

1 September 2011

The Manager

Company Announcements Office  
Australian Securities Exchange  
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MELBOURNE VIC 3000  
AUSTRALIA

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**ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Telstra Corporation Limited –2011 Annual Report**

In accordance with the listing rules, I attach a copy of the 2011 Annual Report which will be sent to shareholders shortly.

Regards

A handwritten signature in black ink, appearing to be "C. Mulhern", followed by a period.

**Carmel Mulhern**  
Company Secretary

# ANNUAL REPORT 2011



IT'S HOW  
WE CONNECT





# 2M

NEW MOBILE CUSTOMERS  
IN AUSTRALIA & HONG KONG

# 659,000

BUNDLES SOLD

# 28c

DIVIDEND PER SHARE

## COMMUNICATING WITH OUR SHAREHOLDERS

Our online Investor Centre [www.telstra.com/investor](http://www.telstra.com/investor) is an important tool for our shareholders where you can access all the latest news, information and shareholder communications faster. If you are an e-shareholder, we will let you know when there is something important for you to view or download.

## ANNUAL REPORT

Telstra's 2011 Annual Report is available to all shareholders on our Investor Website at [www.telstra.com.au/annualreports](http://www.telstra.com.au/annualreports). To receive a hardcopy of the statutory Annual Report (free of charge) you can call our Share Registry on 1300 88 66 77 and request the report be sent to you. You may also update your communication election online to receive future copies of the Annual Report. Please refer to the **Managing my Telstra Shareholding online** section for instructions on how to do this.



MORE THAN  
**5M**

CALLS OUT OF HOURS SINCE  
24x7 FOR SALES AND SERVICE

MORE THAN  
**280**

NEW AND REFURBISHED TELSTRA STORES

**80,000**

WEEKEND TECHNICIAN APPOINTMENTS

#### MANAGING MY SHAREHOLDING ONLINE

1. Go to [www.linkmarketservices.com.au/telstra](http://www.linkmarketservices.com.au/telstra)
2. Enter your SRN/HIN (this can be found on your latest dividend statement), your post code, the security code displayed and read and accept the terms and conditions.

Use the following sections to help you locate information about your Telstra holding(s):

**Holdings** – here you can access your transaction history, holding balance, holding value and see the last closing share price.

**Payment & Tax** – here you can access your dividend payment history, payment instructions and your TFN. Shareholders can update bank details here.

**Communication** – use this section to become an e-Shareholder. You can update your postal address, email address and communication elections here.

#### BECOMING AN E-SHAREHOLDER

Telstra encourages shareholders to elect to receive their communications electronically. By providing your email address you will receive your dividend statements, Notice of the Annual General Meeting and Shareholder Updates (including summary financial information) by email notification. This is also important if we want to communicate with you at short notice in relation to current issues.

Please refer to the **Managing my Telstra Shareholding online** section for instructions on how to do this.

Please contact our share registry on 1300 88 66 77 or email [telstra@linkmarketservices.com.au](mailto:telstra@linkmarketservices.com.au) should you require any further information relating to your shareholding.



# FINANCIAL RESULTS

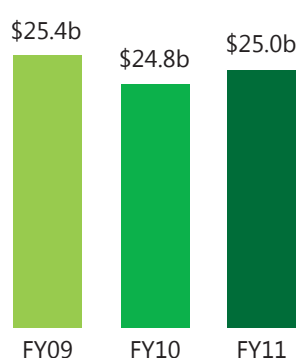
## FIVE YEAR FINANCIAL SUMMARY

	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Sales revenue	24,983	24,813	25,371	24,657	23,673
EBITDA <sup>(1)</sup>	10,151	10,847	10,948	10,416	9,861
EBIT <sup>(2)</sup>	5,692	6,501	6,558	6,226	5,779
Profit for the year after non-controlling interests	3,250	3,940	4,076	3,711	3,275
Dividends declared per share (cents per share)	28	28	28	28	28
Total assets	37,913	39,282	39,962	37,921	37,837
Gross debt	16,232	16,031	17,036	16,285	15,547
Net debt	13,595	13,926	15,655	15,386	14,724
Total Equity	12,292	13,008	12,681	12,295	12,580
Accrued capital expenditure	3,410	3,471	4,598	4,897	5,879
Free cashflow	5,477	6,225	4,365	3,855	2,899

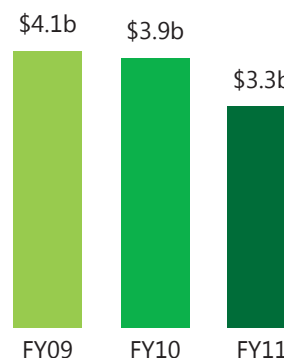
(1) Operating profit before interest, depreciation and amortisation and income tax expense. EBITDA is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to all financial aspects of the operations of the company. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to us.

(2) EBITDA less depreciation and amortisation.

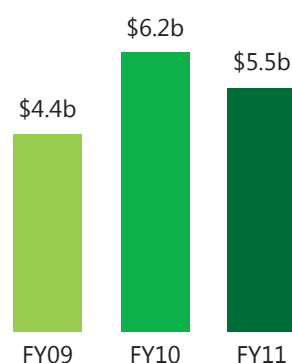
### SALES REVENUE



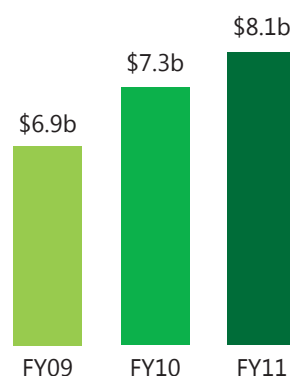
### PROFIT FOR THE YEAR



### FREE CASHFLOW



### MOBILE REVENUE



# CHAIRMAN & CEO MESSAGE

Dear Shareholders

It has been a significant year for Telstra with the successful implementation of a new strategy and the signing of Definitive Agreements with NBN Co and the Commonwealth for our participation in the rollout of the National Broadband Network (NBN). We have also seen the company return to EBITDA growth in the second half of the year and expect momentum across the business to continue in 2012.

The NBN agreements are extremely important for the company and shareholders, and ahead of the shareholder vote we look forward to providing you with a detailed Explanatory Memorandum which includes an Independent Expert's report so you are able to make an informed decision.

A year ago we announced plans to make a significant strategic investment in the business during 2011 to support our long term strategic priorities - to improve customer satisfaction, to retain and grow our customer base, to simplify the business and to invest in new growth opportunities.

As a result, we have seen strong operating momentum across the business. We have had one of our best years for customer growth, have seen improvements in customer satisfaction and are already seeing the financial benefits of our simplification programme at the top and bottom line. Additionally, we have developed growth opportunities, making investments in cloud computing, implementing a digital strategy at Sensis, offering FOXTEL content across our T-Box® services, and restructuring the Reach network assets in Asia.

Most importantly for our shareholders, the strategy is bearing fruit. We have seen the company return to revenue growth, and expect the momentum across the business to translate to profit growth in 2012.

## 2011 HIGHLIGHTS

For the fiscal year 2011, sales revenue rose 0.7% to \$24,983 million and total revenue also rose by 0.7% to \$25,093 million. In the second half of the year sales revenue grew by 1.8% compared to a 0.5% decline in sales revenue in the first half, evidence of the turnaround in the business.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 6.4% to \$10,151 million, with EBITDA margins declining by 3.1 percentage points to 40.6%.

Free cashflow of \$5,477 million was generated in the year. This figure includes \$288 million from the sale of SouFun. On our guidance basis, excluding this gain, free cashflow was \$5.2 billion. Accrued capital expenditure was \$3,410 million in the year, or 13.6% of sales.



CATHERINE LIVINGSTONE  
CHAIRMAN



DAVID THODEY  
CHIEF EXECUTIVE OFFICER

# CHAIRMAN & CEO MESSAGE

On 11 August 2011, the Directors of Telstra resolved to pay a fully franked final dividend of 14 cents per share. As announced in November 2010, it is also the company's intention to maintain a 28c fully franked dividend for 2012, subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

## OUTLOOK\*

Over the past year Telstra has recorded a turnaround in operational results, with strong customer growth, lower churn, a return to EBITDA growth and higher market share in fixed broadband and mobile.

In fiscal 2012, the new initiatives from the company will continue to bear fruit. The year will see productivity and other benefits from a continuing simplification of our processes.

For 2012, we expect Telstra to return to full year EBITDA growth with low single digit revenue growth and low single digit EBITDA growth on the back of strong second half performance in fiscal 2011. Capex to sales will continue to be around 14% of sales with free cashflow of between \$4.5 and \$5.0 billion. The NBN is not expected to have a material impact on Telstra's financial results in 2012.

## CUSTOMER SATISFACTION

Over the past two years, we have been on a journey to re-invent Telstra to make it faster, easier and simpler to do business with us.

This year, we continue to implement initiatives towards improving customer satisfaction. For example, we have made enhancements to our Telstra.com website to make it easier for our customers to deal with us on-line and we now have a dedicated team of specially trained agents to work with family members to offer bereavement support. A Personal Shopping service has also been introduced so our customers can now book one-on-one sessions with an advisor at a time that is convenient for them, avoiding in-store queues.

Our customer satisfaction survey result has shown an improvement on the prior year. We are listening to our customers and we ask more than 2,500 consumers and 1,250 small to medium business decision makers each month on their views of Telstra.

Customer satisfaction is a top priority and we still have much to do. We acknowledge there is no "silver bullet" which will transform the customer experience overnight. We are on the right track and we have made progress this year and we will continue this work until we see significant improvement.

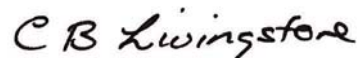
## NATURAL DISASTERS

Our people and communities were impacted by the devastating natural disasters. From the floods in Queensland, New South Wales, Victoria and Tasmania to the cyclones in Far North Queensland and the bush fires in Western Australia. All of these events had an inevitable impact on the performance of our networks and our ability to provide services to customers.

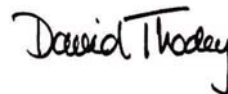
Following each event and as soon as it was safe to do so, Telstra staff were in the field restoring services, assisting customers and supporting communities. Our assistance included the establishment of communications services in evacuation centres, providing phone cards and handsets, distributing satellite handsets and enabling payphones to provide free calls in affected areas.

We have an extremely strong commitment to the communities where our customers and employees live and work. This was certainly evident during the natural disasters with so many of our employees going above and beyond their normal role. You will read about one of these courageous stories in the pages that follow.

At Telstra, our ambition is to change the way our customers talk about us and deliver value to you, our shareholders. We believe we are well on the way and look forward to the year ahead.



**Catherine B Livingstone AO** Chairman



**David Thodey** Chief Executive Officer

\* Guidance assumes wholesale product price stability and excludes any further impairments to investments and proceeds on the sale of businesses.

Pictured: David Thodey with Dave Liddell and Dave Kincaid during the CEO's visit to check in with Telstra restoration crews at St Lucia, Queensland.

DURING THE QUEENSLAND FLOODS  
TELSTRA SWITCHED OVER 100  
PAYPHONES TO FREE LOCAL AND STD  
CALLS AND PROVIDED FREE HANDSETS  
WITH SIM CARDS FOR USE BY EVACUEES,  
FREE PHONE CARDS, SATELLITE KITS TO  
EMERGENCY SERVICES ORGANISATIONS  
AND SOME ISOLATED COMMUNITIES AND  
200 PRE-PAID MOBILE HANDSETS, 2000  
\$30 RECHARGE CARDS AND 1600 \$10  
PHONEAWAY CARDS.





