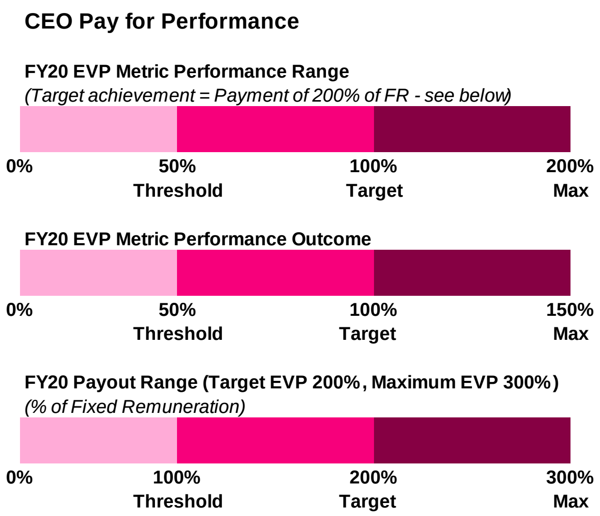
2.2 FY20 Base EVP Outcome

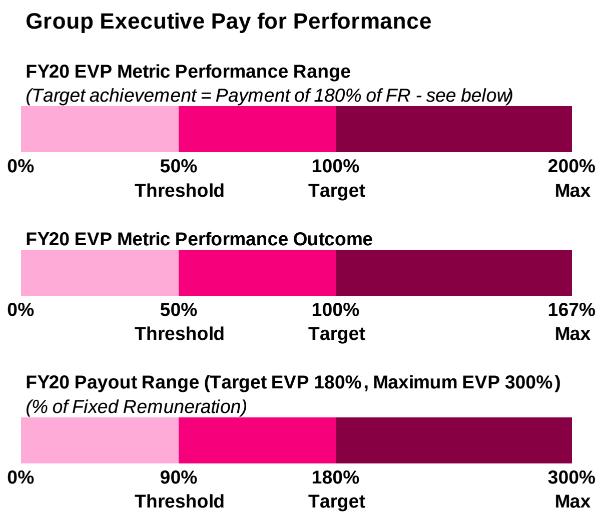
(a) Pay for performance ranges

As outlined earlier in the report, the primary performance measures of the EVP operate independently, and each measure was given a weighting and had a defined performance threshold, target and maximum level. Where performance against a primary performance measure was determined by the Board to be at:

- threshold, the outcome for that measure was 50% of its weighting;
- target, the outcome for that measure was 100% of its weighting; and
- maximum, the outcome for that measure was 200% of its weighting.

The following diagram demonstrates the relationship between threshold, target and maximum performance and the payout range for the CEO and Group Executives.

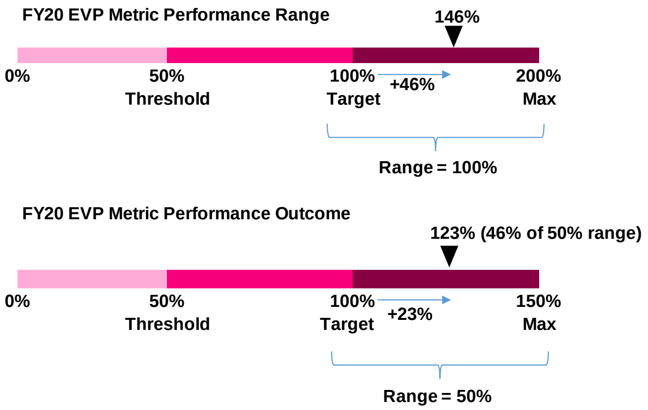




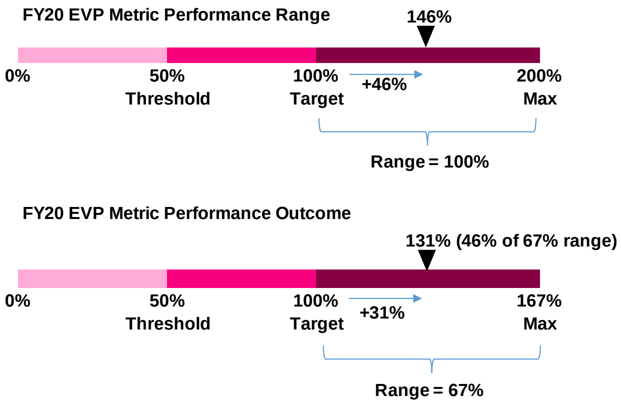
The resulting effect of the payout and performance ranges for the CEO and Group Executives as outlined above is that, where performance on a metric was determined to be above target, the outcome awarded to the CEO and Group Executives was determined proportionately having regard to the ranges outlined above.

The diagram and explanation below have been included to assist shareholders in understanding how the outcomes in the following section have been calculated for each metric taking into account the performance of a metric and the relevant weighting.

CEO Pay for Performance



Group Executive Pay for Performance



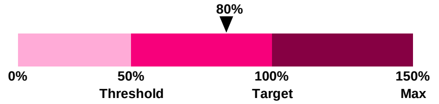
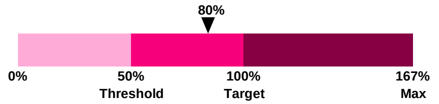
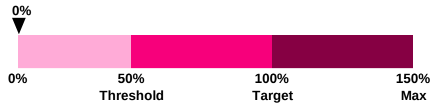
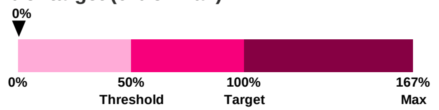
Using the FY20 Product Portfolio Simplification (TE Plans) metric as an example, the outcome for the metric was determined to be 146% of target. This represents a 46% over achievement of the target rate which is set at 100% (i.e. 100% + 46% = 146%). In translating this over achievement of 46% to the metric performance outcome range as demonstrated in the diagram above, the 46% is applied to the relevant metric performance outcome range for the CEO and Group Executives, and then the scorecard weighting is applied to derive a weighted outcome.

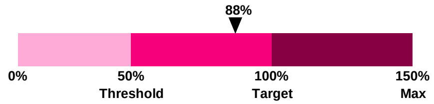
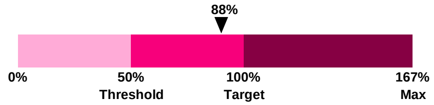
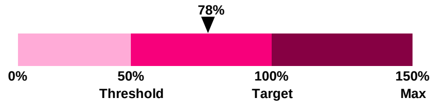
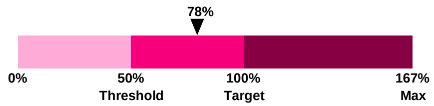
If we take the CEO as an example, the target to maximum range on the metric performance outcome range represents 50 percentage points (i.e. 100% to 150% equates to a range of 50% between target and maximum). As the outcome is calculated as a 46% over achievement of target, when it is converted to the metric outcome range of 50% it equates to a 23% over achievement of target on metric performance outcome range (i.e. 46% of a 50% range = 23%, which equates to a 123% outcome). Then applying the weighting of 5% for the Product Portfolio Simplification (TE Plans) metric, the weighted outcomes is calculated at 6.1% for the CEO (i.e. 123% x 5% = 6.1% rounded). To express this weighted outcome as a % of the maximum opportunity, the result of 6.1% is divided by 150% to derive a weighted outcome of 4.1%.

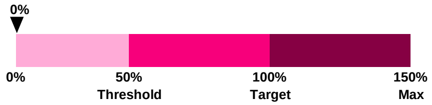
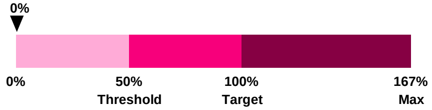
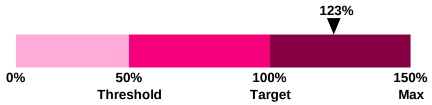
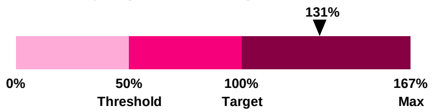
Other than the change in the maximum opportunity as communicated in last year's remuneration report, the way in which we calculate the outcomes for each metric is consistent with our past practice. To reiterate, as each performance metric operates independently of each other, the revised maximum opportunity for the CEO and GE represents more than just a cap on maximum payouts. It drives a significant reduction in the total reward opportunity for the CEO and Group Executives between target and maximum and moderates the overall quantum of variable pay.

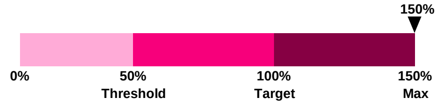
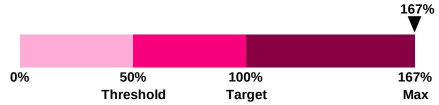
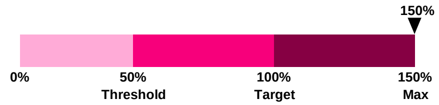
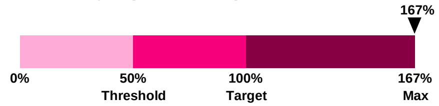
(b) Overall FY20 Base EVP Outcomes

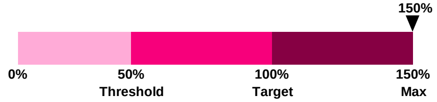
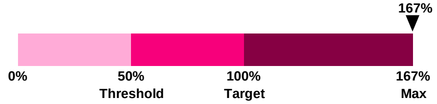
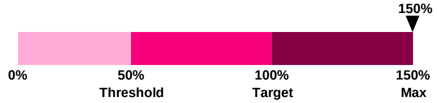
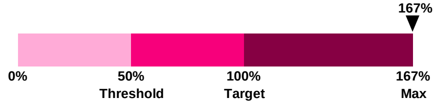
The Board actively evaluates performance against the primary performance measures. The Board maintains absolute discretion to ensure the Base EVP Outcome is appropriate, taking into account matters which may include Telstra's performance, customer experience and shareholder expectations. Notwithstanding the impacts COVID-19 and the bushfire crisis had on our business, our results were still in line with guidance and market expectations. With respect to the FY20 primary performance measures, positive outcomes were achieved across many financial and non-financial measures demonstrating strong delivery against our FY20 Corporate Plan and T22 strategy. The Base EVP Outcome was 80.5% of the target opportunity (53.7% of maximum) for the CEO and 85.1% of the target opportunity (51.0% of maximum) for the other Senior Executives under the FY20 EVP. The Board did not make any adjustments to any of the primary performance measure outcomes or the overall FY20 Base EVP Outcome as a result of the impacts that COVID-19 has had on our business. Some measures have been positively impacted and others have been challenged. On balance the Board determined that the primary performance measure outcomes and the Base EVP Outcome are driven by the results achieved and no adjustments were made for the impact of COVID-19. However, the Board did exercise discretion in determining Individual EVP Outcomes as outlined in Section 2.3 below.

Measures	Performance Measure			Results			Additional information
	Threshold	Target	Maximum	Result	Result (% of Target)	Base EVP Weighted Outcome	
Financial							
Total Income ($m) excluding finance income **(15% weighting)**	$25,800m	$26,300m	$27,300m	$26,096m	80%	Metric Weighting = 15% Result = 80% of target **CEO Weighted Outcome:** **12% of target (8.0% of max)**  **GE Weighted Outcome:** **12% of target (7.2% of max)**  	Total Income (excluding finance income) of $26,161m was reported by Telstra for FY20. This result was audited by our external auditor EY. Adjusted for the factors outlined below, Total Income was $26,096m, which for the purpose of the EVP performance measure is between threshold and target. To ensure the FY20 Base EVP Outcome appropriately reflected the performance of Senior Executives, the Board approved a negative net adjustment to the reported result of $65m for NBN Transaction related adjustments to ensure no windfall gain or loss.
Underlying EBITDA ($m) is Earnings Before Interest, Tax, Depreciation & Amortisation, excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right of use assets **(15% weighting)**	$7,548m	$7,748m	$8,048m	$7,497m	0%	Metric Weighting = 15% Result = 0% of target **CEO Weighted Outcome:** **0% of target (0% of max)**  **GE Weighted Outcome:** **0% of target (0% of max)**  	Underlying EBITDA of $7,409m was reported by Telstra for FY20. The result was reviewed by our external auditor EY. For the purposes of the EVP, Underlying EBITDA was $7,497m after adjusting $88m for the NBN Transaction related adjustments to ensure no windfall gain or loss and was determined to be below threshold.

Measures	Performance Measure			Results			Additional information
	Threshold	Target	Maximum	Result	Result (% of Target)	Base EVP Weighted Outcome	
Free Cash Flow ($m) excluding spectrum and M&A plus operating lease payments (reported in financing cash flow under AASB 16) **(15% weighting)**	$3,293m	$3,493m	$3,893m	$3,446m	88%	Metric Weighting = 15% Result = 88% of target **CEO Weighted Outcome:** **13.2% of target (8.8% of max)**  **GE Weighted Outcome:** **13.2% of target (7.9% of max)** 	FCF on a guidance basis of $3,415m was reported by Telstra for FY20. The result was reviewed by our external auditor EY. Adjusted for the factors outlined below, FCF was $3,446m which for the purpose of the EVP performance measure was between threshold and target. To ensure the FY20 Base EVP Outcome appropriately reflected the performance of Senior Executives, the Board approved a net adjustment of $31m to the reported result for NBN Transaction related adjustments to ensure no windfall gain or loss.
Net Opex Reduction ($m) Reduction in operating non-Direct Variable Cost (DVC) expenses **(15% weighting)**	$595m	$630m	$730m	$615m	78%	Metric Weighting = 15% Result = 78% of target **CEO Weighted Outcome:** **11.7% of target (7.8% of max)**  **GE Weighted Outcome:** **11.7% of target (7.0% of max)** 	As outlined in the FY20 Full Year Results and Operations Review, underlying fixed cost reduction (which is referred to as Net Opex Reduction for the purpose of the EVP) was $615m. This resulted in an outcome between threshold and target. The Board did not adjust the outcome for any additional factors. The Net Opex Reduction calculation was reperformed by our external auditor EY. This result was driven by excellent progress in delivering significant absolute cost reduction across the organisation. We are on track to meet our $2.5 billion cost reduction target under our T22 strategy.

Measures	Performance Measure: Threshold	Performance Measure: Target	Performance Measure: Maximum	Results: Result	Results: Result (% of Target)	Results: Base EVP Weighted Outcome	Additional information
Customer, Strategic and Transformation measures							
Episode NPS Improvement in our Episode NPS **(10% weighting)**	+27	+29	+32	+23	0%	Metric Weighting = 10% Result = 0% of target **CEO Weighted Outcome: 0% of target (0% of max)**  **GE Weighted Outcome: 0% of target (0% of max)** 	The overall Episode NPS result was below threshold and is a weighted average calculation of the survey results from Telstra business segments – 65% Consumer and Small Business (combined calculation) and 35% Enterprise (Telstra Enterprise Australia only). The result was audited by Telstra's Group Internal Audit. Despite the outcome falling short of threshold, the result reflects an outstanding cross company effort to support customers in the face of unprecedented challenges brought on by COVID-19. Prior to the pandemic, Episode NPS was on track to likely exceed the FY20 target. With the onset of COVID-19, advocacy in TE increased to unprecedented levels due to the rapid deployment of COVID-19 continuity plans such as meeting customer demand by adding additional Australian-based workforce capability. However, C&SB advocacy declined as a result of a reduced contact centre workforce particularly in India and the Philippines due to global containment measures. In an effort to reduce the impact on customer experiences and advocacy, the following initiatives were put in place: • provided unlimited data for home and small business fixed broadband customers, extra data for consumer and small business mobile customers and included unlimited local, national and 13/1300 calls and calls to Australian mobiles for eligible pensioners with a Telstra home phone plan. • additional Australian-based workforce capability to meet the demand of high call volumes • innovative digital messaging solution via the My Telstra app scaled up during the period to help customers contact us • targeted campaigns to direct our customers to our digital retail channel
Product Portfolio Simplification **(10% weighting comprising 5% for each Product Portfolio Simplification Metric)** TE Plans (Number of active plans) **(5% weighting)**	461	441	400	422	146%	Metric Weighting = 5% Result = 146% of target **CEO Weighted Outcome: 6.1% of target (4.1% of max)**  **GE Weighted Outcome: 6.6% of target (3.9% of max)** 	We have made excellent progress toward our T22 target of halving the number of active Telstra Enterprise products by FY21. In FY20, we reduced our active products to 422 which for the purpose of the EVP was determined to be between target and maximum. The result was audited by Telstra's Group Internal Audit. The Enterprise products that we ceased over the period include Government Wideband IP (including legacy GWIP), Network Contact Centre (Genesys), Trunk Radio Service (TRS) Fleetcomm, Panviva Agent Assist & Knowledge management variants, specific Telstra Internet Direct (TID) fixed pricing variants and multiple Skype for Business variants.

Measures		Performance Measure Threshold	Target	Maximum	Results Result	Result (% of Target)	Base EVP Weighted Outcome	Additional information
Product Portfolio Simplification **(10% weighting comprising 5% for each Product Portfolio Simplification Metric)**	Services on in market plans (Number of services) **(5% weighting)**	2.5m	3.0m	4.0m	4.86m	200%	Metric Weighting = 5% Result = 200% of target **CEO Weighted Outcome:** **7.5% of target (5% of max)**  **GE Weighted Outcome:** **8.3% of target (5% of max)** 	In FY19 we launched our radically simplified product proposition and have 20 core connectivity plans in market for our C&SB customers (compared to 1,800 plans previously, comprising 1,400 legacy and 400 active). Our C&SB customers can now enjoy month-to-month plans with no lock in contracts and no excess data charges in Australia across mobile phone and broadband services, flexibility in how mobile handsets can be purchased and the ability to customise plans by adding their chosen extras to those plans. In FY20 we continued to migrate customers to these plans and had connected 4.86 million services on these core connectivity plans by the end of FY20, which for the purpose of the EVP was determined to be at the maximum. This result was audited by Telstra's Group Internal Audit.
Digital Engagement (**10% weighting comprising 5% for each Digital Engagement metric**)	Digital Delivery (digital sales as a % of total sales) **(5% weighting)**	22.5%	24.0%	29.0%	30.3%	200%	Metric Weighting = 5% Result = 200% of target **CEO Weighted Outcome:** **7.5% of target (5% of max)**  **GE Weighted Outcome:** **8.3% of target (5% of max)** 	The Digital Delivery result was determined for the purpose of the EVP to be at maximum. The result was audited by Telstra's Group Internal Audit. FY20 Digital Delivery was driven by excellent progress in key customer digital experiences in value added services and pre-paid. The digital delivery result was largely underpinned by rich, relevant and guided content digital experiences for our customers. Digital engagement was enhanced through the following: - we enhanced the My Telstra app to add additional messaging placements and a new in-app shopping experience, driving further sales - improved Telstra.com online functionality in our digital shop, - new telstra.com homepage delivering improved customer experience, explore to order conversion rates improved and greater agility and speed to market. - to support customers with personalised journeys, the first telstra.com "hub" design was launched in September 2019 to enhance shopping experience. For example, the Apple hub we implemented brought together the complete range of Apple devices and accessories to make it easier for customer to explore options. This strategy has also been deployed to a range of other tailored product journeys including Samsung products, student offerings and tailored journeys for customers who speak languages other than English. The new core capabilities established as part of T22 meant we could fast-track the digitisation and automation of our tools during COVID-19 and move more customer enquiries online quickly, removing the need for many customers to call us at all.

Measures		Performance Measure			Results			Additional information
		Threshold	Target	Maximum	Result	Result (% of Target)	Base EVP Weighted Outcome	
Digital Engagement **(10% weighting comprising 5% for each Digital Engagement metric)**	Telstra Connect (Active Telstra Enterprise customers on Telstra Connect) **(5% weighting)**	3,500	4,000	5,000	6,610	200%	Metric Weighting = 5% Result = 200% of target **CEO Weighted Outcome:** **7.5% of target (5% of max)**  **GE Weighted Outcome:** **8.3% of target (5% of max)** 	A key to improving customer experience and removing cost is by reducing servicing calls and delivering self-servicing solutions for our Telstra Enterprise customers through our platform Telstra Connect. Telstra Connect is a digital platform for Telstra business and enterprise customers to view and manage their products and services in one place. During the last three months of FY20 there were 6,610 active users on Telstra Connect resulting in the maximum outcome being awarded. This result was achieved due to the accelerated onboarding of customers on Telstra Connect following the onset of COVID-19. The calculation of the number of active customers on Telstra Connect was reperformed by our external auditor EY.
People Capability & Engagement (Employee Engagement Score) **(10% weighting)**		72	76	78	83	200%	Metric Weighting = 10% Result = 200% of target **CEO Weighted Outcome:** **15% of target (10% of max)**  **GE Weighted Outcome:** **16.7% of target (10% of max)** 	Our employee engagement score was 83 resulting in the maximum outcome being awarded. There was a concerted effort across the company to improve our engagement score over FY20. Our leadership approach to managing and supporting our people through the impact of the COVID-19 pandemic has also positively contributed to this outcome. The following initiatives have resulted in a strong engagement score for FY20: - Embedded and further scaled Agile ways of working. - Embedded and refined our new operating rhythm. - In FY19 we brought forward job reductions in order to allow for lower level of workforce reduction, change and increased job security in FY20. - Significant investments in learning, including in software engineering, SDN software defined networking (including micro-credentialing with RMIT), data micro credentialing with UTS, cyber micro credentialing with UNSW, deep Agile skills, leadership and team effectiveness, human centred design and lean. - Concluded Enterprise Bargaining. - Simplified 40 processes that our people told us were a priority to fix. COVID-19 related initiatives: - Paused announcing any further workforce reductions for six months providing a level of job security for our people. - accelerated Agent@home technology to enable our contact centre employees to work from home. - increased communications from leaders and daily 'All Hands Check-In' including COVID-19 related content, support and health/wellbeing tips for our people. - responded to ensure that our customers were being looked after; e.g. unlimited data to our broadband customers, extra data for mobiles. The calculation of our employee engagement score was reperformed by our external auditor EY.
Total						**CEO**	**80.5% of target**	**53.7% of maximum**
						Group Executives	**85.1% of target**	**51.0% of maximum**

2.3 Exercise of Board Discretion in determining Individual EVP Outcomes

The Base EVP Outcome (outlined above) was an input into each Senior Executive's Individual EVP Outcome. As outlined in Section 2.1, each Senior Executive's Individual EVP Outcome was determined taking into consideration the Base EVP Outcome, their "at target" EVP reward opportunity and their performance (including, in the case of the Group Executives, their performance relative to each other). The Board also has discretion, in determining a Senior Executive's Individual EVP Outcome, to take into account factors in accordance with its decision framework such as any material risk events identified, the severity of their impact and the executive's accountability for the matter.

We recognise the fundamental importance of doing business responsibly, continuously striving to improve outcomes for our customers and taking action where we do not meet the standards we set for ourselves. The matters being investigated by the ACCC (refer to note 7.3.1 to the financial statements in the 2020 Annual Report for further details) include circumstances where we have not met those standards. Consequently, in determining Individual EVP Outcomes for FY20, the Board has reduced by 10% the individual remuneration outcomes under the FY20 EVP for the Senior Executives accountable for the areas of the business where these issues occurred (reducing payments to these executives collectively by $758,000). This reduction has been applied by virtue of the accountability these executives had in their roles, and not because of any specific conduct by them in relation to the matter. The roles where the FY20 EVP individual remuneration outcome has been reduced are:

- CEO – Andrew Penn
- Group Executive Telstra Consumer & Small Business (5 September 2017 to 10 September 2018) – Vicki Brady
- Group Executive Telstra Consumer & Small Business (11 September 2018 to current) – Michael Ackland

Should further information come to light once this matter is concluded, the Board will consider any further impacts, including on Individual EVP Outcomes.

2.4 Detailed remuneration and interests in Telstra shares

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

(a) Actual pay which crystallised in FY20 for Senior Executives

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

The tables in this section are voluntary disclosures and are not prepared in accordance with Australian Accounting Standards. They are designed to provide greater transparency for shareholders on the pay and benefits the Senior Executives actually received, or became entitled to receive, during FY20 while they were a Senior Executive.

Senior Executives receive a significant portion of their variable remuneration in the form of equity. The value they actually receive from that variable remuneration is tied directly to Telstra's share price performance and whether the variable remuneration vests. We believe this demonstrates that our reward framework effectively aligns with our shareholders' interests and demonstrates the linkage between pay and performance.

The statutory tables for Senior Executive remuneration can be found in Sections 2.4(b) to (e).

The following table details the actual remuneration the CEO received, or became entitled to receive, during FY20 in comparison to FY19.

Name	Year	Fixed Remuneration ($000)	Individual EVP Outcome payable as cash ($000)[2]	Value of EVP Restricted Shares that became unrestricted ($000)[3,4]	Value of LTI and other rights that became unrestricted ($000)[3,5]	Total ($000)	% change from prior year
Andrew Penn	**2020**	**2,390**	**866**	**400**	**-**	**3,656**	**-26.9%**
	2019[1]	2,390	1,870	738	-	**4,998**	

1. As reported in our 2019 Remuneration Report.
2. For FY20, amount relates to the cash component of the FY20 EVP, earned in FY20 and payable in September 2020. The amount reflects the reduction resulting from the exercise of discretion by the Board in determining the CEO's Individual EVP Outcome as outlined in Section 2.3. For FY19, the amount relates to the cash component of the FY19 EVP, earned in FY19 and paid in September 2019.
3. Equity in this table has been valued based on Telstra's share price at 30 June for each respective year.
4. Amount relates to the value of variable remuneration earned in prior financial years which was provided as Restricted Shares. For amounts reported for FY20, the Restriction Period for these shares ended on 30 June 2020 and relates to Tranche 2 of the FY18 EVP. For amounts reported for FY19, the Restriction Period for these shares ended on 30 June 2019 and relates to Tranche 2 of the FY17 STI deferral plan and Tranche 1 of the FY18 EVP.
5. The outcome of the FY17 LTI plan was that none of the Performance Rights vested as Restricted Shares, therefore no LTI shares became unrestricted on 30 June 2020. For amounts reported for FY19, the outcome of the FY16 LTI plan was that none of the Performance Rights vested as Restricted Shares, therefore no LTI shares became unrestricted on 30 June 2019.

The following table details the actual remuneration Senior Executives (other than the CEO) as at 30 June 2020 received, or became entitled to receive during FY20.

Name	Fixed Remuneration ($000)	Other cash amounts ($000)[1-]	Individual EVP Outcome payable as cash ($000)[2]	Value of EVP Restricted Shares that became unrestricted ($000)[3,4]	Value of LTI and other rights that became unrestricted ($000)[3,5]	Total ($000)
Michael Ackland	1,112	-	379	-	425	**1,916**
Kim Krogh Andersen	484	183	175	-	-	**842**
Alex Badenoch	930	-	406	121	-	**1,457**
Vicki Brady	1,200	-	461	137	-	**1,798**
David Burns	1,000	**-**	435	-	-	**1,435**
Michael Ebeid AM	1,150	-	356	-	-	**1,506**
Nikos Katinakis	1,100	-	405	-	-	**1,505**
Brendon Riley	1,400	-	513	211	-	**2,124**

1. For Kim Krogh Andersen, the amount includes a cash allowance provided as a part of his relocation to Australia in accordance with Telstra's relocation policy and benefits and a sign-on cash payment of $100,000 which was provided as part of his appointment to the role of GE Product & Technology.
2. Amount relates to the cash component of the FY20 EVP, earned in FY20 and payable in September 2020. For Michael Ackland and Vicki Brady, the amounts reflect the reduction resulting from the exercise of discretion by the Board in determining their Individual EVP Outcome as outlined in Section 2.3.
3. Equity in this table has been valued based on Telstra's share price at 30 June for each respective year.
4. Amount relates to the value of FY18 EVP Tranche 2 Restricted Shares which were earned in a previous year but were subject to a Restriction Period ending 30 June 2020. Equity in this table has been valued based on the Telstra closing share price on 30 June 2020 of $3.13.
5. The outcome of the FY17 LTI plan was that none of the Performance Rights vested as Restricted Shares, therefore no LTI shares became unrestricted on 30 June 2020. For Michael Ackland the amount relates to the first tranche of Retention rights that were granted to him prior to being appointed as the Group Executive, C&SB.

(b) Senior Executive remuneration (main table)

The table below has been prepared in accordance with the requirements of the Corporations Act and the relevant Australian Accounting Standards and relates only to the periods that the person was a Senior Executive. 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 FY20.

		Short term employee benefits				Post-employment benefits	Termination benefits	Other long term benefits		Equity settled share-based payments Accounting value (at risk) ($)[8,9]		
Name and title	**Year**	**Salary and fees ($000)[1]**	**EVP Cash ($000)[2]**	**Non-monetary benefits ($000)[3]**	**Other ($000)[4]**	**Super-annuation ($000)[5]**	**Termination benefits ($000)[6]**	**Accrued leave benefits[7] ($000)**	**Dividend Equivalent Payment Accrual ($000)**	**Restricted shares ($000)[10]**	**Performance Rights ($000)[11]**	**Total ($000)[12]**
Andrew Penn CEO	**2020**	**2,369**	**866**	**10**	**(46)**	**21**	**-**	**59**	**106**	**942**	**711**	**5,038**
	2019	2,369	1,870	10	7	21	-	59	31	838	(86)	5,119
Michael Ackland GE C&SB	**2020**	**1,091**	**379**	**1**	**(22)**	**21**	**-**	**28**	**16**	**351**	**477**	**2,342**
	2019	691	637	4	(9)	16	-	14	-	140	438	1,931
Kim Krogh Andersen GE P&T	**2020**	**473**	**175**	**149**	**204**	**11**	**-**	**12**	**-**	**47**	**17**	**1,088**
	2019	-	-	-	-	-	-	-	-	-	-	-
Alex Badenoch GE TC&P	**2020**	**909**	**406**	**3**	**-**	**21**	**-**	**23**	**36**	**375**	**234**	**2,007**
	2019	680	563	5	27	15	-	13	7	200	3	1,513
Vicki Brady CFO	**2020**	**1,179**	**461**	**8**	**44**	**21**	**-**	**30**	**28**	**311**	**176**	**2,258**
	2019	193	155	2	(73)	4	-	1	2	54	10	348
David Burns GE GBS	**2020**	**979**	**435**	**60**	**(14)**	**21**	**-**	**25**	**16**	**373**	**184**	**2,079**
	2019	922	655	206	138	19	-	21	-	177	4	2,142
Michael Ebeid AM GE TE	**2020**	**1,129**	**356**	**8**	**28**	**21**	**-**	**28**	**13**	**282**	**135**	**2,000**
	2019	845	563	3	22	15	-	16	-	88	51	1,603
Nikos Katinakis GE N&IT	**2020**	**1,079**	**405**	**30**	**26**	**21**	**-**	**27**	**13**	**303**	**142**	**2,046**
	2019	766	550	164	134	15	-	14	-	83	48	1,774
Brendon Riley GE & CEO InfraCo	**2020**	**1,379**	**513**	**10**	**-**	**21**	**-**	**34**	**54**	**487**	**366**	**2,864**
	2019	1,379	917	10	(4)	21	-	35	16	384	(69)	2,689
Christian Von Reventlow Former GE P&T	**2020**	**277**	**-**	**13**	**(9)**	**5**	**1,100**	**7**	**-**	**(55)**	**(32)**	**1,306**
	2019	716	385	123	258	14	-	12	-	55	32	1,595
Total current and former KMP	**2020**	**10,864**	**3,996**	**292**	**211**	**184**	**1,100**	**273**	**282**	**3,416**	**2,410**	**23,028**
	2019	8,561	6,295	527	500	140	-	185	56	2,019	431	18,714

In the table above, EVP Cash, Restricted Shares and Performance Rights are dependent on the satisfaction of performance conditions (an overview of performance conditions is included above at 2.1(c)). All other items are not related to performance.

1. Includes salary and salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation).
2. For FY20, the amounts relate to performance in FY20 under the FY20 EVP, which will be paid in September 2020. The amounts for Andrew Penn, Michael Ackland and Vicki Brady reflect the reduction resulting from the exercise of discretion by the Board in determining Individual EVP Outcomes as outlined in Section 2.3. For FY19, the amounts relate to cash amounts paid for performance in FY19 under the FY19 EVP. Those cash amounts were paid in September 2019.
3. Includes the cost of personal home security services provided by Telstra, the cost of personal use of Telstra products and services, executive protection insurance and the provision of car parking. Includes repatriation and relocation costs for Kim Krogh Andersen. Where applicable, the value of non-monetary benefits has been grossed up for FBT by the relevant FBT rates.
4. Includes the net movement of annual leave entitlement balance. For Kim Krogh Andersen the amount also includes a cash allowance provided as a part of his relocation to Australia in accordance with Telstra's relocation policy and benefits as well as a cash sign on bonus of $100,000 which was provided as a part of his appointment to the role of GE Product and Technology.
5. Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives. Telstra does not provide any other post-employment benefits.
6. Termination benefits for Christian Von Reventlow of $1.1 million comprised of a $550,000 payment in lieu of notice and a $550,000 termination payment, both as per his service agreement and inclusive superannuation contribution where applicable. The termination benefit provided was paid in compliance with Part 2D.2, Division 2 of the Corporations Act. Christian Von Reventlow forfeited any entitlement to his FY20 EVP award and the Restricted Share and Performance Right component of his FY19 EVP outcome as a result of his cessation of employment.
7. Includes the net movement of long service leave entitlement balances.
8. The accounting values included in the table relate to the current year amortised value of all Restricted Shares and Performance Rights that had not yet fully vested at the commencement of the financial year. The value of each equity instrument is calculated by applying valuation methodologies or is based on the market value of Telstra shares at the grant date as described in note 5.2 to the financial statements and is then amortised, based on the maximum achievable allocation, over the relevant vesting period. This value includes an assumption that the instruments will vest at the end of the vesting period unless forfeited during the financial year.
9. As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in FY20 as the service condition was not met.
10. This includes the amortised value of the Restricted Share component of the FY20, FY19 and FY18 EVPs.
11. This includes the amortised value of the Performance Right component of the FY20, FY19 and FY18 EVPs. For Michael Ackland only, the amount disclosed for FY20 also includes the amortised value for Retention Rights that were granted prior to being appointed as the Group Executive, C&SB.
12. The total for FY19 of $18.714 million in this table is different to the total for FY19 in the FY19 Remuneration Report of $24.703 million as it does not include $1.872 million for Warwick Bray (former CFO), $1.113 million for Robyn Denholm (former CFO) and $3.004 million for Will Irving (former GE Wholesale), reported in last year's report.

(c) FY20 EVP Payments (cash and equity)

	Breakdown of FY20 Individual EVP Outcomes[1]						
Name	Maximum potential EVP opportunity ($000)[2]	25% Cash component ($000)	35% Restricted Shares component[3] ($000)	40% Performance Rights component[3] ($000)	Individual EVP Outcome ($000)	% of maximum opportunity earned	% of maximum opportunity forfeited
Andrew Penn	7,170	866	1,212	1,386	**3,464**	48.3%	51.7%
Michael Ackland	3,450	379	531	607	**1,517**	44.0%	56.0%
Kim Krogh Andersen	1,451	175	245	280	**700**	48.2%	51.8%
Alex Badenoch	2,790	406	569	650	**1,625**	58.2%	41.8%
Vicki Brady	3,600	461	646	738	**1,845**	51.3%	48.7%
David Burns	3,000	435	609	696	**1,740**	58.0%	42.0%
Michael Ebeid AM	3,450	356	499	570	**1,425**	41.3%	58.7%
Nikos Katinakis	3,300	405	567	648	**1,620**	49.1%	50.9%
Brendon Riley	4,200	513	717	820	**2,050**	48.8%	51.2%
Christian Von Reventlow	848	-	-	-	**-**	0.0%	100.0%

1. The FY20 Individual EVP Outcomes were approved by the Board on 9 August 2020. For Andrew Penn, Michael Ackland and Vicki Brady the amounts reflect the reduction resulting from the exercise of discretion by the Board in determining Individual EVP Outcomes as outlined in Section 2.3. These values represent the time served in FY20 as a Senior Executive. The cash component will be paid in September 2020.
2. Represents the maximum potential EVP opportunity specific to their time as Senior Executives for FY20, adjusted for any variation in Fixed Remuneration throughout FY20 that impacts the maximum potential EVP opportunity available. If the minimum threshold performance is not met, the minimum possible EVP payment is nil.
3. The Restricted Shares and Performance Rights awarded are expected to be allocated in November 2020 and are subject to Restriction Periods and performance periods (as set out in section 2.1(b)) and the Senior Executive's continued employment.