# BOARD OF DIRECTORS



## CATHERINE B LIVINGSTONE

AO, BA (Hons), Hon DSc (Murdoch), Hon DBus (Macquarie), FCA FTSE, FAICD

Ms Livingstone joined Telstra as a non-executive Director in November 2000 and was appointed as Chairman in May 2009. She is the Chairman of the Nomination Committee and a member of the Audit, Remuneration, Technology and NBN Due Diligence Committees. She was Chairman of the NBN Committee whilst it was operative.



## DAVID I THODEY

BA, FAICD

Mr Thodey became Chief Executive Officer and an executive director in May 2009.



## GEOFFREY A COUSINS

Mr Cousins joined Telstra as a non-executive Director in November 2006. He is a member of the Nomination and Remuneration Committees.



## RUSSELL A HIGGINS

AO, BEc, FAICD

Mr Higgins joined the Telstra Board as a non-executive Director in September 2009. He is a member of the Audit and NBN Due Diligence Committees. He was a member of the NBN Committee whilst it was operative.



## JOHN P MULLEN

Mr Mullen joined Telstra as a non-executive Director in July 2008. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee.



## NORA L SCHEINKESTEL

LLB (Hons), PhD, FAICD

Dr Scheinkestel joined Telstra as a non-executive Director in August 2010. She is a member of the Audit Committee and Chairman of the NBN Due Diligence Committee.



## JOHN V STANHOPE

B Com (Economics and Accounting), FCPA, FCA, FAICD, FAIM

Mr Stanhope was appointed as an executive Director in May 2009. He was appointed to the role of Chief Financial Officer (CFO) and Group Managing Director, Finance & Administration in October 2003. In July 2011 Mr Stanhope's title changed to Chief Financial Officer and Group Managing Director Finance.



## JOHN M STEWART

BA, FCIB, ACII

Mr Stewart joined Telstra as a non-executive Director in April 2008. He is a member of the Audit Committee.



## JOHN W STOCKER

AO, MB.BS, BMedSc, PhD, FRACP, FTSE

Dr Stocker joined Telstra as a non-executive Director in October 1996. He is Chairman of the Audit Committee and a member of the Technology and NBN Due Diligence Committees. He was a member of the NBN Committee whilst it was operative.



## STEVEN M VAMOS

BEng (Hons)

Mr Vamos joined the Telstra Board as a non-executive Director in September 2009. He is also a member of the Remuneration and Nomination Committees and was a member of the NBN Committee whilst it was operative.



## JOHN D ZEGLIS

BSc Finance, JD Law

Mr Zeglis joined Telstra as a non-executive Director in May 2006. He is Chairman of the Technology Committee.

# STRATEGIC UPDATE

A year ago, your company undertook a strategic review and committed to four strategic priorities to create a new Telstra: improve customer satisfaction, retain and grow our customer base, simplify the business and invest in new growth businesses. All of these strategic priorities are important, but we asked the Group Managing Directors of some of our major business units in Fiscal 2011 about their thoughts on the critical strategic priority of improving customer satisfaction. In Fiscal 2012, we will further sharpen the company's focus on customers by unifying Telstra's entire sales and retail customer service workforce into a single business unit, Telstra Customer Sales & Service, to be led by Gordon Ballantyne as Chief Customer Officer.



## TELSTRA CONSUMER AND COUNTRY WIDE

"We need to change the way people talk about Telstra and to do this we need to improve customer satisfaction. We need to make it faster, easier and simpler for our customers to do business with us, provide market-leading products and services and become a world class service and sales business."

**Gordon Ballantyne, Group Managing Director**

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## TELSTRA BUSINESS

"We are committed to being at the forefront in delivering innovative telecommunications services and solutions to Small and Medium Enterprises including the new Telstra Digital Business. These services and solutions have already helped transform many small businesses, helping them become more productive and efficient using technologies that were previously the domain of larger corporations."

**Deena Shiff, Group Managing Director**

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## TELSTRA ENTERPRISE AND GOVERNMENT

"We take customer satisfaction seriously and have embarked on a multi-year journey to redefine and improve the way we support enterprise and government organisations. This is why we offer our customers a Telstra Enterprise-grade Customer Service® to help manage the complexity and reduce the risk inherent in large-scale operations."

**Paul Geason, Group Managing Director**

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## SENSIS

"I am genuinely excited by the direction we're taking and the long term opportunities available to Sensis and our customers. We are in the early stages of our three year transformation and we are now a digital led business. We will continue to leverage our strengths to deliver a superior value proposition that is uniquely tailored to the needs of our customers."

**Bruce Akhurst, Chief Executive Officer**









**"THE TELSTRA PRESENCE WAS UNDOUBTEDLY NOTICEABLE BY MANY OF THE LOCAL RESIDENTS. I TOO CAN REMEMBER THINKING THIS AND BEING IMPRESSED IN THE SAME WAY AS THEY WERE."**  
**CRAIG LAWRY, TELSTRA TECHNICIAN**

Craig Lawry is one of the many Telstra employees who made a significant contribution to the flood efforts in Victoria. This is his story.

"I take my hat off to the technicians that had to endure extremely trying circumstances. Such as wading waist deep in residual floodwaters, dealing with the daily struggle of not getting bogged, the inconvenience of bridges and roads being washed away, snakes, spiders and mosquitoes, the terrible smell of contaminated floodwaters and the long hours worked. All this went on for months.

The owner of the local camping and fishing store commented to me how amusing it was to see Telstra blokes walking out of his shop with waders and boogie boards.

As I was involved in installing interim Next G<sup>®</sup> phone services, I was also impressed at how understanding our customers were. I believe this was due to the widespread presence of the Telstra flood response team and also the fact that outstanding faults were locally managed and customers were kept well informed.

One farmer from Murrabit who lives near the Loddon River drove approximately two kilometres on his tractor through floodwaters to pick up an interim phone from me. This was the closest point I could get to his house.

I had the phone pre-programmed and gave the farmer a crash course on how to set up it up. He stowed it safely in his esky on the back tray of the tractor and half-an-hour later, a successful test call was made to one very happy farmer."

Pictured: Peter O'Loughlan wading through water caused by Lake Boort overflowing and inundating the Yando/Boort area.



# OUR CUSTOMERS & THE COMMUNITY

## A NUMBER OF TELSTRA STAFF SUGGESTIONS HAS PROMPTED COLLABORATION WITH A NOT-FOR-PROFIT ORGANISATION WHO MENTOR DISADVANTAGED YOUTH, TO HELP BEAUTIFY SOME OF OUR NETWORK EXCHANGES THROUGH MURAL ART.

The Telstra Mural Arts Program (T-MAP) aims to reduce graffiti at some of Telstra's network exchange sites, and provide at-risk youth positive alternatives to anti-social activities. The T-MAP initiative is not only focused on reducing vandalism on Telstra property. Just as importantly it's about strengthening existing community based relationships through joint participation activities.

Paul Harrison, Country Wide Area General Manager for Melbourne CBD and North-West was on hand to assist with the painting of a mural at Northcote exchange.

"I'm really proud of the work done by Telstra in organising for this mural to be painted. It has brought our staff suggestions to life and shows what can be achieved by working with the local community and the local council" said Paul.

Telstra has over 22,000 network sites nationally. Beautifying them all externally would be very cost prohibitive, however as a start the T-MAP initiative has identified six sites; three in Sydney and three in Melbourne.

Pictured: Seaford Exchange, Victoria





# OUR CUSTOMERS & THE COMMUNITY



THIS YEAR SAW A MAJOR EXPANSION OF TELSTRA'S COMMITMENT TO THE ARTS BY INCREASING OUR STREAMING OF MAJOR EVENTS, INCLUDING THE SYDNEY SYMPHONY ORCHESTRA TO A NEW MOBILE APPLICATION, THE AUSTRALIAN BALLET ONLINE AND THE LARGEST LIVE CLASSICAL STREAMING EVENT IN HISTORY, THE YOUTUBE SYMPHONY ORCHESTRA.

Marque Owen, Telstra's Executive Producer of Innovation and Creativity said "YouTube flew 101 performers from 32 countries here to perform as a full Symphony Orchestra to a full Sydney Opera House and a connected audience of millions.

"We connected the performers to their family, homes and the world with Next G and high-speed internet services into the Opera House and High Definition video streaming to the YouTube® global network. Almost 33 million people viewed the spectacular final concert via YouTube, on mobile devices and Telstra's T-Box® channel."

Telstra also connected the live audience by providing free WiFi throughout the Opera House precinct and we extended the Next G® network inside the Opera House.

"For the first time ever, pre-concert announcement said "Please switch your mobile phones on! They could tweet and facebook all night" said Marque.

Telstra was integral in the creation of a unique musical experience that was described by The Times of London as "The most delightfully incongruous alliance of the arts and the internet yet to emerge in the 21st century."

Pictured: Photo from YouTube Symphony Orchestra 2011

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

## Full year results and operations review - June 2011

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for the full year ended 30 June 2011

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## Full year results and operations review - June 2011

### Summary financial information

#### Results of operations

	Year ended 30 June				Half-year ended 30 June	
	2011 \$m	2010 \$m	Change \$m	Change %	2011 \$m	YoY change %
Sales revenue . . . . .	24,983	24,813	170	0.7	12,720	1.8
Other revenue (i) . . . . .	110	104	6	5.8	90	5.3
Total revenue . . . . .	25,093	24,917	176	0.7	12,810	1.9
Other income (ii) . . . . .	211	112	99	88.4	86	32.9
<b>Total income (excl. finance income) . . . . .</b>	<b>25,304</b>	<b>25,029</b>	<b>275</b>	<b>1.1</b>	<b>12,896</b>	<b>2.0</b>
Labour . . . . .	3,924	3,707	217	5.9	1,936	11.3
Goods and services purchased . . . . .	6,183	5,360	823	15.4	3,035	10.6
Other expenses . . . . .	5,047	5,117	(70)	(1.4)	2,354	(10.4)
Operating expenses . . . . .	15,154	14,184	970	6.8	7,325	3.0
Share of net profit from jointly controlled and associated entities . . . . .	(1)	(2)	1	(50.0)	-	-
<b>Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) . . . . .</b>	<b>10,151</b>	<b>10,847</b>	<b>(696)</b>	<b>(6.4)</b>	<b>5,571</b>	<b>0.7</b>
Depreciation and amortisation . . . . .	4,459	4,346	113	2.6	2,255	4.3
<b>Earnings before interest and income tax expense (EBIT) . . . . .</b>	<b>5,692</b>	<b>6,501</b>	<b>(809)</b>	<b>(12.4)</b>	<b>3,316</b>	<b>(1.6)</b>
Net finance costs . . . . .	1,135	963	172	17.9	564	27.3
<b>Profit before income tax expense . . . . .</b>	<b>4,557</b>	<b>5,538</b>	<b>(981)</b>	<b>(17.7)</b>	<b>2,752</b>	<b>(5.9)</b>
Income tax expense . . . . .	1,307	1,598	(291)	(18.2)	709	(18.7)
<b>Profit for the period . . . . .</b>	<b>3,250</b>	<b>3,940</b>	<b>(690)</b>	<b>(17.5)</b>	<b>2,043</b>	<b>(0.5)</b>
<b>Attributable to:</b>						
Equity holders of the Telstra Entity . . . . .	3,231	3,883	(652)	(16.8)	2,037	0.3
Non-controlling interests . . . . .	19	57	(38)	n/m	6	n/m
	3,250	3,940	(690)	(17.5)	2,043	(0.5)
Effective tax rate . . . . .	28.7%	28.9%		(0.2)	25.8%	(4.0)
EBITDA margin on sales revenue . . . . .	40.6%	43.7%		(3.1)	43.8%	(0.5)
EBIT margin on sales revenue . . . . .	22.8%	26.2%		(3.4)	26.1%	(0.9)
	cents	cents	Change cents	Change %		
Basic earnings per share (iii) . . . . .	26.1	31.4	(5.3)	(16.9)		
Diluted earnings per share (iii) . . . . .	26.1	31.3	(5.2)	(16.6)		
Dividends per ordinary share:						
Interim dividend . . . . .	14.0	14.0				
Final dividend . . . . .	14.0	14.0				
Total . . . . .	28.0	28.0				

(i) Other revenue primarily consists of rental income and distributions received from our FOXTEL partnership.

(ii) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.

(iii) Basic and diluted earnings per share are impacted by the effect of shares held in trust for employee share plans and instruments held under executive remuneration plans.

n/m = not meaningful

## Full year results and operations review - June 2011

### Statement of financial position

	As at			
	30 Jun 11 \$m	30 Jun 10 \$m	Change \$m	Change %
<b>Current assets</b>				
Cash and cash equivalents . . . . .	2,630	1,936	694	35.8
Trade and other receivables . . . . .	4,137	3,981	156	3.9
Inventories . . . . .	283	295	(12)	(4.1)
Derivative financial assets . . . . .	83	173	(90)	(52.0)
Current tax receivables . . . . .	4	3	1	33.3
Prepayments . . . . .	275	218	57	26.1
Assets classified as held for sale . . . . .	41	579	(538)	(92.9)
<b>Total current assets</b> . . . . .	<b>7,453</b>	<b>7,185</b>	<b>268</b>	<b>3.7</b>
<b>Non current assets</b>				
Trade and other receivables . . . . .	340	217	123	56.7
Inventories . . . . .	22	17	5	29.4
Investments - accounted for using the equity method . . . . .	2	17	(15)	(88.2)
Investments - other . . . . .	1	1	-	-
Property, plant and equipment . . . . .	21,790	22,894	(1,104)	(4.8)
Intangible assets . . . . .	7,627	8,028	(401)	(5.0)
Derivative financial assets . . . . .	285	592	(307)	(51.9)
Non current tax receivables . . . . .	382	321	61	19.0
Deferred tax assets . . . . .	-	3	(3)	(100.0)
Defined benefit assets . . . . .	11	7	4	57.1
<b>Total non current assets</b> . . . . .	<b>30,460</b>	<b>32,097</b>	<b>(1,637)</b>	<b>(5.1)</b>
<b>Total assets</b> . . . . .	<b>37,913</b>	<b>39,282</b>	<b>(1,369)</b>	<b>(3.5)</b>
<b>Current liabilities</b>				
Trade and other payables . . . . .	4,093	3,843	250	6.5
Provisions . . . . .	394	389	5	1.3
Borrowings . . . . .	1,990	2,540	(550)	(21.7)
Derivative financial liabilities . . . . .	634	384	250	65.1
Current tax payables . . . . .	404	335	69	20.6
Revenue received in advance . . . . .	1,018	1,102	(84)	(7.6)
Liabilities classified as held for sale . . . . .	5	89	(84)	(94.4)
<b>Total current liabilities</b> . . . . .	<b>8,538</b>	<b>8,682</b>	<b>(144)</b>	<b>(1.7)</b>
<b>Non current liabilities</b>				
Other payables . . . . .	177	248	(71)	(28.6)
Provisions . . . . .	696	727	(31)	(4.3)
Borrowings . . . . .	12,178	12,370	(192)	(1.6)
Derivative financial liabilities . . . . .	1,799	1,518	281	18.5
Deferred tax liabilities . . . . .	1,730	1,927	(197)	(10.2)
Defined benefit liability . . . . .	205	464	(259)	(55.8)
Revenue received in advance . . . . .	298	338	(40)	(11.8)
<b>Total non current liabilities</b> . . . . .	<b>17,083</b>	<b>17,592</b>	<b>(509)</b>	<b>(2.9)</b>
<b>Total liabilities</b> . . . . .	<b>25,621</b>	<b>26,274</b>	<b>(653)</b>	<b>(2.5)</b>
<b>Net assets</b> . . . . .	<b>12,292</b>	<b>13,008</b>	<b>(716)</b>	<b>(5.5)</b>
<b>Equity</b>				
Equity available to Telstra Entity shareholders . . . . .	12,074	12,696	(622)	(4.9)
Non-controlling interests . . . . .	218	312	(94)	(30.1)
<b>Total equity</b> . . . . .	<b>12,292</b>	<b>13,008</b>	<b>(716)</b>	<b>(5.5)</b>
Gross debt . . . . .	16,232	16,031	201	1.3
Net debt . . . . .	13,595	13,926	(331)	(2.4)
EBITDA interest cover (times) . . . . .	9.6	10.8	(1.2)	(11.1)
Net debt to EBITDA . . . . .	1.3	1.3	-	-
Return on average assets . . . . .	15.9%	17.3%		(1.4)
Return on average equity . . . . .	26.1%	30.9%		(4.8)
Return on average investment . . . . .	21.6%	23.5%		(1.9)
Gearing ratio (net debt as a proportion of equity plus net debt) . . . . .	52.5%	51.7%		0.8



## Full year results and operations review - June 2011

### Statement of cash flows

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
<b>Cashflows from operating activities</b>				
Receipts from customers (inclusive of goods and services tax (GST)) . . . . .	27,389	27,128	261	1.0
Payments to suppliers and to employees (inclusive of GST) . . . . .	(17,860)	(16,218)	(1,642)	10.1
Net cash generated by operations . . . . .	9,529	10,910	(1,381)	(12.7)
Income taxes paid . . . . .	(1,511)	(1,219)	(292)	24.0
<b>Net cash provided by operating activities</b> . . . . .	<b>8,018</b>	<b>9,691</b>	<b>(1,673)</b>	<b>(17.3)</b>
<b>Cashflows from investing activities</b>				
Payments for:				
- property, plant and equipment . . . . .	(2,342)	(2,718)	376	(13.8)
- intangible assets . . . . .	(909)	(877)	(32)	3.6
Capital expenditure (before investments) . . . . .	(3,251)	(3,595)	344	(9.6)
- shares in controlled entities (net of cash acquired) . . . . .	(36)	(95)	59	(62.1)
<b>Total capital expenditure</b> . . . . .	<b>(3,287)</b>	<b>(3,690)</b>	<b>403</b>	<b>(10.9)</b>
Proceeds from:				
- sale of property, plant and equipment . . . . .	16	24	(8)	(33.3)
- sale of intangible assets . . . . .	-	2	(2)	n/m
- sale of shares in controlled entities (net of cash disposed) . . . . .	288	11	277	n/m
- sale of businesses . . . . .	14	1	13	n/m
- sale of associates . . . . .	23	-	23	n/m
Proceeds from finance lease principal amounts . . . . .	74	66	8	12.1
Repayments of loans to jointly controlled and associated entities . . . . .	2	-	2	n/m
Interest received . . . . .	122	66	56	84.8
Settlement of hedges in net investments . . . . .	96	(6)	102	n/m
Dividends received from SouFun . . . . .	41	-	41	n/m
Distributions received from FOXTEL Partnership . . . . .	70	60	10	16.7
<b>Net cash used in investing activities</b> . . . . .	<b>(2,541)</b>	<b>(3,466)</b>	<b>925</b>	<b>(26.7)</b>
<b>Operating cashflows less investing cashflows</b> . . . . .	<b>5,477</b>	<b>6,225</b>	<b>(748)</b>	<b>(12.0)</b>
<b>Cashflows from financing activities</b>				
Proceeds from borrowings . . . . .	2,340	1,777	563	31.7
Repayment of borrowings . . . . .	(2,536)	(2,676)	140	(5.2)
Repayment of finance lease principal amounts . . . . .	(61)	(55)	(6)	10.9
Staff repayments of share loans . . . . .	8	9	(1)	(11.1)
Finance costs paid . . . . .	(1,135)	(1,042)	(93)	8.9
Dividends paid to equity holders of Telstra Entity . . . . .	(3,475)	(3,474)	(1)	0.0
Dividends paid to non-controlling interests . . . . .	(14)	(20)	6	(30.0)
<b>Net cash used in financing activities</b> . . . . .	<b>(4,873)</b>	<b>(5,481)</b>	<b>608</b>	<b>(11.1)</b>
<b>Net increase in cash and cash equivalents</b> . . . . .	<b>604</b>	<b>744</b>	<b>(140)</b>	<b>(18.8)</b>
Cash and cash equivalents at the beginning of the period . . . . .	2,105	1,381	724	52.4
Effects of exchange rate changes on cash and cash equivalents . . . . .	(72)	(20)	(52)	260.0
<b>Cash and cash equivalents at the end of the period</b> . . . . .	<b>2,637</b>	<b>2,105</b>	<b>532</b>	<b>25.3</b>

## Full year results and operations review - June 2011

### Segment information and product profitability

	Total external income			EBIT contribution		
	Year ended 30 June			Year ended 30 June		
	2011	2010	Change	2011	2010	Change
	\$m	\$m	%	\$m	\$m	%
Telstra Consumer and Country Wide . . . . .	10,015	9,667	3.6	5,295	5,584	(5.2)
Telstra Business . . . . .	4,508	4,430	1.8	3,221	3,220	0.0
Telstra Enterprise and Government . . . . .	4,239	4,170	1.7	3,266	3,252	0.4
Telstra Wholesale . . . . .	2,194	2,280	(3.8)	2,037	2,110	(3.5)
Telstra Operations . . . . .	128	80	60.0	(3,753)	(3,820)	(1.8)
Sensis . . . . .	1,787	1,909	(6.4)	871	1,021	(14.7)
Telstra International . . . . .	1,289	1,381	(6.7)	102	191	(46.6)
TelstraClear . . . . .	514	529	(2.8)	(28)	(14)	100.0
Other . . . . .	411	523	(21.4)	(5,481)	(4,936)	11.0
<b>Total Telstra segments (i)</b> . . . . .	<b>25,085</b>	<b>24,969</b>	<b>0.5</b>	<b>5,530</b>	<b>6,608</b>	<b>(16.3)</b>
Other items excluded from segment results (ii) . . . . .	219	60	n/m	162	(107)	n/m
<b>Total Telstra Group (reported)</b> . . . . .	<b>25,304</b>	<b>25,029</b>	<b>1.1</b>	<b>5,692</b>	<b>6,501</b>	<b>(12.4)</b>

(i) Internally, we monitor our segment performance excluding the impact of irregular revenue and expense items such as sales of major businesses and investments, sales of land and buildings, impairment write-offs and FOXTEL distributions.