(d) Number and value of rights over equity instruments allocated, vested and exercised during FY20

Name	Equity Movements						
	Total rights held at 1 July 2019[1]	Rights allocated during FY20[2]	Value of rights allocated ($000)[3]	Rights vested / exercised during FY20[4]	Value of rights vested / exercised ($000)[5]	Other changes (lapsed rights)[6]	Total held at 30 June 2020[7]
Andrew Penn	383,554	558,281	1,407	-	-	-	**941,835**
Michael Ackland	339,480	202,232	400	(135,792)	510	-	**405,920**
Kim Krogh Andersen	-	-	-	-	-	-	**-**
Alex Badenoch	115,548	224,842	445	-	-	-	**340,390**
Vicki Brady[8]	131,772	83,562	165	-	-	-	**215,334**
David Burns	-	203,130	402	-	-	-	**203,130**
Michael Ebeid AM	-	168,169	333	-	-	-	**168,169**
Nikos Katinakis	-	164,095	325	-	-	-	**164,095**
Brendon Riley	202,208	273,721	542	-	-	-	**475,929**
Christian von Reventlow	-	-	-	-	-	-	**-**

All service and performance conditions for rights granted in previous financial years and that have vested or been exercised in FY20 are summarised in the Remuneration Report for each relevant year of grant. Each equity instrument granted, vested or exercised in FY20 (where applicable) in the table above was issued by Telstra and resulted or will result in one ordinary Telstra share being provided to the holder per equity instrument granted, vested or exercised. No amount is payable by the KMP. Restricted Shares are excluded from this table, refer to tables 2.4(c) and (e) for further information.

1. The balance reflects the number of equity instruments held on the later of 1 July 2019 or the date on which the executive commenced as a KMP. Refer to section 1.1 for further information.
2. Rights allocated during FY20 relate to the FY19 EVP Performance Rights which were allocated on 13 November 2019. The FY20 EVP Performance Rights will be allocated in November 2020, refer to section 2.1 for more information.
3. The fair value reflects the valuation approach required by AASB 2 using an option pricing model for Performance Rights granted. The fair value of the Performance Rights allocated in FY20 under the FY19 EVP are based on the grant dates of 15 October 2019 for the CEO and 11 October 2018 for all other Senior Executives, respectively. The fair value of Performance Rights granted under the FY19 EVP are $2.52 for the CEO, and $1.98 for Senior Executives.
4. For Michael Ackland the amount relates to the first tranche of Retention Rights that were granted to him prior to being appointed as the Group Executive, C&SB. For more information on our Senior Executives' interests in Telstra Shares refer to table 2.4(e).
5. The value of the Performance Rights vested/exercised reflects the market value at the date the instruments vested and were released from restriction.
6. Relates to rights that lapsed due to the specified performance measures or service conditions not being achieved.
7. The balance reflects the number of rights at 30 June 2020 or, if earlier, the date on which the executive ceased to hold the KMP position. Refer to section 1.1 for further information.
8. The nil closing balance reported for Vicki Brady under this table in last year's Remuneration Report reflected the balance of rights she held at the date she ceased to be a KMP. The opening balance reported this year reflects the balance of rights held at 1 July 2019 and relates to performance rights allocated under the FY18 EVP which occurred during the period she was on extended leave.

There are no Performance Rights or options held by any KMP's related parties and no Performance Rights or options held indirectly or beneficially by our KMP. As at 30 June 2020, there were no options or Performance Rights vested, or vested and exercisable or vested and unexercisable.

(e) Senior Executive interests in Telstra Shares

During FY20, our Senior Executives and their related parties held Telstra shares directly, indirectly or beneficially as follows:

Name	Total shares held at 1 July 2019[1,2]	Restricted Shares allocated[3]	Net shares acquired or disposed of and other changes[4]	Total shares held at 30 June 2020 [1,5]	Number of shares held nominally at 30 June 2020 [5,6]
Andrew Penn	1,385,048	372,187	-	1,757,235	558,838
Michael Ackland	56,875	134,821	135,792	327,488	191,696
Kim Krogh Andersen	-	-	-	-	-
Alex Badenoch	106,454	149,895	-	256,349	188,411
Vicki Brady[7]	123,508	55,708	-	179,216	99,632
David Burns	227,766	135,420	-	363,186	186,980
Michael Ebeid AM	-	112,113	-	112,113	112,113
Nikos Katinakis	-	109,397	60,000	169,397	109,397
Brendon Riley	836,073	182,480	-	1,018,553	1,018,553
Christian Von Reventlow	-	-	-	-	-
Total	**2,735,724**	**1,252,021**	**195,792**	**4,183,537**	**2,465,620**

1. Total shareholdings include shares held by our Senior Executives and their related parties. Unless related to our employee share plans, shares acquired or disposed of by our Senior Executives and their related parties during FY20 were on an arm's length basis at market price.
2. Reflects the number of shares held on the later of 1 July 2019 or the date on which the executive commenced as a KMP. Refer to section 1.1 for further information.
3. Restricted Shares in this column were allocated on 13 November 2019 and relate to the FY19 EVP. The allocation of Restricted Shares under the FY20 EVP will be made after the reporting date of 30 June 2020, therefore they have not been included in the table above.
4. For Michael Ackland the movement relates to Retention Rights that vested during FY20, refer to table 2.4(d) for further information. For Nikos Katinakis, the movement relates to an on-market share purchase.
5. The balance reflects the number of shares held at 30 June 2020 or, if earlier, the date on which the executive ceased to hold the KMP position. Refer to section 1.1 for further information.
6. Nominally refers to shares held either indirectly or beneficially by Senior Executives and shares held by their related parties including certain Restricted Shares held beneficially by Senior Executives. These shares are subject to a restriction period, such that the Senior Executive is restricted from dealing with the shares until the Restriction Period ends. Refer to note 5.2 to the financial statements for further details.
7. The closing balance reported for Vicki Brady under this table in last year's Remuneration Report reflected the number of share interests at the date she ceased to be a KMP. The opening balance reported this year reflects the number of share interests held at 1 July 2019.

3.0 Non-executive Director remuneration

3.1 FY20 Fee structure

(a) Overview

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

There were no increases in Board or Committee fees during the year. The Telstra Board and Committee fee structure (inclusive of superannuation) during FY20 was:

FY20 Board fees	Chairman	Non-executive Director (annual base fee)
Board	$775,000	$235,000
FY20 Committee fees	**Committee Chairman**	**Committee Member**
Audit & Risk Committee	$70,000	$35,000
People and Remuneration Committee	$56,000	$28,000
Nomination Committee	-	-

The Chairman Board fee and non-executive Director annual base fee have not changed since 2014 and 2012 respectively, and again no increase in Board fees is expected in FY21. The Chairman of the Board does not receive Committee fees if he is a Member of a Board Committee. All non-executive Directors are members of the Nomination Committee and do not receive a fee for that Committee. Our non-executive Directors are remunerated in accordance with Telstra's Constitution, which provides for an aggregate fee pool that is set, and varied, only by approval of a resolution of shareholders at the AGM. The current annual fee pool of $3.5

million was approved by shareholders at Telstra's 2012 AGM. The total of Board and Committee fees, including superannuation, paid to non-executive Directors in FY20 remained within the approved fee pool.

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

Telstra does not provide retirement benefits for non-executive Directors other than the superannuation contributions noted above. Sections 1.2(f) and (g) of this report provide details of the share ownership policy and securities trading restrictions that apply to our non-executive Directors. Table 3.2 provides full details of non-executive Director remuneration for FY20.

(b) Changes to the Board and Committee composition

During the year, Elana Rubin was appointed to the Board effective 14 February 2020 and as a member of the People and Remuneration Committee on 27 May 2020. On 11 August we announced that Bridget Loudon has been appointed to the Board effective 14 August 2020. Ms Rubin and Ms Loudon will stand for election at our 2020 Annual General Meeting on 13 October 2020.

There were no other changes to Board and Committee composition during FY20.

3.2 Detailed remuneration and interests in Telstra shares

(a) Non-executive Director Remuneration

Name and title		Short term employee benefits		Post-employment benefits	Total
	Year	Salary and fees ($000)[1]	Non-monetary benefits ($000)[2]	Superannuation ($000)	($000)
John P Mullen Chairman	**2020**	**754**	**8**	**21**	**783**
	2019	754	4	21	779
Eelco Blok[4] Director	**2020**	**231**	**-**	**4**	**235**
	2019	86	-	2	88
Roy H Chestnutt[4] Director	**2020**	**265**	**-**	**5**	**270**
	2019	255	-	5	260
Craig W Dunn Director	**2020**	**284**	**-**	**21**	**305**
	2019	263		21	284
Peter R Hearl Director	**2020**	**280**	**-**	**11**	**291**
	2019	273	-	21	294
Elana Rubin[3] Director	**2020**	**83**	**-**	**8**	**91**
	2019	-	-	-	-
Nora L Scheinkestel Director	**2020**	**277**	**-**	**21**	**298**
	2019	283	-	21	304
Margaret L Seale Director	**2020**	**249**	**-**	**21**	**270**
	2019	249	-	21	270
Niek Jan van Damme[4] Director	**2020**	**258**	**-**	**5**	**263**
	2019	183	-	3	186
Total	**2020**	**2,681**	**8**	**117**	**2,806**
	2019[5]	2,346	4	115	2,465

1. Includes fees for membership on Board Committees.
2. Includes the provision of car parking as well as the value of Telstra products and services provided to the Chairman. The value of non-monetary benefits has been grossed up for FBT by the relevant FBT rates. The year-on-year increase in non-monetary benefits disclosed for the Chairman is due to an increase in car parking utilisation.
3. Elana Rubin qualified as KMP from 14 February 2020, when she was appointed as a non-executive Director of the company.
4. As Eelco Blok, Niek Jan van Damme and Roy Chestnutt are overseas residents, their superannuation contributions for FY20 are less than the contributions for Australian resident non-executive Directors.
5. The total for FY19 of $2.465 million in this table is different to the total for FY19 in the FY19 Remuneration Report of $2.845 million as it does not include the amounts disclosed for former non-executive Directors reported in last year's report. These values are $0.143 million for Jane Hemstritch, $0.088 million for Russell Higgins AO, $0.080 million for Steven Vamos and $.069 million for Trae Vassallo.

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

During FY20, our non-executive Directors and their related parties held Telstra shares directly, indirectly or beneficially as follows:

Name	Total shares held at 1 July 2019[1,2]	Net shares acquired or disposed of and other changes[1]	Total shares held at 30 June 2020[1]	Shares held nominally at 30 June 2020 [3]
John P Mullen	101,159	-	101,159	75,000
Eelco Blok	75,000	-	75,000	-
Roy H Chestnutt	43,000	27,000	70,000	70,000
Craig W Dunn	73,173	-	73,173	72,473
Peter R Hearl	70,000	30,000	100,000	-
Elana Rubin	37,361	14,367	51,728	-
Nora L Scheinkestel	130,478	19,787	150,265	119,385
Margaret L Seale	310,540	-	310,540	310,540
Niek Jan van Damme	-	74,000	74,000	-
Total	**840,711**	**165,154**	**1,005,865**	**647,398**

1. Total shareholdings include shares held by our non-executive Directors and their related parties. Shares acquired or disposed of by our non-executive Directors and their related parties during FY20 were on an arm's length basis at market price.
2. For Elana Rubin the balance as at 1 July 2019 represents shares held as at the date on which she became KMP.
3. Nominally refers to shares held either indirectly or beneficially by non-executive Directors including those shares held by their related parties.

4.0 Looking forward to FY21

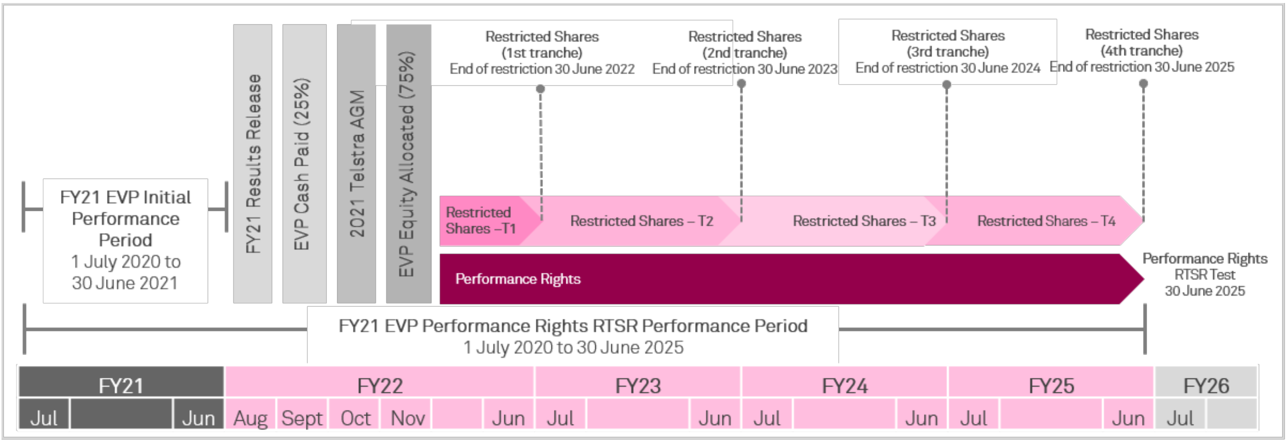
4.1 FY21 Senior Executive Remuneration Framework

As outlined at the start of this report, we made a range of enhancements to our Senior Executive remuneration structure for FY20 in response to shareholder feedback to better reflect community and stakeholder expectations.

For FY21 we do not anticipate any increases in Senior Executive Fixed Remuneration other than on appointment, promotion to a new role or due to a significant increase in accountabilities, nor do we intend on making any further significant changes to the EVP remuneration structure. However, we do continue to monitor the market and regulatory environment to look at ways of continually enhancing and simplifying our Senior Executive Remuneration framework and governance to ensure that it continues to:

- support our strategy and reinforce our culture and values
- provide internally consistent and market competitive rewards to attract, motivate and retain highly skilled employees
- link financial reward outcomes directly to employee contribution and company performance; and
- align to long term shareholder value creation.

The EVP structure for FY21 is as follows:



Further information on the FY21 EVP structure will be provided in our 2021 Remuneration Report.

4.2 FY21 EVP Performance Measures and Targets

FY21 has already proven to be a year of significant challenge across our local and global economies and communities due to the ongoing impact of the COVID-19 pandemic. Whilst Telstra has shown great strength and stability during this time, we acknowledge more than ever the importance of increased transparency for our shareholders due to level of uncertainty and disruption in the market. It is our intention to continue to provide meaningful information to enable shareholders to assess the appropriateness of our remuneration targets and outcomes.

To reflect this, the Board remain committed to providing market leading levels of transparency around the targets by providing this detail prospectively for FY21. This provides shareholders with a high level of transparency over the company's remuneration framework and outcomes. The Board considers this an imperative as our operating environment requires careful shareholder consideration of the need to appropriately recognise and reward strong management performance for the value created for the company and its shareholders.

The table below outlines the performance measures and targets that will apply to the FY21 EVP. These performance measures and targets have been selected by the Board to ensure that the CEO and other Senior Executives continue to deliver against our T22 strategy, and that financial rewards are linked directly to Senior Executive contributions, company performance and long term shareholder value creation.

In setting the primary performance measures and targets for the FY21 EVP, the Board sought to ensure they were robust and sufficiently demanding, taking into account the key deliverables and milestones outlined in our T22 strategy, planned financial outcomes contained within our FY21 Corporate Plan and FY21 guidance (as announced on 13 August 2020 and which takes into account the estimated negative impact on FY21 Underlying EBITDA from the in-year nbn headwind and the COVID-19 pandemic).

As we have now passed the midway point of our T22 transformation, the non-financial metrics and targets continue to build on the momentum gained in FY20 in delivering our T22 strategy. Our aspiration and commitment to enhancing our digital engagement with our customers, radically simplifying our products and eliminating customer pain points. We remain fully committed to our T22 strategy which continues to position us well especially during this period of heightened disruption and uncertainty.

The targets that apply to the FY21 EVP do not constitute market guidance. Subsequent adjustments to guidance throughout the year (for example relating to the nbn network rollout or unplanned one-off events) and their impact on EVP outcomes will be considered both during the financial year as those events may occur and also at the end of the financial year, in accordance with established principles to ensure that outcomes appropriately reflect the performance of Senior Executives. Any adjustments that the Board makes will be fully disclosed to shareholders in next year's Remuneration Report. The Board also has the ability to amend the performance measures themselves if it considers it appropriate having regard to Telstra's business circumstances and priorities.

All of the following measures have been selected on the basis that they are directly linked to our T22 strategy as described below.

<table>
<tr><th colspan="2" rowspan="2">Performance Measure</th><th rowspan="2">Metric</th><th rowspan="2">Weighting</th><th rowspan="2">FY20 Baseline^</th><th colspan="3">FY21*</th><th rowspan="2">Rationale for why chosen</th></tr>
<tr><th>Threshold</th><th>Target</th><th>Max</th></tr>
<tr><td rowspan="3">Financial
60% of total weighting</td><td>Total Income</td><td>Telstra External Income (excluding finance income)</td><td>15.0%</td><td>$26,161m</td><td rowspan="3">Above bottom end of Market Guidance*</td><td rowspan="3">Approx. Midpoint of Market Guidance*</td><td rowspan="3">At or above top end of Market Guidance*</td><td>• Key indicator of financial performance,
• Ensures continued focus on customer retention and growth.
• Aligns to Pillar 1 of the T22 strategy</td></tr>
<tr><td>Underlying EBITDA</td><td>Underlying EBITDA is Earnings Before Interest, Tax, Depreciation & Amortisation, excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right of use assets</td><td>15.0%</td><td>$7,409m</td><td>• Key indicator of financial performance
• Ensures appropriate focus on profit and cost to deliver.
• A strong indicator of underlying company profitability.
• Aligns to Pillar 4 of our T22 strategy.</td></tr>
<tr><td>Free Cash Flow (FCF)</td><td>Free Cashflow excluding M&A and spectrum plus operating lease payments (reported in financing cash flow under AASB 16)</td><td>15.0%</td><td>$3,415m</td><td>• Key indicator of financial performance
• Appropriate for a capital intensive business critical in managing the company's ability to pay a dividend and maintain balance sheet strength.'
• Aligns to Pillar 4 of our T22 strategy.</td></tr>
</table>

	Net Opex Reduction		Year-on-year reduction in operating non-Direct Variable Cost (DVC) expenses	15.0%	$615m	$350m	$400m	$500m	• Active reduction of our costs will be key to competing and delivering strong financial performance in an increasingly competitive market. • Delivering significant absolute cost reduction aligns with intent to drive productivity and reduce costs. • Aligns to Pillar 4 of our T22 strategy.
Strategic, Customer & Transformation 40% of total weighting	Episode NPS		Improvement in our Episode NPS	10%	+23	+30	+32	+34	• A key driver of business success and our ability to differentiate in an increasingly competitive market. • Key to generating increased share of wallet from existing customers, maintaining a price premium, and attracting new customers. • Aligns to Pillar 1 of our T22 Strategy
	Product Portfolio Simplification	Active Enterprise Products	TE Number of Active Plans, the target provides progress toward our T22 reduction of 50% by FY21	5%	422	328	308	268	• Will increase the simplicity, transparency and satisfaction that our customers experience and allow the delivery of material cost reductions • An enabler for customers to migrate to the new stack. • Aligns to Pillar 1 of our T22 strategy.
		Services on in-market plans	Consumer and Small Business Fixed and Postpaid services on in-market plans	5%	4.86m	7.7m	8.2m	8.6m	
	Digital Engagement	Digital Delivery	Sale transactions through digital channels. The 35% target is the average of Q4 FY21 not an average of performance for the year.	5%	30.3%	33.5%	35.0%	45.0%	• Improves customer experience • Supports our cost reduction focus • Aligns to Pillar 1 of our T22 strategy
		Telstra Connect	Active Telstra Enterprise customers on Telstra Connect in the last 3 months of FY21	5%	6,610	6,840	7,100	9,000	
	People Capability & Engagement		Top-line sustainable employee engagement score	10%	83	80	83	84	• Focusses on our employee engagement • Supports our ability to have both the key leadership and technical talent required to deliver on our ambitious strategy • Aligns to Pillar 3 of our T22 strategy

^ For FY21 targets, the baseline refers to FY20 results calculated on the same basis as the metric definition and includes restatement for AASB 16: *Leases* where applicable.

* Market Guidance means guidance for FY21 as set out in Telstra's ASX announcement dated 13 August 2020.

5.0 Glossary

Base EVP Outcome	The outcome determined by the Board following an assessment of Telstra's performance against the primary performance measures under the EVP during the Initial Performance Period and making such adjustments as it considers necessary to ensure the outcome is appropriate, that is then used as an input for determining each Senior Executive's Individual EVP Outcome.
Cash Rights	Rights granted to a Senior Executive who ceases employment for a Permitted Reason before the Restricted Shares and Performance Rights are granted in respect of the EVP in lieu of those Restricted Shares and Performance Rights. The Cash Rights are subject to the same time conditions and performance measures as those applying to those Restricted Shares and Performance Rights. On vesting, a Cash Right will entitle the Senior Executive to a cash payment equivalent to the value of a Telstra share at the end of the applicable Restriction Period or performance period and dividends paid between the date the Cash Right is allocated and the end of the applicable Restriction Period or performance period
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EVP	Executive Variable Remuneration Plan
FCF	Free Cashflow
Fixed Remuneration or FR	Base salary plus company and private salary sacrificed superannuation contributions
FY	Financial year
GE	Group Executive
Individual EVP Outcome	The individual award earned by a Senior Executive under the EVP taking into consideration their performance, the Base EVP Outcome, their 'at target' EVP reward opportunity and other factors in accordance with the Board's decision framework such as any material risk events identified, the severity of their impact and the Senior Executive's accountability for the matter.
Initial Performance Period	1 year (1 July 2019 – 30 June 2020)
KMP	Key Management Personnel
LTI	Long Term Incentive
NBN Transaction	Agreements with nbn co and the Government in relation to Telstra's participation in the rollout of the nbn™ network. This includes the entire Definitive Agreement receipts and the net negative recurring NBN headwinds on our business.
NPS	Net Promoter Score is a non-financial performance that we use to measure customer experience at Telstra The Episode NPS performance measure is based on responses to internal surveys following actual service experiences customers had with Telstra The overall Episode NPS result for Telstra is a weighted average calculation of the survey results from Telstra business segments – Consumer & Small Business contribute collectively at 65% and Telstra Enterprise at 35%
Performance Right	A right to a share or a cash amount equivalent to the value of a share at the end of a performance period, at Telstra's discretion and subject to the satisfaction of certain performance measures and service conditions
Permitted Reason	Permitted Reason under the EVP, means death, total and permanent disablement, certain medical conditions, company initiated separation for a reason unrelated to performance or

	conduct, redundancy or retirement. Permitted Reason under the EVP Performance Rights and Restricted Share terms also includes mutual separation
Related parties	of a person means: • a close member of the person's family; and/or • an entity over which the person or close family member has, directly or indirectly, control, joint control or significant influence
Restricted Share	A Telstra share that is subject to a Restriction Period
Restriction Period	A period during which a Telstra share is subject to a service condition and cannot be traded. Restricted Shares are transferred to a Senior Executive on the first day after the end of the Restriction Period that Senior Executives are able to deal in shares under Telstra's Securities Trading Policy
RTSR	Relative Total Shareholder Return (RTSR) measures the performance of an ordinary Telstra share (including the value of any cash dividend and other shareholder benefits paid during the period) relative to the performance of ordinary securities issued by the other companies in a comparator group over the same period
RTSR Performance Period	The five-year performance period ending on 30 June 2024 over which the RTSR performance condition for the FY20 EVP Performance Rights will be measured.
Senior Executive	Refers to the CEO and those executives who are KMP with authority and responsibility for planning, directing and controlling the activities of Telstra and the Group, directly or indirectly
Service Agreement	A Senior Executive's contract of employment
STI	Short Term Incentive
Total Income	Total Telstra income
Total Remuneration	The sum of all the fixed and variable components of remuneration as detailed in section 2.4 for Senior Executives, and all the remuneration components as detailed in section 3.2 for non-executive Directors
Underlying EBITDA	Underlying EBITDA is Earnings Before Interest, Tax, Depreciation & Amortisation. Excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets.

Directors' Report

Rounding

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and issued pursuant to section 341(1) of the *Corporations Act 2001*. Except where otherwise indicated, the amounts in this Directors' Report and the accompanying financial report have been rounded to the nearest million dollars ($m) and amounts in the Remuneration Report have been rounded to the nearest thousand dollars ($000).

This report is made on 13 August 2020 in accordance with a resolution of the Directors.

John P Mullen
Chairman
13 August 2020

Andrew R Penn
Chief Executive Officer and Managing Director
13 August 2020

EY
Building a better working world

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

As lead auditor for the audit of the financial report of Telstra Corporation Limited for the financial year ended 30 June 2020, 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

Ernst & Young

Andrew Price
Partner
13 August 2020

Board of Directors

John P Mullen

Age 65, BSc
Non-executive Director since July 2008, Chairman effective 27 April 2016 and last re-elected in 2017. Chairman of the Nomination Committee and previously Chairman of the Remuneration Committee (2009-2016).

John has extensive experience in international transportation and logistics, with more than two decades in senior positions with some of the world's largest transport and infrastructure companies. He has lived or worked in 13 countries over this time. From 2011 to 2017 John was Chief Executive Officer of Asciano, Australia's largest ports and rail operator. Prior to this, John spent 15 years with DHL Express, a US$20b company employing over 140,000 people in 220 countries, serving as the global Chief Executive Officer from 2005 to 2009.

Prior to DHL, John spent ten years with the TNT Group, with four years from 1991 to 1994 as Chief Executive Officer of TNT Express Worldwide based in the Netherlands.

Other listed company directorships (past three years): Chairman, Brambles Limited (Joined 2019, Chair from 2020). Former – Director, Brookfield Infrastructure Partners L.P (2017 - 2020).

Other directorships and not-for-profit appointments: Chairman, Toll Holdings (Private - since 2017). Chair, Australian National Maritime Museum (Joined 2016 and Chair from 2019). Member, UNICEF Task Force on Workplace Gender Discrimination and Harassment (2018-2019). UNSW Business School Advisory Council Member (from 2005). Former - Chairman of the US National Foreign Trade Council in Washington (2008 - 2010).

Andrew R Penn

Age 57, MBA (Kingston), AMP (Harvard), FCCA, HFAIPM
Chief Executive Officer and Managing Director since 1 May 2015.

Andy Penn became the CEO and Managing Director of Telstra, Australia's largest telecommunications company, on 1 May 2015. At Telstra Andy is leading an ambitious change program transforming Telstra to be positioned to compete in the radically changing technology world of the future with 5G at its core.

Andy has had an extensive career spanning 40 years across 3 different industries - telecommunications, financial services and shipping. He joined Telstra in 2012 as Chief Financial Officer. In 2014 he took on the additional responsibilities as Group Executive International.

Prior to Telstra, Andy spent 23 years with the AXA Group, one of the world's largest insurance and investment groups. His time at AXA included the roles of Chief Executive Officer 2006-2011 AXA Asia Pacific Holdings, Chief Financial Officer, Chief Executive Asia and Chief Executive Australia and New Zealand. At AXA, Andy was instrumental in building one of the most successful Asian businesses by an Australian company that was sold to its parent in 2011 for more than A$10bn.

Other directorships and appointments: Member of the Council of Trustees of the National Gallery of Victoria; Board Director of the Groupe Speciale Mobile Association (GSMA) (from 2018), Chairman of the Australian Government's Cyber Industry Advisory Panel, created to guide development of Australia's 2020 Cyber Security Strategy; Patron, on behalf of Telstra, of the National and Torres Straights Islanders Arts Awards (NATSIAA), Life Governor of Very Special Kids (from 2003) and an Ambassador for the Amy Gillet Foundation. He serves on the advisory boards of both The Big Issue Home for Homes and Juvenile Diabetes Research Foundation.

Eelco Blok

Age 63, MS, BBA
Non-executive Director appointed 15 February 2019 and elected 15 October 2019. Member of the Nomination Committee.

Eelco has almost 35 years of telecommunications experience at Dutch-based landline and mobile telecommunications company, KPN, where he was CEO for seven years until April 2018.

Eelco started his career in Finance at KPN before becoming responsible for several businesses including Carrier Services, Corporate Networks and Network Operations. In 2006 he was appointed a member of the KPN Board of Management, where he was consecutively responsible for the Fixed Division, Business Market – Wholesale - Operations and Mobile International. He was appointed CEO in April 2011.

From 2011 to 2017 Eelco was co-chairman of the Dutch National Cyber Security Council an advisory body of the Dutch government. He was also a Director for the international association GSMA from 2017 to April 2018.

Other listed company directorships (past three years): Member of the Supervisory Boards of Post NL (from 2017) and Signify NV (from 2017). Director, OTE Group (from 2019).

Other directorships and appointments: Director, Koninklijke VolkerWessels N.V (from 2019). Advisor, Reggeborgh Groep BV (from 2018). Member, Dutch Sports Council, an advisory Board of the Dutch Government (from 2019).

Roy H Chestnutt

Age 61, BSc, BA, MBA
Non-executive Director appointed 11 May 2018 and elected on 16 October 2018. Member of the Audit & Risk Committee and the Nomination Committee.

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

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

Other listed company directorships (past three years): Director, Boingo Wireless, Inc (from 2019), Saudi Telecom (from 2018) and Digital Turbine Inc (from 2018).

Other directorships and appointments: Non-executive Partner, Delta Partners.

Craig W Dunn

Age 56, BCom, FCA
Non-executive Director appointed 12 April 2016 and last re-elected in October 2019. Chairman of the Audit & Risk Committee and member of the Nomination Committee.

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

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

Other listed company directorships (past three years): Director, Westpac (from 2015).

Other directorships and appointments: Chair, ISO Blockchain Standards Committee (from 2017) and The Australian Ballet (Joined 2014, Chair from 2015).

Peter R Hearl

Age 69, B Com (UNSW), MIML ANZ, FAICD, Member – AMA
Non-executive Director since 15 August 2014, last re-elected in October 2017. Chairman of the People and Remuneration Committee and member of the Nomination Committee.

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

Other listed company directorships (past three years): Director, Santos Ltd (from 2016). Former - Director, Treasury Wine Estates (2012-2017).

Other directorships and appointments: Chairman-Elect, Endeavour Group Ltd (Woolworths drinks and hotels business proposed for demerger in 2020) (from 2019). Member, UNSW's Australian School of Business Alumni Leaders Group, Trustee of The Stepping Stone Foundation (from 2020) and member of the Stepping Stone Foundation's Investment Committee (from 2018). Previously honorary Chairman of the US-based UNSW Study Abroad-Friends and US Alumni Inc.

Elana Rubin

Age 62, BA (Hons), MA, FFin, FAICD, FAIM
Non-executive Director appointed 14 February 2020. Member of the Remuneration Committee.

Elana has more than 20 years Board experience across the financial service sector, including superannuation and funds management as well as the property, infrastructure and government sectors. Her executive career spanned industrial relations, social and economic policy and superannuation.

Elana is adept at working in consumer facing organisations with a strong customer focus and can balance commercial interests with the complex requirements of regulated sectors.

Elana has strong risk management and regulatory experience, having worked in highly regulated sectors including as Chair of AustralianSuper, one of Australia's largest and innovative super funds, and Chair of Victorian WorkCover Authority, a highly regarded regulator and personal injury insurer.

Other listed company directorships (past three years): Chair, Afterpay Limited (Joined 2017, Chair from 2020). Director, Slater and Gordon Limited (from 2018). Former – Director, Mirvac Limited (2010 - 2019).

Nora L Scheinkestel

Age 60, LLB (Hons), PhD, FAICD
Non-executive Director since August 2010, last re-elected in October 2019. Member of the Audit & Risk Committee (previously Chairman Audit & Risk Committee 2012-2019), the Nomination Committee and the People and Remuneration Committee.

Nora is an experienced company director with a background as a senior banking executive in international and project financing. She has served as Chairman and Director in a range of companies across various industry sectors and in the public, private and government arena. She is also an Associate Professor in the Melbourne Business School at Melbourne University and a former member of the Takeovers Panel. In 2003, Nora was awarded a centenary medal for services to Australian society in business leadership.

Other listed company directorships (past three years): Chairman, Atlas Arteria Limited (Joined 2014, Chair from 2015). Director, Atlas Arteria International Limited (from 2015), AusNet Services Ltd (from 2016), Brambles Limited (from 2020). Former – Director, Stockland Group (2015-2018) and OceanaGold Corporation (2018-2019).

Other directorships and appointments: Trustee, Victorian Arts Centre Trust (from 2017).

Margaret L Seale

Age 59, BA, FAICD
Non-executive Director since May 2012 and last re-elected in 2018. Member of the Audit & Risk Committee and the Nomination Committee.

Margie is an experienced company director and has served and is serving on the boards of companies across a range of industries. She previously worked in senior executive roles in Australia and overseas, including in the consumer goods, health and global publishing sectors, and sales and marketing, and in the successful transition of traditional business models to digital environments.

Immediately prior to her non-executive career, Margie was Managing Director of Random House Australia and New Zealand and President, Asia Development for Random House globally. She is currently a non-executive director of Scentre Group Limited and Westpac Banking Corporation. Margie has previously served on the boards of Australian Pacific (Holdings) Pty Limited, Penguin Random House Australia Pty Ltd (as a non-executive director and then Chair), the Australian Publishers' Association, Bank of Queensland Limited, Ramsay Health Care Limited, the Council of Chief Executive Women (chairing its Scholarship Committee), the Powerhouse Museum and the Sydney Writers' Festival. She has been on the Advisory Council of J P Morgan, Australia and New Zealand, and the Advisory Board for the Australian Public Service Commission Centre for Learning and Leadership. In 2015, Margie founded philanthropic literary travel company Ponder & See, which funds writers' festivals and writers.

Other listed company directorships (past three years): Director, Westpac Banking Corporation (from 2019) and Scentre Group Limited (from 2016). Former - Director, Ramsay Health Care Limited (2015-2018) and Bank of Queensland Limited (2014-2018).

Niek Jan van Damme

Age 59, Drs.
Non-executive Director appointed 16 October 2018. Member of the Remuneration Committee and the Nomination Committee.

Mr van Damme has almost 20 years direct telecommunications experience, with the first part of his career focusing on brand and category management in a range of businesses including consumer goods and retail. Most recently he was a member of the Deutsche Telekom Board of Management, where he was responsible for fixed line and mobile communications in Germany. Niek Jan has held leadership positions with other leading firms including Ben Nederland, later T-Mobile Netherlands, a challenger mobile brand, where he was the Chairman of the Managing Board.

At Deutsche Telekom he led the merger of mobile and fixed line business, laying the foundation for making Deutsche Telekom the leading operator in converged services. He also led a major network modernisation program with the establishment of a new IP core, and high 4G network investments.

1

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 2020

About this report

This is the financial report for Telstra Corporation Limited (referred to as the Company or Telstra Entity) and its controlled entities (together referred to as we, us, our, Telstra, the Telstra Group or the Group) for the year ended 30 June 2020.

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

This financial report was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 13 August 2020. The Directors have the power to amend and reissue the financial report.