(ii) Other items excluded from the segment results for the year ended 30 June 2011 include the EBIT contribution from our Reach related operations and the adjustment to the shareholder loan associated with the restructure of Reach assets.

### Revenue by business segment

	Year ended 30 June			
	2011	2010	Change	Change
	\$m	\$m	\$m	%
<b>Telstra Consumer and Country Wide</b>				
PSTN products . . . . .	3,060	3,341	(281)	(8.4)
Fixed internet . . . . .	1,208	1,211	(3)	(0.2)
Mobile services revenue . . . . .	3,780	3,558	222	6.2
<b>Telstra Business</b>				
PSTN products . . . . .	1,296	1,407	(111)	(7.9)
Fixed internet . . . . .	344	347	(3)	(0.9)
Mobile services revenue . . . . .	2,011	1,867	144	7.7
<b>Telstra Enterprise and Government</b>				
Mobile services revenue . . . . .	959	858	101	11.8
IP and data access . . . . .	1,103	1,099	4	0.4
Network applications and services . . . . .	917	900	17	1.9

We report our segment information on the same basis as our internal management reporting structure at reporting date, which drives how our company is organised and managed.

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their "underlying EBIT contribution" to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. In addition, certain items are recorded within our corporate areas, rather than being allocated to each segment. Of particular note is that Telstra Operations includes the costs associated with the operation of the majority of our networks as well as IT costs associated with the supply and delivery of solutions to support our range of products and services. Depreciation and amortisation costs associated with the fixed assets of the parent

entity are recorded centrally in the corporate centre (included in "Other").

Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period.

Further details about the performance of our business segments follows:

#### **Telstra Consumer and Country Wide**

Our Telstra Consumer and Country Wide (TCCW) segment has been the focus of our strategic investment to retain and grow customer numbers. As a result of this investment we have seen strong growth in our customer base across the mobile, fixed broadband and pay TV portfolios while the rate of PSTN customer loss has slowed significantly. With the improved sales momentum, our consumer segment has seen a return to top line growth with income increasing by 3.6% to \$10,015 million.

## Full year results and operations review - June 2011

Our Consumer and Country Wide segment increased its mobile customer base by more than 1.1 million during the year driven by growth across all customer types - postpaid handheld, prepaid handheld and mobile broadband. Fixed broadband services in operation (SIOs) increased by more than 159 thousand, a significant improvement compared to the SIO decline in the 2010 fiscal year. The success of our bundling strategy, the popularity of our new T-Box<sup>®</sup> and T-Hub<sup>®</sup> devices and increased value across our consumer mobile and fixed product plans contributed to the improved customer momentum. PSTN SIOs declined by 171 thousand, an improved result compared to a decline of 253 thousand in the 2010 fiscal year.

Mobile revenue increased by 12.9% and mobile services revenue increased by 6.2%. PSTN revenue declined by 8.4% driven by lower calling volumes and customer numbers. Pay TV bundling revenue grew by 14.9% and remains an important product as customers reduce their propensity to churn when adding pay TV to a bundle of other services.

EBIT contribution fell by 5.2% due to increased cost of goods sold and subscriber acquisition and retention costs to support the strategic imperative to grow and retain the customer base.

### **Telstra Business**

Telstra Business (TB) is a business partner and one-stop shop providing communications solutions to small and medium enterprises (SMEs). Income in this segment increased by 1.8% to \$4,508 million while EBIT contribution was flat at \$3,221 million.

Mobile services revenue growth was 7.7% driven by continued strong growth from mobile broadband revenue which grew by 15.4%. Mobile broadband SIOs increased by 39.0% while in the important postpaid handheld category SIOs grew by 6.8% and ARPUs remained resilient, declining by only 1.1%.

The revenue growth rates for IP and data access and network applications and services accelerated this year with the combined revenue from these portfolios now exceeding \$300 million per annum.

The decline in PSTN revenue accelerated to 7.9% driven by SIO loss and usage decline while fixed retail broadband revenue was flat.

Expenses grew by 6.2% due to increased cost of goods sold and subscriber acquisition and retention costs to support the strategic imperative to grow and retain the customer base.

### **Telstra Enterprise and Government**

Telstra Enterprise and Government (TE&G) is the leading provider of network based solutions and services to enterprise and government organisations in Australia and New Zealand. Income in this segment grew by 1.7% to \$4,239 million while EBIT contribution increased by 0.4% to \$3,266 million.

TE&G has delivered another strong mobile revenue result with mobile services revenue growth accelerating to 11.8% with the mobile portfolio generating more

than \$1 billion of revenue for the first time. Postpaid handheld ARPU declined slightly by 0.8% while postpaid handheld SIO growth accelerated by 9.1%. Mobile broadband revenue grew by 16.8%.

Fixed products revenue, which includes PSTN and ISDN revenue, decreased by 4.0%. This rate of decline has slowed driven by increased internet direct and premium calling product revenue growth.

IP and data access revenue grew slightly by 0.4% to \$1,103 million and NAS revenue growth was 1.9%.

Expenses grew by 6.0% due to increased subscriber cost of goods sold and acquisition and retention costs to support the strategic imperative to grow and retain the customer base.

### **Telstra Wholesale**

Income generated from our wholesale business declined 3.8%, or \$86 million to \$2,194 million as the ULL build out continued to detrimentally impact the wholesale business. Growth in ULL continues as 170 thousand ULL SIOs were added during the year. LSS SIOs declined 1.4% as carriers migrated LSS services to ULL.

Wholesale PSTN revenue declined 7.1% driven by reduction of 41 thousand wholesale PSTN SIOs and continuing reductions in usage. Wholesale fixed internet revenue also fell 10.6%, led by 13.3%, or 134 thousand decline in wholesale ADSL SIOs.

External expenses declined by 7.2% led by reductions in network payments and labour costs resulting in Wholesale's EBIT contribution falling by 3.5%.

### **Telstra Operations**

Telstra Operations is primarily a cost centre supporting the revenue generating activities of our other segments. This year the negative EBIT contribution from this area improved to 1.8% due to the continued focus on productivity and efficiency initiatives and tight control over discretionary spending.

### **Sensis and TelstraClear**

Refer to more detailed discussion in the major subsidiaries section beginning on page 29.

### **Telstra International**

Telstra International is our new business unit and encompasses our international assets outside Australia and New Zealand. It includes CSL New World (CSLNW) which provides mobile services to the Hong Kong market, our mainland China business providing online advertising services in auto, IT and consumer electronics, and mobile value added service segments, and management of our global networks (including the Reach network assets from acquisition) and managed services business that has more than 1,300 points of presence throughout Australia, Asia Pacific, Europe and the US.

The majority of Telstra International's revenue and EBIT is contributed by CSL New World. CSL New World mobile customers increased by 352 thousand to 2,993 thousand for the year. For financial information about CSL New World please refer to the more detailed

## Full year results and operations review - June 2011

discussion in the major subsidiaries section beginning on page 29.

### Other

Our Other segment consists primarily of our corporate centre functions where we recognise depreciation and amortisation on fixed assets and redundancy expenses for the parent entity. Refer to the detailed discussion on these expense categories within this document.

### Product profitability

The following table reflects our EBITDA margins on a product basis for our key product categories. These results are presented on a consistent basis with the way we monitor business performance for internal management purposes and the way we have presented our segment performance. That is, we monitor product profitability on an underlying EBIT contribution basis excluding the impact of irregular revenue and expense items.

For fiscal year 2011, we have seen a significant change in our mobiles EBITDA margin after investing in our strategy to retain and grow our customer base. This can be seen in the impacts on margins in the first half. In the second half, margins have moved back in line with those reported in the second half of fiscal 2010, driven by revenue growth from the success of our strategy combined with lower customer acquisition costs.

Declining revenue streams in wholesale fixed broadband, caused by migration of wholesale DSL customers to ULL, along with lower spectrum sharing services, has contributed to an overall margin decline in fixed internet in the second half of this year. This was partially offset by improvements in retail fixed internet margins.

PSTN margins have remained flat during the year, despite the continued decline in revenue, driven by improvements in credit management activity and reduced marketing spend in the second half.

### Product profitability - EBITDA margins

	Jun 2011	Half-year ended		
		Dec 2010	Jun 2010	Dec 2009
Mobile . . . . .	35%	29%	35%	34%
Fixed internet . . . . .	32%	34%	39%	40%
PSTN . . . . .	59%	59%	60%	59%
IP and data access . . . . .	61%	61%	64%	61%
Sensis . . . . .	65%	41%	63%	50%
<b>Telstra Group</b> . . . . .	<b>43.8%</b>	<b>37.3%</b>	<b>44.3%</b>	<b>43.1%</b>

Note: product margins represent management's best estimates.



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### Statistical data summary

#### Billable traffic data (i)

	Year ended 30 June				Half-year ended 30 June			
	2011 m	2010 m	Change m	Change %	2011 m	2010 m	Change m	Change %
<b>Fixed telephony</b>								
Number of local calls . . . .	<b>3,570</b>	4,134	(564)	<b>(13.6)</b>	<b>1,698</b>	1,958	(260)	<b>(13.3)</b>
National long distance minutes	<b>5,408</b>	5,915	(507)	<b>(8.6)</b>	<b>2,638</b>	2,862	(224)	<b>(7.8)</b>
Fixed to mobile minutes. . . .	<b>3,122</b>	3,133	(11)	<b>(0.4)</b>	<b>1,560</b>	1,522	38	<b>2.5</b>
International direct minutes	<b>510</b>	541	(31)	<b>(5.7)</b>	<b>250</b>	261	(11)	<b>(4.2)</b>
<b>Mobiles</b>								
Mobile voice telephone minutes . . . . .	<b>13,512</b>	11,524	1,988	<b>17.3</b>	<b>7,096</b>	5,801	1,295	<b>22.3</b>
Number of SMS sent . . . .	<b>9,905</b>	9,394	511	<b>5.4</b>	<b>5,095</b>	4,611	484	<b>10.5</b>