Reading the financials

Section introduction

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

Note and topic summary

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

Narrative table

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

Information panel

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

Contents

Income Statement

For the year ended 30 June 2020

Telstra Group	Note	Year ended 30 June	
		2020	2019
		$m	$m
Income			
Revenue (excluding finance income)	2.2	23,710	25,259
Other income	2.2	2,451	2,548
		26,161	**27,807**
Expenses			
Labour		4,058	5,279
Goods and services purchased		9,107	9,138
Net impairment losses on financial assets		202	184
Other expenses	2.3	3,584	5,234
		16,951	**19,835**
Share of net (loss)/profit from joint ventures and associated entities	6.2	**(305)**	**12**
		17,256	**19,823**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**8,905**	**7,984**
Depreciation and amortisation	2.3	5,338	4,282
Earnings before interest and income tax expense (EBIT)		**3,567**	**3,702**
Finance income	2.2	274	238
Finance costs	2.3	1,045	868
Net finance costs		**771**	**630**
Profit before income tax expense		**2,796**	**3,072**
Income tax expense	2.4	957	923
Profit for the year		**1,839**	**2,149**
Profit/(loss) for the year attributable to:			
Equity holders of Telstra Entity		1,819	2,154
Non-controlling interests		20	(5)
		1,839	**2,149**
Earnings per share (cents per share)		cents	cents
Basic	2.5	15.3	18.1
Diluted	2.5	15.3	18.1

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

Statement of Comprehensive Income

For the year ended 30 June 2020

Telstra Group	Note	Year ended 30 June 2020 $m	Year ended 30 June 2019 $m
Profit/(loss) for the year attributable to:			
Equity holders of Telstra Entity		1,819	2,154
Non-controlling interests		20	(5)
		1,839	**2,149**
Items that will not be reclassified to the income statement			
Retained profits			
Actuarial loss on defined benefit plans attributable to equity holders of Telstra Entity	5.3	(82)	(10)
Income tax on actuarial loss on defined benefit plans		25	3
Fair value of equity instruments reserve			
Gain from investments in equity instruments designated at fair value through other comprehensive income		-	3
Share of other comprehensive income of equity accounted entities		16	66
Income tax on fair value movements for investments in equity instruments		(2)	(22)
		(43)	**40**
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		21	39
Cash flow hedging reserve			
Changes in cash flow hedging reserve	4.3	54	3
Share of other comprehensive income of equity accounted entities		(6)	-
Income tax on movements in the cash flow hedging reserve	4.3	(16)	(1)
Foreign currency basis spread reserve			
Changes in the value of the foreign currency basis spread		(6)	(22)
Income tax on movements in the foreign currency basis spread reserve		2	7
		49	**26**
Total other comprehensive income		**6**	**66**
Total comprehensive income for the year		**1,845**	**2,215**
Total comprehensive income for the year attributable to:			
Equity holders of Telstra Entity		1,825	2,220
Non-controlling interests		20	(5)

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

Statement of Financial Position

As at 30 June 2020

Telstra Group	Note	As at 30 June 2020 $m	As at 30 June 2019 $m
Current assets			
Cash and cash equivalents	2.6	499	604
Trade and other receivables and contract assets	3.4	5,121	5,392
Deferred contract costs	3.9	82	95
Inventories	3.5	418	448
Derivative financial assets	4.3	147	179
Current tax receivables		2	7
Prepayments		265	457
Assets classified as held for sale	3.10	-	121
Total current assets		**6,534**	**7,303**
Non-current assets			
Trade and other receivables and contract assets	3.4	1,428	780
Deferred contract costs	3.9	1,354	1,232
Inventories	3.5	28	35
Investments – accounted for using the equity method	6.2	897	1,298
Investments – other	4.4	21	25
Property, plant and equipment	3.1	21,499	21,836
Right-of-use assets	3.3	3,030	-
Intangible assets	3.2	7,412	7,706
Derivative financial assets	4.3	2,011	2,083
Deferred tax assets	2.4	66	59
Defined benefit asset	5.3	123	232
Total non-current assets		**37,869**	**35,286**
Total assets		**44,403**	**42,589**
Current liabilities			
Trade and other payables	3.6	3,980	4,528
Employee benefits	5.1	727	804
Other provisions	7.3	124	103
Lease liabilities	3.3	611	-
Borrowings	4.3	2,763	2,222
Derivative financial liabilities	4.3	54	57
Current tax payables	2.4	224	103
Contract liabilities and other revenue received in advance	3.7	1,611	1,657
Liabilities classified as held for sale	3.10	-	79
Total current liabilities		**10,094**	**9,553**
Non-current liabilities			
Other payables	3.6	4	68
Employee benefits	5.1	127	158
Other provisions	7.3	143	158
Lease liabilities	3.3	2,687	-
Borrowings	4.3	13,066	15,031
Derivative financial liabilities	4.3	320	283
Deferred tax liabilities	2.4	1,605	1,529
Defined benefit liability	5.3	8	8
Contract liabilities and other revenue received in advance	3.7	1,202	1,271
Total non-current liabilities		**19,162**	**18,506**
Total liabilities		**29,256**	**28,059**
Net assets		**15,147**	**14,530**

Statement of Financial Position (continued)

As at 30 June 2020

Telstra Group	Note	As at 30 June 2020 $m	As at 30 June 2019 $m
Equity			
Share capital	4.2	4,451	4,447
Reserves	4.2	5	(58)
Retained profits		10,017	10,160
Equity available to Telstra Entity shareholders		**14,473**	**14,549**
Non-controlling interests		674	(19)
Total equity		**15,147**	**14,530**

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

Statement of Cash Flows

For the year ended 30 June 2020

Telstra Group	Note	Year ended 30 June	
		2020	2019
		$m	$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		29,506	30,231
Payments to suppliers and employees (inclusive of GST)		(21,895)	(22,748)
Government grants received		153	156
Net cash generated by operations		**7,764**	**7,639**
Income taxes paid	2.4	(754)	(956)
Net cash provided by operating activities	2.6	**7,010**	**6,683**
Cash flows from investing activities			
Payments for property, plant and equipment		(2,341)	(3,207)
Payments for intangible assets		(1,101)	(1,163)
Capital expenditure (before investments)		**(3,442)**	**(4,370)**
Payments for shares in controlled entities (net of cash acquired)		-	(115)
Payments for equity accounted investments		(33)	(21)
Payments for other investments		(122)	(26)
Total capital expenditure (including investments)		**(3,597)**	**(4,532)**
Proceeds from sale of property, plant and equipment		276	646
Proceeds from sale of businesses and shares in controlled entities (net of cash disposed)		58	42
Proceeds from sale of equity accounted and other investments		15	6
Distributions received from equity accounted investments		83	33
Receipts for the principal portion of finance lease receivables		135	104
Government grants received		28	53
Interest received		26	33
Net cash used in investing activities		**(2,976)**	**(3,615)**
Operating cash flows less investing cash flows		**4,034**	**3,068**
Cash flows from financing activities			
Proceeds from borrowings		5,476	4,669
Repayment of borrowings		(6,562)	(4,637)
Payment for the principal portion of lease liabilities	3.3	(993)	-
Payment for the principal portion of finance lease liabilities		-	(79)
Purchase of shares for employee share plans		(22)	-
Finance costs paid		(812)	(781)
Dividends paid to non-controlling interests		(23)	(2)
Dividend paid to equity holders of Telstra Entity	4.1	(1,903)	(2,259)
Proceeds from the sale of units in a controlled trust	6.1	698	-
Other		3	1
Net cash used in financing activities		**(4,138)**	**(3,088)**
Net decrease in cash and cash equivalents		**(104)**	**(20)**
Cash and cash equivalents at the beginning of the year		604	620
Effects of exchange rate changes on cash and cash equivalents		(1)	4
Cash and cash equivalents at the end of the year	2.6	**499**	**604**

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

Statement of Changes in Equity

For the year ended 30 June 2020

Telstra Group	Note	Share capital $m	Reserves $m	Retained profits $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2018		**4,428**	**(131)**	**10,272**	**14,569**	**(13)**	**14,556**
Profit/(loss) for the year		-	-	2,154	**2,154**	(5)	**2,149**
Other comprehensive income		-	73	(7)	**66**	-	**66**
Total comprehensive income for the year		**-**	**73**	**2,147**	**2,220**	**(5)**	**2,215**
Dividends		-	-	(2,259)	**(2,259)**	(2)	**(2,261)**
Non-controlling interests on disposals		-	-	-	**-**	1	**1**
Transactions with non-controlling interests		-	-	-	**-**	(1)	**(1)**
Amounts repaid on share loans provided to employees		1	-	-	**1**	-	**1**
Share-based payments		18	-	-	**18**	1	**19**
Balance at 30 June 2019		**4,447**	**(58)**	**10,160**	**14,549**	**(19)**	**14,530**
Change in accounting policy arising from AASB 16: 'Leases'	1.5	-	-	(2)	**(2)**	-	**(2)**
Restated balance at 1 July 2019		**4,447**	**(58)**	**10,158**	**14,547**	**(19)**	**14,528**
Profit for the year		-	-	1,819	**1,819**	20	**1,839**
Other comprehensive income			63	(57)	**6**	-	**6**
Total comprehensive income for the year		**-**	**63**	**1,762**	**1,825**	**20**	**1,845**
Dividends		-	-	(1,903)	**(1,903)**	(26)	**(1,929)**
Non-controlling interests from the sale of units in a controlled trust	6.1	-	-	-	**-**	698	**698**
Transactions with non-controlling interests		-	-	-	**-**	1	**1**
Amounts repaid on share loans provided to employees		3	-	-	**3**	-	**3**
Additional shares purchased	4.2	(22)	-	-	**(22)**	-	**(22)**
Share-based payments		23	-	-	**23**	-	**23**
Balance at 30 June 2020		**4,451**	**5**	**10,017**	**14,473**	**674**	**15,147**

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 7.1.2.

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

1.2 Terminology used in our income statement

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

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

1.3 Principles of consolidation

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

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

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

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

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies.

1.4 Key accounting estimates and judgements

Preparing the financial report requires management to make estimates and judgements.

1.4.1 COVID-19 pandemic

During the financial year 2020, a global pandemic caused by a coronavirus (COVID-19) has been declared. Telstra continues to closely monitor the COVID-19 pandemic and its impact on the global and domestic economies. The expected duration and magnitude of this pandemic and its potential impacts on the economy and financial markets are unclear. It is not known whether the measures being undertaken in Australia and globally will be sufficient to limit the impact on the economy. The financial impacts for many businesses are expected to be material and for Telstra it will depend on how the situation and its impact on the economy and our customers evolves.

Financial impacts of the COVID-19 pandemic identified and recognised during the financial year 2020 have been reflected in our financial performance for the year and considered in our financial position as at 30 June 2020. To the extent that ongoing impacts have been estimated we have considered the uncertainties arising from the COVID-19 pandemic in preparation of our financial statements and the relevant disclosures have been included in the following sections:

- section 3.1 regarding impairment assessment of our ubiquitous telecommunications network
- section 3.2 regarding impairment assessment of goodwill and intangible assets
- section 3.4 regarding measurement of expected credits losses for our financial assets
- section 4.4 regarding our financial risk management
- section 6.2 regarding impairment assessment of our investments in associates.

Section 1. Basis of preparation (continued)

1.4 Key accounting estimates and judgements (continued)

1.4.2 Summary of key management judgements

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

Key accounting estimates and judgements	Note	Page
Assessment of a significant financing component in mass market contracts	2.2	F22
Determining standalone selling prices	2.2	F23
Assessment of a significant financing component in Indefeasible Right of Use (IRU)	2.2	F24
Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income	2.2	F25
Assessment of a significant financing component in nbn DAs	2.2	F26
Percentage of completion for commercial contracts with nbn co	2.2	F26
Estimating provision for income tax	2.4	F31
Unrecognised deferred tax assets	2.4	F32
Cash generating units (CGUs) for impairment assessment	3.1	F36
Useful lives and residual values of tangible assets	3.1	F36
Determining CGUs and their recoverable amount for impairment assessment	3.2	F38
Capitalisation of development costs	3.2	F39
Determining fair value of identifiable intangible assets	3.2	F40
Useful lives of intangible assets	3.2	F40
Determining lease term	3.3	F41
Determining incremental borrowing rates for property leases	3.3	F43
Estimating allowance for doubtful debts	3.4	F48
Estimating net realisable value	3.5	F50
Amortisation period of deferred contract costs	3.9	F53
Long service leave provision	5.1	F71
Defined benefit plan	5.3	F77
Significant influence over our investments	6.2	F86
Joint control of our investments	6.2	F86

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

1.5 Changes in accounting policies

A number of new or amended accounting standards became mandatory during the financial year 2020, with the key changes to our accounting policies resulting from AASB 16: 'Leases'.

The impact of the first time adoption of the lease accounting standard has been disclosed in note 1.5.1 below and the new accounting policies in notes 2.2.3 and 3.3.3. Other accounting standards and amendments mandatory in the current reporting period did not have any material impacts on our accounting policies.

1.5.1 First time adoption of the new lease accounting standard

(a) Adoption approach and transition impacts

In February 2016, the AASB issued AASB 16: 'Leases', which replaced AASB 117: 'Leases', Interpretation 4: 'Determining whether an Arrangement contains a Lease', Interpretation 115: 'Operating Leases - Incentives' and Interpretation 127: 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

We have adopted AASB 16 from 1 July 2019 using the modified retrospective adoption approach. Applying this method, the comparative information for the financial year 2019 has not been restated. Instead, the cumulative effect of initially applying this standard was adjusted as at 1 July 2019 to amend the opening balance of retained earnings and the respective line items in the statement of financial position.

The new standard introduced new requirements for lease identification and determination of a lease term, which apply to both lessee and lessor. However, on transition we have applied the relief provisions and we have not reassessed whether a contract is, or contains, a lease at the date of initial application of 1 July 2019. As such, this standard has been applied to all open contracts that have already been identified as leases under AASB 117 and Interpretation 4 before or as at 30 June 2019 (referred to as 'transitioning contracts').

The new standard introduced significant accounting changes for our lease arrangements where Telstra Group is a lessee as it requires the lessee to recognise all its leases in the statement of financial position as an asset (representing the right to use the leased asset) and a liability (reflecting future lease payments). Depreciation of the right-of-use asset and interest on the lease liability are recognised over the determined lease term.

When estimating the right-of-use asset and the lease liability as at 1 July 2019, for our transitioning operating leases where Telstra Group is a lessee and as allowed by the standard, we have used the following practical expedients for all similar leases on a consistent basis (as opposed to on a lease-by-lease basis):

- we have applied a single discount rate to portfolios of leases with characteristics which we have assessed to be reasonably similar
- we have elected to rely on our assessment of whether leases are onerous under AASB 137: 'Provisions, Contingent Liabilities and Contingent Assets' as at 30 June 2019 instead of conducting an impairment review
- for leases of personal computers, printers and other related equipment, for which the underlying assets are of low value, we have not made any adjustments on transition and as a result the lease payments under these contracts will continue to be recognised on a straight-line basis over the lease term as other operating expenses
- we have excluded initial direct costs from the measurement of the right-of-use assets upon initial application of the standard
- we have elected to utilise hindsight in determining the lease term for contracts that contain options for extension or termination of the lease.

Section 1. Basis of preparation (continued)

1.5 Changes in accounting policies (continued)

1.5.1 First time adoption of the new lease accounting standard (continued)

(a) Adoption approach and transition impacts (continued)

AASB 16 substantially carried forward the lessor accounting requirements of AASB 117. Accordingly, as a lessor we continue to classify our leases and account for them as operating or finance leases.

The transition impacts on our key lease arrangements were as below.

As a lessee, we have a significant number of long-term non-cancellable property leases for our office buildings, warehouses, retail stores and network sites which used to be accounted for as operating leases. On transition to AASB 16 recognition of these leases had the most significant impact on the statement of financial position. A small number of our office and data centre buildings, or parts thereof, are subject to subleases for which on transition we have recognised finance lease receivables and recorded a net loss in the opening retained earnings.

We also have a large volume of low value operating leases for mobile handsets which are subleased to our consumer and small business customers under our mobile bundles. This customer offer was removed from the market on 25 June 2019. However, the adjustments related to our existing leases resulted in considerable transition impacts reflecting the recognition of right-of-use assets and lease liabilities under our new lessee accounting policies. Our customer mobile bundles offering handset leases are in substance back-to-back subleases of the newly recognised right-of-use assets. There were no changes to our lessor accounting for the customer contracts and they continue to be accounted for as operating leases due to the nature of these transactions.

Other operating leases included motor vehicles and video conferencing equipment, for which we have recognised right-of-use assets and lease liabilities, and personal computers, printers and other related equipment, which continue to be expensed under the exemption for leases of low value assets.

As a lessee, we also have leases of renewable energy plants with fully variable lease payments, which continue to be expensed in the period in which the event or condition that triggers those payments occurs.

Our finance leases (Telstra Group as a lessee) mainly related to sale and leaseback of communication assets dedicated to solution management, which were subleased to our enterprise customers under dealer-lessor finance leases (Telstra Group as a dealer-lessor). There were no measurement adjustments to these leases on transition to AASB 16. However, going forward any similar new arrangements where Telstra as a seller-lessee enters into a legal sale and leaseback transaction will be assessed under AASB 16 requirements. In particular, where the legal sale transaction does not meet revenue recognition criteria, sale and leaseback transactions will be accounted for as a financial liability rather than a lease.

As at 30 June 2019, certain finance and operating leases related to selected data centres were classified as part of assets and liabilities held for sale and separately presented in the statement of financial position. On 1 July 2019, the operating leases classified as held for sale have been remeasured under AASB 16 requirements and the right-of-use assets and lease liabilities have been recognised as an adjustment to the assets and liabilities classified as held for sale.

(b) Summary of adjustments

Key changes in the accounting policies resulted in the following adjustments to our transitioning contracts on adoption of AASB 16 on 1 July 2019:

AASB 117 lease classification as at 30 June 2019	Adjustment on transition on 1 July 2019
Telstra as a lessee in a finance lease	Reclassification of the existing assets under finance leases and finance lease liabilities recognised as at 30 June 2019 to right-of-use assets and lease liabilities, respectively.
Telstra as a lessee in an operating lease	Recognition of lease liabilities (measured as present value of the remaining lease payments over the determined lease term, discounted using our incremental borrowing rate as at 1 July 2019) and an equal amount of the right-of-use assets. Where relevant, the right-of-use assets were adjusted by the amount of any prepaid or accrued lease payments or lease incentives recognised as at 30 June 2019.
Telstra as an intermediate lessor in an operating sublease	Change in classification from operating to finance subleases based on reassessment by reference to head leases recognised on 1 July 2019, resulting in derecognition of the newly created right-of-use assets and recognition of finance lease receivables with any corresponding net gain or loss adjustment to the opening retained earnings.
Telstra as an intermediate lessor in a finance sublease, or **Telstra as a head lessor (including dealer-lessor) in a finance or an operating lease**	No adjustments have been required.

Section 1. Basis of preparation (continued)

1.5 Changes in accounting policies (continued)

1.5.1 First time adoption of the new lease accounting standard (continued)

(b) Summary of adjustments (continued)

The initial application of AASB 16 as at 1 July 2019 resulted in recognition of $3,751 million right-of-use assets and $3,935 million lease liabilities in the statement of financial position. Lease liabilities included the $291 million reclassification of finance lease balances previously presented as part of the borrowings line in the statement of financial position. The difference between the right-of-use assets and lease liabilities reflected adjustments to the right-of-use assets for:

- any prepaid and/or accrued lease payments or lease incentives
- a net loss recognised in the opening retained earnings on derecognition of right-of-use assets for finance subleases.

Table A summarises adjustments made on 1 July 2019 to each line item in the statement of financial position affected by the first time application of AASB 16. The reported balances of 30 June 2019 incorporate adjustments described in note 1.5.3.

Table A Telstra Group	As at 30 Jun 2019	AASB 16	As at 1 July 2019
	Reported	Adjustments	Restated
	$m	$m	$m
Current assets			
Cash and cash equivalents	604	-	604
Trade and other receivables and contract assets	5,392	7	5,399
Deferred contract costs	95	-	95
Inventories	448	-	448
Derivative financial assets	179	-	179
Current tax receivables	7	-	7
Prepayments	457	(161)	296
Assets classified as held for sale	121	43	164
Total current assets	**7,303**	**(111)**	**7,192**
Non-current assets			
Trade and other receivables and contract assets	780	18	798
Deferred contract costs	1,232	-	1,232
Inventories	35	-	35
Investments – accounted for using the equity method	1,298	-	1,298
Investments – other	25	-	25
Property, plant and equipment	21,836	(69)	21,767
Right-of-use assets	-	3,751	3,751
Intangible assets	7,706	-	7,706
Derivative financial assets	2,083	-	2,083
Deferred tax assets	59	-	59
Defined benefit asset	232	-	232
Total non-current assets	**35,286**	**3,700**	**38,986**
Total assets	**42,589**	**3,589**	**46,178**

Section 1. Basis of preparation (continued)

1.5 Changes in accounting policies (continued)

1.5.1 First time adoption of the new lease accounting standard (continued)

(b) Summary of adjustments (continued)

Table A (continued) Telstra Group	As at 30 Jun 2019 Reported $m	AASB 16 Adjustments $m	As at 1 July 2019 Restated $m
Current liabilities			
Trade and other payables	4,528	(8)	4,520
Employee benefits	804	-	804
Other provisions	103	(5)	98
Lease liabilities	-	978	978
Borrowings	2,222	(78)	2,144
Derivative financial liabilities	57	-	57
Current tax payables	103	-	103
Contract liabilities and other revenue received in advance	1,657	-	1,657
Liabilities classified as held for sale	79	43	122
Total current liabilities	**9,553**	**930**	**10,483**
Non-current liabilities			
Other payables	68	(64)	4
Employee benefits	158	-	158
Other provisions	158	(18)	140
Lease liabilities	-	2,957	2,957
Borrowings	15,031	(213)	14,818
Derivative financial liabilities	283	-	283
Deferred tax liabilities	1,529	(1)	1,528
Defined benefit liability	8	-	8
Contract liabilities and other revenue received in advance	1,271	-	1,271
Total non-current liabilities	**18,506**	**2,661**	**21,167**
Total liabilities	**28,059**	**3,591**	**31,650**
Net assets	**14,530**	**(2)**	**14,528**
Equity			
Share capital	4,447	-	4,447
Reserves	(58)	-	(58)
Retained profits	10,160	(2)	10,158
Equity available to Telstra Entity shareholders	**14,549**	**(2)**	**14,547**
Non-controlling interests	(19)	-	(19)
Total equity	**14,530**	**(2)**	**14,528**

The following paragraphs provide further details on the nature of adjustments to each of the impacted line items in the statement of financial position:

- right-of-use assets and lease liabilities were recognised as new line items for the transitioning leases
- trade and other receivables and contract assets increased due to recognition of finance lease receivables for finance subleases of right-of-use assets
- prepayments, trade and other payables and other provisions decreased due to prepaid or accrued rent and lease incentives adjusting the right-of-use assets
- assets and liabilities held for sale increased to reflect the transition to AASB 16 of operating leases classified as held for sale as at 30 June 2019
- property, plant and equipment decreased due to reclassification of the existing assets under finance leases to right-of-use assets
- borrowings reduced due to reclassification of the existing finance lease liabilities to lease liabilities
- deferred tax liabilities decreased to reflect tax impacts of the net loss recognised in the opening retained earning on the derecognition of the right-of-use assets under finance subleases
- retained profits decreased to recognise a net loss on finance subleases of right-of-use assets.

Section 1. Basis of preparation (continued)

1.5 Changes in accounting policies (continued)

1.5.1 First time adoption of the new lease accounting standard (continued)

(c) Reconciliation of operating lease commitments and the lease liability

On adoption of AASB 16 and as detailed in the section above, for Telstra as a lessee we recognised lease liabilities in relation to leases previously classified as operating leases under AASB 117. The recognised lease liabilities were measured at the present value of the remaining lease payments over the determined lease term, discounted using our incremental borrowing rates as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9 per cent.

Our operating lease commitments at 30 June 2019 also included commitments for leases legally commencing after the transition date of 1 July 2019, all of which have been included in the lease liability as at the transition date as under the new requirements they represented modifications of transitioning lease contracts.

Lease liabilities recognised on adoption of AASB 16 differed from our operating lease commitments disclosed in note 7.4.2 to the financial statements in our 2019 Annual Report. The differences mostly arose from the effects of discounting the future lease payments and the reassessment of lease term (including lease modifications) as summarised in Table B.

Table B: Reconciliation of operating lease commitments (Telstra as a lessee) previously reported as at 30 June 2019 in our 2019 Annual Report (applying AASB 117) to lease liabilities recognised on transition to AASB 16 on 1 July 2019.

Table B **Telstra Group**	Reconciliation of operating lease commitments to opening balance of lease liability $m
Operating lease commitments as at 30 June 2019 (as reported in the 2019 Financial Report)	3,796
Add: reassessment of lease term (including lease modifications)	324
Add: finance lease liabilities as at 30 June 2019 (as reported in the 2019 Financial Report and excluding finance lease liabilities transferred to liabilities held for sale)	291
(Less): discounting impact using the incremental borrowing rate as at 1 July 2019	(408)
(Less): operating lease commitments related to leases expensed as leases of low value assets	(25)
(Less): lease liabilities related to the disposal group classified as held for sale as at 30 June 2019	(43)
Lease liabilities recognised on transition to AASB 16 on 1 July 2019	**3,935**

Changes from the AASB 16 adoption impacting retained profits are presented as restatements directly in the statement of changes in equity.

(d) Amendment to AASB 16

In June 2020, the AASB issued AASB 2020-4: 'Amendments to Australian Accounting Standards - COVID-19-Related Rent Concessions' to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. Telstra early adopted the amendment in June 2020 to account for COVID-19-related rent concessions granted during the financial year 2020.

The amendment provides lessees with an optional practical expedient not to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as variable lease payments in most instances. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

There were no material impacts from the adoption of this amendment.

(e) Summary of new accounting policies

On adoption of the new lease accounting standard, our existing accounting policies have been amended to reflect the changes described in the sections above. The new accounting polices describing revenue recognition from our lease arrangements and accounting for our lease arrangements are disclosed in notes 2.2.3 and 3.3.3, respectively.

1.5.2 First time adoption of the amendments relating to the interest rate benchmark reform

Following the decision by global regulators to replace Inter-bank Offered Rates (IBORs), i.e. a series of interest rate benchmarks, with alternative risk-free rates, we have established a project led by our treasury department with representation from functions across the company to monitor the developments of global regulators and to manage the transition of our contracts that could be affected.

We have elected to early adopt AASB 2019-3: 'Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform', issued by the AASB in October 2019. The standard includes a number of reliefs that apply to all hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate. The reliefs cease to apply once certain conditions are met. The adoption of the new standard had no impact on Telstra's financial results for the year ended 30 June 2020.

To date we have identified that our net exposure on the financial instruments is to Australian dollar BBSW as receive and pay cash flows denominated in foreign currency are perfectly matched.

Section 1. Basis of preparation (continued)

1.5 Changes in accounting policies (continued)

1.5.2 First time adoption of the amendments relating to the interest rate benchmark reform (continued)

Table C summarises as at 30 June 2020 our derivative instruments in hedging relationships that would be affected by IBOR reform showing estimated gross nominal floating-rate interest cash flows until maturity and associated nominal amounts in the underlying currency and weighted average maturity.

Table C Telstra Group	Native currency	Receive/ (pay)	Nominal interest cash flows until maturity	Nominal amounts	Weighted average maturity
			$m	$m	years
Interest rate swaps					
3MBBSW	AUD	Receive	9	2,283	2.3
3MBBSW	AUD	Pay	(4)	(50)	3.5
3MEURIBOR	EUR	Pay	(49)	(2,250)	1.8
3MLIBOR	USD	Pay	(28)	(1,000)	1.3
Cross currency swaps					
3MBBSW	AUD	Pay	(428)	(6,313)	3.1
3MEURIBOR	EUR	Receive	49	2,250	1.8
3MLIBOR	USD	Receive	28	1,000	1.3
Net					
3MBBSW	AUD	Pay	**(423)**	**(4,080)**	

1.5.3 Change in presentation of long-term network capacity assets

Our communication assets include long-term network capacity assets arising from Indefeasible Right of Use (IRU) arrangements which represent resources generating future economic benefits. These assets used to be presented as part of our communication assets in property, plant and equipment. In the absence of any specific guidance, we assessed that such presentation best reflected their nature and was not inconsistent with industry practices.

However, new guidance in regard to accounting for different types of IRU arrangements emerged following the adoption of AASB 16 and recent International Financial Reporting Interpretations Committee decisions. As a result, we have made a decision to change the presentation of our existing long-term network capacity assets and reclassify them retrospectively from property, plant and equipment to intangible assets.

The presentation changes do not impact our reported results other than restatement of the presentation of line items in our financial statements (as described in Table A) recognised as at the beginning of the comparative period, i.e. as at 1 July 2018 and subsequent reporting periods.

Table A: Summary of retrospective changes in presentation of our long-term network capacity assets in the respective financial statements.

Table A Telstra Group	As at 30 June 2019	Year ended 30 June 2019	As at 30 June 2018
	$m	$m	$m
Statement of financial position			
Reclassification from property, plant and equipment to intangible assets	496	n/a	535
Income statement			
Reclassification from depreciation to amortisation expense	n/a	68	n/a
Statement of cash flows			
Reclassification from payments for property, plant and equipment to payments for intangible assets	n/a	28	n/a

The presentation changes are retrospective. However, they do not impact the recognition or measurement of the results reported in the prior periods, and the presentation adjustments impact the same nature of line items, i.e. there is no change in total amortisation and depreciation expense or total cash flows from investing activities. None of the presentation changes impact earnings per share.

Section 2. Our performance

This section explains our results, performance of our segments, which are reported on the same basis as our internal management structure, and our earnings per share for the period. It also provides disaggregated revenue, 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 Segments and disaggregated revenue

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

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

The presentation of revenue is disaggregated by category and segment based on the timing of transfer of goods and services, major products and our geographical markets.

2.1.1 Operating segments

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

During the financial year 2020, there were no changes to our operating segments. However, following the adoption of the new lease accounting standard, we have adjusted the measure of segment profit or loss as detailed below the description of our reportable segments.

In our segment results, the ‘All Other’ category includes functions that do not qualify as operating segments in their own right as well as the operating segments which do not meet the disclosure requirements of a reportable segment. These are New Business (which includes Telstra Health), Global Business Services and Product and Technology Group.

We have four reportable segments as follows:

Segment	Operation
Telstra Consumer and Small Business (TC&SB)	• provider of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small business customers in Australia • the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network • online self-service capabilities for customers, from buying to billing and service requests
Telstra Enterprise (TE)	• sales and contract management for large business and government customers in Australia and globally • management of Telstra's networks outside Australia in conjunction with Network and IT and Telstra InfraCo segments • product management for advanced technology solutions and services, including Data and Internet Protocol (IP) networks, mobility services, and Network Applications and Services (NAS) products such as managed network, unified communications, cloud, industry solutions and integrated services and monitoring in Australia and globally • delivery of outcome-based, transformative technology solutions through Telstra Purple, Telstra’s technology services business
Networks and IT (N&IT)	• overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions • delivering network technologies • delivering digital platforms and capabilities to enable digital experiences • build and management of the shared platforms, infrastructure, cloud services, software and technologies for all internal functions

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.1 Operating segments (continued)

Segment	Operation
Telstra InfraCo	• wholesale 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 • holding fixed network infrastructure including data centres, non-mobiles related domestic fibre, copper, HFC cable, international subsea cables, exchanges, poles, ducts and pipes. Effective from 1 July 2020, Telstra InfraCo's asset accountabilities will also include our whole fibre network (including mobile backhaul) and mobile towers, but exclude PSTN and legacy fixed, and satellite infrastructure • providing access to our fixed network infrastructure assets to other Telstra functions, wholesale customers and nbn co • providing nbn co with long term access to certain components of our infrastructure and certain network services under the Infrastructure Services Agreement (ISA) and commercial contracts, respectively

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution.

EBITDA contribution excludes the effects of all inter-segment balances and transactions, with the exception of transactions referred to following Table A in note 2.1.2 and those related to the Telstra InfraCo segment as explained below. As such, only transactions external to the Telstra Group are reported except as otherwise noted.

An exception to the above is how we manage Telstra InfraCo, which is presented on a standalone basis and inclusive of its transactions with other functions. Other functions, however, do not reflect those transactions with Telstra InfraCo in their segment results. The paragraphs below describe types of transactions reported in Telstra InfraCo segment that are not included in the results of other functions. These transactions are eliminated at the Group level.

The majority of redundancy expenses for the Telstra Entity and restructuring costs are related to multiple reportable segments and are recorded by our corporate areas (included in the 'All Other' category).

EBITDA contribution differs from our reported EBITDA. In particular, following the adoption of the new lease accounting standard on 1 July 2019, for the financial year 2020 we have adjusted the measure of segment result to include the depreciation expense related to the right-of-use assets for mobile handsets arising from leases (Telstra as a lessee) which we sublease to our TC&SB customers in back-to-back arrangements. This is because given the nature of these leases, for management reporting purposes we continue to treat the depreciation of the mobile handsets right-of-use assets as an operating expense in order to provide a transparent view of our operating performance. To ensure comparability, we have restated the segment results for the financial year 2019 by removing the rental expenses arising from all but mobile handset leases, as reported in our management reports but previously classified as operating leases (Telstra as a lessee) and included in the 'All Other' category.

The following further explains how some items are allocated and managed and, as a result, how they are reflected in our segment results:

- Telstra InfraCo generates access revenue from transactions with other segments. The inter-segment charges are for the use of the infrastructure assets and are not included in the EBITDA contribution of these other segments within Telstra Group. The access revenue is charged on the fixed network infrastructure allocated to Telstra InfraCo. Where such assets are shared with other functions, an allocation of the assets to Telstra InfraCo has been determined based on historical usage. This access revenue is determined based on an approach that incorporates a variety of internally and externally observable inputs to reflect an arm's length basis for charging. They are regularly reviewed by management and are eliminated at the Group level for statutory reporting purposes.
- the Telstra InfraCo segment result includes operations and maintenance expense. The expenses originating from the N&IT segment and 'All Other' category relate to Telstra InfraCo assets and are eliminated at the Group level. The costs have not been excluded from the N&IT segment or 'All Other' category. The shared operations and maintenance costs allocated to Telstra InfraCo assets are based on a usage methodology.
- the N&IT segment and 'All Other' category results include network service delivery costs for TC&SB, TE and Telstra InfraCo customers
- the N&IT segment recognises expenses in relation to the installation, maintenance and running of the HFC cable network held in Telstra InfraCo (except for operations and maintenance costs recharged by N&IT segment to Telstra InfraCo segment), while a portion of the running costs of the HFC cable network is managed by the Corporate Accounting unit (included in the 'All Other' category)
- the Telstra InfraCo segment result includes rental revenue from providing nbn co with long term access to ducts and pits and other components of our infrastructure under the ISA, while the associated costs are reported in the N&IT segment and in the 'All Other' category, respectively
- Telstra InfraCo also includes costs associated with support functions, such as human resources, which have not been removed from other segments. We allocate these costs by utilising a driver-based cost allocation methodology for our internal performance reporting.
- revenue associated with mobile handsets sold via dealers for the TE segment is allocated to the TC&SB segment along with the associated costs of goods sold, as the TC&SB segment manages our supplier, delivery and dealership arrangements. Ongoing prepaid and post-paid mobile revenues derived from our mobile usage services are recorded in the TC&SB and TE segments depending on the type of customer serviced.
- domestic promotion and advertising expenses for the Telstra Entity are recorded in the TC&SB segment
- the 'All Other' category includes income from nbn disconnection fees and the associated costs.

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue

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. It also presents disaggregated revenue based on the nature and the timing of transfer of goods and services.

Table A Telstra Group	TC&SB	TE	N&IT	All Other	Subtotal	Telstra InfraCo	Elimina-tions	Total
	$m	$m	$m	$m	$m	$m	$m	$m
	Year ended 30 June 2020							
Revenue from contracts with customers								
Sale of services	10,124	6,876	-	(92)	**16,908**	2,546	-	**19,454**
Sale of goods	2,604	655	-	5	**3,264**	3	-	**3,267**
Other revenue from contracts with customers	6	37	-	3	**46**	-	-	**46**
	12,734	**7,568**	**-**	**(84)**	**20,218**	**2,549**	**-**	**22,767**
Revenue from other sources	576	346	13	8	**943**	-	-	**943**
Revenue from external customers	**13,310**	**7,914**	**13**	**(76)**	**21,161**	**2,549**	**-**	**23,710**
Access revenue from transactions between Telstra InfraCo and other segments	n/a	n/a	n/a	n/a	**n/a**	1,690	(1,690)	**-**
Total revenue from external customers and Telstra InfraCo	**13,310**	**7,914**	**13**	**(76)**	**21,161**	**4,239**	**(1,690)**	**23,710**
Other income	16	56	74	2,121	**2,267**	184	-	**2,451**
Total income	**13,326**	**7,970**	**87**	**2,045**	**23,428**	**4,423**	**(1,690)**	**26,161**
Share of net profit/(loss) from equity accounted entities	-	3	-	(308)	**(305)**	-	-	**(305)**
EBITDA contribution	**4,738**	**3,418**	**(1,761)**	**(80)**	**6,315**	**2,833**	**(737)**	**8,411**
Depreciation of mobile handsets right-of-use assets								**494**
Telstra Group EBITDA								**8,905**
Depreciation and amortisation								**(5,338)**
Telstra Group EBIT								**3,567**
Net finance costs								**(771)**
Telstra Group profit before income tax expense								**2,796**

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table A (continued) Telstra Group	TC&SB	TE	N&IT	All Other	Subtotal	Telstra InfraCo	Elimina-tions	Total
	$m	$m	$m	$m	$m	$m	$m	$m
	Year ended 30 June 2019 (restated)							
Revenue from contracts with customers								
Sale of services	10,714	7,121	1	(58)	**17,778**	2,786	-	**20,564**
Sale of goods	2,869	810	-	2	**3,681**	2	-	**3,683**
Other revenue from contracts with customers	9	31	-	4	**44**	-	-	**44**
	13,592	**7,962**	**1**	**(52)**	**21,503**	**2,788**	**-**	**24,291**
Revenue from other sources	674	251	34	9	**968**	-		**968**
Revenue from external customers	**14,266**	**8,213**	**35**	**(43)**	**22,471**	**2,788**	**-**	**25,259**
Access revenue from transactions between Telstra InfraCo and other segments	n/a	n/a	n/a	n/a	**n/a**	1,891	(1,891)	**-**
Total revenue from external customers and Telstra InfraCo	**14,266**	**8,213**	**35**	**(43)**	**22,471**	**4,679**	**(1,891)**	**25,259**
Other income	15	30	35	2,199	**2,279**	269	-	**2,548**
Total income	**14,281**	**8,243**	**70**	**2,156**	**24,750**	**4,948**	**(1,891)**	**27,807**
Share of net profit from equity accounted entities	-	2	-	10	**12**	-	-	**12**
EBITDA contribution	**5,645**	**3,502**	**(1,722)**	**(1,330)**	**6,095**	**3,210**	**(871)**	**8,434**
Operating lease expenses for all but mobile handset leases								**(450)**
Telstra Group EBITDA								**7,984**
Depreciation and amortisation								**(4,282)**
Telstra Group EBIT								**3,702**
Net finance costs								**(630)**
Telstra Group profit before income tax expense								**3,072**

We recognise revenue from contracts with customers when the control of goods or services has been transferred to the customer. Revenue from sale of services is recognised over time, whereas revenue from sale of goods is recognised at a point in time. Other revenue from contracts with customers includes licensing revenue (recognised either at a point in time or over time). Refer to note 2.2.1 for further details about our contracts with customers.

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

- revenue from external customers in the TE segment includes $292 million (2019: $254 million) of inter-segment revenue treated as external expenses in the TC&SB and Telstra InfraCo segments, which is eliminated in the 'All Other' category
- external expenses in the TE segment include $11 million (2019: $11 million) of inter-segment expenses treated as external revenue in the Telstra InfraCo and eliminated in the 'All Other' category.

During the financial year 2020, in the 'All Other' category we recognised our share of net loss of $308 million, which included impairment of our investment in NXE Australia Pty Limited. Refer to note 6.2.1 for further details.

During the financial year 2019, in the 'All Other' category we recognised total impairment loss of $499 million, including $442 million related to intangible assets and $57 million related to property, plant and equipment.

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table B presents disaggregation of our segment revenue by major products and geographical markets.

Table B Telstra Group	TC&SB	TE	N&IT	All Other	Telstra InfraCo	Total
	$m	$m	$m	$m	$m	$m
	Year ended 30 June 2020					
Total revenue from external customers by product						
Fixed	**3,794**	**203**	**-**	**12**	**582**	**4,591**
Revenue from contracts with customers	3,791	203	-	12	582	**4,588**
Revenue from other sources	3	-	-	-	-	**3**
Mobile	**8,236**	**1,640**	**-**	**(22)**	**230**	**10,084**
Revenue from contracts with customers	7,766	1,634	-	(22)	230	**9,608**
Revenue from other sources	470	6	-	-	-	**476**
Data & IP	**102**	**1,555**	**-**	**-**	**395**	**2,052**
Revenue from contracts with customers	102	1,555	-	-	395	**2,052**
Revenue from other sources	-	-	-	-	-	**-**
Network Applications and Services (NAS)	**354**	**2,526**	**13**	**14**	**472**	**3,379**
Revenue from contracts with customers	354	2,195	-	14	472	**3,035**
Revenue from other sources	-	331	13	-	-	**344**
Media	**725**	**1**	**-**	**48**	**-**	**774**
Revenue from contracts with customers	725	1	-	48	-	**774**
Revenue from other sources	-	-	-	-	-	**-**
Global connectivity	**-**	**1,998**	**-**	**(292)**	**-**	**1,706**
Revenue from contracts with customers	-	1,990	-	(292)	-	**1,698**
Revenue from other sources	-	8	-	-	-	**8**
Other products and services	**99**	**(9)**	**-**	**164**	**870**	**1,124**
Revenue from contracts with customers	(4)	(10)	-	156	870	**1,012**
Revenue from other sources	103	1	-	8	-	**112**
Total revenue from contracts with customers	**12,734**	**7,568**	**-**	**(84)**	**2,549**	**22,767**
Total revenue from other sources	**576**	**346**	**13**	**8**	**-**	**943**
	13,310	**7,914**	**13**	**(76)**	**2,549**	**23,710**
Total revenue from external customers by geographical market						
Australian customers	**13,310**	**6,185**	**13**	**219**	**2,549**	**22,276**
Revenue from contracts with customers	12,734	5,833	-	211	2,549	**21,327**
Revenue from other sources	576	352	13	8	-	**949**
Offshore customers	**-**	**1,729**	**-**	**(295)**	**-**	**1,434**
Revenue from contracts with customers	-	1,735	-	(295)	-	**1,440**
Revenue from other sources	-	(6)	-	-	-	**(6)**
	13,310	**7,914**	**13**	**(76)**	**2,549**	**23,710**

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table B (continued) Telstra Group	TC&SB	TE	N&IT	All Other	Telstra InfraCo	Total
	$m	$m	$m	$m	$m	$m
	Year ended 30 June 2019 (restated)					
Total revenue from external customers by product						
Fixed	**4,144**	**262**	**-**	**12**	**805**	**5,223**
Revenue from contracts with customers	4,142	262	-	12	805	**5,221**
Revenue from other sources	2	-	-	-	-	**2**
Mobile	**8,685**	**1,666**	**-**	**(16)**	**210**	**10,545**
Revenue from contracts with customers	8,171	1,656	-	(16)	210	**10,021**
Revenue from other sources	514	10	-	-	-	**524**
Data & IP	**162**	**1,757**	**-**	**(6)**	**445**	**2,358**
Revenue from contracts with customers	162	1,757	-	(6)	445	**2,358**
Revenue from other sources	-	-	-	-	-	**-**
Network Applications and Services (NAS)	**311**	**2,565**	**35**	**13**	**553**	**3,477**
Revenue from contracts with customers	311	2,328	1	13	553	**3,206**
Revenue from other sources	-	237	34	-	-	**271**
Media	**791**	**1**	**-**	**40**	**-**	**832**
Revenue from contracts with customers	791	1	-	40	-	**832**
Revenue from other sources	-	-	-	-	-	**-**
Global connectivity	**-**	**1,954**	**-**	**(254)**	**-**	**1,700**
Revenue from contracts with customers	-	1,953	-	(254)	-	**1,699**
Revenue from other sources	-	1	-	-	-	**1**
Other products and services	**173**	**8**	**-**	**168**	**775**	**1,124**
Revenue from contracts with customers	15	5	-	159	775	**954**
Revenue from other sources	158	3	-	9	-	**170**
Total revenue from contracts with customers	**13,592**	**7,962**	**1**	**(52)**	**2,788**	**24,291**
Total revenue from other sources	**674**	**251**	**34**	**9**	**-**	**968**
	14,266	**8,213**	**35**	**(43)**	**2,788**	**25,259**
Total revenue from external customers by geographical market						
Australian customers	**14,266**	**6,506**	**35**	**193**	**2,788**	**23,788**
Revenue from contracts with customers	13,592	6,256	1	184	2,788	**22,821**
Revenue from other sources	674	250	34	9	-	**967**
Offshore customers	**-**	**1,707**	**-**	**(236)**	**-**	**1,471**
Revenue from contracts with customers	-	1,706	-	(236)	-	**1,470**
Revenue from other sources	-	1	-	-	-	**1**
	14,266	**8,213**	**35**	**(43)**	**2,788**	**25,259**

Other products and services relate to nbn co accessing our infrastructure and miscellaneous revenue. It also includes revenue from Telstra Health.

'All Other' category by product and by geographical market includes eliminations of the inter-segment transactions described in the segment results following Table A in note 2.1.2. Amounts disclosed in geographical markets were partly offset by revenue from operating segments which do not meet the disclosure requirements of a reportable segment. Other negative revenue amounts related to certain corporate level adjustments.

Information about our non-current assets by geographical market is presented in Table C.

Table C Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Carrying amount of non-current assets		
Located in Australia	30,918	28,914
Located offshore	1,920	1,926
	32,838	**30,840**

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue (continued)

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 assets, inventories, defined benefit assets, deferred contract costs and deferred tax assets.

2.2 Income

Table A Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Revenue from contracts with customers	22,767	24,291
Revenue from other sources	943	968
Total revenue (excluding finance income)	**23,710**	**25,259**
Other income		
Net gain on disposal of property, plant and equipment and intangible assets	402	686
Net gain on disposal of businesses and investments	13	1
Net foreign currency translation gains	22	9
Government grants	189	200
nbn disconnection fees	1,721	1,611
Other miscellaneous income	104	41
	2,451	**2,548**
Total income (excluding finance income)	**26,161**	**27,807**
Finance income		
Finance income (excluding income from finance leases)	261	222
Finance income from finance leases (Telstra as a lessor)	13	16
	274	**238**
Total income	**26,435**	**28,045**

Disaggregation of revenue from contracts with customers based on the nature and the timing of transfer of goods and services and by major products and geographical market is presented in note 2.1.2 in Table A and Table B, respectively.

Revenue from other sources includes income from:

- our lease arrangements, including finance leases where Telstra is a dealer-lessor, operating leases and operating subleases, as detailed in note 3.3
- customer contributions to extend, relocate or amend our network assets, where the counterparty does not purchase any ongoing services under the same (or linked) contract(s).

Net gain on disposal of business and investments includes $12 million gain on sale of assets and liabilities classified as held for sale as at 30 June 2019. Refer to note 3.10 for further details.

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

nbn disconnection fees earned under the Subscriber Agreement with nbn co are recognised as other income because they do not relate to our ordinary activities. We recognise this income when we have met our contractual obligations under this agreement.

Finance income from finance leases (Telstra as a lessor) for the financial year 2020 relates to all finance leases accounted for under the new lease accounting standard from 1 July 2019, whereas the comparative period only includes finance leases accounted for under the previous lease accounting requirements.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers

We generate revenue from customer contracts, which vary in their form (standard or bespoke), term (casual, short-term and long-term) and customer segment (consumer, small-medium business, government and large enterprise), with the main contracts being:

- homogeneous retail consumer contracts (mass market prepaid and post-paid mobile, fixed and media plans)
- retail small to medium business contracts (mass market and off-the-shelf technology solutions)
- retail enterprise and government contracts (carriage, standardised and bespoke technology solutions and their management)
- network capacity contracts (mainly Indefeasible Right of Use)
- wholesale contracts for telecommunication services
- nbn Definitive Agreements (nbn DAs) and related arrangements
- network design, build and maintenance contracts (mainly with nbn co).

The nature and type of contracts with customers are further described below.

We sell a wide range of goods and services, which are provided either directly by us or by third parties. Generally, we act as principal in our contracts with customers, i.e. we control any promised goods and services before they are transferred to the customer and we have primary obligation for their delivery.

(a) Telstra Consumer and Small Business (TC&SB) contracts

TC&SB is a provider of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, media and digital content to consumer and small business customers in Australia, i.e. our mass market customers. We offer prepaid and post-paid services. These contracts are homogeneous in nature and sold directly by us or via our dealer channel.

Our mass market contracts often offer a bundle of goods and services, including products such as hardware, voice, text and data services, media content and others.

In prior reporting periods we offered post-paid plans as either fixed term contracts, where early termination charges applied if the customer cancelled the contract; or casual month-to-month contracts, where the customer could cancel the contract at any time without any significant termination penalty. Fixed term contracts were typically short term and rarely exceeded two to five years, with the majority of mobile and fixed contracts in this category being 24 months and some small business contracts with a longer term.

Our fixed term mobile contracts often offered a bundle of hardware and services, where the customer paid a monthly fee and received a discount. These arrangements included two separate legal contracts with a customer which were combined for accounting purposes.

In June 2019, for both consumer and small business customers we introduced no-lock-in fixed and mobile service plans which will ultimately replace our fixed term contracts. In those arrangements, our customers can also purchase hardware together with the no-lock-in service plans and pay one monthly fee for both, i.e. pay for hardware on deferred payment terms. However, if customers stop renewing their no-lock-in services, any outstanding hardware balance becomes payable immediately.

Under our no-lock-in plans with hardware, separate legal contracts for hardware and services with the same customer are not combined for accounting purposes unless there is a price dependency between the contracts, in which case both legal contracts constitute a combined accounting contract with a term of one month.

For mobile bundles sold directly by us, the discount is allocated between handset and services based on their relative standalone selling prices. However, if the bundle is sold via our dealer channel, the whole discount is allocated only to services because Telstra is not acting as a principal for delivery of the handset.

In general, we recognise revenue from sale of goods on their delivery and from sale of services based on passage of time (for contracts with fixed monthly fees) or when the services have been consumed (for usage or excess based contracts).

Under some of our mobile and fixed contracts with hardware we offer customers deferred payment terms for handsets or other devices.

Assessment of a significant financing component in mass market contracts	We have applied management judgement to assess if a financing component is significant in the context of a contract as a whole and determine appropriate discount rates, where relevant. We separately account for a significant financing component in our mass market contracts offering handsets and other devices on deferred payment terms. We measure the financing component at contract inception using a discount rate reflecting credit characteristics of the customer.

Some of our mass market contracts also include material rights and the transaction price allocated to them at contract inception is recognised as revenue either when the customer exercises the option and benefits from the free or discounted products or when the rights are forfeited.

We launched the Telstra Plus loyalty program under which our consumer and small business customers can earn points redeemable for certain goods and services in the future. Membership of the program also gives customers access to tier benefits in the form of free or discounted services like entertainment or technical support. Points awarded for purchases of Telstra goods and services are accounted for as material rights with any allocated revenue received in advance for these performance obligations recognised as a contract liability in the statement of financial position until such rights are either exercised or forfeited. Discretionary bonus points that reward behaviour and do not relate to accounting contracts are classified as a marketing offer and expensed at the time of awarding the points. Tier benefits are treated as a discount arising from a framework arrangement and reduce revenue of the related accounting contracts.

In the prior reporting periods we offered mobile plans where the customer could lease a handset and purchase a bundle of services. We ceased to offer these plans from 25 June 2019, however all such contracts represent transitioning contracts on adoption of the new lease accounting standard and we continue to account for them until the earlier of the end of the lease or customer termination.

Generally, we allocate the transaction price, and any relevant discounts, to all the products in the bundle based on a mixture of observable and estimated standalone selling prices of these products. However, any lease components were separated under the previous lease accounting standard based on the fair values of lease and aggregate of non-lease components.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers (continued)

(a) Telstra Consumer and Small Business (TC&SB) contracts (continued)

Determining standalone selling prices	We have applied management judgement to estimate standalone selling prices in order to allocate the transaction price to multiple performance obligations under the same customer contract. In the absence of observable prices, we use various estimation methods, including mostly an adjusted market assessment and cost plus margin approach to arrive at a standalone selling price.

Under our fixed contracts, we sometimes charge a connection fee for new connections to our network. Connection is a fulfilment activity, therefore this fee is added to the transaction price and allocated to distinct goods and services promised under the contract.

Generally, mass market contracts are not modified due to their homogeneous nature. Under our legacy fixed term contracts customers often had rights included in the original contract to move up and/or down within the plan family, however these rights had not often been used. Our no-lock-in mass market fixed and mobile service plans are monthly contracts, which customers can change once a month or leave.

(b) Telstra Enterprise (TE) contracts

TE transacts with medium to large enterprise and government customers for the provision of telecommunication services, advanced technology solutions, network capacity and management, unified communications, cloud and integrated and monitoring services in Australia and globally. Large and complex TE contracts are usually bespoke in nature as they deliver tailored solutions and services. Outside of the large customers, the contracts are largely standard.

TE contracts are generally large in annual turnover and range from one year in contract length to more than 15 years for large infrastructure projects, with the average term being three years. International network capacity agreements, referred to as Indefeasible Right of Use (IRU) agreements, have an average contract term between 10 and 33 years.

Our TE legal contracts often are in a form of multi-year framework agreements under which customers can order our goods and services, including some of the mass market plans. Framework agreements often include performance conditions and grant different types of discounts or incentive funds. Legal framework agreements are rarely considered contracts for accounting purposes. Instead, revenue recognition rules are applied to goods and services ordered under each valid purchase order or a statement of work raised under the terms of the framework agreement. This may result in an accounting contract term not matching the legal term of a framework agreement and in turn affect the amount and timing of revenue recognised under each accounting contract.

In some of our TE contracts, we also act as a dealer-lessor for computer mainframes, processing equipment and other related equipment used by our customers as part of the solutions management and outsourcing services. Leases embedded in our contracts are separately accounted for, usually as dealer-lessor finance leases with finance lease receivables recognised in the statement of financial position.

Some of the TE contracts include two phases: a build phase followed by the management of the technology solutions. Due to the complex nature of those arrangements, we analyse the facts and circumstances of each contract in order to determine distinct performance obligations. If the build phase (or its components) qualifies as distinct, we recognise the build phase revenue over the term of the build or at its completion depending on when the customer obtains control over the technology solution.

Our bespoke TE contracts are varied or renegotiated from time to time. Subject to the nature of these changes, accounting rules for contract modification apply, depending largely on the determination of distinct goods and services being delivered before and after the contract modifications and the price changes arising from the modifications.

For each contract modification, we assess the scope of the modification or its impact on the contract price in order to determine whether the amendment must be treated as a distinct contract, as if the existing contract were terminated and a new contract signed, or whether the amendment must be considered as a change to the existing contract.

Under some of our enterprise arrangements, we receive customer contributions to extend or amend our network assets to ultimately enable delivery of telecommunication services. Where the counterparty makes a contribution for network construction activities and purchases ongoing services under the same (or linked) contract(s), the upfront contribution is added to the total transaction price of the customer contract and is allocated to the distinct goods and services to be delivered under that contract.

We recognise revenue from management services or fixed fee telecommunication services based on passage of time and from usage based carriage contracts when the services have been consumed.

Some of our framework agreements offer enterprise loyalty programs and technology funds under which a customer can obtain additional free products. These are accounted for as material rights and the transaction price allocated to them at contract inception is recognised as revenue either when the customer exercises the option and benefits from the free products or when the rights are forfeited.

Our TE accounting contracts include multiple goods and services. Generally, we allocate the transaction price, and any relevant discounts, to all the products in the accounting contract based on the negotiated prices, which are largely aligned to the estimated standalone selling prices of distinct goods and services promised under the contracts. However, some discounts granted under the framework agreements may be allocated to selected performance obligations if specific performance conditions apply. Transaction price allocated to any lease components is based on the relative standalone selling prices of those leases as required by the new lease accounting standard.

Our large commercial arrangements often incorporate service level agreements, e.g. agreed delivery time or service reinstatement time. If we fail to comply with one of these commitments, we pay compensation to the customer.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers (continued)

(b) Telstra Enterprise (TE) contracts (continued)

The expected amount of such penalties reduce the revenue for the period in which the service level commitment has not been met, and it is recognised as soon as it is probable that the commitment has not been or will not be met. Some of the arrangements also include benchmarking or CPI clauses, which are accounted for as variable consideration, usually from the time the price changes take effect.

Our international TE arrangements include long-term network capacity arrangements (some being take-or-pay arrangements) as well as provision of utilities and managed services such as security and backups, for which revenue is usually recognised based on passage of time.

IRU arrangements usually include upfront payments for services which will be delivered over multiple years.

Assessment of a significant financing component in Indefeasible Right of Use (IRU)

We have applied management judgement to assess if a financing component is significant in the context of a contract as a whole and determine appropriate discount rates, where relevant.

We account for a significant financing component in our domestic and international bespoke network capacity agreements, i.e. IRUs, where customers make an upfront payment in advance of receiving services. These contracts have an average legal contract term between 10 and 33 years.

In IRUs where Telstra receives financing from the customer, revenue recognised over the contract term exceeds the cash payments received in advance of performance by the amount of interest expense recognised in net finance costs.

(c) Telstra Wholesale contracts

Telstra Wholesale (part of our Telstra InfraCo segment) is a provider of a wide range of telecommunication products and services to other telecommunication operators, carriage services providers and internet service providers, who in turn sell their services to a retail end user.

Revenue arises from fixed network service contracts, including usage based contracts and fixed bundles, with a term of up to two years. Other contracts provide data and IP and mobile products such as interconnect, domestic roaming, bulk SMS and post-paid mobile services.

Insignificant annual revenue arises under long-term network capacity contracts (i.e. IRUs), however some of those contracts have a fixed term of up to 15 years.

Telstra Wholesale legal contracts are generally signed as multi-year framework agreements, which set out pricing for the agreed services, the legal contract term and any renewal options, incentives, discounts and one-off fees. However, usually until our wholesale customer's customer, i.e. the end user, orders services, the obligation to deliver goods or services does not exist. Therefore, the accounting contract generally arises at the level of a service order of an end user.

Some of our framework agreements specify a minimum spend commitment (i.e. a take-or-pay arrangement), in which case the accounting contract may exist also at the framework agreement level.

Under some of our wholesale arrangements, we receive customer contributions to extend or amend our network assets to ultimately enable delivery of telecommunication services. Where the counterparty makes a contribution for network construction activities and purchases ongoing services under the same (or linked) contract(s), the upfront contribution is added to the total transaction price of the customer contract and allocated to the distinct goods and services to be delivered under that contract.

Telstra Wholesale service revenue is generally recognised over time during the period over which the services are rendered, mostly based on passage of time as the service provider (i.e. our customer) receives unlimited calls and data.

Some of the Telstra Wholesale contracts include multiple goods and services. We allocate the transaction price, and any relevant discounts, generally to all the products in the accounting contract based on the negotiated prices, which are largely aligned to the estimated standalone selling prices of distinct goods and services promised under the contracts. However, some discounts granted under the framework agreements may be allocated only to selected performance obligations based on the specific performance conditions in the framework agreement.

(d) Agreements with nbn co

We have two types of agreements with nbn co:

- nbn DAs and related arrangements
- commercial contracts for network design, build and maintenance services.

Revenue from contracts with nbn co is mainly reported within the Telstra InfraCo segment. Amounts recognised as other income are recorded in our corporate areas.

Our nbn DAs and related arrangements include a number of separate legal contracts with both nbn co and the Commonwealth Government (being related parties hence treated as the same customer for accounting purposes) which have been negotiated together with a common commercial objective. These separate legal contracts have been combined under the revenue recognition rules.

The combined accounting contract, comprising of nbn DAs and related arrangements, has a minimum fixed term of 30 years for accounting purposes.

The combined nbn DAs and related arrangements include a number of separately priced elements, some of which are accounted for under the revenue recognition standard whereas others under other accounting standards, e.g. government grants. The Subscriber Agreement continues to be separately accounted for as other income given the nbn disconnection fees do not relate to our ordinary activities and there is no price dependency on other nbn DAs.

Services provided under the Infrastructure Services Agreement (ISA) are accounted for under the revenue recognition requirements. We recognise revenue from providing long-term access to ducts and pits and other infrastructure, including dark fibre and exchange rack space over time, initially based on the cumulative nbn™ network rollout percentage and after rollout completion based on passage of time.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers (continued)

(d) Agreements with nbn co (continued)

The build of nbn related infrastructure is not considered a separate performance obligation, therefore payments received for it under a separate legal agreement have been combined and accounted for together with the ISA long-term access services. These payments have been received upfront and recorded as a contract liability, i.e. an advance payment for services transferred over the ISA average contracted period of 35 years.

ISA also includes payments for sale of our infrastructure assets, with the net gain on sale of those assets recognised in other income. Net gain on sale of the infrastructure assets is recognised at point in time when the control passes to nbn co based on the incremental nbn™ network rollout percentage.

We deliver a number of different services under these arrangements and the transaction price includes a number of fixed and variable components as described below.

Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income

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

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

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

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

IAP are also indexed to CPI, will grow in line with the nbn™ network rollout until its completion and subsequently continue for the remaining average contracted period of 27 years.

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

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

The nbn™ network rollout progress and its completion date are controlled by nbn co and the final number of the fixed line premises may continue to change even after all the relevant assets have been transferred to nbn co. Therefore the final price adjustments, including interest where relevant, may not be known until nbn co declares that the nbn™ network rollout is complete in accordance with the DAs.

We have applied management judgement in determining the amounts of IOP and IAP recognised for the financial year 2020. Should evidence exist in the future reporting periods that changes these amounts, other income and revenue will be adjusted in the future reporting periods.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers (continued)

(d) Agreements with nbn co (continued)

Given significant variability in the overall ISA consideration, the legal contract includes specific clauses as to if, when and how an interest receivable or an interest payable should be calculated.

Assessment of a significant financing component in nbn DAs	We have applied management judgement to assess if a financing component is significant in the context of a contract as a whole and determine appropriate discount rates, where relevant. We do not separately account for the financing component in our nbn DAs and related arrangements because it is not significant to the accounting contract.

The other arrangements with nbn co are commercial contracts for network design, build and maintenance services. These arrangements provide a framework agreement with scheduled rates under which nbn co can order required services. Generally, the accounting contracts under these arrangements have no fixed term or minimum order quantities that extend beyond 12 months.

The majority of revenue is recognised over time on a percentage of completion basis, calculated as costs incurred as a percentage of total estimated costs.

Percentage of completion for commercial contracts with nbn co	We use percentage of completion to measure progress and recognised revenue from our commercial contracts with nbn co. In calculating the percentage of completion, we have applied management judgement to determine the total estimated costs to complete. These are based on historical costs to deliver and adjusted for any upcoming changes which might impact the previous costs to deliver.

Recognition of trade receivables, contract assets and contract liabilities from our contracts with customers and movements in net contract assets and contract liabilities are detailed in notes 3.8.1 and 3.8.2, respectively.

2.2.2 Remaining performance obligations

Nature, types and terms of our contracts with customers are described in note 2.2.1.

Sometimes goods and services purchased under the same customer contract will be transferred to the customer over multiple reporting periods.

We disclose the aggregate transaction price allocated to goods and services which will be transferred after 30 June 2020 but arise from contracts existing as at that date, including contracts with an initial term of one year or less.

The aggregate transaction price excludes any future amounts arising from mass market no-lock-in contracts, usage based contracts, excess charges and legacy casual contracts or one-off transactions.

Future revenue arising from nbn DAs is estimated based on a number of assumptions and the estimated amount of variable consideration has been constrained to the amount that is highly probable of not resulting in a significant cumulative revenue reversal. The estimated variable consideration and the constraint are reassessed each reporting period. However, given its size, long-term nature and a number of variable components impacting the contract consideration (refer to note 2.2.1 for details) the actual amounts recognised in the future periods may still materially differ from our estimates.

In addition, any amounts arising from our existing customer contracts which will be recognised as 'revenue from other sources' or 'other income', for example operating lease income or net gain on sale of assets, are excluded from the remaining performance obligations.

Table B presents aggregate transaction price allocated to the remaining performance obligations promised under the contracts where a customer has made a firm commitment before the balance date but goods and services will be transferred after 30 June 2020. Presented time bands best depict future revenue recognition profiles.

Table B	As at 30 June	
Telstra Group	2020	2019
	$m	$m
Less than 1 year	5,194	6,935
Between 1 to 2 years	2,567	3,174
Between 2 to 5 years	3,947	4,068
Between 5 to 10 years	5,915	5,793
Between 10 to 20 years	13,699	13,412
More than 20 years	11,471	13,016
	42,793	**46,398**

2.2.3 Recognition and measurement

Our revenue recognition accounting policies are described below.

(a) Revenue from contracts with customers

Revenue from contracts with customers arises from goods and services sold as part of our ordinary activities.

We apply the five-step approach to our customer arrangements to identify the contract for accounting purposes, i.e. the accounting contract and to determine the amount and timing of revenue to be recognised.

The five steps are applied at inception of the accounting contract in order to provide an overview of the contract as a whole. This in turn allows us to determine the accounting for relevant costs to obtain and/or fulfil a contract. The five steps are described below. For the accounting policy for deferred costs to obtain and/or fulfil a contract refer to note 3.9.1.

(i) Step 1: Identify the contract with customer

In order to identify an accounting contract, the contract must be legally enforceable. Any components of the contract which are accounted for under other accounting standards are then identified and separated out as they cannot be considered for revenue recognition.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.3 Recognition and measurement (continued)

***(a) Revenue from contracts with customers* (continued)**

(i) Step 1: Identify the contract with customer (continued)

The accounting contract may not align with the legal contract and in some cases multiple legal contracts may need to be combined to form one accounting contract. In other instances, a legal contract may only provide a framework agreement (i.e. an offer) and an accounting contract only exists when the customer commits to purchase goods or services.

(ii) Step 2: Identify the performance obligations in the contract

After the accounting contract and its term have been established, we determine the performance obligations within the contract. Performance obligations include promised distinct goods or services control of which is transferred from Telstra to the customer and material rights, but exclude fulfilment activities (i.e. other activities that are necessary under the contract but that do not result in a transfer of goods or services).

Performance obligations can be explicitly stated in a contract or can be implied when the customer has a valid expectation that an additional good or service will be delivered.

A material right is accounted for as a separate performance obligation if the customer purchasing additional distinct goods or services receives an incremental discount of at least 5% compared to other customers.

We account for a series of goods or services which are substantially the same and have the same pattern of transfer to the customer as a single performance obligation.

A good or service is distinct if it is capable of being distinct, i.e. a customer can benefit from it on its own or together with other readily available resources, and it is distinct within the context of the contract, i.e. no transformative relationship exists with other promised goods or services.

(iii) Step 3: Determine the transaction price

After all performance obligations have been identified, we determine the transaction price, which represents the total amount of revenue to be recognised under the accounting contract. In doing so, we assume that the contract will not be cancelled, renewed or modified.

The transaction price may include fixed and/or variable, cash and/or non-cash consideration. It may also need to be adjusted for:

- a significant financing component (if the period between when we would transfer the good or service to the customer and when the customer would pay for the good or service is expected to be greater than one year)
- consideration accounted for under other accounting standards (such as lease repayments)
- amounts collected on behalf of third parties (such as government taxes).

Examples of variable consideration include discounts, rebates, refunds, credits and price concessions. To estimate an amount of variable consideration, we use either the most likely amount or the expected value method depending on which better predicts the variable amount. After estimating it, we constrain the variable consideration to the amount that is highly probable of not resulting in a significant cumulative revenue reversal.

(iv) Step 4: Allocate the transaction price to the performance obligations in the contract

After the transaction price has been determined, we allocate it to the performance obligations generally based on their relative standalone selling price (SSP). SSP is the price for which we would sell the goods or services underlying the performance obligations on a standalone basis, i.e. not in a bundle. We determine SSPs at contract inception using an observable price for a standalone sale of substantially the same good or service under similar circumstances and to a similar class of customers. If no observable price is available, we estimate the SSP using an appropriate method, e.g. adjusted market assessment approach, expected cost plus a margin approach or a residual approach.

In some instances, in order to correctly reflect the amount of revenue to be recognised, we apply allocation exceptions for variable consideration, discounts or a significant financing component in order to allocate these elements to some but not all performance obligations.

(v) Step 5: Recognise revenue when or as a performance obligation is satisfied

After the transaction price has been allocated to the performance obligations, we determine when revenue should be recognised, i.e. when a performance obligation is satisfied by us which is when control of the distinct good or service is transferred to the customer.

Customers obtain control over a good or service when they benefit from the good or service and decide how to use the good or service.

If any of the following three criteria are met, we recognise revenue over time:

- the customer simultaneously receives and consumes all benefits as we perform (this applies to routine or recurring services)
- our performance creates or enhances an asset controlled by the customer (this is relevant when the asset is built on a customer's site)
- the asset has no alternative use to us and we have an enforceable right to payment (for example, an asset is being built to order).

If none of the criteria are met, we recognise revenue at a point in time.

We use either input or output methods to measure progress when satisfying the performance obligations over time. Output methods use direct measurements of the value to the customer, i.e. they are based on the goods or services for which control has transferred to date relative to the remaining goods or services promised under the contract (for example, milestones reached). It is applied when the value of the goods or services transferred to the customer can be measured directly. Input methods use our efforts or inputs in the satisfaction of the performance obligation relative to the total expected efforts or inputs in satisfying that performance obligation (for example, our labour hours used). It is applied when the value of the underlying goods or services transferred to the customer cannot be measured.

When a performance obligation is satisfied at a point in time, the allocated transaction price is recognised when control is transferred to the customer. In determining whether the control over the good has transferred to the customer, we consider the customer's obligation to pay, transfer of legal title to the good, physical possession of the good, the customer's acceptance and risks and rewards of ownership.

2.2 Income (continued)

2.2.3 Recognition and measurement (continued)

(a) Revenue from contracts with customers (continued)

(vi) Accounting after contract inception

The five-step approach provides an accounting contract overview at its inception. However, some judgements and estimates may change over the accounting contract term. Where relevant, we account for the following events after contract inception:

- exercised or forfeited customer options (both material rights and marketing offers, i.e. non beneficial options)
- changes in estimates of variable consideration
- changes in how the customer exercises its contractual rights
- special arrangements, e.g. bill and hold or consignment arrangements.

(vii) Contract modifications

From time to time, our contracts are renegotiated after contract inception and their scope and/or price change. We account for contract modifications either as:

- a separate contract which will not require any reallocation to performance obligations in the original contract
- a retrospective cumulative change to revenue (creating either a catch up or deferral of past revenues for all performance obligations in the original contract)
- a prospective change to revenue with a reallocation of revenues amongst remaining performance obligations in the original contract, or
- both a cumulative change and prospective change to revenue in the original contract.

(b) Revenue from other sources

Revenue from other sources includes income arising from arrangements other than those accounted for using the five-step approach. This is because in some cases income generated in the course of our ordinary activities does not relate to our performance under contracts with customers or it is explicitly accounted for under other accounting standards.

Contract terminations generally trigger different rights and obligations under the legal contract. These rights and obligations are not related to our performance and were not considered at inception of the accounting contract when applying the five-step approach. Therefore, where relevant, any income over and above the recovery of the consideration due for the delivered goods or services is not classified as revenue from customer contracts. Instead, we classify it as revenue from other sources.

We earn revenue from some of our lease arrangements described in note 3.3, in particular from:

- transitioning operating subleases of mobile handsets offered to our retail customers (Telstra as a lessor), which we lease from a third party in a back-to-back arrangement (Telstra as a lessee). We also earn revenue from property operating leases. Operating lease income is recognised on a straight-line basis over the lease term.
- finance leases where Telstra is a dealer-lessor of customer premise equipment. We recognise revenue from sale of these goods at point in time at the commencement date of the lease.

Where a (combined) accounting contract includes lease and non-lease components and Telstra is a lessor, we allocate the consideration to lease and non-lease components applying the relative standalone selling prices requirements for revenue from contracts with customers. Refer to note 3.3.3 for our updated lease accounting policies following the adoption of the new lease accounting standard.

We receive contributions to extend, relocate or amend our network assets. Where the counterparty makes a contribution for network construction activities that is not considered a government grant, and does not purchase any ongoing services under the same (or linked) contract(s), we recognise revenue over the period of the network construction activities.

Other items we classify as revenue from other sources include late payment fees, which are recognised when charged and their collectability is reasonably assured.

(c) 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 as other income over the period necessary to match them with the costs that they are intended to compensate.

Section 2. Our performance (continued)

2.3 Expenses

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

Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Included in our labour expenses are the following:		
Employee redundancy	157	642
Share-based payments	23	23
Defined contribution plan expense	210	226
Defined benefit plan expense	51	52
Included in our goods and services purchased are the following:		
Network payments	3,155	2,791
Cost of goods sold	3,490	3,771
Other expenses		
Impairment losses (excluding net losses on financial assets)	129	608
Rental expense on operating leases	-	1,349
Expenses relating to lease arrangements	256	-
Service contracts and other agreements	1,473	1,590
Promotion and advertising	268	310
General and administration	1,089	990
Other operating expenses	369	387
	3,584	**5,234**
Depreciation and amortisation		
Depreciation of property, plant and equipment	2,757	2,742
Depreciation of right-of-use assets	1,017	-
Amortisation of intangible assets	1,564	1,540
	5,338	**4,282**
Finance costs		
Interest on borrowings (excluding interest on finance leases in the comparative period)	678	771
Interest on lease liabilities (Telstra as a lessee)	109	21
Other	315	181
	1,102	**973**
Less: interest on borrowings capitalised	(57)	(105)
	1,045	**868**

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

- ‘share-based payments’ expense relates to both cash-settled and equity-settled share plans. Refer to note 5.2 for further details.
- ‘rental expenses on operating leases’ were accounted for under the previous lease accounting requirements. Following adoption of the new lease accounting standard from 1 July 2019, ‘other expenses’ continue to include ‘expenses relating to lease arrangements’ (Telstra as a lessee) for certain types of costs and losses accounted for under the new requirements. These amounts have been detailed in note 3.3.1.
- ‘impairment losses’ include $124 million impairment of deferred contract costs (2019: $100 million) and $5 million impairment of property, plant and equipment and software assets (2019: $499 million). Refer to notes 3.1, 3.2 and 3.9 for further details on the impairment of property, plant and equipment, intangible assets and deferred contract costs, respectively.
- ‘other operating expenses’ include a $50 million provision related to the Australian Competition and Consumer Commission (ACCC) investigation. Refer to note 7.3 for further details.
- ‘interest on borrowings’ has been capitalised using a capitalisation rate of 4.6 per cent (2019: 4.9 per cent)
- ‘interest on lease liabilities’ for the financial year 2020 relates to all leases accounted for under the new lease accounting standard, whereas the comparative period only includes interest on finance leases accounted for under the previous requirements
- other finance costs include unrealised valuation impacts on our borrowings and derivatives. These include net losses which arise from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not effective or the hedge accounting criteria are not met. These fair values increase or decrease because of changes in financial indices and prices over which we have no control. All unrealised amounts unwind to nil at maturity of the underlying instrument.

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.

This note also provides disclosures which form part of the requirements of the Australian Board of Taxation's Voluntary Tax Transparency Code.

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	
	2020	2019
	$m	$m
Major components of income tax expense		
Current tax expense	980	953
Deferred tax resulting from the origination and reversal of temporary differences	(16)	(20)
Over provision of tax in prior years	(7)	(10)
	957	**923**
Reconciliation of notional income tax expense to actual income tax expense		
Profit before income tax expense	2,796	3,072
Notional income tax expense calculated at the Australian tax rate of 30% (2019: 30%)	839	922
Notional income tax expense differs from actual income tax expense due to the tax effect of:		
Non-taxable and non-deductible items	118	37
Deferred tax assets derecognised	18	1
Amended assessments	1	(18)
Over provision of tax in prior years	(7)	(10)
Different tax rates in overseas jurisdictions	(12)	(9)
Income tax expense on profit	**957**	**923**
Income tax (benefit)/expense recognised during the year directly in other comprehensive income or equity	**(9)**	**13**

Tables B and C include disclosures which form part of the requirements of the Australian Board of Taxation's Voluntary Tax Transparency Code. Any disclosed amounts are determined in accordance with the Australian Accounting Standards.

Table B provides a breakdown of effective income tax rates and Tax Transparency Code effective income tax rates for both the Australian Economic Group (the Telstra Entity and its Australian resident controlled entities) and the Telstra Group.