#### Services in operation (i)

	As at			Jun 11 vs Jun 10		Jun 11 vs Dec 10	
	Jun 2011	Dec 2010	Jun 2010	Change	Change %	Change	Change %
<b>Fixed products (thousands)</b>							
Basic access lines in service							
Retail . . . . .	<b>7,158</b>	7,298	7,407	(249)	<b>(3.4)</b>	(140)	<b>(1.9)</b>
Wholesale . . . . .	<b>1,212</b>	1,235	1,253	(41)	<b>(3.3)</b>	(23)	<b>(1.9)</b>
<b>Total basic access lines in service</b>	<b>8,370</b>	8,533	8,660	(290)	<b>(3.3)</b>	(163)	<b>(1.9)</b>
Fixed broadband SIOs - retail . . . .	<b>2,413</b>	2,394	2,255	158	<b>7.0</b>	19	<b>0.8</b>
Fixed broadband SIOs - wholesale . .	<b>869</b>	919	1,003	(134)	<b>(13.4)</b>	(50)	<b>(5.4)</b>
ISDN access (basic line equivalents)	<b>1,316</b>	1,318	1,308	8	<b>0.6</b>	(2)	<b>(0.2)</b>
T-Hub® sales (life to date) . . . . .	<b>194</b>	128	19	175	<b>n/m</b>	66	<b>51.6</b>
T-Box® sales (life to date) . . . . .	<b>192</b>	107	2	190	<b>n/m</b>	85	<b>79.4</b>
Unbundled local loop SIOs . . . . .	<b>1,001</b>	914	831	170	<b>20.5</b>	87	<b>9.5</b>
Spectrum sharing services (ii) . . . .	<b>725</b>	741	735	(10)	<b>(1.4)</b>	(16)	<b>(2.2)</b>
<b>Mobile SIOs (thousands)</b>							
Postpaid handheld retail mobile . . .	<b>6,455</b>	6,107	5,810	645	<b>11.1</b>	348	<b>5.7</b>
Total mobile broadband (data card)	<b>2,576</b>	2,167	1,662	914	<b>55.0</b>	409	<b>18.9</b>
Total wholesale mobile . . . . .	<b>74</b>	80	81	(7)	<b>(8.6)</b>	(6)	<b>(7.5)</b>
Prepaid handheld unique users (iii)	<b>1,921</b>	1,943	1,889	32	<b>1.7</b>	(22)	<b>(1.1)</b>
Prepaid handheld retail mobile . . . .	<b>3,192</b>	3,207	3,090	102	<b>3.3</b>	(15)	<b>(0.5)</b>
<b>Total pay TV bundling SIOs (thousands)</b>	<b>508</b>	513	504	4	<b>0.8</b>	(5)	<b>(1.0)</b>
<b>Employee data</b>							
Domestic full time staff (iv) . . . . .	<b>30,121</b>	29,970	31,157	(1,036)	<b>(3.3)</b>	151	<b>0.5</b>
Full time staff and equivalents (iv) . .	<b>35,790</b>	35,729	41,690	(5,900)	<b>(14.2)</b>	61	<b>0.2</b>
<b>Total workforce (iv)</b>	<b>39,790</b>	39,832	45,220	(5,430)	<b>(12.0)</b>	(42)	<b>(0.1)</b>

Note: statistical data represents management's best estimates.

(i) Refer to each product section for more detailed data.

(ii) Excluded from wholesale broadband SIOs.

(iii) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.

(iv) Refer to the labour section on page 23 for definitions.

## Full year results and operations review - June 2011

### Revenue

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
<b>Fixed products</b>				
PSTN products . . . . .	5,370	5,832	(462)	(7.9)
Fixed internet . . . . .	2,091	2,144	(53)	(2.5)
ISDN products . . . . .	877	905	(28)	(3.1)
Other fixed revenue (i) . . . . .	1,165	1,101	64	5.8
Total fixed products . . . . .	9,503	9,982	(479)	(4.8)
<b>Mobiles</b>				
Mobile services - retail . . . . .	6,145	5,769	376	6.5
Mobile services - interconnection and wholesale . . . . .	795	692	103	14.9
Total mobile services . . . . .	6,940	6,461	479	7.4
Mobile hardware . . . . .	1,160	856	304	35.5
Total mobiles . . . . .	8,100	7,317	783	10.7
<b>IP and data access</b>				
Specialised data . . . . .	350	482	(132)	(27.4)
Global products . . . . .	109	122	(13)	(10.7)
IP access . . . . .	970	835	135	16.2
Wholesale internet and data . . . . .	342	338	4	1.2
Total IP and data access . . . . .	1,771	1,777	(6)	(0.3)
Network applications and services . . . . .	1,144	1,033	111	10.7
Offshore content and online content . . . . .	85	144	(59)	(41.0)
Advertising and directories . . . . .	1,909	2,165	(256)	(11.8)
CSL New World . . . . .	814	770	44	5.7
TelstraClear . . . . .	516	529	(13)	(2.5)
Other offshore services revenue . . . . .	299	293	6	2.0
Pay TV bundling . . . . .	584	511	73	14.3
Other sales revenue (ii) . . . . .	258	292	(34)	(11.6)
<b>Sales revenue</b> . . . . .	24,983	24,813	170	0.7
Other revenue (iii) . . . . .	110	104	6	5.8
<b>Total revenue</b> . . . . .	25,093	24,917	176	0.7
Other income (iv) . . . . .	211	112	99	88.4
<b>Total income</b> . . . . .	25,304	25,029	275	1.1

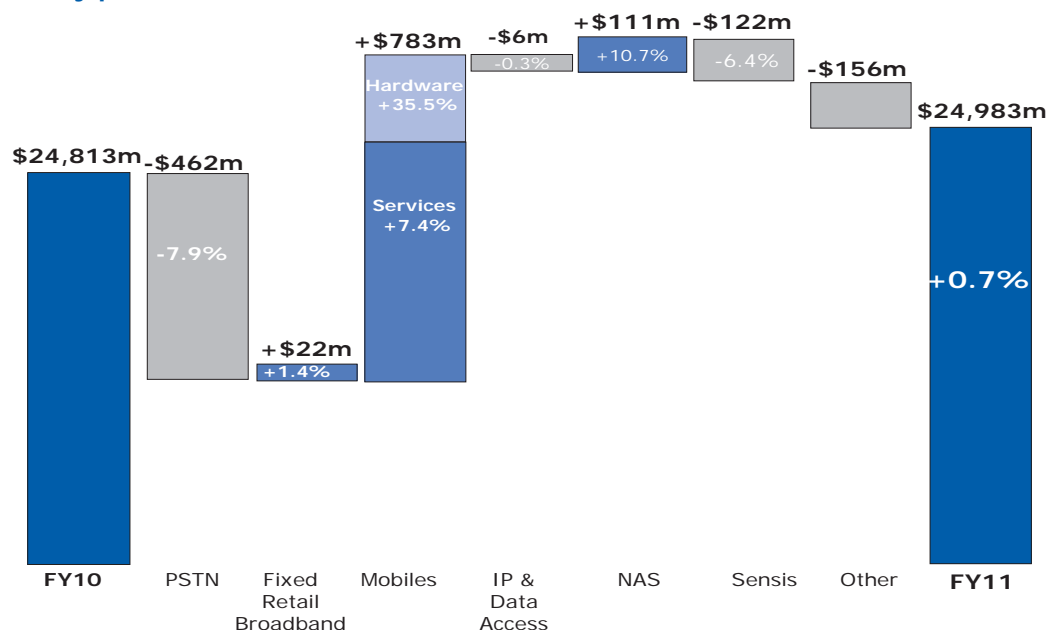
(i) Other fixed revenue includes Premium calling products, Telstra operated payphones, Customer Premises Equipment, Intercarrier services, Telstra Information & Connection Services, Card Services and CustomNet and Satellite Products.

(ii) Other sales revenue includes \$102 million relating to HFC cable usage (June 2010: \$84 million).

(iii) Other revenue primarily consists of distributions received from FOXTEL and rental income.

(iv) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.

### Sales revenue by product



## Full year results and operations review - June 2011

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The mix of sales revenue by product continues to change. The decline in PSTN revenue of 7.9% or \$462 million to \$5,370 million was due to a decline in usage levels across all categories. This decline was more than offset by the continued strong growth in mobiles as we have invested in customer retention and growth. We also continue to see customers migrate their usage to mobile products for both for voice and data. Mobiles services revenue grew by 7.4% or \$479 million to \$6,940 million, which included mobile broadband growth of 18.9% to \$974 million. Mobile hardware revenue has grown by 35.5% to \$1,160 million.

Revenue for advertising and directories fell by 11.8% or \$256 million to \$1,909 million with Sensis sales revenue down \$122 million. IP and data access revenues were relatively flat as we have seen continued strong growth in IP access from customers migrating services from legacy data products.

Fixed broadband revenue grew by \$22 million as we have seen a return to net customer acquisition in fiscal 2011.

## Full year results and operations review - June 2011

### Fixed products

#### PSTN

- PSTN revenue declined by 7.9% to \$5,370 million driven by lower usage and continued SIO loss
- The net decrease in PSTN SIOs of 290 thousand was lower than the 358 thousand net decrease in fiscal 2010 due to the impact of bundled offers
- PSTN customers on subscription plans (including bundle offers) grew by 33.5% to almost 1.5 million

#### PSTN

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
PSTN revenue . . . . .	<b>5,370</b>	5,832	(462)	<b>(7.9)</b>
<b>PSTN retail versus wholesale revenue</b>				
Retail . . . . .	<b>4,751</b>	5,166	(415)	<b>(8.0)</b>
Wholesale . . . . .	<b>619</b>	666	(47)	<b>(7.1)</b>
<b>Basic access lines in service (thousands)</b>				
Retail . . . . .	<b>7,158</b>	7,407	(249)	<b>(3.4)</b>
Wholesale . . . . .	<b>1,212</b>	1,253	(41)	<b>(3.3)</b>
Total basic access lines in service . . . . .	<b>8,370</b>	8,660	(290)	<b>(3.3)</b>
Average revenue per user per month (\$'s) . . . . .	<b>52.55</b>	54.99	(2.44)	<b>(4.4)</b>
Number of local calls (millions) (i) . . . . .	<b>3,570</b>	4,134	(564)	<b>(13.6)</b>
National long distance minutes (millions) (i) . . . . .	<b>5,408</b>	5,915	(507)	<b>(8.6)</b>
Fixed to mobile minutes (millions) (i) . . . . .	<b>3,122</b>	3,133	(11)	<b>(0.4)</b>
International direct minutes (millions) (i) . . . . .	<b>510</b>	541	(31)	<b>(5.7)</b>

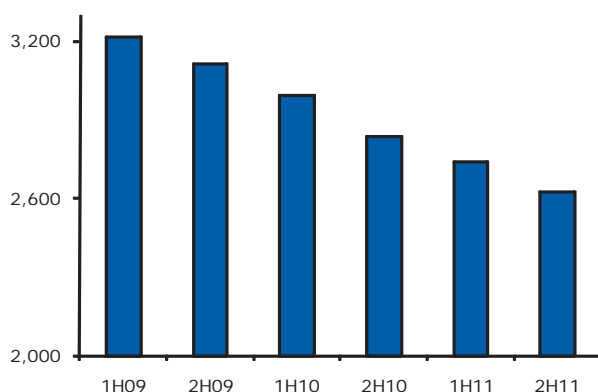
Note: statistical data represents management's best estimates.

(i) Includes local calls, national long distance, fixed to mobiles and international direct minutes from our public switched telephone network (PSTN) and independently operated payphones. Excludes minutes related to calls from non-PSTN networks, such as mobiles, ISDN and virtual private networks.

Total PSTN revenue declined by 7.9% or \$462 million during the year to \$5,370 million. This rate of decline is consistent with the 8.0% decline from fiscal 2010 and continues to highlight the structural shift away from PSTN driven by both lower usage and line loss. Usage continues to decline across all calling categories, with local calls falling 13.6% and national long distance declining 8.6% although there has been some stabilisation of fixed to mobile minutes.

With the fall in call usage, PSTN ARPU continues to be under pressure, falling by 4.4% to \$52.55.

#### PSTN Revenue (\$m)



Although PSTN line loss during the year was 3.3%, it was the lowest rate of decline and smallest absolute decline in 4 years. This improvement in the rate of line loss decline reflects the impact of our bundled fixed line offers. Bundle SIOs have increased by 171.2% to now serve over 1 million customers. These offers have helped slow the rate of PSTN revenue decline with a 7.4% decline reported in the second half which compares favourably with a 9.0% decline from the second half of fiscal 2010.

Growth in Unbundled Local Loop (ULL) uptake by competitors does however continue to be strong with more than 1 million ULL services in operation for the first time, an increase of 20.5% year on year, which has also been contributing to our ongoing line loss.

## Full year results and operations review - June 2011

### PSTN revenue - year-on-year change %

		Half-year ended						
	Jun 2011	Dec 2010	Jun 2010	Dec 2009	Jun 2009	Dec 2008	Jun 2008	Dec 2007
Total PSTN . . . . .	(7.4)	(8.4)	(9.0)	(6.9)	(4.8)	(5.1)	(4.4)	(2.1)
Retail . . . . .	(6.7)	(9.3)	(9.0)	(5.9)	(3.2)	(1.8)	(0.6)	0.3
Wholesale . . . . .	(12.4)	(1.7)	(9.1)	(14.1)	(15.5)	(24.0)	(23.3)	(13.7)
Wholesale as a percentage of total PSTN revenue . . . . .	11.1	11.9	11.7	11.1	11.7	12.0	13.2	15.0

### PSTN basic access services in operation - year-on-year change %

		Half-year ended						
	Jun 2011	Dec 2010	Jun 2010	Dec 2009	Jun 2009	Dec 2008	Jun 2008	Dec 2007
Total Telstra . . . . .	(3.3)	(3.1)	(4.0)	(3.9)	(3.7)	(4.0)	(4.1)	(3.1)
Retail . . . . .	(3.4)	(3.3)	(4.2)	(3.6)	(1.7)	0.0	1.1	1.1
Wholesale . . . . .	(3.3)	(2.2)	(2.5)	(5.8)	(14.1)	(22.5)	(24.5)	(18.3)



## Full year results and operations review - June 2011

### Fixed internet

- Retail fixed broadband revenue (including hardware) grew by 1.4% to \$1,594 million driven by a turnaround in customer growth
- Retail fixed broadband SIOs increased by 158 thousand, our strongest performance for three years
- Low cancellation rate at 17.3%, improved from 22.8% last year as we continue our strategy to better manage customer churn

### Fixed internet

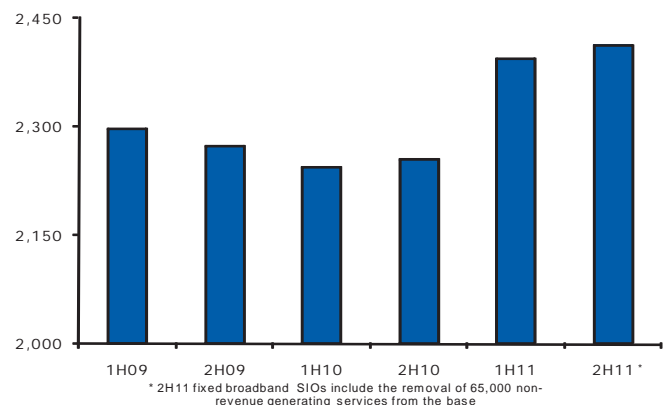
	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
- Fixed broadband - retail . . . . .	1,570	1,546	24	1.6
- Fixed broadband - hardware . . . . .	24	26	(2)	(7.7)
Total retail fixed broadband . . . . .	1,594	1,572	22	1.4
Wholesale broadband . . . . .	405	449	(44)	(9.8)
Spectrum sharing services . . . . .	31	40	(9)	(22.5)
Narrowband . . . . .	21	34	(13)	(38.2)
Internet VAS . . . . .	40	49	(9)	(18.4)
<b>Total fixed internet revenue . . . . .</b>	<b>2,091</b>	<b>2,144</b>	<b>(53)</b>	<b>(2.5)</b>
Total fixed broadband SIOs - retail (thousands) . . . . .	2,413	2,255	158	7.0
Average fixed broadband retail revenue per SIO per month (excl hardware) (\$'s) . . . . .	56.04	56.92	(0.88)	(1.5)
Broadband SIOs - wholesale (thousands) . . . . .	869	1,003	(134)	(13.4)
Average broadband wholesale revenue per SIO per month (\$'s) . . . . .	36.06	35.35	0.71	2.0
Spectrum sharing services (thousands) (excluded from wholesale SIOs) . . . . .	725	735	(10)	(1.4)

Note: statistical data represents management's best estimates.

Fixed retail broadband revenue grew by 1.4% to \$1,594 million with fixed retail broadband SIOs increasing by 158 thousand. This strong growth in customers compares very favourably to the reduction of 19 thousand in fiscal 2010, highlighting good progress in our strategy to retain and grow the customer base.

The improved performance reflects the success of a number of initiatives started late last fiscal year including the provision of increased data allowances to existing plans, more attractive bundled offers, unique content and the successful launch of the Telstra T-Hub® and T-Box® products. For the year ending 30 June, we had sold close to 175 thousand T-Hub and 190 thousand T-Box devices, contributing to over 1 million customers who are now on our bundled plans.

Fixed Retail Broadband SIOs (thousands)



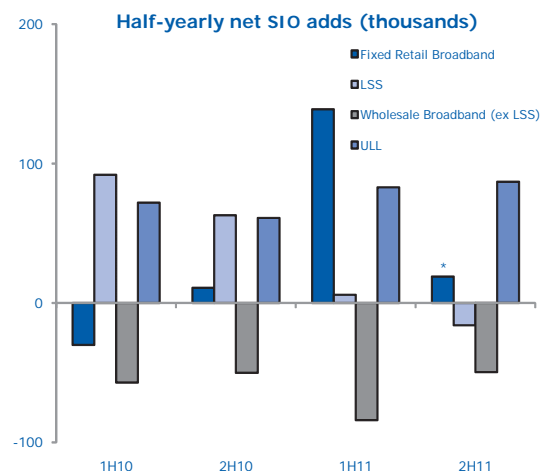
The implementation of these initiatives has helped drive an improvement in the fixed broadband cancellation rate, falling to 17.3% from 22.8% in the prior year.

Fixed retail broadband ARPU excluding hardware remained steady, declining by only 1.5% to \$56.04 per month.

Wholesale broadband revenue fell by 9.8% to \$405 million. The decline was caused by a fall in wholesale DSL customers as the migration to ULL continued. Growth in ULL uptake by competitors continues to be strong with more than 1 million ULL services in operation for the first time. Line spectrum sharing (LSS) services declined for the first time, decreasing by 1.4% reflecting the shift to ULL by competitors.

## Full year results and operations review - June 2011

Total fixed internet revenue decreased by 2.5% to \$2,091 million during the year with declines in fixed wholesale broadband and spectrum sharing services (LSS) offsetting growth in retail fixed broadband revenue.



\* 2H11 fixed retail broadband SIOs include the removal of 65k non-revenue generating services from the base.

### ISDN and other fixed revenue

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
ISDN revenue . . . . .	877	905	(28)	(3.1)
Other fixed revenue . . . . .	1,165	1,101	64	5.8
ISDN average revenue per user per month (\$'s) . . . . .	55.71	58.05	(2.34)	(4.0)
ISDN access lines (basic access line equivalents) (thousands) . . . . .	1,316	1,308	8	0.6
Unbundled local loop SIOs (thousands) . . . . .	1,001	831	170	20.5

Note: statistical data represents management's best estimates.

ISDN revenue declined by 3.1% to \$877 million. This was caused by reductions in both voice and data revenues resulting from product substitution to other services including IP voice and data alternatives as well as competitive pressures. The number of ISDN SIOs increased marginally due to the take up by business and enterprise and government customers of ISDN 10/20/30 primary rate services.

Other fixed revenue increased by 5.8% to \$1,165 million with customer premises equipment revenue increasing by 56.0% or \$61 million driven by T-Box<sup>®</sup> and T-Hub<sup>®</sup> product sales. Intercarrier services revenue has also continued to grow, increasing by 12.4% or \$50 million with higher ULL SIOs (up 170 thousand to 1 million) and increased demand for mobile tower and exchange access and equipment. Partially offsetting these increases were decreases in premium calling products and customnet as customers migrate their services to other offerings.

## Full year results and operations review - June 2011

### Mobiles

- SIO growth of 1.66 million for the year as a result of our strategy to retain and grow customers
- Total mobile revenue growth of 10.7% and services growth of 7.4%
- Postpaid handheld SIO growth of 11.1% combined with mobile broadband SIOs up 55.0%

### Mobiles

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
- Postpaid handheld . . . . .	4,497	4,326	171	4.0
- Prepaid handheld . . . . .	674	624	50	8.0
Total handheld . . . . .	5,171	4,950	221	4.5
Mobile broadband . . . . .	974	819	155	18.9
<b>Mobile services revenue - retail</b> . . . . .	<b>6,145</b>	<b>5,769</b>	<b>376</b>	<b>6.5</b>
Mobiles interconnection . . . . .	650	533	117	22.0
Mobile services revenue - wholesale resale . . . . .	145	159	(14)	(8.8)
<b>Total mobile services revenue</b> . . . . .	<b>6,940</b>	<b>6,461</b>	<b>479</b>	<b>7.4</b>
Mobile hardware . . . . .	1,160	856	304	35.5
<b>Total mobile revenue</b> . . . . .	<b>8,100</b>	<b>7,317</b>	<b>783</b>	<b>10.7</b>
<b>SIOs (at end of period) (thousands)</b>				
Postpaid handheld retail mobile SIOs . . . . .	6,455	5,810	645	11.1
Prepaid handheld retail mobile SIOs . . . . .	3,192	3,090	102	3.3
Mobile broadband SIOs . . . . .	2,576	1,662	914	55.0
<b>Total retail mobile SIOs</b> . . . . .	<b>12,223</b>	<b>10,562</b>	<b>1,661</b>	<b>15.7</b>
Wholesale SIOs . . . . .	74	81	(7)	(8.6)
Prepaid handheld unique users (3 month average of monthly users) . . . . .	1,921	1,889	32	1.7
<b>ARPU (\$'s)</b>				
Blended average revenue per user (incl interconnection) . . . . .	49.70	50.61	(0.91)	(1.8)
Postpaid handheld average revenue per user . . . . .	61.11	62.49	(1.39)	(2.2)
Prepaid handheld average revenue per user . . . . .	17.88	15.98	1.90	11.9
Mobile broadband average revenue per user . . . . .	38.30	50.41	(12.10)	(24.0)
Number of SMS sent (millions) . . . . .	9,905	9,394	511	5.4
Mobile voice telephone minutes (millions) . . . . .	13,512	11,524	1,988	17.3
Postpaid handheld deactivation rate . . . . .	8.8%	12.4%		(3.6pp)

Note: statistical data represents management's best estimates.

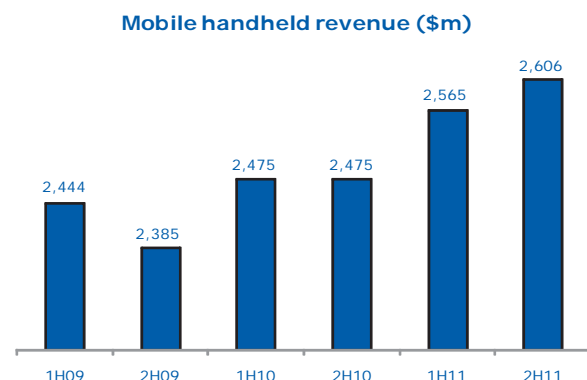
Domestic mobile revenue grew by 10.7% or \$783 million to \$8,100 million. The success of our strategic initiative to retain and grow customers was highlighted by exceptionally strong mobile retention and acquisition. At the end of June 2011, total mobile SIOs were over 12 million, up 742 thousand in the second half and 1.66 million for the year. Postpaid handheld customers at the end of June 2011 were over 6 million, up 348 thousand in the second half and 645 thousand for the year. Mobile broadband customers at the end of June were 2.6 million, up 409 thousand in the second half and 914 thousand for the year.