Table B Telstra Group	Year ended 30 June			
	2020		2019	
	Group	Australia	Group	Australia
Effective income tax rate	34.2%	35.2%	30.0%	33.2%
Tax Transparency Code effective income tax rate	34.5%	35.1%	30.8%	34.4%

The effective income tax rate for the Telstra Group of 34.2 per cent (2019: 30.0 per cent) was calculated as income tax expense divided by profit before income tax expense.

The Tax Transparency Code effective income tax rate (TTC ETR) for the Telstra Group of 34.5 per cent (2019: 30.8 per cent) differs to the effective income tax rate due to excluding the impact of under or over provision of tax in prior years and amended assessments.

The 2019 TTC ETRs have been updated to include the impact of the net over provision of tax and amended 2019 assessments reflected in the current year income tax expense. The TTC ETR forms part of the requirements of the Voluntary Tax Transparency Code to disclose the income tax expense borne by Telstra in respect of the Australian and global operations for the individual year.

Section 2. Our performance (continued)

2.4 Income taxes (continued)

2.4.1 Income tax expense (continued)

Non-taxable and non-deductible items include the tax effect of:

- non-deductible impairment of our investment in NXE Australia Pty Limited of $308 million included in our share of associate's net loss
- non-deductible provision of $50 million for the ACCC investigation
- attributable taxable income from Controlled Foreign Companies of $26 million.

We derecognised deferred tax assets related to property assets considered disposed of for tax purposes.

Table C provides a reconciliation of income tax expense to income tax paid during the year as part of the requirements of the Voluntary Tax Transparency Code.

Table C Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Income tax expense	957	923
Over provision in prior years	7	10
Temporary differences recognised in deferred tax expense		
Trade and other receivables and contract assets	22	1
Deferred contract costs	20	(56)
Property, plant and equipment	11	(101)
Right-of-use assets	(239)	-
Intangible assets	(33)	169
Trade and other payables	41	52
Provision for employee entitlements	32	(15)
Lease liabilities (finance lease liabilities in prior year)	195	(5)
Contract liabilities and other revenue received in advance	(37)	(28)
Other	4	3
	16	**20**
Current tax expense	**980**	**953**
Income tax (refunds)/payments for prior years	(4)	103
Income tax payable next year	(224)	(103)
Other	2	3
Income tax paid	**754**	**956**

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 assessing recognition of deferred tax balances in the statement of financial position. Changes in tax legislation in the countries we operate in may affect the amount of provision for income taxes and deferred tax balances recognised.

2.4.2 Deferred tax assets/(liabilities)

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

Table D Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Deferred tax items recognised in the income statement		
Trade and other receivables and contract assets	(203)	(209)
Allowance for doubtful debts	63	36
Deferred contract costs	(376)	(227)
Investments	(47)	(143)
Property, plant and equipment	(1,566)	(1,546)
Right-of-use assets	(867)	-
Intangible assets	(533)	(571)
Trade and other payables	123	174
Provision for employee entitlements	257	289
Other provisions	141	148
Lease liabilities (finance lease liabilities in prior year)	925	19
Defined benefit liability	106	98
Borrowings and derivative financial instruments	(48)	(57)
Contract liabilities and other revenue received in advance	445	405
Capital tax losses	20	120
Income tax losses	31	29
Other	(11)	(28)
	(1,540)	**(1,463)**
Deferred tax items recognised in other comprehensive income or equity		
Investments	(32)	(30)
Defined benefit asset	(143)	(168)
Borrowings and derivative financial instruments	176	190
Other	-	1
	1	**(7)**
Net deferred tax liability	**(1,539)**	**(1,470)**
Comprising:		
Deferred tax assets	66	59
Deferred tax liabilities	(1,605)	(1,529)
	(1,539)	**(1,470)**

Section 2. Our performance (continued)

2.4 Income taxes (continued)

2.4.2 Deferred tax assets/(liabilities) (continued)

Unrecognised deferred tax assets

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

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

Table E Telstra Group	Year ended 30 June 2020 $m	2019 $m
Deferred tax assets not recognised		
Capital tax losses	1,907	1,736
Income tax losses	292	240
Deductible temporary differences	138	167
	2,337	**2,143**

2.4.3 Tax consolidated group

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

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

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

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

Amounts receivable by the Telstra Entity of $55 million (2019: $46 million) and payable by the Telstra Entity of $24 million (2019: $109 million) under the tax funding agreement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

2.4.4 Recognition and measurement

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

Our current and deferred taxes must also recognise the impact of any uncertain tax positions. If it is probable that a relevant tax authority would accept our tax treatment, our tax balances are recognised under that tax treatment. Otherwise, for each uncertain tax position for which it is not probable that the relevant tax authority will accept the tax treatment, we use the most likely amount or the expected value to estimate our tax balances.

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

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

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

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

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

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

Section 2. Our performance (continued)

2.5 Earnings per share

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

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

Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Earnings used in the calculation of basic and diluted EPS		
Profit for the year attributable to equity holders of Telstra Entity	**1,819**	**2,154**
Weighted average number of ordinary shares	Number of shares (millions)	
Weighted average number of ordinary shares used in the calculation of basic EPS	11,880	11,880
Dilutive effect of certain employee share instruments	15	20
Weighted average number of ordinary shares used in the calculation of diluted EPS	**11,895**	**11,900**
	cents	cents
Basic EPS	15.3	18.1
Diluted EPS	15.3	18.1

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

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

2.6 Notes to the statement of cash flows

2.6.1 Reconciliation of profit to net cash provided by operating activities

Table A Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Profit for the year	1,839	2,149
Add/(subtract) items classified as investing/financing activities		
Finance income	(274)	(238)
Finance costs	1,045	868
Net gain on disposal of property, plant and equipment and intangible assets	(402)	(686)
Net (gain)/loss on disposal of businesses, controlled entities and equity accounted investments	(13)	85
Revenue of a dealer-lessor	(122)	-
Net loss on lease related transactions	(2)	-
Government grants received relating to investing activities	(16)	(11)
Add/(subtract) non-cash items		
Depreciation and amortisation	5,338	4,282
Share-based payments	23	23
Defined benefit plan expense	51	52
Share of net loss/(profit) from joint ventures and associated entities	305	(12)
Impairment losses (excluding inventories, trade and other receivables)	5	501
Other	(24)	(8)
Cash movements in operating assets and liabilities		
(Increase)/decrease in trade and other receivables and contract assets	(169)	177
Decrease in inventories	37	28
Increase in prepayments and other assets	(15)	(51)
Increase in deferred contract costs	(109)	(78)
(Decrease)/increase in trade and other payables	(544)	121
Decrease in contract liabilities and other revenue received in advance	(62)	(431)
Increase/(decrease) in net taxes payable	203	(33)
Decrease in provisions	(84)	(55)
Net cash provided by operating activities	**7,010**	**6,683**

Section 2. Our performance (continued)

2.6 Notes to the statement of cash flows (continued)

2.6.2 Cash and cash equivalents

Table B Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Cash at bank and on hand	238	219
Bank deposits and negotiable certificates of deposit	261	385
Cash and cash equivalents in the statement of cash flows	**499**	**604**

2.6.3 Recognition, measurement and presentation

(a) Cash and cash equivalents

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

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

(b) Short-term borrowings in financing cash flows

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

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

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

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

Section 3. Our core assets, lease arrangements and working capital

This section describes our core long-term tangible (owned and leased) 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 and equipment	Total property, plant and equipment
	$m	$m	$m	$m	$m
Net book value at 1 July 2018	**49**	**612**	**21,065**	**382**	**22,108**
Reclassification of long-term capacity assets	-	-	(535)	-	**(535)**
Restated net book value at 1 July 2018	**49**	**612**	**20,530**	**382**	**21,573**
Additions	-	141	2,975	60	**3,176**
Depreciation expenses	(3)	(98)	(2,544)	(97)	**(2,742)**
Impairment losses	-	(3)	(51)	(3)	**(57)**
Disposals	-	-	(21)	-	**(21)**
Disposals through sale of controlled entities	-	-	-	(2)	**(2)**
Assets held for sale	-	(44)	(60)	(13)	**(117)**
Net foreign currency exchange differences	-	2	47	3	**52**
Other transfers	16	(9)	(16)	(17)	**(26)**
Restated net book value at 30 June 2019	**62**	**601**	**20,860**	**313**	**21,836**
At cost	65	1,390	60,683	1,251	**63,389**
Accumulated depreciation and impairment	(3)	(789)	(39,823)	(938)	**(41,553)**
Net book value at 1 July 2019	**62**	**601**	**20,860**	**313**	**21,836**
Change in accounting policy arising from AASB 16: 'Leases'	-	(43)	(14)	(12)	**(69)**
Restated net book value at 1 July 2019	**62**	**558**	**20,846**	**301**	**21,767**
Additions	-	65	2,467	22	**2,554**
Transfers from assets held for sale	-	-	15	8	**23**
Depreciation expenses	(1)	(61)	(2,607)	(88)	**(2,757)**
Impairment losses	-	(1)	-	(2)	**(3)**
Disposals	(3)	-	-	-	**(3)**
Derecognition due to finance leases	-	-	(3)	-	**(3)**
Net foreign currency exchange differences	-	1	24	-	**25**
Other transfers	-	4	(115)	7	**(104)**
Net book value at 30 June 2020	**58**	**566**	**20,627**	**248**	**21,499**
At cost	62	1,278	61,879	1,075	**64,294**
Accumulated depreciation and impairment	(4)	(712)	(41,252)	(827)	**(42,795)**

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

3.1 Property, plant and equipment (continued)

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

- additions to property, plant and equipment include $41 million (2019: $74 million) of capitalised borrowing costs directly attributable to qualifying assets
- buildings include leasehold improvements related to right-of-use assets recognised under our leasing arrangements (Telstra as a lessee)
- our property, plant and equipment assets include building assets which are mainly used by us to generate revenue, however we also generate an insignificant rental income from those assets under our operating leases (Telstra as a lessor). Given the dual use of these assets and the insignificance of the rental income, those assets continue to be presented as owned assets not subject to operating leases.
- communication assets include certain network land and building assets that are essential to the operation of our communication assets
- as at 30 June 2020, we had property, plant and equipment under construction amounting to $1,158 million (2019: $1,006 million). As these assets were not installed and ready for use, no depreciation has been charged on these assets.

3.1.1 Impairment assessment

(a) Impairment testing

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

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

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

(b) Telstra Entity ubiquitous telecommunication network

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

Cash generating units (CGUs) for impairment assessment

We apply management judgement to determine our CGUs.

We have determined that assets that form part of the Telstra Entity ubiquitous telecommunications network, comprising the customer access network and the core network, are considered to be working together to generate our cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected to deliver our products and services.

During the financial year 2020 we have identified the potential impacts arising from the COVID-19 pandemic as an impairment indicator. As a result we have performed impairment testing of our Telstra Entity ubiquitous telecommunications network using a value in use calculation to determine the recoverable amount of this CGU. To the extent possible we have utilised the estimates, assumptions and judgements that reflect the COVID-19 pandemic uncertainties in our impairment testing. We have concluded that the discounted cash flows generated by our ubiquitous telecommunications network continue to support its carrying value, thus no impairment loss was required.

3.1.2 Recognition and measurement

(a) Initial recognition

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

We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs 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	Useful life (years)	
Telstra Group	As at 30 June	
	2020	2019
Buildings	5 - 55	5 - 55
Communication assets	3 - 57	2 - 57
Other plant and equipment	4 - 13	4 - 13

Useful lives and residual values of tangible assets

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

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

The net effect of the assessment of useful lives was a $37 million (2019: $253 million) decrease in depreciation expense.

Section 3. Our core assets, lease arrangements 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 values of our CGUs with their recoverable amounts determined using a 'value in use' calculation. The value in use calculations use key assumptions such as cash flow forecasts, discount rates and terminal growth rates.

Table A Telstra Group	Goodwill	Software assets	Licences	Other intangible assets	Total intangible assets
	$m	$m	$m	$m	$m
Net book value at 1 July 2018	**1,049**	**4,520**	**2,195**	**158**	**7,922**
Reclassification of long-term capacity assets	-	-	-	535	**535**
Restated net book value at 1 July 2018	**1,049**	**4,520**	**2,195**	**693**	**8,457**
Additions	-	1,091	56	29	**1,176**
Acquisition of controlled entities	1	-	-	-	**1**
Amortisation expense	-	(1,216)	(230)	(94)	**(1,540)**
Impairment losses	-	(442)	-	-	**(442)**
Disposal through sale of controlled entities	-	(5)	(1)	-	**(6)**
Net foreign currency exchange differences	26	3	1	4	**34**
Other transfers	-	32	2	(8)	**26**
Restated net book value at 30 June 2019	**1,076**	**3,983**	**2,023**	**624**	**7,706**
At cost	1,171	10,917	2,878	1,432	**16,398**
Accumulated amortisation and impairment	(95)	(6,934)	(855)	(808)	**(8,692)**
Net book value at 1 July 2019	**1,076**	**3,983**	**2,023**	**624**	**7,706**
Additions	-	734	403	22	**1,159**
Amortisation expense	-	(1,234)	(239)	(91)	**(1,564)**
Impairment losses	-	(1)	(1)	-	**(2)**
Net foreign currency exchange differences	9	1	-	(1)	**9**
Other transfers	-	27	3	74	**104**
Net book value at 30 June 2020	**1,085**	**3,510**	**2,189**	**628**	**7,412**
At cost	1,172	11,046	3,265	1,508	**16,991**
Accumulated amortisation and impairment	(87)	(7,536)	(1,076)	(880)	**(9,579)**

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

- additions to software assets include $16 million (2019: $31 million) of capitalised borrowing costs directly attributable to qualifying assets
- as at 30 June 2020, we had software assets under development amounting to $211million (2019: $372 million). As these assets were not installed and ready for use, no amortisation has been charged on the amounts.
- impairment expense of $442 million recognised in the financial year 2019 related to our legacy IT systems
- software assets mostly comprise internally generated assets
- licences comprise of the spectrum licenses and apparatus licenses obtained to operate a range of radiocommunications devices.

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

3.2 Goodwill and other intangible assets (continued)

3.2.1 Impairment assessment

(a) Impairment testing

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

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

Impairment losses are 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 amount determined using a value in use calculation.

Determining CGUs and their recoverable amount for impairment assessment

We apply management judgement to identify our CGUs and determine their recoverable amounts using a 'value in use' calculation for our impairment assessment. These judgements include cash flow forecasts, as well as the selection of growth rates, terminal growth 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 different period is justified. The forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

(b) 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	As at 30 June	
	2020	2019
	$m	$m
Telstra Enterprise International Group [1]	587	578
Telstra Enterprise Australia Group [2]	437	367
Other [3]	61	131
	1,085	**1,076**

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

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

3 Other includes individually immaterial CGUs.

During the financial year 2020, there have been no changes to our CGUs with allocated goodwill except for the integration of three entities previously disclosed within 'Other' into Telstra Enterprise Australia Group. Prior to the integration, these three entities were assessed individually.

In addition to at least annual impairment testing requirements for CGUs with allocated goodwill, during the financial year 2020 we have also identified the potential impacts arising from the COVID-19 pandemic as an impairment indicator.

As a result, and to the extent possible, we have utilised the estimates, assumptions and judgements that reflect the COVID-19 pandemic uncertainties in our impairment testing. We have concluded that the discounted cash flows generated continue to support the carrying values, thus no impairment loss was required.

(c) Value in use

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

Table C Telstra Group	Discount rate		Terminal value growth rate	
	2020	2019	2020	2019
	%	%	%	%
Telstra Enterprise International Group	9.5	9.2	2.0	3.0
Telstra Enterprise Australia Group	13.1	12.8	2.3	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 forecast period. These growth rates are based on our expectation of the CGUs' long-term performance in their markets.

Sensitivity analysis also examined the effect of a change in a key assumption on the remaining CGUs. The discount rate would need to increase by 47 basis points (2019: 293 basis points) or the terminal value growth rate would need to decrease by 82 basis points (2019: 413 basis points) before the recoverable amount of any of the CGUs would equal its carrying value. No other changes in key assumptions will result in a material impairment charge for any of the CGUs.

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

3.2 Goodwill and other intangible assets (continued)

3.2.2 Recognition and measurement

Category	Recognition and measurement
Goodwill	Goodwill acquired in a business combination is measured at cost. Cost represents the excess of what we pay for the business combination over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is not amortised but is tested for impairment on an annual basis or when an indication of impairment arises. Goodwill amount arising on acquisition of joint ventures or associated entities constitutes part of the cost of the investment.
Internally generated intangible assets	Internally generated intangible assets include mainly IT development costs incurred in design, build and testing of new or improved IT products and systems. Research costs are expensed when incurred. Capitalised development costs include: • external direct costs of materials and services consumed • payroll and payroll-related costs for employees (including contractors) directly associated with the project • borrowing costs that are directly attributable to the qualifying assets. Refer to 'Capitalisation of development costs' for management judgement 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 judgement 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.

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.

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

3.2 Goodwill and other intangible assets (continued)

3.2.2 Recognition and measurement (continued)

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	
	2020	2019
Software assets	8	8
Licences	14	14
Other intangibles	16	16

Useful lives of intangible assets

We apply management judgement to determine the amortisation period based on the expected useful lives of each asset class.

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 2020 was a $87 million (2019: $130 million) decrease in amortisation expense.

3.3 Lease arrangements

This note provides details about our leasing arrangements, where Telstra is either a lessee or a lessor, including arrangements where Telstra is an intermediate lessor (i.e. subleases).

We have adopted the new lease accounting standard from 1 July 2019. Note 1.5 details changes in our accounting policies and a summary of impacts on the first time adoption. This note provides disclosures required under the new accounting standard and relates to all our lease arrangements in place during the financial year 2020.

3.3.1 Telstra as a lessee

Our lease arrangements where Telstra is a lessee include the following lease categories:

- properties, including office buildings, retail space, warehouses and network sites (mainly land and data centre buildings)
- spaces on mobile towers
- mobile handsets leased under transitioning contracts, which are subleased to our consumer and small business customers
- communication assets dedicated to solution management that we provide to our customers largely in a back-to-back finance lease arrangements and which arise from our transitioning contracts with the financiers
- renewable energy plants
- motor vehicles
- audio visual communications equipment
- personal computers, laptops, printers and other related equipment, which are accounted for as leases of low value assets.

From 25 June 2019, we ceased to offer subleases for mobile handsets to our retail customers. Amounts recognised in relation to those leases relate to contracts entered into in the prior reporting periods which will continue to be accounted for till the earlier of the end of the lease or its termination.

None of our leases include residual value guarantees. Other features of our leases are described below.

(a) Leases with extension, termination and purchase options

Leases for communication assets dedicated to solution management, which arise from our transitioning finance leases, include purchase options. These assets are largely provided to our enterprise customers in a back-to-back dealer-lessor finance lease arrangements (refer to note 3.3.2 for further details about Telstra as a lessor) and purchase options allow us to transfer the legal title to the relevant equipment to the end customer at the end of the lease.

Our mobile handset leases, which arise from our transitioning operating leases, include purchase options if certain conditions are met to provide flexibility to the end retail customer in these back-to-back arrangements.

We do not have any significant purchase options in our property leases.

Extension options are included in a number of our commercial and network property leases and are taken up to maximise the operational flexibility in terms of managing the assets used in our core business operations.

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

3.3 Lease arrangements (continued)

3.3.1 Telstra as a lessee (continued)

(a) Leases with extension, termination and purchase options (continued)

Our mobile handset leases and motor vehicle leases include both extension and termination options to allow flexibility in managing our customer subleases for mobile handsets and our business needs for motor vehicles.

The majority of extension and termination options in our lease contracts are exercisable only by us and not by the respective lessor, with the exception of 'holdover periods' in our property leases, where generally either party can terminate the lease.

The extension, termination and purchase options are considered when determining lease term.

Determining lease term

We apply management judgement to determine a lease term for leases with extension, termination or purchase options. We also consider lease modifications where we continue to use the same underlying asset for an extended term.

Our property lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions, with typical fixed term periods between five and 15 years. Where Telstra is a lessee of mobile handsets, our communication assets dedicated to solution management and motor vehicles, i.e. the leased assets are more generic in nature and/or of lower values, generally master lease agreements are in place with a range of fixed lease terms between two and five years.

In determining the lease term, we consider all facts and circumstances that create an economic incentive to exercise an extension, termination or purchase option, including holdover periods where relevant. These factors differ depending on the contractual arrangements and the nature of the underlying assets.

In particular, we consider contractual terms on which the lease term can be extended or terminated, the price value at which a purchase option (if relevant) can be exercised, potential relocation costs, asset specific factors and any relevant leasehold improvements, our wider strategy and policy decisions, and any other relevant facts.

Extension options are only included in the lease term if the lease is reasonably certain to be extended. Periods beyond termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated.

The level of certainty required to make the judgements about the lease term is high. The longer the fixed lease term, the less certain a lessee is to exercise an option to extend the lease.

When determining lease term for our office buildings, the extension options have generally not been included in the lease liabilities due to a competitive market place and our commercial ability to either substantially renegotiate or replace these assets instead of exercising the extension options.

For our back-to-back leases of mobile handsets offered to mass market customers, the determined lease term generally matches the legal contract term because it is not reasonably certain at each contract level that these leases will be either extended or terminated or that the purchase option will be exercised.

None of our termination options have been considered reasonably certain to be exercised; therefore, the lease terms have not been shortened and all future cash flows have been included in the lease liability.

The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within our control as a lessee.

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

3.3 Lease arrangements (continued)

3.3.1 Telstra as a lessee (continued)

(b) Leases with lease payment increases

Under most of our lease arrangements, we pay fixed lease payments, which are included in the measurement of lease liabilities on initial recognition or at the time of reassessment. The fixed lease payments include average fixed increases of three per cent in a number of our property leases. However, some of our property leases contain other escalation clauses, including increases subject to the consumer price index, the greater of fixed increase or the consumer price index or increases subject to market rates. Market rent review terms are used to respond to competitive market trends for these type of properties and to minimise our fixed costs. No material adjustments to lease liabilities resulting from such escalation clauses were recognised during the financial year 2020.

(c) Leases with variable lease payments that do not depend on an index or a rate

Some of our leases, such as leases of renewable energy plants, include variable lease payments that do not depend on an index or a rate. Such payments are not included in the measurement of the lease liability and are expensed as incurred in 'other expenses' in the income statement.

(d) Right-of-use assets

Table A shows movements in net book value of our right-of-use assets during the financial year 2020.

Table A Telstra Group	Right-of-use assets for underlying assets			
	Land	Buildings	Other	Total
	$m	$m	$m	$m
Net book value at 1 July 2019	**-**	**-**	**-**	**-**
Change in accounting policy arising from AASB 16: 'Leases'	1,480	1,419	852	**3,751**
Restated net book value at 1 July 2019	**1,480**	**1,419**	**852**	**3,751**
Additions	173	136	122	**431**
Transfers from assets held for sale	4	44	-	**48**
Depreciation expense	(184)	(270)	(563)	**(1,017)**
Terminations	(4)	(5)	(155)	**(164)**
Derecognition due to finance subleases	-	(9)	(8)	**(17)**
Net foreign currency exchange differences	-	(2)	-	**(2)**
Net book value at 30 June 2020	**1,469**	**1,313**	**248**	**3,030**
At cost	1,657	1,573	612	**3,842**
Accumulated depreciation and impairment	(188)	(260)	(364)	**(812)**

The following paragraphs provide further information about our right-of-use asset classes:

- leased data centre land and building classified as held for sale at 30 June 2019 were reclassified to right-of-use assets during the financial year 2020 as they are no longer held for sale. Refer to note 3.10 for further details.
- other terminated leases mainly include derecognised right-of-use assets for our mobile handset leases (Telstra as a lessee), which ceased following terminations of the back-to-back customer operating leases.

Table B provides information about the weighted average useful lives of our right-of-use assets.

Table B Telstra Group	Weighted average useful life (years)
	As at 30 June
	2020
Right-of-use assets, including:	
Land	12
Buildings	9
Other	2

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

3.3 Lease arrangements (continued)

3.3.1 Telstra as a lessee (continued)

(e) Lease liabilities

From 1 July 2019, lease liabilities are shown separately in the statement of financial position, with the exception of amounts not included in the measurement of lease liabilities. These include leases of low value assets or leases with variable payments which do not depend on an index or a rate, for which associated outstanding rental payments as at balance date continue to be included in trade and other payables. In the 2019 comparative information, finance lease balances are included in the statement of financial position within borrowings.

We use the incremental borrowing rate for property leases which comprise the majority of our lease portfolio. The weighted average discount rate as at 30 June 2020 was 2.8 per cent.

Determining incremental borrowing rate for property leases

We apply management judgement to determine incremental borrowing rates for our property leases because the interest rates implicit in leases are not readily determinable for those arrangements.

The incremental borrowing rates are determined with reference to rates sourced from market based credit adjusted yield curves which are independently derived and reasonably reflect the credit risk of the lessee. The discount rates also reflect:

- the lease term (based on the weighted average repayment term)
- any guarantees which may be in place
- the impact of any security if significant to pricing.

The weighted average incremental borrowing rate as at 30 June 2020 was 2.5 per cent.

Table C presents maturity analysis of our lease liabilities.

Table C Telstra Group	As at 30 June 2020 $m	 2019 $m
Undiscounted future cash flows		
Within 1 year	633	91
Within 1 to 2 years	471	62
Within 2 to 5 years	1,105	73
After 5 years	1,560	116
Total undiscounted lease liabilities	**3,769**	**342**
Future finance charges	(471)	(51)
Present value of lease liabilities	**3,298**	**291**
Included in the financial statements as:		
Current	611	78
Non-current	2,687	213
	3,298	**291**

Measurement of lease liabilities reflects judgements made about discounted future cash flows arising from reasonably certain extension options and lease modifications, which must be reassessed should the circumstances change.

Potential future cash outflows of $2,750 million are not reflected in the measurement of lease liabilities as they relate to leases which are yet to commence and/or extension options that we assessed as not reasonably certain. More than 80 per cent of those cash flows will occur after five years. These outflows represent contractual undiscounted future cash flows estimated based on fixed lease payments only, payable over the legally non-cancellable lease term (for leases yet to commence) and/or over all extension options exercisable only by us (i.e. excluding holdover periods) for leases already recognised in the statement of financial position and for those yet to commence.

Such cash flows are not contractually payable until options have been legally exercised (if at all) and/or until the effective dates of already executed new contracts.

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

3.3 Lease arrangements (continued)

3.3.1 Telstra as a lessee (continued)

(f) Amounts recognised in the income statement and cash outflows for leases

Table D presents amounts recognised in the income statement and the cash outflows in the financial year 2020 related to our lease arrangements where Telstra is a lessee. The comparative information has not been presented as we have adopted the new lease accounting standard from 1 July 2019 without restatement of the comparative periods.

Table D Telstra Group	Year ended 30 June 2020 $m
Amounts recognised in the income statement	
Income from operating subleases of right-of-use assets (Telstra as an intermediate lessor) (included in revenue from other sources)	468
Depreciation of right-of-use assets (included in depreciation and amortisation expense)	(1,017)
Interest expense on lease liabilities (included in finance costs)	(109)
Net loss on termination of leases (included in other expenses)	(226)
Net gain on sale and leaseback transactions (included in other income)	4
Expense relating to leases of low value assets (included in other expenses)	(27)
Expense relating to variable lease payments (included in other expenses)	(3)
Cash outflows for leases	
Lease payments reported in cash flows from operating activities	(30)
Lease payments reported in cash flows from financing activities (principal portion)	(993)
Lease payments reported in cash flows from financing activities (interest portion)	(109)

Net loss on termination of leases mainly includes early termination charges for our mobile handset leases (Telstra as a lessee), which have been partly recovered from revenue recognised on termination of the back-to-back customer operating leases disclosed as part of the 'income from operating subleases of right-of-use assets (Telstra as an intermediate lessor)'.

3.3.2 Telstra as a lessor (including a dealer-lessor and an intermediate lessor)

Our lease arrangements where Telstra is a lessor, including a dealer-lessor and intermediate lessor, include the following main categories:

- leases of owned properties and subleases of right-of-use property assets, including office and network buildings
- subleases of mobile handsets to our consumer and small business customers arising from transitioning contracts as we ceased to offer this product from 25 June 2019
- finance leases where Telstra is a dealer-lessor of communication assets dedicated to solution management.

None of our leases include residual value guarantees. Our key finance and operating leases are described below.

(a) Finance leases

(i) Finance leases where Telstra is a dealer-lessor

We enter into finance lease arrangements predominantly for communication assets dedicated to solution management that we provide to our customers under our customer sales contracts. We account for these leases as dealer-lessor finance leases and recognise selling profit in accordance with our policy for outright sales at the lease commencement date. Therefore, we have no risks associated with remaining rights in the underlying assets. The weighted average remaining term of the finance leases in our customer contracts is five years (2019: five years).

(ii) Subleases of right-of-use assets

Generally, we rent office and network buildings for own use only and not with the intention to earn rental income. However, where our needs or the intended use of the rented properties change and we have assessed that exiting a lease is uneconomical, we sublease right-of-use property assets under finance lease arrangements and on the market terms for the remaining non-cancellable lease term of the head lease.

These subleases are classified as finance leases and at the lease commencement date we record a selling profit or loss on the de-recognised right-of-use asset and recognise a finance lease receivable. Given these are subleases of the right-of-use assets, we have no risks associated with any retained rights in the underlying assets as the properties are vacated and returned to the landlords at the end of the non-cancellable lease term.

(iii) Finance lease receivable maturity analysis

Table E sets out the maturity analysis of undiscounted lease payments receivable and the unearned finance income for our finance lease receivables. No unguaranteed residual values accrue under our finance leases.

Table E Telstra Group	As at 30 June 2020 $m	 2019 $m
Undiscounted lease payments receivable under finance leases		
Within 1 year	99	109
Within 1 to 2 years	79	58
Within 2 to 3 years	47	35
Within 3 to 4 years	28	20
Within 4 to 5 years	21	12
After 5 years	48	55
Total undiscounted lease payments receivables	**322**	**289**
Less: unearned finance income	(33)	(36)
Net investment in the lease	**289**	**253**
Allowance for doubtful debts	(1)	(1)
	288	**252**
Included in the financial statements as		
Current finance lease receivables	90	99
Non-current finance lease receivables	198	153
	288	**252**

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

3.3 Lease arrangements (continued)

3.3.2 Telstra as a lessor (including a dealer-lessor and an intermediate lessor) (continued)

(a) Finance leases (continued)

(iii) Finance lease receivable maturity analysis (continued)

Following adoption of the new lease accounting standard from 1 July 2019, the balances at 30 June 2020 include all finance lease receivables accounted for under the new requirements. The balances at 30 June 2019 have been accounted for under the previous lease accounting requirements, therefore finance lease receivables excluded any balances arising from finance subleases of right-of-use assets recognised on transition on 1 July 2019.

The interest rate implicit in the leases is fixed at lease inception for the entire lease term. The average interest rate implicit in the leases was 3.8 per cent (2019: 5.0 per cent) per annum.

During the financial year 2020, we added $171 million new finance lease receivables, including $25 million resulting from the first time adoption of the new lease accounting standard, recognised interest income of $13 million and received $135 million for the principal portion of finance lease receivables.

Refer to note 3.4 for details regarding impairment assessment of our finance lease receivables.

(b) Operating leases

(i) Subleases of mobile handsets

In prior financial years, we offered mobile plans to our consumer and small business customers where the customer could lease a handset and purchase a bundle of services under a term accounting contract. Leases of those handsets were in back-to-back arrangements with a third party, where Telstra was a lessee. From 25 June 2019, we ceased to offer these mobile plans, however, all such lease arrangements represented transitioning contracts on adoption of the new lease accounting standard and we continue to account for them until the earlier of the end of the lease term or customer termination.

To provide flexibility to our mass market retail customers, the handset lease plans include options to extend the lease, terminate the lease early or to purchase the handset at the end of the lease. The lease term has not been adjusted for any of these options because none of them are considered reasonably certain at the lease contract level.

(ii) Maturity analysis of undiscounted future lease payments receivable

Table F sets out maturity analysis of undiscounted future lease payments receivable under our operating leases.

Table F Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Within 1 year	78	388
Within 1 to 2 years	2	126
Within 2 to 3 years	2	7
Within 3 to 4 years	1	5
Within 4 to 5 years	-	1
After 5 years	3	3
	86	**530**

(c) Amounts recognised in the income statement

Table G presents amounts recognised in the income statement in the financial year 2020 related to our lease arrangements where Telstra is a lessor, including amounts related to lease arrangements where Telstra is an intermediate lessor. The comparative information has not been presented as we have adopted the new lease accounting standard from 1 July 2019 without restatement of the prior period.

Table G Telstra Group	Year ended 30 June
	2020
	$m
Revenue from finance leases (Telstra as a dealer-lessor) (included in revenue from other sources)	122
Income from operating leases (Telstra as a direct or an intermediate lessor) (included in revenue from other sources)	474
Net gain on derecognition due to finance leases, including subleases (included in other income)	1
Finance income from finance leases (Telstra as a lessor) (included in finance income)	13

Income from operating leases includes mostly income from operating subleases of right-of-use assets (Telstra as an intermediate lessor) as disclosed in Table D in note 3.3.1.

3.3.3 Recognition and measurement

(a) Lease identification and lease term

A contract (or linked contracts) is, or contains, a lease if it conveys the right to control the use of an identified asset, including a physically distinct portion of an asset, for a period of time in exchange for consideration. The customer has the right to control the use of an identified asset if the supplier has no substantive substitution rights, and the customer obtains substantially all of the economic benefits from use of the identified asset and has the right to direct its use.

A (combined) contract may include lease and non-lease components, which are accounted for separately. Lessee allocates the consideration to lease and non-lease components based on their relative standalone prices. Lessor allocates the consideration to lease and non-lease components applying the relative standalone selling prices requirements for revenue from customer contracts (refer to note 2.2 for further details).

If a lease has been identified at inception of the arrangement, a lease term is determined considering a non-cancellable period and reasonably certain extension, termination or purchase options. This includes consideration of any holdover periods, where either counterparty has enforceable rights to terminate the lease. Holdover periods relate to periods when, for a variety of reasons, the lessee continues to occupy the property or use the asset beyond the legally agreed lease term and either party can terminate the lease during the holdover period by giving a notice.

In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension, termination or purchase options must be considered. These factors differ depending on the terms of contractual arrangements, the nature of the underlying assets, leasehold improvements, industry practices and strategic planning. Leases are accounted for from the lease commencement date, i.e. the date when the lessor makes the underlying asset available for use by the lessee.

3.3 Lease arrangements (continued)

3.3.3 Recognition and measurement (continued)

(b) Telstra as a lessee

A lessee recognises a right-of-use asset and a lease liability at a lease commencement date. The lease liability is initially measured as a net present value of the following lease payments:

- fixed payments (including any in-substance lease payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially using the index or rate as at the commencement date
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option, if the purchase option was assessed as reasonably certain to be exercised
- payments for penalties for terminating the lease, if the lease term reflects that the lessee will exercise that option.

Lease payments expected to be made under a reasonably certain extension option are also reflected in the measurement of the lease liability.

Where lease arrangements include market rent review clauses, which generally can be triggered by either counterparty within a set time frame by a notice given either during the non-cancellable lease period or when the extension option is exercised, until the outcome of a market rent review (if triggered) is concluded, the legal obligations are to pay previously agreed lease payments. Therefore, lease liabilities are measured excluding any expected impacts from market rent reviews until they are legally binding and can be reliably measured.

The lease payments are discounted using the interest rate implicit in the lease, unless that rate is not readily determinable, in which case the lessee's incremental borrowing rate is used.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments that do not depend on an index or a rate are recognised in the income statement in the period in which the event or condition that triggers those payments occurs.

Payments associated with leases of low value assets are recognised on a straight-line basis as an expense in the income statement.

Right-of-use assets cost comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. Where an obligation exists to dismantle, remove or restore a leased asset or the site it is located on and a provision has been raised, the right-of-use asset also includes these restoration costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If it is reasonably certain that we will exercise the purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The depreciation starts at the commencement date of the lease.

Right-of-use assets are reviewed for impairment under the same policy as our property, plant and equipment assets. Refer to note 3.1.1 for further details regarding impairment testing.

Where we lease right-of-use property assets, costs of improvements to these properties are capitalised under our property, plant and equipment policy as leasehold improvements and amortised over the shorter of the useful life of the improvements and the term of the lease.

We reassess lease liability (and a make a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed (reflecting reassessment of or exercise of an extension or termination options previously not included in the measurement of the lease liability) or there is a change in the assessment of exercise of a purchase options, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- the lease payments change due to changes in an index or a rate or change in the expected lease payments under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

In the statement of cash flows, cash payments for both the principal portion and the interest portion of the lease liability are classified as cash flows from financing activities. Cash payments for leases of low value assets and variable lease payments that do not depend on an index or a rate and are not included in the measurement of the lease liability are classified as cash flows from operating activities. Proceeds from sale of leases, including proceeds from sale and leaseback transactions, are classified as cash flows from investing activities.

(c) Telstra as a lessor (including a dealer-lessor and an intermediate lessor)

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. Lease classification is made at the inception date and is only reassessed if there is a lease modification.