The significantly improved momentum in customer growth and volume of customers returning to Telstra is testament to the increased value in our mobile plans and our superior network quality. During the second half we launched our very popular Freedom Connect plans which offered increased value to our customers.

Mobile services revenue grew by 7.4% versus 5.9% in the prior year while mobile hardware revenue was up 35.5% to \$1,160 million.

We continue to believe that improving mobile hardware revenue is a lead indicator of accelerating mobiles services revenue growth.

Handheld services revenue growth was 4.5%, an improvement on last year driven by accelerating growth in the postpaid handheld services category. Mobile

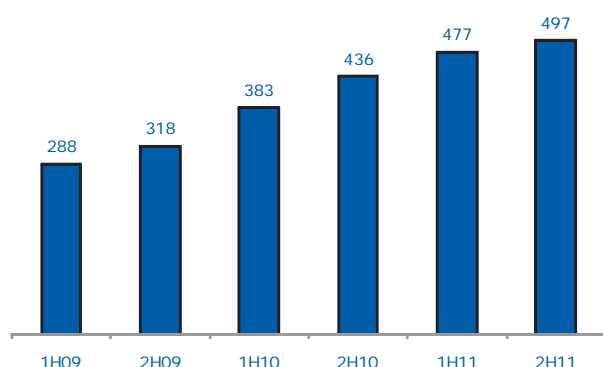


## Full year results and operations review - June 2011

broadband revenue of \$974 million grew by 18.9% or \$155 million as our customers continue to enjoy the benefits of wireless internet access and our Next G<sup>®</sup> network.

Although prepaid handheld customers declined by 15 thousand in the second half, revenues and ARPU remained solid with prepaid handheld revenue growing 6.6% in the second half and 8.0% for the full year. Prepaid handheld ARPU also rose 11.9% to \$17.88 for the full year.

Mobile broadband revenue (\$m)



Mobile ARPU trends remain steady with handheld ARPUs continuing to grow. This was driven by increased prepaid handheld ARPU and only slightly lower postpaid handheld ARPU. Mobile broadband ARPU declined by 24.0% due to competition and a higher penetration of lower ARPU prepaid services including the increased popularity of tablets on these plans.

The blended domestic subscriber acquisition and recontracting cost (SARC) rate across all domestic postpaid and prepaid sales volumes increased by 34.7% to \$212. This rate has been calculated using an economic view which ignores the timing of cash receipts and accounting treatment in order to highlight the average customer lifetime value investment across all subsidised contracts and MRO postpaid contracts (including both handheld and mobile broadband). This is in contrast to previous years where the measurement was based on accounting treatment, excluding the impact of MRO. The increase in the blended SARC rate has been driven by the impacts of continued penetration of smartphones.

As expected mobile EBITDA margins improved in the second half as we began to realise the benefits of our customer retention and acquisition strategy. Mobile EBITDA margin for the second half was 35% year on year, up 6 percentage points from December 2010 and was 32% for the full year.



## Full year results and operations review - June 2011

### IP and data access

- IP access revenue grew by 16.2% to \$970 million while legacy specialised data product revenue declined by 27.4% to \$350 million
- IP MAN SIOs increased by 19.0% and IP WAN SIOs increased by 8.4% as customers continue to migrate services to IP based products

#### IP and data access

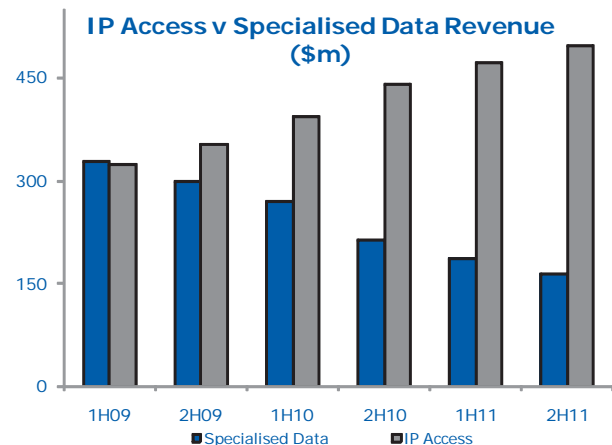
	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Specialised data . . . . .	350	482	(132)	(27.4)
Global products . . . . .	109	122	(13)	(10.7)
IP access . . . . .	970	835	135	16.2
Wholesale internet and data . . . . .	342	338	4	1.2
<b>Total IP and data access revenue . . . . .</b>	<b>1,771</b>	<b>1,777</b>	<b>(6)</b>	<b>(0.3)</b>
Domestic frame access ports (thousands) . . . . .	15	18	(3)	(16.7)
Hyperconnect retail services in operation (thousands) . . . . .	40	35	5	14.3
Ethernet lite services in operation (thousands) . . . . .	29	26	3	11.5
IP MAN services in operation (thousands) . . . . .	25	21	4	19.0
IP WAN services in operation (thousands) . . . . .	103	95	8	8.4

Note: statistical data represents management's best estimates.

Our IP and data access business continues to focus on the migration to IP from legacy technologies with IP access revenue growing 16.2% to \$970 million. IP access and wholesale internet and data growth continues to offset the decline in legacy specialised data and global products, with the overall portfolio declining slightly by 0.3% to \$1,771 million.

The ongoing transition to the Next IP™ network from legacy data networks and other data products is clearly evident in the revenue trends. IP access revenue increased as customers sought the scalability, security and reliability, reduced duplication and complexity, and the integration of the Next IP™ network with the Next G network for advanced applications and solutions.

IP MAN maintained strong revenue growth, up 24.1% to \$552 million in the current year while SIOs increased by 4 thousand or 19.0%. IP MAN provides customers with their own virtual private network using the IP protocol across a metropolitan area which can link two or more sites into the virtual private network. The other main source of IP access revenue growth was IP WAN where revenue rose by 10.5% to \$250 million and SIOs increased by 8 thousand or 8.4%. IP WAN allows businesses to use a single data connection in each location and then rely on the built-in intelligence and security of our Next IP™ network to manage the routing and delivery of data between local and international locations.



## Full year results and operations review - June 2011

### Network Applications and Services (previously Business services and applications)

- NAS revenue has grown by 10.7% to \$1,144 million across managed network services and commercial recoverable and industrial works

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Network applications and services revenue . . . . .	<b>1,144</b>	1,033	111	<b>10.7</b>

Network Applications and Services (NAS) is one of our strategic growth drivers. This portfolio builds on the value our IP access products provide to enterprise, government and larger small to medium enterprise (SME) customers and is focussed on delivering value-add services using our own high speed networks as opposed to traditional carriage. Our aim is to provide customers with pre-defined service offers that remove the need to design customised solutions. NAS products include services such as high definition video conferencing and Telepresence, IP telephones, cloud computing, managed data networks and enterprise security services.

In the current year, network applications and services revenue grew 10.7%, or \$111 million to \$1,144 million; within this product category, managed network services revenue grew by 7.9%, or \$51 million to \$699 million. This was driven by strong growth in unified communications of 31.0% to \$156 million driven partially by the acquisition of iVision Pty Ltd on 31 March 2011 (contributing \$18 million of revenue), and managed data networks growth of 8.7% to \$213 million. Commercial recoverable and industrial works revenue grew by 35.8%, or \$62 million to \$236 million which included the launch of new projects during the year, including our participation in the rollout of National Broadband Network (NBN) trial sites.

### Advertising and directories

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Sensis advertising and directories revenue . . . . .	<b>1,768</b>	1,893	(125)	<b>(6.6)</b>
Other advertising revenue. . . . .	<b>141</b>	272	(131)	<b>(48.2)</b>
<b>Total advertising and directories revenue . . . . .</b>	<b>1,909</b>	2,165	(256)	<b>(11.8)</b>

Our advertising and directories revenue is predominantly derived from our wholly owned company Sensis and its controlled entities. For a detailed description of the performance of Sensis refer to the financial summary on page 29.

Other advertising revenue mainly consists of revenue from our Chinese online advertising business and Trading Post. Chinese advertising revenue declined by \$111 million from the prior year mainly due to the sale of SouFun in September 2010.

Trading Post published final print editions in October 2009 and is now exclusively an online and media classified service. Revenue declined by \$20 million from the prior year mainly due to worsening economic and competitive conditions.

## Full year results and operations review - June 2011

### Offshore controlled entities

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
CSL New World . . . . .	814	770	44	5.7
TelstraClear . . . . .	516	529	(13)	(2.5)
International managed services and carriage . . . . .	299	293	6	2.0
<b>Total offshore controlled entities revenue . . . . .</b>	<b>1,629</b>	<b>1,592</b>	<b>37</b>	<b>2.3</b>

For further details regarding the performance of CSL New World (CSLNW) and TelstraClear, please refer to their respective business summaries commencing on page 30. Revenue from total offshore controlled entities increased by \$37 million for the full year including absorbing a \$149m decline driven by foreign currency movements primarily in CSLNW.

Other offshore controlled entities revenue increased by \$6 million and includes an unfavourable foreign currency translation impact of \$29 million. Excluding this, Asia recorded a \$49 million increase associated with the acquisition of assets under the restructure of our Reach network assets arrangements effective 28 February 2011. Europe revenues have reduced by \$14 million due mainly to the sale of part of our UK voice business together with unfavourable churn in data and voice products.

### Pay TV bundling

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Pay TV bundling revenue . . . . .	584	511	73	14.3
Total pay TV bundling SIOs (thousands) . . . . .	508	504	4	0.8

Note: statistical data represents management's best estimates.

Total pay TV bundling revenue increased by 14.3% to \$584 million. The growth of revenue was due to a 7.7% increase in ARPU along with a 4 thousand increase in SIOs to 508 thousand.

ARPU's grew as a result of pricing changes across the base and the successful completion of customer migration to Next Generation FOXTEL. There were also strong sales of Platinum iQ as well as Platinum HD packages with increases in Pay Per View usage stimulated by the launch of Movies On Demand and TV Library On Demand in October 2010.

The growth in FOXTEL from Telstra SIOs was driven by increased take up of bundled offers with other Telstra products and services.

## Full year results and operations review - June 2011

### Other revenue

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Distributions received . . . . .	70	60	10	16.7
Rental income . . . . .	40	44	(4)	(9.1)
<b>Total other revenue . . . . .</b>	<b>110</b>	<b>104</b>	<b>6</b>	<b>5.8</b>

Other revenue includes distributions received from our FOXTEL partnership of \$70 million, representing a 16.7% or \$10 million increase on prior year.