Where we are an intermediate lessor, we account for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Where we lease assets via a finance lease, a finance lease receivable (i.e. a net investment in the lease) is recognised at the lease commencement date and measured at the present value of the lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term and discounted using the interest rate implicit in the lease.

Finance lease receipts are allocated between finance income and a reduction of the finance 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.

In the statement of cash flows, cash receipts for both the principal portion and the interest portion of the finance lease receivable are classified as cash flows from investing activities.

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

3.3 Lease arrangements (continued)

3.3.3 Recognition and measurement (continued)

(c) Telstra as a lessor (including a dealer-lessor and an intermediate lessor) (continued)

Where we are a dealer-lessor, at the commencement of the lease, we also recognise a selling profit or loss (being the difference between revenue from other sources and the cost of sale) from the sale of the underlying asset in addition to the finance lease receivable. The sale is recognised in accordance with our policy for outright sales from contracts with customers as described in note 2.2.

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease and presented as revenue from other sources in the income statement.

(d) Sale and leaseback transactions

When we sell and lease back the same asset, the accounting treatment depends on whether the control of the asset has been transferred as assessed under our policy for outright sales from contracts with customers as described in note 2.2.

If the transfer of the asset satisfies the revenue recognition requirements, we measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by us as a seller-lessee. Accordingly, we recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

If the transfer of an asset does not satisfy the revenue recognition requirements, as a seller-lessee we continue to recognise the transferred asset and we recognise a financial liability equal to the transfer proceeds.

3.4 Trade and other receivables and contract assets

3.4.1 Current and non-current trade and other receivables and contract assets

Table A Telstra Group	Note	As at 30 June 2020 $m	 2019 $m
Current			
Trade receivables from contracts with customers		3,248	3,151
Finance lease receivables	3.3	90	99
Accrued revenue		565	795
Other receivables		355	159
		4,258	**4,204**
Contract assets	3.8	863	1,188
		5,121	**5,392**
Non-current			
Trade receivables from contracts with customers		977	473
Finance lease receivables	3.3	198	153
Amounts owed by joint ventures and associated entities	6.2	16	-
Other receivables		8	17
		1,199	**643**
Contract assets	3.8	229	137
		1,428	**780**

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 and 30 days from the date of invoice. Credit risk associated with trade and other receivables and contract assets has been provided for.

Our trade receivables include receivables with deferred payment terms over 12, 24 or 36 months.

Contract assets relate to our rights to consideration for goods or services provided to the customers but for which we do not have an unconditional right to payment at the reporting date.

Refer to note 3.8 for further details regarding trade receivables from contracts with customers and contract assets.

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

3.4 Trade and other receivables and contract assets (continued)

3.4.1 Current and non-current trade and other receivables and contract assets (continued)

(a) Impairment of trade and other receivables and contract assets

Trade and other receivables and contract assets are exposed to customers' credit risk and are subject to impairment assessment.

If a credit loss is expected, an allowance for doubtful debt is raised to reduce the carrying amount of trade and other receivables and contract assets.

A credit loss is a shortfall between the cash flows that are due in accordance with the contract and the cash flows that we expect to receive, discounted at the original effective interest rate. The estimated expected credit loss is calculated using one or a combination of a portfolio approach and/or an individual account by account assessment.

Contract assets relate to the transferred goods and services where a valid invoice is yet to be issued to the customer and have substantially the same risk characteristics as the trade receivables for the same types of contracts. Therefore, the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

(i) Portfolio approach

The portfolio approach is based on historical credit loss experience and, where appropriate, adjusted to reflect current conditions and estimates of future economic outlook. This approach is mostly applied to balances arising from our consumer and small business customer contracts. Under this approach, receivables and contract assets are grouped based on shared credit risk characteristics, such as:

- account status (services still active or not)
- customers' payment history
- the days past due.

For each grouping, the expected credit loss is then calculated on the probability that an account within the group will default, that is it will become past due by more than 90 days, and the expected loss rate should they default, both represented as a percentage of the exposure at default determined at customer account level.

Our provision rates range from 0.2 per cent (2019: 0.2 per cent) for balances not past due to 81.7 per cent (2019: 91.0 per cent) for balances where the payment is overdue by more than 90 days and the customer's services have been deactivated.

(ii) Individual approach

The individual approach is an account by account assessment based on past credit history, knowledge of debtor's financial situation, such as insolvency or entering a payment plan, or other known credit risk specific to the debtor, such as judgement based on the debtor's industry. This approach is applied to balances arising from contracts with large corporate and government customers as well as to accounts in Telstra Enterprise, Telstra InfraCo and Telstra Consumer & Small Business segments where some detrimental change in payment behaviour has been noticed or certain thresholds have been exceeded by a customer.

Balances arising from our transactions with nbn co (reported in Telstra InfraCo segment and in 'All Other' category) are separately assessed based on the Australian government credit risk rating.

Estimating allowance for doubtful debts

We apply management judgement to estimate the allowance for doubtful debts for our trade and other receivables measured at amortised cost and for contract assets.

For trade receivables and contract assets arising from our Telstra Consumer & Small Business and Telstra Enterprise Australian customers, we have implemented a scenario based approach incorporating base, good and bad economic scenarios. The overall impairment is calculated as a weighted average of the three scenarios.

Our prior analysis showed that generally overall macroeconomic factors, such as unemployment rates, interest rates or gross domestic product had no strong correlation with our bad debt losses. However, if the macroeconomic factors are above certain thresholds, a correlation with those factors becomes observable.

Due to the COVID-19 pandemic impacts, it is expected that an increase in unemployment rates and decline in gross domestic product will exceed the relevant thresholds. Therefore, when estimating the expected credit loss we have incorporated assumptions of eight to 10 per cent unemployment rates and approximately eight per cent decline in gross domestic product as well as multiple possible recovery scenarios. We have also considered impacts from specific management actions, our observable customer behaviours so far and how the pandemic may impact our industry in particular.

As a result, we have increased the allowance for doubtful debts by $36 million to reflect risks and uncertainties brought about by the COVID-19 pandemic. Should the macroeconomic assumptions change in the future, it could have a material impact on our allowance for doubtful debts in the subsequent years.

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

3.4 Trade and other receivables and contract assets (continued)

3.4.1 Current and non-current trade and other receivables and contract assets (continued)

(a) Impairment of trade and other receivables and contract assets (continued)

The impairment allowance for trade receivables from contracts with customers, finance lease receivables and contract assets is measured using a simplified approach (i.e. based on the probability of default over the lifetime of the financial asset and loss given default). The aging analysis and loss allowance in relation to these are detailed in Table B.

Table B Telstra Group	As at 30 June			
	2020		2019	
	Gross	Allow-ance	Gross	Allow-ance
	$m	$m	$m	$m
Not past due, including measured at:				
- amortised cost	3,516	(33)	3,008	(13)
- fair value	1,346	-	1,506	-
	4,862	**(33)**	**4,514**	**(13)**
Past due 1 - 30 days	447	(2)	481	(2)
Past due 31 - 60 days	141	(2)	138	(4)
Past due 61 - 90 days	89	(9)	86	(5)
Past 91 days	267	(155)	125	(119)
	5,806	**(201)**	**5,344**	**(143)**

Ageing analysis in Table B is based on the original due date of trade receivables, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

Contract assets are not yet due for collection, thus the entire balance has been included in the 'not past due' category.

Accrued revenue, amounts owed by joint ventures and associated entities and other receivables (before allowance for doubtful debts) totalling $953 million (2019: $980 million) are subject to impairment assessment using the general approach and include 79 per cent (2019: 86 per cent) of balances with counterparties with an external credit rating of A- or above.

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 2020, 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. Further, we limit our exposure to credit risk from trade receivables by establishing a maximum payment period and, in certain instances, cease providing further services after 90 days from the past due date. As part of our response to the COVID-19 pandemic, we temporarily suspended ceasing the services towards the end of the financial year 2020. The impairment allowance has been adjusted, as relevant.

Movements in the allowance for doubtful debts in respect of all our trade and other receivables and contracts assets, regardless of the method used in measuring the impairment allowance, are detailed in Table C.

Table C Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Opening balance 1 July	**(152)**	**(192)**
Additional allowance	(113)	(45)
Amount used	19	35
Amount reversed	36	50
Closing balance 30 June	**(210)**	**(152)**

Impairment allowance related to accrued revenue, amounts owed by joint ventures and associated entities and other receivables (i.e. balances not presented in Table B) amounted to $9 million (2019: $9 million).

3.4.2 Recognition and measurement

Trade and other receivables and contract assets are financial assets.

Trade and other receivables are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method, with the exception of certain trade receivables from contracts with customers, which are subsequently measured at fair value. Refer to note 4.4.5 for further details on trade receivables from contracts with customers measured at fair value.

Contract assets arise from our contracts with customers and are initially recorded at the transaction price allocated as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other goods or services under the same contract (or group of contracts) and/or we are yet to issue a valid invoice. Contract assets are subsequently measured to reflect relevant transaction price adjustments (where required) and are transferred to trade receivables when the right to payment becomes unconditional, i.e. when the other goods or services under the same contract (or group of contracts) have been transferred and/or a valid invoice has been issued.

(a) Impairment of financial assets

We estimate the expected credit losses for our financial assets (including contract assets) measured at amortised cost on either of the following basis:

- a general approach, i.e. 12-month expected credit loss which results from all possible default events within the 12 months after the reporting date, however, if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, loss allowance is calculated based on lifetime expected credit losses (applicable to accrued revenue, amounts owed by joint ventures and associated entities, and other receivables), or
- a simplified approach, i.e. lifetime expected credit loss which results from all possible default events over the expected life of a financial instrument (applicable to trade receivables from contracts with customer, contract assets and lease receivables).

Any customer account with debt more than 90 days past due is considered to be in default.

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

3.4 Trade and other receivables and contract assets (continued)

3.4.2 Recognition and measurement (continued)

(a) Impairment of financial assets (continued)

Trade and other receivables and contract assets are written off against the allowance for doubtful debts or directly against their carrying amounts and expensed in the income statement when all collection efforts have been exhausted and the financial asset is considered uncollectable. Factors indicating there is no reasonable expectation of recovery include insolvency and significant time period since the last invoice was issued.

3.5 Inventories

Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Current		
Goods for resale	353	369
Raw materials and network inventory	65	79
	418	**448**
Non-current		
Network inventory	28	35
	28	**35**

3.5.1 Recognition and measurement

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

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

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.

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.

3.6 Trade and other payables

Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Current		
Trade payables	988	849
Accrued expenses	1,774	2,163
Accrued capital expenditure	438	239
Accrued interest	221	267
Other payables	559	1,010
	3,980	**4,528**
Non-current		
Other payables	4	68
	4	**68**

Trade payables and other payables are non-interest bearing liabilities. Our payment terms vary, however payments are generally made within 20 days to 90 days from the invoice date.

From time to time, Telstra's suppliers utilised or offered supply finance arrangements at their sole discretion. When that took place, Telstra was not a party to contracts under which the suppliers received financing from third parties, and Telstra did not receive any fees or commissions associated with the supply chain finance arrangements. Under the use of supply chain finance arrangements, suppliers transferred their rights to the amounts due from Telstra to third parties, i.e. the counterparty that was paid changed. We have assessed that amounts financed by our vendors under supply chain finance arrangements did not represent financing activities for Telstra. This was because payments made by Telstra continued to represent a payment for goods and services, and the payment terms did not significantly differ, if at all, from our standard contract terms.

During the financial year 2020, we made the decision to stop enabling a supply chain finance option facilitated by Telstra and to implement this in a way that did not disadvantage our suppliers. As of 30 June 2020, the vast majority of suppliers who previously had access to this supply chain finance arrangement no longer had access to it, and we have moved suppliers with a low annual spend to 20 day payment terms. However, this supply chain financing arrangement remains in place for an interim period for some suppliers, including a small number of our larger suppliers and for some others who saw the early payment as being helpful to their liquidity especially during the period of the COVID-19 pandemic.

As at 30 June 2020, the amount payable under supply chain finance arrangements which was reclassified from 'Trade payables' to 'Other payables' was $143 million (2019: $593 million).

3.6.1 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 3. Our core assets, lease arrangements and working capital (continued)

3.7 Contract liabilities and other revenue received in advance

Contract liabilities arise from our contracts with customers and represent amounts paid (or due) to us by customers before receiving the goods and/or services promised under the contract.

We also recognise revenue received in advance for consideration received upfront under contracts giving rise to revenue from other sources or other income, for example from nbn disconnection fees or from sale of assets.

Table A presents customer payments received in advance under different types of our commercial arrangements.

Table A Telstra Group	Note	As at 30 June 2020 $m	 2019 $m
Current			
Contract liabilities	3.8	1,540	1,431
Other revenue received in advance		71	226
		1,611	**1,657**
Non-current			
Contract liabilities	3.8	947	1,006
Other revenue received in advance		255	265
		1,202	**1,271**

3.8 Trade receivables from customer contracts, contract assets and contract liabilities

3.8.1 Recognition of trade receivables, contract assets and contract liabilities

Trade receivables, contract assets and contract liabilities arise from our contracts with customers described in note 2.2.1.

The relationship between our performance and the customer's payment will determine if trade receivables, contract assets or contract liabilities are recognised.

The timing of revenue recognition may differ from customer invoicing. Trade receivables from contracts with customers represent an unconditional right to receive consideration (primarily cash), which normally arises when the goods and services promised to the customer have been transferred and/or a valid invoice has been issued.

By contrast, contract assets mainly refer to amounts allocated as consideration for goods or services provided to customers for which the right to collect payment is subject to providing other goods or services under the same contract (or group of contracts) and/or we are yet to issue a valid invoice.

Contract liabilities represent amounts paid (or due) to us by customers before receiving the goods and/or services promised in the contract.

Contract assets and contract liabilities also arise due to timing differences between invoicing and recognition of certain discounts, credits or other incentives, including those arising from our framework agreements. These items adjust revenue recognised in a given period but they can be invoiced upfront, over the contract term or when certain performance conditions have been met.

Customer contract assets and liabilities are presented, respectively, in current and non-current assets and current and non-current liabilities based on the amounts expected to be collected or recognised as revenue within or after 12 months from the reporting period end.

In general, we invoice customers in advance for services provided under our prepaid or fixed (usually monthly) fee contracts and in arrears for usage based contracts (e.g. carriage services under enterprise contracts) or excess charges in our legacy mass market contracts. In those cases we would recognise a contract liability and a contract asset, respectively.

Under our mass market no-lock-in mobile and fixed service plans and under our legacy mobile fixed term contracts which offer a bundle of hardware and services, the customer enters into two separate legal contracts. Where these are combined for revenue recognition, we recognise a trade receivable for the hardware payment contract under which we have an unconditional right to payment despite the deferred payment terms resulting in invoicing over the extended term.

Under some of our fixed mass market plans, wholesale and enterprise arrangements, we charge upfront connection or other fees for contract fulfilment activities, which represent transaction price adjustments and at the time give rise to a contract liability given they have been collected before the goods and services have been transferred.

We also recognise a contract liability for our domestic and international network capacity arrangements, under which we receive upfront payments in advance of services which will be provided over an average contract term between 10 and 33 years.

3.8.2 Movements in net contract assets and contract liabilities

Our billing arrangements for goods and services as well as different types of discounts, credits or other incentives can vary depending on the type and nature of the contracts with customers. As a result, at times under the same accounting contract, we may recognise both a contract asset and a contract liability. At each reporting period, any balances arising from the same accounting contract are presented net in the statement of financial position as either a net contract asset or a net contract liability.

The net presentation mainly impacts our small business and enterprise framework arrangements offering loyalty programs and technology funds, and nbn Definitive Agreements, where multiple legal contracts have been combined as one accounting contract.

Table A presents opening and closing balances of our current and non-current contract assets and contract liabilities and their total net movement for the period.

Table A Telstra Group	As at 30 June 2020 $m	 2019 $m
Current contract assets	863	1,188
Non-current contract assets	229	137
Total contract assets	**1,092**	**1,325**
Current contract liabilities	(1,540)	(1,431)
Non-current contract liabilities	(947)	(1,006)
Total contract liabilities	**(2,487)**	**(2,437)**
Total net contract liabilities	**(1,395)**	**(1,112)**
Increase in net contract liabilities for the year	(283)	(43)

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

3.8 Trade receivables from customer contracts, contract assets and contract liabilities (continued)

3.8.2 Movements in net contract assets and contract liabilities (continued)

Generally, contract assets increase when we recognise revenue for goods and services transferred to the customer in advance of their invoicing and decrease when we invoice customers for goods and services provided previously (i.e. when contract assets are transferred to trade receivables).

On the other hand, contract liabilities increase when we receive consideration in advance of transferring the goods and services to the customer, and decrease when we recognise revenue for the goods and services previously prepaid by the customer.

Other changes in our contract assets and contract liabilities represent movements resulting from changes in the transaction prices due to timing of invoicing and recognition of discounts, credits and other incentives.

The overall increase of $283 million (2019: $43 million) in the net contract liabilities incorporated the $1,722 million (2019: $1,521 million) revenue recognised in the reporting period that was included in the contract liabilities balance at the beginning of the period.

Refer to note 3.4.1 for details regarding impairment assessment of contract assets.

3.9 Deferred contract costs

Certain costs related to our contracts with customers are deferred in the statement of financial position and amortised on a basis consistent with the transfer of goods and services to which these costs relate.

Deferred contract costs comprise of deferred costs to obtain or fulfil an accounting customer contract. Table A provides movements in net book values of the deferred contract costs.

Table A Telstra Group	Costs to obtain a contract	Costs to fulfil a contract			Total deferred contract costs
	Commis-sions	Set-up costs	Costs of service provider	Total costs to fulfil a contract	
	$m	$m	$m	$m	$m
Net book value at 1 July 2018, including	**1,026**	**61**	**162**	**223**	**1,249**
Current	n/a	-	69	**69**	**69**
Non-current	1,026	61	93	**154**	**1,180**
Additions	553	25	586	**611**	**1,164**
Amortisation expense	(394)	(29)	(563)	**(592)**	**(986)**
Impairment losses	(100)	-	-	-	**(100)**
Net book value at 30 June 2019, including	**1,085**	**57**	**185**	**242**	**1,327**
Current	n/a	-	95	**95**	**95**
Non-current	1,085	57	90	**147**	**1,232**
Net book value at 1 July 2019, including	**1,085**	**57**	**185**	**242**	**1,327**
Current	n/a	-	95	**95**	**95**
Non-current	1,085	57	90	**147**	**1,232**
Additions	607	9	677	**686**	**1,293**
Amortisation expense	(407)	(19)	(634)	**(653)**	**(1,060)**
Impairment losses	(124)	-	-	-	**(124)**
Net book value at 30 June 2020, including	**1,161**	**47**	**228**	**275**	**1,436**
Current	n/a	-	82	**82**	**82**
Non-current	1,161	47	146	**193**	**1,354**

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

3.9 Deferred contract costs (continued)

3.9.1 Recognition and measurement

We capitalise costs to obtain an accounting contract when the costs are incremental, i.e. would not have been incurred if the contract had not been obtained and are recoverable either directly via reimbursement by the customer or indirectly through the contract margin.

We elect to recognise the incremental costs of obtaining contracts as an expense when incurred if the period of benefit is one year or less.

Costs to fulfil a contract are costs incurred in satisfying the performance obligations under a customer contract. These costs relate directly to an identified performance obligation or indirectly to other activities that are necessary under the contract but that do not result in a transfer of goods or services, i.e. they are fulfilment activities.

Costs to fulfil a contract include set-up costs and costs of a service provider, which represent the costs incurred in relation to services which will be transferred to our customers in the future reporting periods.

We capitalise costs to fulfil a contract if all of the following apply:

- the costs are not required to be accounted for under another accounting standard
- the costs relate directly to a contract or a specifically identified anticipated contract (for example, costs relating to services to be provided under renewal of an existing contract)
- the costs generate or enhance resources that we control and will be used to satisfy future performance obligations under the contract
- we expect to recover the costs.

We amortise deferred contract costs over the term that reflects the expected period of benefit of the expense. This period may extend beyond the initial contract term to the estimated customer life or average customer life of the class of customers. We use the amortisation pattern consistent with the method used to measure progress and recognise revenue for the related goods or services.

We assess whether deferred contract costs are impaired whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Amortisation period of deferred contract costs

We have applied management judgement to estimate the amortisation period of deferred contract costs to obtain a contract.

For sales commissions paid on acquisition of the initial contract which are not commensurate with recontracting commissions, the amortisation period reflects the average estimated customer life for respective types of contracts.

3.10 Assets and liabilities held for sale

As at 30 June 2019, $121 million of assets and $79 million of liabilities of a disposal group were classified as held for sale, including assets and liabilities related to three data centres within the Telstra Enterprise segment.

On 1 April 2020 we sold off one of the data centres and recognised sale proceeds of $58 million and a net gain of $12 million.

We did not receive the consents required for sale of the remaining two data centres. As a result we have ceased to classify these assets and liabilities as held for sale and measured them at their carrying amounts before they were classified as held for sale, adjusted for depreciation of property, plant and equipment and right-of-use assets, and respective lease payments and interest expense for lease liabilities.

Section 4. Our capital and risk management

This section sets out the policies and procedures applied to manage our capital structure and the financial risks we are exposed to. Our total capital is defined as equity and net debt. We manage our capital structure in order to maximise shareholders' return, maintain optimal cost of capital and provide flexibility for strategic investments.

4.1 Dividend

This note includes dividends paid for the previous year final dividend and the current year interim dividend. From the financial year 2018, our dividend comprises both ordinary and special dividends.

As the current year final dividend resolution was passed on 13 August 2020, no provision had been raised as at 30 June 2020.

We currently pay dividend to equity holders of the Telstra Entity twice a year, an interim and a final dividend. Table A below provides details of the dividends paid during the financial year 2020.

Table A Telstra Entity	Year ended 30 June			
	2020	2019	2020	2019
	$m	$m	cents	cents
Previous year final dividend paid	951	1,308	8.0	11.0
Interim dividend paid	952	951	8.0	8.0
	1,903	**2,259**	**16.0**	**19.0**

The Dividend Reinvestment Plan (DRP) will continue to operate for the final dividend in the financial year 2020. The election date for participation in the DRP is 28 August 2020.

On 13 August 2020, the Directors of Telstra Corporation Limited resolved to pay a fully franked final dividend for the financial year 2020 of 8 cents per ordinary share, comprising a final ordinary dividend of 5 cents and a final special dividend of 3 cents. The final dividend will be fully franked at a tax rate of 30 per cent. The record date for the final dividend will be 27 August 2020, with payment to be made on 24 September 2020. From 26 August 2020, shares will trade excluding entitlement to the dividend.

As at 30 June 2020, the final dividend for the financial year 2020 was not determined or publicly recommended by the Board, therefore no provision for the dividend had been raised in the statement of financial position. However, a provision for the final dividend payable amounting to $951 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 $408 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

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

Table B Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Franking account balance	98	168
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)	207	87
	305	**255**

We believe that our current balance in the franking account, combined with the franking credits that will arise on income tax instalments expected to be paid in the financial year 2021, will be sufficient to fully frank our 2020 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 the Telstra Growthshare Trust (the Trust) to allocate and administer the Company's employee share schemes. The Trust is consolidated as it is controlled by us. Shares that are held within the Trust, known as treasury shares, are used to satisfy future vesting of entitlements in these employee share schemes. These treasury shares reduce our contributed equity.

4.2.1 Share capital

Table A details components of our share capital balance.

Table A Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Contributed equity	4,530	4,530
Share loan to employees	(7)	(10)
Shares held by employee share plans	(39)	(50)
Net services received under employee share plans	(33)	(23)
	4,451	**4,447**

Section 4. Our capital and risk management (continued)

4.2 Equity (continued)

4.2.1 Share capital (continued)

(a) Contributed equity

As at 30 June 2020, we have 11,893,297,855 (2019: 11,893,297,855) authorised fully paid ordinary shares on issue. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the Company. Holders of our shares also have the right to receive 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.

(b) Shares held by employee share plans

As at 30 June 2020, the number of shares held by employee share plans totalled 9,107,647 (2019: 10,200,395). During the financial year 2020, 6,091,319 shares were purchased on-market for the purposes of the employee incentive schemes at the average price per share of $3.64.

(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.

4.2.2 Reserves

Table B details our reserve balances.

Table B Telstra Group	Foreign currency transla-tion reserve	Cash flow hedging 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 2018	**70**	**(211)**	**(6)**	**23**	**(7)**	**(131)**
Other comprehensive income	39	2	(15)	47	-	**73**
Balance at 30 June 2019	**109**	**(209)**	**(21)**	**70**	**(7)**	**(58)**
Other comprehensive income	21	32	(4)	14	-	**63**
Balance at 30 June 2020	**130**	**(177)**	**(25)**	**84**	**(7)**	**5**

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

Reserve	Nature and purpose
Foreign currency translation reserve	Represents 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	Represents 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.

Section 4. Our capital and risk management (continued)

4.2 Equity (continued)

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.

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

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

4.3 Capital management

Our capital management is undertaken in accordance with financial parameters regularly reviewed and approved by the Board.

We manage our capital structure which aims to provide returns for shareholders and benefits for other stakeholders, while:
- safeguarding our ability to continue as a going concern
- maintaining an optimal capital structure and cost of capital that provides flexibility for strategic investments.

In order to maintain or adjust the capital structure, we may issue or repay debt, adjust the amount of dividend paid to shareholders or return capital to shareholders.

As part of our capital management we monitor net debt. This note provides information about components of our net debt and related finance costs.

Our dividend policy together with dividends paid during the financial year 2020 have been detailed in note 4.1.

4.3.1 Net debt

Net debt equals total interest bearing financial liabilities and derivative financial instruments, less cash and cash equivalents. At 30 June 2020 net debt was $16,844 million (2019: $14,727 million). Table A lists the carrying value of our net debt components and includes totals of current and non-current balances.

Table A Telstra Group	As at 30 June 2020 $m	As at 30 June 2019 $m
Lease liabilities	(3,298)	-
Borrowings	(15,829)	(17,253)
Net derivative financial instruments	1,784	1,922
Gross debt	**(17,343)**	**(15,331)**
Cash and cash equivalents	499	604
Net debt	**(16,844)**	**(14,727)**

Our gross and net debt increased following the adoption of the new lease accounting standard on 1 July 2019 under which lease liabilities are recognised for all our leases (Telstra as a lessee) and included in debt balances at 30 June 2020.

The 30 June 2020 borrowings balance excludes any lease liabilities which are presented separately in the statement of financial position. The 30 June 2019 borrowings balance includes finance lease liabilities of $291 million accounted for under the previous lease accounting requirements.

No significant components of net debt are subject to any externally imposed capital requirements. With the exception of a minor ($8 million) breach in our subsidiary, we did not have any defaults or breaches under any of our agreements with our lenders during the financial year 2020.

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 2020 $m	Year ended 30 June 2019 $m
Net debt at 1 July	**(14,727)**	**(14,739)**
Debt issuance	(1,180)	(1,570)
Commercial paper (net)	(255)	537
Revolving bank facilities (net)	(260)	200
Debt repayments	2,781	801
Lease liability payments	993	-
Finance lease payments	-	79
Net cash outflow	**2,079**	**47**
Fair value gain/(loss) impacting:		
Equity	50	(23)
Other expenses	(24)	(10)
Finance costs	(5)	19
Other non-cash movements		
Lease liability (Telstra as a lessee)	(4,000)	-
Finance leases	-	(5)
Other loans	(112)	-
Total non-cash movements	**(4,091)**	**(19)**
Total (increase)/decrease in gross debt	**(2,012)**	**28**
Net decrease in cash and cash equivalents (includes effects of foreign exchange rate changes)	(105)	(16)
Total (increase)/decrease in net debt	**(2,117)**	**12**
Net debt at 30 June	**(16,844)**	**(14,727)**
Total equity	(15,147)	(14,530)
Total capital	**(31,991)**	**(29,257)**
	%	%
Gearing ratio	52.7%	50.3%

Leases (Telstra as a lessee) included in non-cash movements during the period incorporate the lease liability recognised on transition on 1 July 2019 as disclosed in note 1.5.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.1 Net debt (continued)

Gearing ratio equals net debt divided by total capital, where total capital equals equity, as shown in the statement of the financial position, plus net debt. The gearing ratio for the financial year 2020 reflects changes from the adoption of the new lease accounting standard.

(a) Borrowings and repayment of debt

Debt issuance for the financial year 2020 of $1,180 million (Australian dollar equivalent), comprised:

- 10 year €500 million Euro bond ($856 million Australian dollar equivalent)
- three year $150 million bilateral facility
- $174 million other loans.

During the financial year 2020, we repaid $2,659 million of term debt (Australian dollar equivalent). This included:

- $1,499 million Euro bond
- $300 million Australian dollar floating rate note
- $800 million Australian dollar bilateral facility
- $60 million Australian dollar private placements.

We also repaid other loans of $122 million. The above also includes the cash settlement of derivative instruments, where applicable.

4.3.2 Borrowings

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

Table C Telstra Group	As at 30 June 2020		As at 30 June 2019	
	Carrying value	Fair value	Carrying value	Fair value
	$m	$m	$m	$m
Current borrowings				
Domestic - bonds and private placements	985	995	360	364
Offshore - bonds and private placements	971	971	1,622	1,678
Bank and other loans	432	435	23	24
Commercial paper	375	378	139	139
Finance leases	-	-	78	78
	2,763	**2,779**	**2,222**	**2,283**
Non-current borrowings				
Domestic - bonds and private placements	1,047	1,219	2,031	2,239
Offshore - bonds and private placements	11,740	12,744	11,881	12,698
Bank and other loans	279	285	906	957
Finance leases	-	-	213	213
	13,066	**14,248**	**15,031**	**16,107**
Total borrowings	**15,829**	**17,027**	**17,253**	**18,390**

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.

Generally, all our borrowings are unsecured. No assets are pledged as security for our borrowings. All our borrowings are interest bearing.

Refer to Table F in note 4.3.4 for the principal value of our borrowings.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.2 Borrowings (continued)

(a) Recognition and measurement

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

Borrowings are classified as non-current borrowings except for those that mature in less than 12 months from the reporting date, which are classified as current borrowings.

(b) Finance costs

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

Table D	Year ended 30 June	
Telstra Group	2020	2019
	$m	$m
Interest income on cash	13	17
Finance income from finance leases (Telstra as a lessor)	13	16
Finance income from contracts with customers	244	197
Net interest income on defined benefit plan	4	8
Total finance income	**274**	**238**
Interest expense on:		
Borrowings	(678)	(771)
Lease liabilities	(109)	-
Finance leases	-	(21)
Gross interest on debt	**(787)**	**(792)**
Finance costs from contracts with customers	(326)	(217)
Net gains on financial instruments included in remeasurements	11	36
	(315)	**(181)**
Interest capitalised	57	105
Total finance costs	**(1,045)**	**(868)**
Net finance costs	**(771)**	**(630)**

Net finance costs for the financial year 2020 include interest on lease liabilities related to all leases accounted for under the new lease accounting standard from 1 July 2019, whereas the comparative period only includes interest expense on finance lease liabilities accounted for under the previous lease accounting requirements.

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

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives

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

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

Table E Telstra Group	As at 30 June 2020		As at 30 June 2019	
	Assets	Liabilities	Assets	Liabilities
	$m	$m	$m	$m
Current derivative financial instruments				
Cross currency swaps	128	-	118	-
Interest rate swaps	18	(2)	43	(54)
Forward foreign exchange contracts	1	(52)	18	(3)
	147	**(54)**	**179**	**(57)**
Non-current derivative financial instruments				
Cross currency swaps	1,781	(91)	1,738	(12)
Interest rate swaps	230	(229)	345	(271)
	2,011	**(320)**	**2,083**	**(283)**
Total derivative financial instruments	**2,158**	**(374)**	**2,262**	**(340)**

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 fluctuate, which is reflected in the change in 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.

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

(a) Recognition and measurement

Initial recognition and subsequent measurement	Derivative financial instruments are recognised on the date on which we commit to purchase or sell an asset or liability. 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 the designation of the derivative as a hedging instrument and the nature of the item being hedged.

Derivative financial instruments are included as non-current assets or liabilities, except for those that mature in less than 12 months from the reporting date, which are classified as current.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.3 Derivatives (continued)

(b) Use of derivatives to manage risks

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

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

In order to qualify for hedge accounting, prospective hedge effectiveness testing must meet all of the following criteria:

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

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

	Fair value hedges	Cash flow hedges
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 foreign currency cash flows.
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.
Economic relationships	In all our hedge relationships, the critical terms of the hedging instrument and hedged item (including face values, cash flows and currency) are aligned.	
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.	

(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.

Derivatives embedded in other financial liabilities or host contracts are treated as separate financial instruments when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.4 Gross debt by hedge type

Table F shows the carrying value and principal value of each component of our gross debt including derivative financial instruments categorised by hedge type. Principal value represents contractual obligations less future finance charges, excluding fair value remeasurements and for foreign denominated balances equates to the principal value in the underlying currency converted at the spot exchange rate as at 30 June 2020.

Table F Telstra Group	As at 30 June 2020		As at 30 June 2019	
	Carrying value	Principal value	Carrying value	Principal value
	$m	$m	$m	$m
Borrowings by hedge designation				
Fair value hedges	(5,052)	(4,802)	(4,320)	(3,951)
Cash flow hedges	(7,522)	(7,541)	(9,045)	(9,073)
Not in a hedge relationship	(3,255)	(3,256)	(3,597)	(3,600)
Finance leases	-	-	(291)	(291)
Total borrowings	**(15,829)**	**(15,599)**	**(17,253)**	**(16,915)**
Lease liabilities	(3,298)	(3,298)	-	-
Total borrowings and lease liabilities	**(19,127)**	**(18,897)**	**(17,253)**	**(16,915)**
Derivative assets by hedge designation				
Fair value hedges	945	763	1,016	733
Cash flow hedges	1,213	1,212	1,243	1,259
Not in a hedge relationship	-	-	3	13
Total derivative assets	**2,158**	**1,975**	**2,262**	**2,005**
Derivative liabilities by hedge designation				
Fair value hedges	(50)	(44)	-	-
Cash flow hedges	(279)	(8)	(337)	-
Not in a hedge relationship	(45)	(44)	(3)	(11)
Total derivative liabilities	**(374)**	**(96)**	**(340)**	**(11)**
Total gross debt	**(17,343)**	**(17,018)**	**(15,331)**	**(14,921)**

(a) Fair value hedges

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

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

Table G Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Principal value	(4,799)	(3,951)
Unamortised discounts/premiums	8	9
Amortised cost	**(4,791)**	**(3,942)**
Cumulative fair value hedge adjustments	(261)	(378)
Carrying amount	**(5,052)**	**(4,320)**

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	
	2020	2019
	(Gain)/ loss	(Gain)/ loss
	$m	$m
Remeasurement of hedged item used to measure ineffectiveness	(111)	92
Change in value of hedging instruments	122	(115)
Net loss/(gain) before tax from ineffectiveness	**11**	**(23)**
Net loss/(gain) after tax	8	(16)

Section 4. Our capital and risk management (continued)

4.3 Capital management (continued)

4.3.4 Gross debt by hedge type (continued)

(b) 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 within 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
- included in the measurement of the initial cost of the assets where the hedged item is for purchases of property, plant and equipment
- transferred immediately to the income statement if a forecast hedged transaction is no longer expected to occur.

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

Table I Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Cash flow hedging reserve		
Changes in fair value of cash flow hedges	72	200
Changes in fair value transferred to other expenses	(115)	(334)
Changes in fair value transferred to goods and services purchased	(27)	(12)
Changes in fair value transferred to finance costs	128	151
Changes in fair value transferred to property, plant and equipment	(4)	(2)
Income tax on movements in the cash flow hedging reserve	(16)	(1)
	38	**2**

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 (i.e. notional cash outflows). 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	As at 30 June	
	2020	2019
	$m	$m
Non-capital items		
Within 1 year	(592)	(1,234)
Capital items		
Within 1 year	(85)	(97)
Borrowings		
Within 1 year	(275)	(1,898)
Within 1 to 5 years	(5,086)	(3,763)
After 5 years	(3,061)	(4,554)
	(9,099)	**(11,546)**

Non-capital items will be recognised in the income statement in the same period in which the cash flows are expected to occur. For capital items, the hedged assets affect the income statement as the assets are depreciated over their useful lives.

(c) 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 payables or other liability and asset balances denominated in a foreign currency.

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. There have been no material changes to our risk management policies since 30 June 2019.

Our financial risk management strategies ensure that we can withstand market disruptions for extended periods. In relation to liquidity risk we continue to have access to ample liquidity to support our short term liquidity requirements and protect against unforeseen events.

At the outset of the COVID-19 pandemic we took additional measures to enhance our liquidity reserves by further increasing access to committed bank facilities.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

Our credit risk exposure is spread across a number of highly rated counterparties. The fair value measurement includes the valuation of counterparty credit risk and whilst there has been some increase in credit spreads the impact has had no material impact to our financial results. Counteracting this is the reduction in risk free rates as a result of actions taken by governments to stimulate the economy.

Post the COVID-19 pandemic we were able to successfully access debt capital markets in a window where there was high liquidity and successfully issued a benchmark Euro bond in the amount of €500 million.

The impact of the COVID-19 pandemic has had no impact to our hedge relationships which continue to meet the criteria for hedge accounting.

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 to note 4.3.3 for further details on derivatives.

(a) Exposure

Table C in note 4.3.2 sets out the carrying value of borrowings. The use of cross currency and interest rate swaps allows us to manage the level of exposure our borrowings have to interest rate risks. Table A below shows our fixed to floating ratio based on the carrying value of our borrowings pre and post-hedging.

For internal risk management purposes, from June 2020 debt issued at a fixed rate or hedged from floating to fixed is considered fixed for the life of the transaction. Comparative information has been restated to accord with the current year presentation.

Table A		As at 30 June 2020		As at 30 June 2019	
Telstra Group		Pre-hedge borrowings	Post-hedge borrowings	Pre-hedge borrowings	Post-hedge borrowings
	Note	$m	$m	$m	$m
Fixed rate		(14,849)	(9,794)	(15,813)	(11,493)
Floating rate		(980)	(6,035)	(1,440)	(5,760)
Total borrowings	4.3	**(15,829)**	**(15,829)**	**(17,253)**	**(17,253)**

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. In accordance with our policy to swap foreign currency borrowings into Australian dollars, interest rate sensitivity relates primarily to movements in the Australian interest rates.

We have selected a sensitivity range of plus 100 basis points (2019: 10 per cent) and minus 25 basis points (2019: 10 per cent) as a reasonably possible shift in interest rates based on the current level of both short-term and long-term interest rates and historical volatility. The sensitivity reflects a change in benchmark rates only. This is not a forecast or prediction of future market conditions.

Table B shows the results of our sensitivity analysis on the impacts to profit after tax and on equity.

Table B Telstra Group	As at 30 June			
	2020		2019	
	Basis point		Per cent	
	Gain/(loss)			
	Net profit/ (loss)	Equity	Net profit/ (loss)	Equity
	$m	$m	$m	$m
Interest rates (+100bp;+10%)	(36)	37	(8)	15
Interest rates (-25bp;-10%)	10	(10)	8	(15)

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
- there is minimal net impact on profit or loss as a result of fair value movements on derivatives designated in effective fair value hedge relationships as there will be an offsetting adjustment to the underlying borrowing
- the analysis does not include the impact of any management action that might take place if the interest rate shifts were to occur.

4.4.2 Managing our foreign currency risk

Foreign currency risk is our risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign exchange rates. We issue debt offshore and operate internationally and hence we are exposed to foreign exchange risk from various currencies.

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
- translation risk associated with our net investments in foreign controlled entities (foreign operations).

(a) Borrowings

We mitigate the foreign currency exposure on foreign currency denominated borrowings by converting borrowings to Australian dollars using cross currency swaps.

Table C shows the Australian dollar equivalent carrying value of offshore bonds and private placements by underlying currency. As at 30 June 2020, all offshore borrowings were swapped into Australian dollars (2019: all Australian dollars).

Table C Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Euro	(8,697)	(9,555)
United States dollar	(3,628)	(3,562)
Japanese yen	(138)	(136)
Other	(248)	(250)
Total offshore bonds and private placements	**(12,711)**	**(13,503)**

As at 30 June 2020, we also held $260 million United States dollar denominated commercial paper (2019: $50 million) with an Australian dollar equivalent carrying value of $375 million (2019: $71 million). Commercial paper denominated in United States dollars was converted into Australian dollars using foreign exchange swaps.

(b) Trading

We have some exposure to foreign currency risk from our operating (transactional) activities. We manage this risk by:

- hedging a proportion of the exposure of foreign exchange transaction risk arising from firm commitments or highly probable forecast transactions denominated in foreign currencies in accordance with our risk management policy. These transactions may be physically settled in a foreign currency or in Australian dollars but with direct reference to quoted currency rates in accordance with a contractual formula.
- economically hedging a proportion of foreign currency risk associated with trade and other asset and liability balances.

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)

We hedge the above risks using forward foreign exchange contracts. Table D summarises the impact of outstanding forward foreign exchange contracts that are hedging our transactional currency exposures.

Table D Telstra Group	As at 30 June 2020				As at 30 June 2019			
	Exposure	Forward foreign exchange contract receive/(pay)			Exposure	Forward foreign exchange contract receive/(pay)		
	Local currency		Australian dollars	Average exchange rate	Local currency		Australian dollars	Average exchange rate
	m	m	$m	$	m	m	$m	$
Commercial paper borrowings								
United States dollars	(260)	260	(396)	0.66	(50)	50	(70)	0.72
Transactions to and from WOCE								
British pounds sterling	(27)	30	(54)	0.55	(24)	21	(38)	0.55
United States dollars	(372)	200	(314)	0.64	(345)	266	(380)	0.70
Other (various currencies)	-	-	6	-	-	-	(4)	-
Forecast transactions								
United States dollars	(447)	195	(289)	0.66	(904)	351	(487)	0.72
Indian Rupee	(1,413)	565	(11)	51.95	-	-	-	-
Philippine peso	-	-	-	-	(1,422)	1,138	(30)	38.24
Trade payables								
United States dollars	(65)	65	(98)	0.67	(91)	91	(130)	0.70
Total in Australian dollars			**(1,156)**				**(1,139)**	

(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 hedge accounting in place.

(d) Sensitivity

We have performed a sensitivity analysis based on our foreign currency risk exposures existing at balance date. Table E shows the impact that a 10 per cent shift in applicable exchange rates would have on our profit after tax and on equity.

Table E Telstra Group	As at 30 June			
	2020		2019	
	Gain/(loss)			
	Net profit/ (loss)	Equity	Net profit/ (loss)	Equity
	$m	$m	$m	$m
Exchange rates (+10%)	26	(56)	45	(47)
Exchange rates (-10%)	(32)	68	(55)	57

A shift of 10 per cent has been selected as a reasonably possible change taking into account the current level of exchange rates and the volatility observed both on a historical basis and on market expectations of future movements. This is not a forecast or prediction of future market conditions. We have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency.

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. The translation of our foreign entities' results into the Group's presentation currency has not been included in the above sensitivity analysis as this represents translation risk rather than transaction risk.

Any unhedged foreign exchange positions associated with our transactional exposures will directly affect profit or loss as a result of foreign currency movements.

Our largest concentration of foreign currency risk on our offshore borrowings is attributable to the Euro and United States dollar. However, there is no significant impact on profit or loss from foreign currency movements associated with our borrowings portfolio in effective fair value or cash flow hedges as an offsetting entry will be recognised on the associated hedging instrument.

The analysis does not include the impact of any management action that might take place if these events occurred.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.3 Managing our credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss. We are exposed to credit risk from our operating activities (primarily customer credit risk) and financing activities.

We manage credit risk by:

- applying Board approved credit policies
- monitoring exposure to high risk debtors
- requiring collateral where appropriate
- assigning credit limits to all financial counterparties.

We may also be subject to credit risk on transactions not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 7.4.2.

(a) Customer credit risk

Trade and other receivables and contract assets consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. Other than nbn co, we do not have any significant credit risk exposure to a single customer or group of customers.

Refer to note 3.4 for details about our trade and other receivables and contract assets and how we manage customer credit risk.

(b) Treasury credit risk

We are exposed to credit risk from the investment of surplus funds (primarily deposits) and from the use of derivative financial instruments.

We have a number of exposures to individual counterparties. To manage this risk, we have Board approved policies that limit the amount of credit exposure to any single counterparty. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted where appropriate. We also manage our credit exposure using a value at risk (VaR) methodology, which is an industry standard measure that estimates the maximum potential exposure of our risk positions as a result of future movements in market rates. This helps to ensure that we do not underestimate credit exposure with any single counterparty. Using VaR analysis at 30 June 2020, 95 per cent (2019: 94 per cent) of our derivative credit exposure was with counterparties that have a credit rating of A- or better. Management does not expect any significant losses from non-performance by any of these counterparties.

4.4.4 Managing our liquidity risk

Our objective is to maintain a balance between continuity and flexibility of funding through the use of liquid financial instruments, long-term and short-term borrowings, and committed available bank facilities.

We manage liquidity risk by:

- defining minimum levels of cash and cash equivalents
- defining minimum levels of cash and cash equivalents plus undrawn bank facilities
- closely monitoring rolling forecasts of liquidity reserves on the basis of expected business cash flows
- using instruments which trade in highly liquid markets with highly rated counterparties
- investing surplus funds within various types of liquid instruments.

We believe that our contractual obligations can be met through existing cash and cash equivalents, operating cash flows and other funding arrangements we reasonably expect to have available to us.

We have access to commercial paper programs which continue to be supported by a combination of liquid financial assets, and access to committed bank facilities. Table F shows our total and undrawn committed bank facilities as at 30 June. These facilities are traditionally shorter term in nature and mature on a staggered basis over the next five years, including $2 billion maturing in the next 12 months. Drawings under our bank facilities and commercial paper issues are shown on a gross basis in the statement of cash flows.

Table F	As at 30 June	
Telstra Group	2020	2019
	$m	$m
Facilities available	4,090	3,200
Facilities used	(260)	-
Facilities unused	**3,830**	**3,200**

We reduce refinancing risk by ensuring that our borrowings mature at different periods.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.4 Managing our liquidity risk (continued)

Table G shows the maturity profile of our financial liabilities including estimated interest payments. The amounts disclosed are undiscounted contractual 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 2020					As at 30 June 2019				
	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 - bonds and private placements	(985)	-	(500)	(550)	**(2,035)**	(360)	(985)	(500)	(550)	**(2,395)**
Offshore - bonds and private placements	(947)	(2,820)	(4,964)	(3,752)	**(12,483)**	(1,623)	(938)	(6,204)	(4,400)	**(13,165)**
Commercial paper	(377)	-	-	-	**(377)**	(139)	-	-	-	**(139)**
Bank and other loans	(432)	(53)	(227)	-	**(712)**	(24)	(80)	(528)	(300)	**(932)**
Interest on borrowings, excluding lease liabilities	(809)	(348)	(702)	(214)	**(2,073)**	(551)	(459)	(776)	(301)	**(2,087)**
Lease liabilities	(633)	(471)	(1,105)	(1,560)	**(3,769)**	-	-	-	-	**-**
Finance lease liabilities	-	-	-	-	**-**	(91)	(62)	(73)	(116)	**(342)**
Trade/other payables and accrued expenses	(3,980)	(4)	-	-	**(3,984)**	(4,528)	(7)	(14)	(47)	**(4,596)**
Derivative financial assets	2,504	2,972	5,384	3,920	**14,780**	3,345	1,283	6,638	4,621	**15,887**
Derivative financial liabilities	(2,474)	(2,314)	(4,650)	(3,945)	**(13,383)**	(3,332)	(1,238)	(5,393)	(4,532)	**(14,495)**
Total	**(8,133)**	**(3,038)**	**(6,764)**	**(6,101)**	**(24,036)**	**(7,303)**	**(2,486)**	**(6,850)**	**(5,625)**	**(22,264)**

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).

During the financial year 2020, there were no changes in valuation techniques for recurring fair value measurements of our financial instruments. There were also no transfers between fair value hierarchy levels.

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)

The table below summaries the methods used to estimate the fair value of our financial instruments.

Level	Financial instrument	Fair value
Level 1	Listed investments in equity instruments	Quoted prices in active markets.
Level 2	Borrowings, cross currency and interest rate swaps	Valuation techniques maximise the use of observable market data. Present value of the estimated future cash flows using appropriate market based yield curves, which are independently derived. Yield curves are sourced from readily available market data quoted for all major currencies.
	Forward foreign exchange contracts	Quoted forward exchange rates at reporting date for contracts with similar maturity profiles.
Level 3	Trade receivables from contracts with customers	Trade receivables from contracts with customers measured at fair value are such where due to the variability of the contractual cash flows the instrument does not meet the classification requirements of financial assets at amortised cost. A valuation technique is used where the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Expected cash inflows are estimated based on the terms of the customer contract taking into account possible variations in the amount and timing of cash flows. Discount rate is determined using a risk free rate plus a risk adjustment reflecting the credit risk associated with the cash flow.
	Unlisted investments in equity instruments	Valuation techniques (where one or more of the significant inputs is not based on observable market data) include reference to discounted cash flows and fair values of recent orderly sell transactions between market participants involving instruments that are substantially the same.
	Contingent consideration	Initial recognition: expectations of future performance of the business. Subsequent measurement: present value of the future expected cash flows.

Section 4. Our capital and risk management (continued)

4.4 Financial instruments and risk management (continued)

4.4.5 Valuation and disclosures within fair value hierarchy (continued)

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

Table H Telstra Group	As at 30 June 2020				As at 30 June 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Trade receivables from contracts with customers	-	-	1,346	**1,346**	-	-	1,506	**1,506**
Derivative financial instruments	-	2,158	-	**2,158**	-	2,262	-	**2,262**
Investments in listed securities	-	-	-	**-**	9	-	-	**9**
Investments in unlisted securities	-	-	21	**21**	-	-	16	**16**
	-	**2,158**	**1,367**	**3,525**	**9**	**2,262**	**1,522**	**3,793**
Liabilities								
Derivative financial instruments	-	(374)	-	**(374)**	-	(340)	-	**(340)**
	-	**(374)**	**-**	**(374)**	**-**	**(340)**	**-**	**(340)**
Total	**-**	**1,784**	**1,367**	**3,151**	**9**	**1,922**	**1,522**	**3,453**

Our borrowings as per Table C in note 4.3.2 are classified as level 2 in the fair value hierarchy.

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

Table I Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Opening balance 1 July	**16**	**25**
Purchases	7	1
Remeasurement recognised in other comprehensive income (net of tax)	(2)	1
Contribution to Telstra Ventures Fund II, L.P.	-	(11)
Closing balance 30 June	**21**	**16**

During the financial year 2020, we have not received any dividends from our investments in these equity instruments and there have been no transfers to or from equity in relation to these investments.

Table J details movements in the level 3 trade receivables from contracts with customers.

Table J Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Opening balance 1 July	**1,506**	**1,502**
Recognised during the period	1,564	1,632
Settlements by customers	(1,756)	(1,664)
Net interest income recognised in the income statement	37	44
Remeasurements recognised in the income statement	(5)	(8)
Closing balance 30 June	**1,346**	**1,506**

We recognise trade receivables from contracts with customers as part of our ordinary activities. Settlements of those receivables are part of the receipts from customers in the operating cash flows.

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 that are offset, or subject to, enforceable master netting arrangements or other similar agreements but not offset. The column 'net amounts' shows the impact on the statement of financial position if all set-off rights were exercised.

Table K Telstra Group	Effects of offsetting in the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Financial instruments	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 2020					
Trade and other receivables and contract assets	640	77	**563**	65	10	**488**
Trade and other payables	(429)	(77)	**(352)**	(65)	-	**(287)**
Derivative financial assets	2,158	-	**2,158**	344	-	**1,814**
Derivative financial liabilities	(374)	-	**(374)**	(344)	-	**(30)**
Total	**1,995**	**-**	**1,995**	**-**	**10**	**1,985**
	As at 30 June 2019					
Trade and other receivables and contract assets	829	133	**696**	54	10	**632**
Trade and other payables	(473)	(133)	**(340)**	(54)	-	**(286)**
Derivative financial assets	2,262	-	**2,262**	337	-	**1,925**
Derivative financial liabilities	(340)	-	**(340)**	(337)	-	**(3)**
Total	**2,278**	**-**	**2,278**	**-**	**10**	**2,268**

Related amounts not offset in the statement of financial position reflect amounts subject to conditional offsetting arrangements.

Our 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 related obligations include:

- liabilities for wages and salaries and related on-costs (presented within current trade and other payables)
- annual leave, long service leave and employee incentives (presented within current and non-current employee benefits) and
- redundancy provisions (presented within current other provisions).

Table A provides a summary of all these employee obligations.

Table A Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Accrued labour and on-costs	424	644
Current employee benefits	727	804
Non-current employee benefits	127	158
Current redundancy provisions	-	1
	1,278	**1,607**

We apply estimates and judgement in measuring our provisions for employee benefits.

Long service leave provision

We applied management judgement to determine the following key assumptions used in the calculation of long service leave entitlements:

- 3.5 per cent (2019: 4.0 per cent) weighted average projected increases in salaries
- 2.3 per cent (2019: 2.7 per cent) discount rate.

The discount rate used to calculate the present value has been determined by reference to market yields at 30 June 2020 on nine year (2019: 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	
	2020	2019
	$m	$m
Leave obligations expected to be settled after 12 months	435	495

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 affected.

5.2 Employee share plans

We have a number of employee share plans that are available to executives and employees as part of their 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 the Trustee 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 either in shares or similar equity instruments or in cash but the amounts due are based on the price of the equity instruments.

This note summarises the primary employee share plans conducted through Growthshare and the key events in the share-based payment arrangements during the financial year.

We have granted the following types of equity instruments as part of our equity-settled plans:

- restricted shares
- performance rights
- retention rights.

Restricted shares are Telstra shares that are subject to a restriction period.

Performance rights are rights to Telstra shares subject to the satisfaction of certain performance measures and service conditions over a defined performance period.

Retention rights are rights to Telstra shares if the retention rights vest.

Telstra retains the flexibility to settle performance rights granted under the Executive Variable Remuneration Plan (EVP) and retention rights in a cash amount equivalent to the value of the shares that would otherwise have been provided on vesting of the rights.

A summary of the key terms of our main equity-settled plans is presented in the tables below. Further information can be found in note 5.2.1.

Table A provides a summary of the restricted shares that were outstanding at 30 June 2020.

Table A Telstra Group	Financial year granted	Restriction period	Number of restricted shares allocated and outstanding at 30 June 2020
EVP restricted shares	FY20	1 to 4 years from the end of the initial performance period	The restricted shares for FY20 will be allocated in the first half of the financial year 2021
	FY19	2 years from the end of the initial performance period	1,252,021
	FY18	1 to 2 years from the end of the initial performance period	277,694
Short-term incentive (STI) restricted shares	FY20, FY19, FY18, FY17	3 years from the end of the performance period	5,914,876
Employee Share Plan (ESP) restricted shares	FY18	3 years from February 2018	1,699,200
TESOP 99 restricted shares	FY00, FY98	Until the loan has been paid in full	2,024,900

Upon vesting, the EVP and STI restricted shares will be transferred to the executive in August on the first day of Telstra's share trading window under its Securities Trading policy following Telstra's full year results announcement.

Section 5. Our people (continued)

5.2 Employee share plans (continued)

Table B provides a summary of the EVP performance rights that existed at 30 June 2020.

Table B Telstra Group	Financial year granted	Date of testing against performance hurdles	Performance hurdles	Number of performance rights allocated and outstanding at 30 June 2020
EVP performance rights	FY20	30 Jun 2024	Relative Total Shareholder Return (RTSR)	The performance rights for FY20 will be allocated in the first half of the financial year 2021
	FY19	30 Jun 2023	RTSR	1,878,032
	FY18	50% 30 Jun 2021 50% 30 Jun 2022	RTSR	833,082

The definition of RTSR is set out in the Remuneration Report Glossary.

5.2.1 Description of share based payment arrangements

(a) Executive Variable Remuneration Plan (EVP)

The EVP has been implemented for the CEO and eligible Group Executives since the financial year 2018. Under the EVP, the amount earned by an executive is determined at the end of an initial one year performance period based on certain factors, including Telstra's performance against certain predetermined performance measures and the executive's individual performance (including their performance relative to other executives), with the Board retaining discretion to adjust the outcome to ensure it is appropriate. A component of the amount earned under the EVP is provided in restricted shares and a component in performance rights. Refer to the Remuneration Report for further details on the FY20 EVP structure.

The FY20 allocation of restricted shares and performance rights under the FY20 EVP are expected to be made in November 2020. Shareholder approval will be sought at the 2020 Annual General Meeting for the CEO's EVP equity grants.

(i) Restricted shares (equity-settled)

FY20 EVP restricted shares will be granted in four equal tranches, with one tranche eligible to vest each year for the four years following the end of the initial one year performance period. Refer to Table A for the restriction periods for the prior years' plans. No further performance hurdles will apply once the restricted shares are allocated. During the restriction period, executives are entitled to vote and earn dividends on their restricted shares from the actual allocation date. However, they are restricted from dealing with the shares during this period.

If an executive leaves Telstra other than for a Permitted Reason (the definition of which is set out in the Remuneration Report Glossary) before the end of the relevant restriction period, the restricted shares will be forfeited. Restricted shares may also be forfeited if certain clawback (malus) events occur before the restricted shares are transferred to the executive following the end of the relevant restriction period.

(ii) Performance rights (equity-settled)

Once allocated, the FY20 EVP performance rights will be tested against a RTSR measure over a five year period (FY19 EVP: over five years) inclusive of the initial one year performance period.

The number of the FY20 EVP performance rights that vest will be determined on a straight-line basis, with 50 per cent of the performance rights vesting if Telstra's RTSR ranks at the 50th percentile of the Comparator Group over the performance period, up to 100 per cent of the performance rights vesting where Telstra's RTSR ranks at the 75th percentile of the Comparator Group or above. No FY20 EVP performance rights will vest if Telstra's RTSR ranks below the 50th percentile of the Comparator Group. Any performance rights that do not vest following testing against the RTSR measure will lapse.

The financial year 2019 and 2018 EVP performance rights will only vest if Telstra's RTSR ranks at the 50th percentile or greater against a comparator group comprising the ASX100 excluding resource companies (Comparator Group) over the performance period. If the RTSR measure is not satisfied, all of the applicable performance rights in the relevant tranche will lapse.

No dividends are paid on performance rights prior to vesting. For performance rights that do vest, a cash payment equivalent to dividends paid by Telstra during the period between allocation of the performance rights and vesting will be made at or around the time of vesting, subject to applicable taxation. This cash entitlement is not included in the grant date fair values of the performance rights as this is accounted for separately.

If an executive leaves Telstra other than for a Permitted Reason before the end of the performance period, the performance rights will lapse. Performance rights may also lapse if certain clawback (malus) events occur before the performance rights vest following the end of the performance period.

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.1 Description of share based payment arrangements (continued)

(a) Executive Variable Remuneration Plan (EVP) (continued)

(iii) Cash rights (cash-settled)

As at 30 June 2020 we recorded a $4 million liability (2019: $4 million) pertaining to the outstanding cash rights issued to the former executives that ceased employment for a permitted reason in the financial year 2019.

(b) Retention rights (equity-settled)

During the financial year 2019, Telstra issued one-off retention rights to eligible employees. As at 30 June 2020, 7,610,669 retention rights were outstanding.

The retention rights were allocated in August 2018 in two tranches – 5,065,355 (40 per cent) of the retention rights vested on 31 December 2019 and the remaining 60 per cent will vest on 30 June 2021. The retention rights are not subject to performance hurdles. There will be no dividends or dividend equivalent amounts paid during the vesting period. If the holder leaves Telstra other than for a permitted reason before the end of the relevant vesting period, the retention rights are forfeited. Retention rights may also lapse if certain clawback (malus) events occur before the retention rights vest.

(c) STI restricted shares

Under the STI arrangements, 25 per cent of an eligible executive's actual STI payment is provided as restricted shares which are restricted for three years from the end of the performance period.

Performance hurdles are applied in determining the number of restricted shares allocated to executives, and therefore, restricted shares are not subject to any other performance hurdles once they have been allocated. 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 other than for a Permitted Reason before the end of the relevant restriction period, the restricted shares are forfeited. Restricted shares may also be forfeited if certain clawback (malus) events occur before the restricted shares are transferred to the executive following the end of the relevant restriction period.

(d) Employee Share Plan (ESP) restricted shares (equity-settled)

Restricted shares provided under the ESP were allocated to certain eligible employees at no cost (executives were excluded from the ESP).

The restricted shares are held by the Trustee on behalf of employees until the restriction period ends. For Australian based employees, the shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment. Although the Trustee holds the restricted shares in trust, the employees retain beneficial interest (dividends, voting rights, bonus issues and right issues) in these shares until the end of the restriction period.

There are no performance hurdles for these restricted shares.

(e) TESOP99 (equity-settled)

As part of the Commonwealth's sale of its shareholding in the financial years 1998 and 2000, Telstra offered eligible employees the opportunity to buy ordinary shares of Telstra with an interest-free loan from Telstra. The shares are held by Telstra ESOP Trustee Pty Limited (TESOP Trustee) on behalf of the employee until the loan has been repaid in full. The Telstra Employee Share Ownership Plan II (TESOP 99) has 2,024,900 outstanding equity instruments as at 30 June 2020 (2019: 2,903,300) with a total fair value of $6 million (2019: $11 million). This plan did not have a material impact on our results.

The employee share loan balance as at 30 June 2020 was $7 million (2019: $10 million), the weighted average loan still to be repaid was $3.27 (2019: $3.39) per instrument.

5.2.2 Fair value measurement

(a) EVP restricted shares

EVP restricted shares were measured based on the Board approved fixed dollar outcome for the financial year 2020, with a final number of shares to be allocated in November 2020. The estimated fair value per share was $3.44 (2019: $2.95).

(b) EVP performance rights

Table C provides a weighted average of the inputs used in measuring the fair value of EVP performance rights at grant date.

Table C Telstra Group	Year ended 30 June	
	2020	2019
Measurement date	Aug 2019	Oct 2018
Share price	$3.87	$3.11
Risk free rate	0.67%	2.26%
Dividend yield	5.22%	6.14%
Expected life in years	4.9 years	4.7 years
Expected stock volatility	19%	20%
Fair value ($)	$1.91	$1.98

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This is based on an annualised historical daily volatility of closing share prices over a certain period to the measurement date.

(c) Retention rights

No retention rights were granted in the financial year 2020.

Table D Telstra Group	Retention rights
	2019
Measurement date	Aug 2018
Share price	$3.08
Risk free rate	1.99%
Dividend yield	5.84%
Expected life in years	2.3 years
Fair value ($)	$2.71

5.2.3 Expense recognised in profit or loss

For details of the related employee benefit expenses, refer to note 2.3.

Section 5. Our people (continued)

5.2 Employee share plans (continued)

5.2.4 Recognition and measurement

For each of our equity-settled 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.

Grant date is the date when there is a shared understanding between employees and Telstra of the terms and conditions of the plan and the employees have accepted the offer. This often occurs prior to the allocation of equity instruments to the employees.

The fair values of our equity instruments are calculated by taking into account the terms and conditions of the individual plan and as follows:

Equity instrument	Fair value approach
Restricted shares	We measure the value of the award by reference to the fixed dollar outcome approved by the Board
Performance rights	Black-Scholes methodology and utilises Monte Carlo simulations
Retention rights	Market value of Telstra's share at grant date excluding estimated dividends lost between the grant date and the allocation date

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense in the income statement.

5.3 Post-employment benefits

We participate in, or sponsor, defined benefit and defined contribution schemes for our employees. This note provides details of our Telstra Superannuation Scheme (Telstra Super) defined benefit plan.

Our employer contributions to Telstra Super are based on the recommendations from the actuary of Telstra Super 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	
	2020	2019
	$m	$m
Fair value of defined benefit plan assets	1,781	2,108
Present value of the defined benefit obligation	1,666	1,884
Net defined benefit asset	**115**	**224**
Attributable to:		
Telstra Super	123	232
Other	(8)	(8)
	115	**224**

5.3.2 Telstra Superannuation Scheme (Telstra Super)

The Telstra Entity participates in Telstra Super, a regulated fund in accordance with the Superannuation Industry Supervision Act governed by the Australian Prudential Regulation Authority.

Telstra Super's board of directors operates and governs the plan, including making investment decisions.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions, which are closed to new members, provide benefits based on years of service and final average salary paid as a lump sum. Post-employment benefits do not include payments for medical costs.

On an annual basis, we engage qualified actuaries to calculate the present value of the defined benefit obligations.

Contribution levels made to the defined benefit divisions are determined by Telstra after obtaining the advice of the actuary and in consultation with Telstra Super Pty Ltd (the Trustee). These are designed to ensure that benefits accruing to members and beneficiaries are fully funded as they fall due. The benefits received by members of each defined benefit division take into account factors such as each employee's length of service, final average salary, and employer and employee contributions.

Telstra Super is exposed to Australia's inflation, credit risk, liquidity risk and market risk. Market risk includes interest rate risk, equity price risk and foreign currency risk. The strategic investment policy of the fund is to build a diversified portfolio of assets to match the projected liabilities of the defined benefit plan.

5.3 Post-employment benefits (continued)

5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

(a) Reconciliation of changes in fair value of defined benefit plan assets

Table B provides a reconciliation of fair value of defined benefit plan assets from the opening to the closing balance.

Table B Telstra Super	As at 30 June 2020 $m	2019 $m
Fair value of defined benefit plan assets at beginning of year	**2,108**	**2,423**
Employer contributions	15	31
Member contributions	24	28
Benefits paid (including contributions tax)	(400)	(465)
Plan expenses after tax	(7)	(7)
Interest income on plan assets	49	82
Actual asset (loss)/gain	(8)	16
Fair value of defined benefit plan assets at end of year	**1,781**	**2,108**

(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 2020 $m	2019 $m
Present value of defined benefit obligation at beginning of year	**1,876**	**2,173**
Current service cost	61	65
Interest cost	45	74
Member contributions	10	13
Past service (credit)	(8)	(10)
Benefits paid	(400)	(465)
Actuarial loss due to change in financial assumptions	49	2
Actuarial loss/(gain) due to change in demographic assumptions	1	(2)
Actuarial loss due to experience	24	26
Present value of wholly funded defined benefit obligation at end of year	**1,658**	**1,876**

The actual return on defined benefit plan assets was 1.5 per cent (2019: 3.7 per cent).

Net actuarial loss recognised in other comprehensive income for Telstra Super amounted to $82 million (2019: $10 million net loss).

As a result of restructuring program, we settled the defined benefit plan obligations relating to the employees impacted by the redundancy and recognised a $8 million gain (2019: $10 million) on settlement. This is reflected in the past service credit.

(c) Categories of plan assets

Table D details the weighted average allocation as a percentage of the fair value of total defined benefit plan assets by class based on their nature and risks.

Table D Telstra Super	As at 30 June 2020 %	2019 %
Asset allocations		
Equity instruments		
Australian equity [1]	6	7
International equity [1]	7	8
Private equity	2	3
Debt instruments		
Fixed interest [1]	63	58
Property	9	8
Cash and cash equivalents	11	11
Other	2	5
	100	**100**

1 These assets have quoted prices in active markets.

(i) Related party disclosures

As at 30 June 2020, Telstra Super owned 49,396,553 (2019: 51,190,265) shares in the Telstra Entity at a cost of $184 million (2019: $145 million) and a market value of $155 million (2019: $197 million). All these shares were fully paid at 30 June 2020. During the financial year 2020, we paid a dividend to Telstra Super of $8 million (2019: $8 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 2020, these securities had a cost of $16 million (2019: $14 million) and a market value of $17 million (2019: $15 million).

All purchases and sales of Telstra shares, promissory notes and bonds by Telstra Super are on an arm's length basis and are determined by the Trustee and/or its investment managers on behalf of the members of Telstra Super.

Section 5. Our people (continued)

5.3 Post-employment benefits (continued)

5.3.2 Telstra Superannuation Scheme (Telstra Super) (continued)

(d) Actuarial assumptions and sensitivity analysis

Defined benefit plan

Management judgement was used to determine the following key assumptions used in the calculation of our defined benefit obligations:

- 2.5 per cent (2019: 2.5 per cent) average expected rate of increase in future salaries
- 2.1 per cent (2019: 2.4 per cent) discount rate.

We have used an eight year (2019: eight year) high quality corporate bond rate to determine the discount rate as the term matches closest to the term of the defined benefit obligations.

Our assumption for the salary inflation rate for Telstra Super reflects our long-term expectation for salary increases.

If the estimates prove to be different to actual experience, this may materially affect balances in the next reporting period.

Table E summarises how the defined benefit obligation as at 30 June 2020 would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point (1pp).

Table E Telstra Super	Defined benefit obligation	
	1pp increase	1pp decrease
	$m	$m
Discount rate	(109)	125
Expected rate of increase in future salaries	86	(77)

(e) Employer contributions

During the year, we paid contributions totalling $15 million (2019: $31 million) at the average rate of five per cent (2019: eight per cent) to our defined benefit divisions, following recommendations from the actuary of Telstra Super.

We expect to contribute at the rate of five per cent to our defined benefit divisions for the financial year 2021. This contribution rate could change depending on market conditions and actuarial review during the financial year 2021.

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	
	2020	2019
	%	%
Within 1 year	13	7
Between 1 and 4 years	22	24
Between 5 and 9 years	23	23
Between 10 and 19 years	36	39
After 20 years	6	7
	100	**100**

The weighted average duration of the defined benefit plan obligations at the end of the reporting period was eight years (2019: nine years).

5.3.3 Other defined benefit schemes

Our controlled entities also participate in both funded and unfunded defined benefit schemes, which are individually and in aggregate immaterial.

5.3.4 Recognition and measurement

(a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements and other obligations. The contributions are recorded as an expense in the income statement as they become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

(b) Defined benefit plans

(i) Telstra Superannuation Scheme

We currently sponsor a post-employment defined benefit plan under the Telstra Superannuation Scheme.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit is recognised as a liability. In the reverse situation, the net surplus is recognised as an asset. We recognise the asset to the extent that we have the ability to control this surplus to generate future funds that will be available to us in the form of reductions in future contributions or as a cash refund.

The actuaries use the projected unit credit method to estimate the present value of the defined benefit obligations of the plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on high quality corporate bonds.

We recognise all our defined benefit costs in the income statement, with the exception of actuarial gains and losses that are recognised directly in other comprehensive income.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at a reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

Section 5. Our people (continued)

5.4 Key management personnel compensation

Key management personnel (KMP) refer to those who have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. KMP are deemed to include the following:

- the non-executive Directors of the Telstra Entity
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, including the CEO.

This note summarises the aggregate compensation of our KMP during the financial years 2020 and 2019, and provides information about other transactions with our KMP and their related parties.

5.4.1 KMP aggregate compensation

During the financial years 2020 and 2019, the aggregate compensation of our KMP was:

Telstra Group	As at 30 June	
	2020	2019
	$000	$000
Short-term employee benefits	18,052	20,531
Post-employment benefits	301	309
Other long-term benefits	555	316
Termination benefits	1,100	2,865
Share-based payments	5,826	3,527
	25,834	**27,548**

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 2020 and 2019, 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 Investments in controlled entities

6.1.1 List of our investments in controlled entities

Table A sets out our material operating controlled entities as at 30 June 2020 (or ownership changes to such entities) determined by reference to 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 Telstra Group		% of equity held by immediate parent		% of equity held by ultimate parent	
		As at 30 June		As at 30 June	
		2020	2019	2020	2019
Name of entity	Country of incorporation	%	%	%	%
Ultimate parent entity					
Telstra Corporation Limited	Australia				
Controlled entities					
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
Telstra Health Pty Ltd	Australia	100.0	100.0	100.0	100.0
Fred IT Group Pty Ltd [1, 2]	Australia	50.0	50.0	50.0	50.0
Neto E-Commerce Solutions Pty Ltd	Australia	67.4	67.4	67.4	67.4
O2 Networks Pty Ltd	Australia	100.0	100.0	100.0	100.0
Ooyala Holdings Inc. [5]	United States	-	100.0	-	100.0
Pacific Business Solutions (China) [1, 2, 4]	China	50.0	50.0	50.0	50.0
Pacnet Cable Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Internet (A) Pty Ltd	Australia	100.0	100.0	100.0	100.0
Pacnet Internet (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Pacnet Limited	Bermuda	100.0	100.0	100.0	100.0
Pacnet Network (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

Section 6. Our investments (continued)

6.1 Investments in controlled entities (continued)

6.1.1 List of our investments in controlled entities (continued)

Table A (continued) Telstra Group		% of equity held by immediate parent		% of equity held by ultimate parent	
		As at 30 June		As at 30 June	
		2020	2019	2020	2019
Name of entity	Country of incorporation	%	%	%	%
Pacnet Services (Japan) Corp. [3]	Japan	100.0	100.0	100.0	100.0
PT Teltranet Aplikasi Solusi [1,4]	Indonesia	49.0	49.0	49.0	49.0
Telstra Broadcast Services Pty Limited	Australia	100.0	100.0	100.0	100.0
Telstra Cable (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra Global (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra Holdings Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Inc.	United States	100.0	100.0	100.0	100.0
Telstra International (Aus) Limited	Australia	100.0	100.0	100.0	100.0
Telstra International Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra International Philippines Inc.	Philippines	100.0	100.0	100.0	100.0
Telstra Internet (S) Pte Ltd	Singapore	100.0	100.0	100.0	100.0
Telstra iVision Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Japan K.K.	Japan	100.0	100.0	100.0	100.0
Telstra Limited	United Kingdom	100.0	100.0	100.0	100.0
Telstra Multimedia Pty Limited	Australia	100.0	100.0	100.0	100.0
Telstra Pay TV Pty Ltd	Australia	100.0	100.0	100.0	100.0
Telstra Services (Taiwan) Inc. [3]	Taiwan	100.0	100.0	100.0	100.0
Telstra Services (USA) Inc.	United States	100.0	100.0	100.0	100.0
Telstra Services Asia Pacific (HK) Limited	Hong Kong	100.0	100.0	100.0	100.0
Telstra Singapore Pte Ltd	Singapore	100.0	100.0	100.0	100.0
Sapio Pty Ltd [1]	Australia	51.0	51.0	51.0	51.0
Telstra Telecommunications Private Limited [4]	India	74.0	74.0	74.0	74.0
Telstra Web Holdings Inc. [3]	Philippines	64.0	64.0	64.0	64.0

1 We have control over these companies through our decision making ability on the board.
2 These entities are audited, however not by Ernst & Young, our Australian statutory auditor.
3 The investment in these companies is held by various entities. The immediate parent percentage reflected represents the ultimate ownership by Telstra Corporation Limited.
4 These entities have a 31 December reporting date, with the exception of Telstra Telecommunications Private Limited which has a 31 March reporting date.
5 We disposed of this entity during the year.

Section 6. Our investments (continued)

6.1 Investments in controlled entities (continued)

6.1.2 Deed of cross guarantee

Telstra Corporation Limited and each of the wholly-owned subsidiaries set out below (together the 'Closed Group'), are party to a deed of cross guarantee (Deed), as defined in Australian Securities and Investments Commission (ASIC) legislative instrument: 'ASIC Corporations (Wholly-owned Companies) Instrument 2016/785' (ASIC Instrument).

The effect of the Deed is that each entity in the Closed Group guarantees the payment in full of all debts of the other entities in the Closed Group in the event of their winding up.

Pursuant to the ASIC Instrument, the wholly-owned subsidiaries within the Closed Group are relieved from the requirement to prepare and lodge separate financial statements, directors' reports and auditors' reports.

The statement of comprehensive income and statement of financial position disclosed in this section present consolidated results of the Closed Group.

The following entities are party to the Deed and part of the Closed Group:

- Telstra Corporation Limited
- Bridge Point Communications Pty Ltd
- Kloud Solutions Pty Ltd
- Merricks NewCo Pty Ltd
- Mobile Tracking and Data Pty Ltd
- MTData Holdings Pty Ltd
- Network Design and Construction Limited
- O2 Networks Pty Ltd
- Pacnet Internet (A) Pty Ltd
- Telstra Broadcast Services Pty Limited
- Telstra Communications Limited
- Telstra Purple Pty Ltd (formerly Telstra Digital Innovation Group Pty Ltd)
- Telstra Health Pty Ltd
- Telstra Holdings Pty Ltd
- Telstra International (Aus) Limited
- Telstra Multimedia Pty Limited
- Telstra Pay TV Pty Ltd
- Telstra Plus Pty Ltd
- Telstra Services Solutions Holdings Limited
- Telstra Software Group Pty Ltd
- Telstra Ventures Pty Limited
- Virtual Machine Technology Pty Ltd

Merricks NewCo Pty Ltd was added as a party to the Deed via an assumption deed on 19 March 2020 and is also part of the Closed Group.

A revocation deed, which was lodged with ASIC on 19 December 2019 to revoke and release DCA eHealth Solutions Pty Ltd, iCareHealth Pty Ltd, Kloud Solutions (National) Pty Limited, MSC Mobility Pty Ltd and Telstra iVision Pty Ltd from the Deed, took effect on 20 June 2020 at which point these entities ceased being members of the Closed Group.

There are no other members of the Extended Closed Group (as defined in the ASIC Instrument). Telstra Finance Limited is trustee under the Deed. However, it is not a member of the Closed Group or the Extended Closed Group.

The consolidated statement of financial position and statement of comprehensive income of the entities that are members of the Closed Group are presented in Tables B and C respectively. This excludes Telstra Finance Limited. All transactions between members of the Closed Group have been eliminated.

Table B Closed Group	As at 30 June	
	2020	2019
	$m	$m
Current assets		
Cash and cash equivalents	489	544
Trade and other receivables and contract assets	4,330	4,597
Deferred contract costs	78	95
Inventories	398	431
Derivative financial assets	147	179
Prepayments	211	412
Total current assets	**5,653**	**6,258**
Non-current assets		
Trade and other receivables and contract assets	1,429	790
Deferred contract costs	1,354	1,232
Inventories	28	35
Investments – controlled entities	3,165	2,597
Investments – accounted for using the equity method	909	1,306
Investments – other	16	19
Property, plant and equipment	20,567	21,245
Right-of-use assets	2,823	-
Intangible assets	6,138	5,970
Derivative financial assets	2,011	2,083
Defined benefit asset	123	232
Total non-current assets	**38,563**	**35,509**
Total assets	**44,216**	**41,767**

Section 6. Our investments (continued)

6.1 Investments in controlled entities (continued)

6.1.2 Deed of cross guarantee (continued)

Table B (continued) Closed Group	As at 30 June	
	2020	2019
	$m	$m
Current liabilities		
Trade and other payables	3,528	4,095
Employee benefits	710	790
Other provisions	123	102
Lease liabilities	553	-
Borrowings	3,951	3,242
Derivative financial liabilities	54	57
Current tax payables	209	96
Contract liabilities and other revenue received in advance	1,522	1,575
Total current liabilities	**10,650**	**9,957**
Non-current liabilities		
Other payables	4	68
Employee benefits	126	157
Other provisions	135	145
Lease liabilities	2,485	-
Borrowings	14,465	14,932
Derivative financial liabilities	320	283
Deferred tax liabilities	1,546	1,461
Contract liabilities and other revenue received in advance	613	660
Total non-current liabilities	**19,694**	**17,706**
Total liabilities	**30,344**	**27,663**
Net assets	**13,872**	**14,104**
Equity		
Share capital	4,451	4,447
Reserves	19	(47)
Retained profits	9,402	9,704
Equity available to the closed group	**13,872**	**14,104**

Table C Closed Group	Year ended 30 June	
	2020	2019
	$m	$m
Income		
Revenue (excluding finance income)	22,219	23,803
Other income	2,346	2,534
	24,565	**26,337**
Expenses		
Labour	3,653	4,843
Goods and services purchased	8,324	8,307
Net impairment losses on financial assets	200	179
Other expenses	3,686	5,686
	15,863	**19,015**
Share of net (loss)/profit from joint ventures and associated entities	**(307)**	**8**
	16,170	**19,007**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**8,395**	**7,330**
Depreciation and amortisation	4,973	3,995
Earnings before interest and income tax expense (EBIT)	**3,422**	**3,335**
Finance income	275	241
Finance costs	1,022	804
Net finance costs	**747**	**563**
Profit before income tax expense	**2,675**	**2,772**
Income tax expense	965	942
Profit for the year	**1,710**	**1,830**

Section 6. Our investments (continued)

6.1 Investments in controlled entities (continued)

6.1.2 Deed of cross guarantee (continued)

Table C (continued) Closed Group	As at 30 June	
	2020	2019
	$m	$m
Items that will not be reclassified to the Closed Group income statement		
Retained profits		
Actuarial loss on defined benefit plans	(82)	(10)
Income tax on actuarial loss on defined benefit plans	25	3
Fair value of equity instruments reserve		
Gain from investments in equity instruments designated at fair value through other comprehensive income	-	3
Share of other comprehensive income of equity accounted entities	16	66
Income tax on fair value movements for investments in equity instruments	(2)	(22)
	(43)	**40**
Items that may be subsequently reclassified to the Closed Group income statement		
Movements in cash flow hedging reserve	54	3
Income tax on movements in the cash flow hedging reserve	(16)	(1)
Changes in the value of the foreign currency basis spread	(6)	(22)
Income tax on movements in the foreign currency basis spread reserve	2	7
	34	**(13)**
Total other comprehensive income for the Closed Group	**(9)**	**27**
Total comprehensive income for the year for the Closed Group	**1,701**	**1,857**

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	
	2020	2019
	$m	$m
Retained profits at the beginning of the financial year available to the Closed Group	**9,704**	**10,140**
Effect on retained profits arising from adoption of AASB 16: 'Leases'	(2)	-
Effect on retained profits from addition of entities to the Closed Group	(2)	-
Effect on retained profits from removal of entities to the Closed Group	(48)	-
Total comprehensive income recognised in retained profits	1,653	1,823
Dividend	(1,903)	(2,259)
Retained profits at the end of the financial year available to the Closed Group	**9,402**	**9,704**

6.1.3 Sale of units in a controlled trust

During the financial year 2020, we sold a 49 per cent minority interest in a property trust, The Exchange Trust, set up by Telstra holding a portfolio of 36 Telstra exchanges in Australia. The trustee of the property trust is Merricks NewCo Pty Ltd, our wholly owned controlled entity. Telstra retains the control over the trust and thus continues to consolidate these assets. The cash proceeds from the sale of the minority stake totalling $698 million are presented as non-controlling interest in the statement of financial position.

Section 6. Our investments (continued)

6.2 Investments in joint ventures and associated entities

We account for joint ventures and associated entities using the equity method. Under this method, we recognise the investment at cost and subsequently adjust it for our share of profits or losses, which are recognised in the income statement and our share of other comprehensive income, which is recognised in the statement of comprehensive income. Generally, dividend received reduces 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	
	2020	2019	2020	2019
	$m	$m	$m	$m
Carrying amount of investments at beginning of year	**348**	**296**	**950**	**941**
Additions	28	29	5	-
Disposals	-	-	(4)	-
Net impairment loss recognised in the income statement	-	(2)	-	-
	376	**323**	**951**	**941**
Share of net (loss)/profit	(9)	(6)	(296)	18
Share of distributions	(117)	(35)	(18)	(9)
Share of reserves	16	66	(6)	-
Carrying amount of investments at end of year	**266**	**348**	**631**	**950**

Share of net loss for the financial year 2020 includes $308 million impairment of our investment in NXE Australia Pty Limited. Refer to 6.2.1 for further details.

Share of joint ventures' reserves includes $16 million (2019: $66 million) of our share of other comprehensive income.

Section 6. Our investments (continued)

6.2 Investments in joint ventures and associated entities (continued)

6.2.1 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 Telstra Group			Ownership interest As at 30 June	
			2020	2019
Name of entity	Principal activities	Principal place of business/country of incorporation	%	%
Joint ventures				
Reach Limited (a)	International connectivity services	Bermuda	50.0	50.0
3GIS Pty Ltd	Management of former 3GIS Partnership (non-operating)	Australia	50.0	50.0
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	45.0	45.0
Telstra Ventures Fund II, L.P.	Venture capital	Guernsey	62.5	62.5
Associated entities				
Australia-Japan Cable Holdings Limited (a)	Network cable provider	Bermuda	46.9	46.9
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	Australia	30.0	30.0
enepath (Group Holdings) Pte Ltd (a)	Trading turret and calling software provider	Singapore	28.1	28.1
PharmX Pty Ltd (c)	Internet based ordering gateway	Australia	-	15.0
Asia Netcom Philippines Corporation (a)	Ownership of physical property	Philippines	40.0	40.0
Dacom Crossing Corporation (a)	Network cable provider	Korea	49.0	49.0
Digitel Crossing Inc. (a)	Telecommunication services	Philippines	48.0	48.0
Pivotal Labs Sydney Pty Ltd (a)	Software development	Australia	20.0	20.0
NXE Australia Pty Limited (d)	Pay television	Australia	35.0	35.0
Pacific Carriage Holdings Limited (a)(b)	Network cable provider	Australia	25.0	-
Pacific Carriage Holdings Limited Inc. (a)(b)	Network cable provider	Australia	25.0	-
Southern Cross Cables Holdings Limited (a)(b)	Network cable provider	Australia	25.0	-

Section 6. Our investments (continued)

6.2 Investments in joint ventures and associated entities (continued)

6.2.1 List of our investments in joint ventures and associated entities (continued)

Significant influence over our investments

We applied management judgement to determine that we do not control Telstra Super Pty Ltd even though we own 100 per cent of its equity.

Telstra Super Pty Ltd is a trustee for the Telstra Superannuation Scheme. We do not consolidate Telstra Super Pty Ltd as we do not control the board of directors. The board of directors consists of an equal number of employer and member representatives and an independent chairman. Our voting power over the relevant activities is 44 per cent, which is equivalent to our representation on the board. The entity is therefore classified as an associated entity as we have significant influence over it.

(a) Joint ventures and associated entities with different reporting dates

Several of our joint ventures and associated entities have reporting dates that differ from our reporting date of 30 June for the financial year 2020 as follows:

- Reach Limited – 31 December
- Australia-Japan Cable Holdings Limited – 31 December
- Asia Netcom Philippines Corporation – 31 December
- Dacom Crossing Corporation – 31 December
- Digitel Crossing Inc. – 31 December
- enepath (Group Holdings) Pte Ltd – 31 March
- Pivotal Labs Sydney Pty Ltd – 31 January
- Pacific Carriage Holdings Limited – 31 December
- Pacific Carriage Holdings Limited Inc. – 31 December
- Southern Cross Cables Holdings Limited – 31 December.

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.

(b) Additions

On 1 October 2019, the following entities were acquired as associated entities:

- Pacific Carriage Holdings Limited
- Pacific Carriage Holdings Limited Inc.
- Southern Cross Cables Holdings Limited

(c) Disposals

We sold our investment in PharmX Pty Ltd on 2 April 2020.

Joint control of our investments

We applied management judgement to determine that we have joint control of our investment in Telstra Ventures Fund II, L.P. While we hold 62.5 per cent of the partnership interest on a fully committed basis, key decisions for the entity require the unanimous approval of the Advisory Committee, on which we hold one of the two seats, or a majority of at least 75 per cent of the fully committed capital.

(d) NXE Australia Pty Limited

Telstra has a 35 percent interest in NXE Australia Pty Limited, an associated entity which provides subscription TV and streaming services. Telstra's interest in NXE Australia Pty Limited is accounted for using the equity method in the consolidated financial statements.

Financial information of NXE Australia Pty Limited and its controlled entities for the financial year 2020 is summarised in Table C based on their consolidated management financial statements prepared in accordance with the Australian Accounting Standards. The information disclosed reflects the amounts presented in the financial statements of NXE Australia Pty Limited and not Telstra’s share of those amounts. The management financial information has been adjusted to reflect adjustments made by Telstra when using the equity accounting method, including fair value adjustments and modifications for differences in accounting policy and impairment of our investment.

Table C	Year ended 30 June	
NXE Australia Pty Limited	2020	2019
	$m	$m
Current assets	530	733
Non-current assets	4,563	5,324
Current liabilities	(763)	(1,185)
Non-current liabilities	(3,182)	(2,628)
Equity	**1,148**	**2,244**
Telstra's share in equity 35% (2019: 35%)	402	785
Equity accounting adjustments	28	(20)
Telstra's carrying amount of the investment	**430**	**765**
Revenue	2,801	3,078
Operating expenses	(3,893)	(3,087)
Loss before tax	**(1,092)**	**(9)**
Income tax benefit/(expense)	7	3
Loss for the year	**(1,085)**	**(6)**
Other comprehensive income	(16)	(3)
Total comprehensive income for the year	**(1,101)**	**(9)**
Equity accounting adjustments	143	(20)
Adjusted comprehensive income for the period	(958)	(29)
Telstra's share of comprehensive income for the year (35%)	**(335)**	**(10)**

Section 6. Our investments (continued)

6.2 Investments in joint ventures and associated entities (continued)

6.2.1 List of our investments in joint ventures and associated entities (continued)

(d) NXE Australia Pty Limited (continued)

During the financial year 2020, our investment in NXE Australia Pty Limited has been impaired and a loss of $308 million was recognised in our share of the net loss from joint ventures and associated entities for the year. The impairment reflected the challenges of disruption in the industry and the impact of the COVID-19 pandemic as global sports are put on hold, pubs are temporarily closed, and advertisers are forced to carefully reconsider their investments.

6.2.2 Other joint ventures and associated entities

Table D presents our share of the aggregate financial information (including joint ventures and associated entities where equity accounting has been suspended).

Table D Telstra Group	Year ended/As at 30 June			
	Joint ventures		Associated entities	
	2020	2019	2020	2019
	$m	$m	$m	$m
Carrying amount of investment	**266**	**348**	**631**	**950**
Group's share of:				
(Loss)/gain	(12)	(5)	(294)	20
Other comprehensive income	13	61	(6)	(1)
Total comprehensive income	**1**	**56**	**(300)**	**19**

6.2.3 Suspension of equity accounting

Table E presents our unrecognised share of profits/(losses) for the financial year and cumulatively for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount.

Table E Telstra Group	Year ended 30 June			
	Period	Cumula-tive	Period	Cumula-tive
	2020	2020	2019	2019
	$m	$m	$m	$m
Joint ventures				
Reach Limited	(3)	(550)	1	(547)
Associated entities				
Australia-Japan Cable Holdings Limited	2	(67)	2	(69)
	(1)	**(617)**	**3**	**(616)**

6.2.4 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	
	2020	2019
	$m	$m
Income		
Sale of goods and services	202	201
Dividend income	1	-
Expenses		
Purchase of goods and services	845	859
Interest expense on amounts owed to joint ventures and associated entities	8	8
Total amounts receivable as at 30 June		
Current		
Trade receivables	39	41
Other receivables	52	-
Non-current		
Amounts owed by joint ventures and associated entities	24	8
Allowance for amounts owed by joint ventures and associated entities	(8)	(8)
	16	**-**
Movement in allowance for amounts owed by joint ventures and associated entities		
Opening balance	**(8)**	**(7)**
Foreign currency exchange differences	-	(1)
Closing balance	**(8)**	**(8)**
Total amounts payable as at 30 June		
Current		
Trade payables	147	163
Amounts owed to joint ventures and associated entities	89	-
Non-current		
Amounts owed to joint ventures and associated entities	1	79

Section 6. Our investments (continued)

6.2 Investments in joint ventures and associated entities (continued)

6.2.4 Transactions with our joint ventures and associated entities (continued)

(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 2020 were as follows:

- we purchased pay television services amounting to $706 million (2019: $777 million) from Foxtel. The purchases were to enable the resale of Foxtel services, including Pay TV content, to our existing customers as part of our ongoing product bundling initiatives.
- we made sales to Foxtel for our broadband system services of $38 million (2019: $35 million) and wholesale services of $57 million (2019: $55 million).

(b) Amounts owed by joint ventures and associated entities

Loans provided to joint ventures and associated entities relate to loans provided to NXE Australia Pty Limited of $16 million (2019: nil) and Reach Limited of $8 million (2019: $8 million).

In February 2020 we entered into a subordinated loan agreement with NXE Australia Pty Limited under which we made available to NXE Australia Pty Limited a loan facility of up to $170 million at commercial rates of interest. The facility matures on 22 December 2027. As at 30 June 2020 the balance drawn under this facility was $16 million.

The loan provided to Reach Limited 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 Limited is in a position to be able to repay the loan amount in the medium term.

(c) Amounts owed to joint ventures and associated entities

As at 30 June 2020, we had a loan payable amount of $90 million (2019: $79 million) under a loan agreement with an associated entity, Project Sunshine I Pty Ltd which includes capitalised interest. The loan has an interest rate of 9.5 per cent per annum. The current amount of $89 million matures in 31 December 2020 and the non-current amount of $1 million matures in 30 July 2024.

6.2.5 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.

The equity accounted investments are assessed for impairment on an annual basis or when there are impairment indicators. We apply management judgement to determine the recoverable amount of the investment using a 'value in use' calculation for our impairment assessment. These judgements include selection of terminal growth rate and discount rate based on past experience and our expectations for the future.

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 New accounting standards to be applied in future reporting periods

A number of new standards are effective for annual periods beginning after 1 July 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements except for those listed in note 1.5.

In May 2019, the AASB issued AASB 2019-1: 'Amendments to Australian Accounting Standards - References to the Conceptual Framework', effective for Telstra Group from 1 July 2020. We do not expect that either this accounting standard or any other recently issued accounting standards or amendments will have a material impact on our financial results upon their adoption.

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 the 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.

7.2 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 details the total fees to our external auditors.

Telstra Group	Year ended 30 June	
	2020	2019
	$m	$m
Fees to Ernst & Young (Australia)		
Category 1	7.741	7.192
Category 2	-	-
Category 3	2.009	3.160
Category 4	0.107	0.082
Total fees to Ernst & Young (Australia)	**9.857**	**10.434**
Fees to other overseas member firms of Ernst & Young (Australia)		
Category 1	2.429	2.256
Category 2	0.054	0.050
Category 3	-	-
Category 4	0.054	0.055
Total fees to overseas member firms of Ernst & Young (Australia)	**2.537**	**2.361**
Total auditor's remuneration	**12.394**	**12.795**

Following the 2019 discussion Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into the Regulation of Auditing in Australia a recommendation was made to adopt a consistent disclosure of audit and non-audit fees.

Section 7. Other information (continued)

7.2 Auditor's remuneration (continued)

As a result we have restated the comparative period balances and disclosed our audit and non-audit fees in the following categories:

- Category 1: fees to the group auditor for auditing the statutory financial report of the parent covering the group, and for auditing the statutory financial report of any controlled entities
- Category 2: fees for assurance services that are required by legislation to be provided by the auditor
- Category 3: fees for other assurance and agreed-upon procedures services where there is discretion as to whether the service is provided by the auditor or another firm
- Category 4: fees for other services (e.g. tax compliance).

Services in Category 3 included IT security control assessments.

Services in Category 4 included tax services and other advisory services.

We have processes in place to maintain the independence of the external auditor, including the nature of expenditure on non-audit services. EY also has specific internal processes and policies in place to ensure auditor independence.

7.3 Other provisions

The table below provides a summary of our current and non-current other provisions.

Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Current other provisions	124	103
Non-current other provisions	143	158

7.3.1 Provision for Australian Competition and Consumer Commission (ACCC) investigation

The ACCC is undertaking an investigation, launched in March 2019, into our sales, complaint handling and debt collection practices, to determine whether Telstra has engaged in misleading or deceptive conduct, unconscionable conduct, or made false or misleading representations, in breach of the Competition and Consumer Act 2010 (Act). The investigation has a specific focus on conduct towards Indigenous Australians, including in particular locations in the NT, WA, QLD, NSW and SA. It is also examining our conduct more broadly, including our sales, complaints handling and debt collection procedures, as they have been applied to our customers generally, and particularly vulnerable customers. The investigation, which involves extensive information and document requests, is ongoing, and its scope may change and broaden.

The ACCC's investigation follows investigations by both the Telecommunications Industry Ombudsman, one commencing in December 2016 and one in October 2018, and the ACMA, which commenced in June 2018, during which issues were raised and concerns were expressed about our sales practices, including in relation to Indigenous Australians. These investigations concluded in 2018 and 2019 and did not result in enforcement action by these bodies.

We are cooperating with the ACCC's investigation and continue to engage with the ACCC. In our financial statements for the half-year ended 31 December 2019 this matter was disclosed as a contingent liability as we were unable to determine a reliable estimate of any penalty or other remedies. As at 30 June 2020, having considered all available information at the date of this report we have made a provision of $50 million for any penalties.

We have been undertaking a comprehensive customer remediation program and are also already committed to a wide range of existing and future measures that provide direct benefits to Indigenous communities, including in the areas of digital literacy and inclusion. Resolution of this matter may involve undertaking additional measures. Given the uncertainty, no provision has been made to cover further liabilities that may arise.

There remains a material possibility that the ACCC will commence enforcement action against Telstra. Any such enforcement action arising from the ACCC investigation may involve significant financial penalties, which are set out in the Act and are applicable to each act or omission found to have breached the Act. Maximum penalties set out in the Act are not automatically applied and are assessed by a court on a case by case basis. Future developments may result in adjustments to the provision we have made.

Refer to note 7.4.2 for further details regarding contingent liabilities related to investigations by regulators.

7.4 Parent entity disclosures

This note provides details of Telstra Entity financial performance and financial position as a standalone entity. The results include transactions with its controlled entities.

Tables A and B provide a summary of the financial information for the Telstra Entity.

Table A Telstra Entity	As at 30 June	
	2020	2019
	$m	$m
Statement of financial position		
Total current assets	6,248	6,959
Total non-current assets	41,352	38,194
Total assets	**47,600**	**45,153**
Total current liabilities	14,025	13,378
Total non-current liabilities	19,592	17,625
Total liabilities	**33,617**	**31,003**
Share capital	4,451	4,447
Cash flow hedging reserve	(177)	(209)
Foreign currency basis spread reserve	(25)	(21)
General reserve	201	201
Retained profits	9,533	9,732
Total equity	**13,983**	**14,150**

Section 7. Other information (continued)

7.4 Parent entity disclosures (continued)

Table B Telstra Entity	Year ended 30 June	
	2020	2019
	$m	$m
Statement of comprehensive income		
Profit for the year	1,764	2,358
Total comprehensive income	1,735	2,337

Total non-current assets include $329 million (2019: $603 million) impact of impairment losses recognised during the financial year. Within that amount, impairment losses relating to our associated entities were $308 million (2019: nil), and relating to our controlled entities amounted to $16 million (2019: $104 million). The latter has been eliminated on consolidation of the Telstra Group. Refer to note 6.2 for further details regarding impairment of our associated entities, and to note 2.3 for impairment losses on property, plant and equipment and software.

7.4.1 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	
	2020	2019
	$m	$m
Total property, plant and equipment expenditure commitments	331	471

7.4.2 Contingent liabilities and guarantees

(a) Investigations by regulators

Telstra recognises the fundamental importance of doing business responsibly. A critical aspect of this is recognising the importance of continuously striving to improve outcomes for our customers and taking action if we don't meet the standards we set for ourselves. This reflects the business environment in which we operate, and the heightened expectations of the community, of regulators, and of our shareholders, as well as the expectation that regulators will investigate and take action if they believe that misconduct has occurred.

Telstra is subject to a range of laws and regulations in Australia and overseas, including in the areas of telecommunications, corporate law, consumer and competition law and occupational health and safety. Telstra is also subject to investigations and reviews from time to time by regulators, including in circumstances where Telstra has self-reported issues where it has not complied with relevant laws and regulations. In Australia, the principal regulators that Telstra interacts with are the Australian Competition and Consumer Commission (ACCC), the Australian Communications and Media Authority (ACMA), the Australian Securities and Investments Commission and the Australian Securities Exchange. Any regulatory investigations and reviews may result in enforcement action, litigation (including class action proceedings) or civil or criminal penalties. We assess each investigation and review that we are subject to for the purposes of preparing our financial statements in accordance with the accounting standards.

In the ordinary course of our business, we identify, and may continue to identify, issues that have the potential to impact our customers and reputation, or which do not meet our standards. There have been instances, which are among those the ACCC is investigating referred to in note 7.3.1, where we have failed to meet the standards we set for ourselves. These include instances where our sales processes were not followed, and where our complaint and debt recovery procedures were applied in a way that did not deliver good customer outcomes. While, as noted in note 7.3.1, we have taken steps to respond to these issues, and will continue to do so, contingent liabilities may exist in respect of actual or potential claims, compensation payments and/or refunds arising from issues which we identify and instances such as these. Where we identify these issues, we make disclosures in accordance with the accounting standards, or our other legal disclosure obligations, or provide for such liabilities as required.

Refer to note 7.3.1 for details regarding the ACCC investigation which has been provided for.

(b) Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2020, 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.

(c) 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 $292 million (2019: $229 million) in respect of the performance of contracts
- indemnities to financial institutions and other third parties in respect of performance and other obligations of our controlled entities, with the maximum amount of our contingent liabilities of $126 million (2019: $135 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 2020, this guarantee remains unchanged and $142 million (2019: $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.

(d) Other

In addition to the above matters, entities in the Telstra Group may be recipients of, or defendants in, certain claims, regulatory or legal proceedings and/or complaints made, commenced or threatened. At 30 June 2020, management believes that the resolution of these contingencies will not have a material effect on the financial position of the Telstra Group, or are not at a stage which supports a reasonable evaluation of the likely outcome of the matter.

Section 7. Other information (continued)

7.4 Parent entity disclosures (continued)

7.4.3 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 6.1 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.

7.5 Commitments and contingencies

This note provides details of our commitments for capital expenditure 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.

7.5.1 Capital expenditure commitments

Table A shows the capital expenditure commitments contracted for at balance date but not recorded in the financial statements.

Table A Telstra Group	As at 30 June	
	2020	2019
	$m	$m
Property, plant and equipment commitments	336	480
Intangible assets commitments	62	398

Property, plant and equipment commitments include the Telstra Entity capital expenditure commitments of $331 million (2019: $471 million) as disclosed in note 7.4.

7.5.2 Contingent liabilities and contingent assets

Details and estimated maximum amounts (where reasonable estimates can be made) of contingent liabilities for the Telstra Entity are disclosed in note 7.4.2.

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 6.1.2. 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.

We have no significant contingent assets as at 30 June 2020.

7.6 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 30 June 2020 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:

7.6.1 Final dividend

The details of the final dividend for the financial year 2020 are disclosed in note 4.1.

7.6.2 Disposal of Clayton data centre property

On 5 August 2020, Telstra entered into an agreement with Centuria Industrial REIT for the disposal of the underlying land and buildings that house the Clayton data centre in Victoria, Australia. Under the terms of the agreement, the cash proceeds are $417 million and Telstra will lease the property under a triple-net lease for an initial period of 30 years with two 10-year options for Telstra to extend the lease. In the event that there is a change of ownership in relation to the property during a lease term, Telstra has the option to repurchase the property at the end of such term. Due to the long tenure of the leaseback, the transaction will not be treated as a sale under accounting standards, therefore no accounting gain will arise. The transaction is expected to be completed by the end of August 2020.

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 2020 as set out in the financial report:
  (i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations (as disclosed in note 1.1 to the financial statements), and Corporations Regulations 2001
  (ii) give a true and fair view of the financial position of Telstra Corporation Limited and the Telstra Group as at 30 June 2020 and of the performance of Telstra Corporation Limited and the Telstra Group, for the year ended 30 June 2020
  (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 6.1.2 to the financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any liabilities to which they are, or may become, subject to because of the Deed of Cross Guarantee described in note 6.1.2.

For and on behalf of the board

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

13 August 2020

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Telstra Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' Declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Why significant	How our audit addressed the matter
Revenue recognition	
The Group exercises significant judgment relating to revenue recognition in the following areas: • accounting for new products and plans including bundles of products and/or services; • accounting for large Network Application Services (NAS) contracts; • accounting for NBN revenue under the revised Definitive Agreements (DAs) with nbn co and the Commonwealth Government; • determination of standalone selling prices for products sold in bundles; and • assessment of significant financing components. Disclosures relating to revenue recognition can be found at Section 2.1 Segment Information and 2.2 Income. The accuracy 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.	We evaluated the design and operating effectiveness of key controls over the capture and measurement of revenue transactions across all significant revenue streams, including evaluating the relevant IT systems. We examined the process and controls over the capture and assessment of the timing of revenue recognised for new products and plans, as well as performed testing of a sample of new plans to supporting evidence. For all significant revenue streams, for a sample of revenue transactions recorded during the year, we obtained supporting evidence such as customer contracts, statements of work, other contractual agreements, service detail records and evidence of customer payment. For the NAS contracts, we focused our work on those which we regarded as higher risk because of the nature of the contract, its stage of delivery or the quantum of the related assets and those which were significant by size.

Why significant	How our audit addressed the matter
The complexity of the billing systems was also considered as part of the reliance on automated processes and controls Key Audit Matter outlined below.	In performing this testing, we assessed the appropriateness of the assumptions and estimates supporting the accounting for these major contracts as follows: • We tested the effectiveness of controls that operate across the contract life cycle for major contracts. • We obtained and read the relevant sections of certain contracts, to identify the contracted revenues, key provisions in the event of contract termination (such as penalties or the ability for the Group to recover costs) and other significant obligations. • We determined whether the future forecasts reflected the contract terms, testing any significant changes (such as new services) to contract amendments or other supporting documentation. • For a sample of recorded revenue and cost transactions we obtained evidence to support delivery and/or customer acceptance. • We compared the historical forecast results of certain contracts with the actual results to assess the performance of the contract and the historical accuracy of forecasting. • We considered the future forecast profitability and the contractual terms to assess the recoverability of the contract-specific assets and to determine if any contracts required loss provisions. We assessed the appropriateness of the assumptions and estimates supporting the accounting for the revised DAs including understanding the timing of disconnections, the progress of the NBN rollout and the transfer of the copper and Hybrid Fibre Coaxial (HFC) networks to nbn co. We assessed the Group accounting policies as set out in Section 2.2, and the adequacy of disclosures for compliance with the revenue recognition requirements of Australian Accounting Standards.
Reliance on automated processes and controls	
A significant part of the Group's financial processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions. This is a key part of our audit because of the: • complex IT environment supporting diverse business processes; • mix of manual and automated controls; • multiple internal and outsourced support arrangements; and • complexity of the billing systems which result in revenue being recognised. The Group continues to enhance its IT systems and during the year implemented new systems which were significant to our audit.	Our IT specialists assessed the Group's manual and automated controls relating to IT systems relevant to financial reporting, including the recognition of revenue. When testing controls was not considered an appropriate or efficient testing approach, alternative audit procedures were performed on the financial information being produced by systems. Our IT specialists analysed the impact on our audit of new systems that are significant to our audit. This included assessing the design of relevant automated processes and controls. We evaluated the effectiveness of the controls in the new systems.

Why significant	How our audit addressed the matter
Impairment of goodwill, intangible assets and investments	
Given the dynamic nature of the industry in which the Group operates, there is a risk that there could be material impairment to goodwill, other intangible asset balances, investments and other non-current assets. Determination as to whether or not there is an impairment relating to an asset or Cash Generating Unit (CGU) involves significant judgment about the future cash flows and plans for these assets and CGUs. During the current year, Telstra's investment in NXE has been impaired and a loss of $308 million was recognised in their share of the net loss for the year. Further disclosure regarding the Group's impairment testing can be found in Section 3.2.	We assessed the Group's determination of cash generating units (CGU) used for their impairment assessment. We evaluated the Group's assessment of indicators of impairment or impairment reversal. Where we or the Group determined indicators existed, we evaluated the Group's calculation of the recoverable amount of each CGU and investment. Additionally, we assessed the reasonableness of the Board approved cash flow projections used in the impairment models as well as the reliability of the Group's historical cash flow forecasts. We involved our valuation specialists to assess the impairment models and evaluate 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, including any potential impact of the COVID-19 pandemic. Having determined the change in assumptions (individually or collectively) that would be required for the CGUs to be impaired, we considered the likelihood of such a movement in those key assumptions arising. We evaluated the adequacy of impairments that had been recognised during the financial year. We evaluated the adequacy of the disclosures included in Section 3.2.
Capitalisation of assets, including useful lives, amortisation and impairment	
There are a number of areas where judgments significantly impact the carrying value of property, plant and equipment, software intangible assets and their respective depreciation and amortisation profiles. These areas are as follows: • the decision to capitalise or expense costs; • the annual asset life review; • the timeliness of the transfer from assets in the course of construction; and • significant changes that have taken place during the period or are expected to take place in the near future, which will impact the extent to which, or manner in which, an asset is used or is expected to be used. Changes in these judgments have a significant impact on the results of the Group. Accordingly, this was considered a key audit matter. Disclosures relating to the capitalisation and write-off of assets can be found at Sections 3.1 and 3.2.	Our audit procedures included the following: • Assessed the effectiveness of the Group's controls over the acquisition and disposal of assets. • Evaluated the appropriateness of capitalisation policies. • Selected a sample of costs capitalised during the year to determine whether capitalisation was appropriate. • Assessed the appropriateness of the date from which assets commenced being depreciated. We assessed the application of the Group's annual asset life review. This included assessing judgments made by the Group on: • the nature of underlying costs capitalised; and • the appropriateness of asset lives applied in the calculation of depreciation and amortisation. We evaluated management's impairment assessment of property, plant and equipment and software intangible assets. This included assessing judgements made by the Group on: • the nature and impact of changes on the business from the Telstra 2022 (T22) strategy, including which specific assets are impacted; • the extent of the impact of these changes on the carrying value of identified property, plant and equipment, software intangible assets; and • the completeness of the listing of impacted assets. We evaluated the adequacy of disclosures included in Sections 3.1 and 3.2.

Why significant	How our audit addressed the matter
Implementation of AASB 16 *Leases*	
The Group adopted AASB 16 *Leases* (AASB 16) on 1 July 2019. The adoption of the standard resulted in an increase in the Group's right of use assets and lease liabilities of $3.8 billion and $3.9 billion respectively as at 1 July 2019. The adoption of this accounting standard is inherently complex due to: • the volume of leases held by the Group; and • the judgements and estimates required to be applied by management including determination of the lease term and appropriate discount rate for each lease. Accordingly, this was considered a key audit matter. Disclosures relating to the adoption of AASB 16 can be found at Sections 1.5 and 3.3.	We evaluated the design and operating effectiveness of the processes and controls to capture and measure the right of use assets and lease liabilities, including the completeness of the balances and evaluating the relevant IT systems. We evaluated the appropriateness of key assumptions used in calculating the impact upon adoption which included: • determining lease terms including options that are reasonably certain to be exercised; and • assessing the appropriateness and consistency of the discount rate used (i.e. incremental borrowing rate) by using our specialists to benchmark the Group's rate curves to market curves. We agreed a sample of leases to the original lease contract terms or other supporting documentation and recalculated the right of use asset and lease liability for each to assess the accuracy of the Group's AASB 16 calculation. We evaluated the completeness of the Group's lease population by auditing management's reconciliation of the Group's lease commitments at 30 June 2019 to the opening AASB 16 calculation and examined the process and controls over the capture and assessment of arrangements that may contain a lease. We assessed the Group's accounting policies as set out in Sections 1.5 and 3.3, and the adequacy of disclosures for compliance with AASB 16.

Information Other than the Financial Statements and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's 2020 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

Building a better working world

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne
13 August 2020