### Other income

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Proceeds from asset and investment sales . . . . .	535	27	508	n/m
Cost of asset and investment sales . . . . .	460	25	435	n/m
<b>Net gain on assets/investment sales . . . . .</b>	<b>75</b>	<b>2</b>	<b>73</b>	<b>n/m</b>
USO levy receipts and subsidies . . . . .	69	65	4	6.2
Miscellaneous income . . . . .	67	45	22	48.9
<b>Other income . . . . .</b>	<b>136</b>	<b>110</b>	<b>26</b>	<b>23.6</b>
<b>Total other income . . . . .</b>	<b>211</b>	<b>112</b>	<b>99</b>	<b>88.4</b>

Other income increased by 88.4% largely driven by the sale of SouFun, our Chinese real estate website (\$69 million profit), our interest in Keycorp Ltd, an Australian provider of secure electronic transaction solutions (\$8 million profit) and Telstra Ltd's non-core voice business in the UK (\$16 million loss). The total net gain received from the sale of investments amounted to \$61 million. Other miscellaneous income grew by 48.9% or \$22 million largely due to the reversal of contingent consideration related to the purchase of LMobile (\$30 million), offset by the impairment of goodwill in expenses following a review of estimated future cash flows.



## Full year results and operations review - June 2011

### Expenses

#### Labour

- Total labour expenses increased by 5.9% with increases driven by redundancy activity, higher costs to support our growing customer base as well as the impact of natural disasters and higher incentives
- Redundancy costs increased by 75.0% or \$96 million driven by initiatives supporting the simplification of the business

#### Labour

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Salary and associated costs . . . . .	3,326	3,257	69	2.1
Redundancy . . . . .	224	128	96	75.0
Other labour expenses . . . . .	374	322	52	16.1
<b>Total labour.</b> . . . .	<b>3,924</b>	<b>3,707</b>	<b>217</b>	<b>5.9</b>
Domestic full time employees (whole numbers) (i) . . . . .	30,121	31,157	(1,036)	(3.3)
Full time employees and employed equivalents (whole numbers) (ii) . . . . .	35,790	41,690	(5,900)	(14.2)
Total workforce, including contractors and agency staff (whole numbers) (iii) . . . . .	39,790	45,220	(5,430)	(12.0)

Note: statistical data represents management's best estimates.

- (i) Our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities.  
(ii) Our full time employees and equivalents include domestic full time employees plus casual and part time employees and employees in our offshore subsidiary entities.  
(iii) Our total workforce includes full time employees and equivalents plus contractors and staff employed through agency arrangements measured on an equivalent basis.

Labour expenses increased by 5.9% or \$217 million from the prior corresponding period predominantly due to increased redundancy costs, salary and associated costs growth as well as the impacts of natural disasters on other labour expenses.

Redundancy expenses increased by 75.0% from the prior fiscal year mainly due to initiatives undertaken as the company transitioned to a more customer focused operating model. These included the consolidation of our Consumer and Country Wide business units during the first half and the reduction of management layers as we looked to simplify our organisation. There was also redundancy activity within our Operations business unit predominantly driven by efficiencies within the service delivery and network services areas.

Increases for salary and associated costs were kept to 2.1% or \$69 million from the prior corresponding period with annual pay rises contributing to the growth together with higher incentive payments as a result of a higher percentage of performance targets being met.

We also undertook a program whereby we brought in house certain IT professional staff functions previously performed by third parties which has contributed to the year on year growth. Partially offsetting these increases were lower costs due to the lower domestic headcount as well as the divestment of SouFun in September 2010.

Growth in overtime, contractor and agency payments of 14.3% was the main driver of the increase in other labour expenses from the prior corresponding period. This was partly due to additional agency staff required to handle increased call volumes supporting a growing customer base, as well as costs associated with

extensive flooding and storms across the eastern seaboard and Cyclone Yasi.

Workforce numbers declined by 5,430 from the prior fiscal year with the divestment of SouFun resulting in a staff reduction of 4,770. In addition to this there have been further FTE reductions as we move towards a more simplified operating model including the consolidation of the separate Consumer and Country Wide business units, partially offset by an increase in our Operations business as a result of bringing IT professional staff in house as previously mentioned.

Year on year, our labour and labour substitution ratio to sales revenue has remained relatively constant despite the impacts of higher incentive payments and absorbing the year's natural disasters. After taking into account timing differences and one off impacts in the current year we are seeing good underlying improvement in our domestic labour and labour substitution expenses on a quarterly basis. We continue to drive towards a more simplified and cost effective operating model.

## Full year results and operations review - June 2011

### Goods and services purchased

- Supporting our strategy to retain and grow the customer base, total goods and services purchased increased by 15.4% or \$823 million
- The increase of 1.66 million mobile services contributed significantly to a 36.2% or \$535 million increase in cost of goods sold - other

### Goods and services purchased

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Cost of goods sold - subsidies (postpaid) . . . . .	631	598	33	5.5
Cost of goods sold - other . . . . .	2,013	1,478	535	36.2
Usage commissions . . . . .	276	339	(63)	(18.6)
Network payments . . . . .	1,943	1,808	135	7.5
Service fees . . . . .	666	568	98	17.3
Managed services . . . . .	150	133	17	12.8
Dealer performance commissions . . . . .	72	99	(27)	(27.3)
Paper purchases and printing . . . . .	98	119	(21)	(17.6)
Other . . . . .	334	218	116	53.2
<b>Total goods and services purchased . . . . .</b>	<b>6,183</b>	<b>5,360</b>	<b>823</b>	<b>15.4</b>

Our strategy to invest in customer growth resulted in an increase in our variable costs with significantly higher cost of goods sold year on year. This expense growth has supported higher mobile revenue growth of 10.7% or \$783 million, with a 1.66 million increase in domestic mobile services.

Cost of goods sold - other (which includes mobile handsets, wireless devices and fixed/digital products) increased by 36.2% or \$535 million from the prior corresponding period predominantly due to:

- very strong growth in mobile customers driving a 46.9% or \$426 million increase in mobile hardware COGS with a corresponding 35.5% increase in mobile hardware revenue. Across all customer segments we have seen higher sales volumes and increased smartphone penetration;
- growth in other COGS of \$71 million driven by the increasing market penetration of the T-Hub® and T-Box® products as well as higher fixed broadband acquisitions; and
- an increase in managed WAN cost of goods sold driven by growth in managed WAN revenue in our Enterprise and Government segment.

Cost of goods sold - subsidies (postpaid) increased by 5.5% or \$33 million. Growth in CSL New World was the main driver with improved customer offerings resulting in higher connections and higher subsidy expense supporting sales revenue growth. Domestically, subsidised volumes decreased due to a change in the product/plan offering mix favouring postpaid mobile repayment option (MRO) offers.

Network payments increased by 7.5% or \$135 million driven by growth in domestic carrier network outpayments resulting from higher SMS and MMS offnet volumes as well as increases in mobile voice terminating offnet volumes.

Other goods and services purchased increased by 53.2% or \$116 million predominantly driven by dealer program incentives due to the change in dealer remuneration plans (offsetting the decrease in postpaid usage commissions) and higher commercial project payments in line with revenue increases.

Service fees increased by 17.3% or \$98 million from the prior corresponding period in line with strong pay TV revenue growth of 14.3%.

The above increases in goods and services costs were partly offset by:

- a decrease of 18.6% or \$63 million in usage commissions primarily due to new dealer plans;
- a decrease of 27.3% or \$27 million in dealer commissions driven by the reduction in agency commissions in China Media and a reduction in volumes in the personal calling channel; and
- a decrease of 17.6% or \$21 million in paper purchases and printing mainly within the Sensis business driven by lower print advertising.

## Full year results and operations review - June 2011

### Other expenses

- Total other expenses decreased by 1.4% this fiscal year predominantly due to the adjustment to the shareholder loan associated with the restructure of our Reach asset
- Service contracts and other agreements increased by \$84 million or 3.7% as a result of the company focusing on customer service initiatives

### Other expenses

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Property, motor vehicle and IT rental expense . . . . .	561	565	(4)	(0.7)
Net foreign currency conversion losses / (gains) . . . . .	(1)	(1)	-	-
Service contracts and other agreements . . . . .	2,359	2,275	84	3.7
Promotion and advertising . . . . .	334	349	(15)	(4.3)
General and administration . . . . .	902	930	(28)	(3.0)
Other operating expenses . . . . .	445	406	39	9.6
Impairment and diminution expenses . . . . .	447	593	(146)	(24.6)
<b>Total other expenses . . . . .</b>	<b>5,047</b>	<b>5,117</b>	<b>(70)</b>	<b>(1.4)</b>

Total other expenses decreased by 1.4% or \$70 million this fiscal year primarily driven by an adjustment to the shareholder loan from Reach following the acquisition of assets associated with the restructure of the business.

Our impairment expenses decreased this year due to:

- the Reach adjustment, amounting to a \$147 million gain reflecting a reversal of the provision against the shareholder loan receivable;
- Fiscal 2011 included an impairment to the carrying value associated with our investment in Octave of \$133 million and an impairment of goodwill associated with our LMobile investment of \$27 million following a review of future estimated cash flows. The latter is offset in other revenue through the release of deferred consideration no longer payable. Fiscal year 2010 included an impairment charge for CSL New World of \$169 million; and
- Bad and doubtful debts declined with lower levels of consumer debt defaults and an improved remediation of long outstanding debt;

partially offset by:

- an increase in inventory impairment of \$27 million mainly relating to the provision for certain slow moving smartphone stock.

General and administration expenses declined by 3.0% or \$28 million this fiscal year, predominately attributable to IT costs with savings of 18.2% on the prior year due to renegotiated licence fees with IT vendor managers and PC lease agreements. Partially offsetting this was an increase in accommodation costs due to the additional costs involved in the continued consolidation and upgrade of our state CBD administrative sites and costs related to new mobile sites.

Promotion and advertising decreased by 4.3% or \$15 million. Domestically, we saw savings in the White and Yellow Pages® local search areas offset by increases in media spend for our T-Box®, T-Hub® and bundling promotions, which has supported strong growth in these products. Internationally, CSL New World expenditure

declined after a successful branding and sales campaign during the previous financial year.

Service contracts and agreements increased by 3.7% or \$84 million through investment in the early phases of our programme to simplify the business. A key driver of the increase has also been the focus on improving customer service through investments made to improve the customer experience including improvements to the online Telstra portal and the implementation of our after hours customer service. Expenses were also driven up by the increased sales of bundles, T-Box® and T-Hub®. Partially offsetting this were savings achieved by the renegotiation of contracts with external suppliers and the conversion of expenses for IT professionals to labour costs as they moved to permanent staff.

Other operating expenses increased by 9.6% or \$39 million due to one off provision releases in the prior year.

## Full year results and operations review - June 2011

### Share of net profit from jointly controlled and associated entities

	2011 \$m	Year ended 30 June 2010 \$m	Change \$m	Change %
Share of net profit from jointly controlled and associated entities . . . . .	(1)	(2)	1	(50.0)

Our share of net profit from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments.

In respect to our investments in FOXTEL, Reach and Australia-Japan Cable, as the carrying value of each has been previously written down to nil, any share of loss/(gain) from these entities is not currently recognised. These entities will resume equity accounting once the accumulated losses have been fully offset by our share of profits derived from these entities.

As at 30 June 2011, our carried forward losses from our share of FOXTEL amounted to \$132 million compared to \$152 million at 30 June 2010. The decrease of \$20 million during the fiscal year is mainly due to our share of FOXTEL's profit for the year of \$100 million offset by the \$70 million distribution recorded as revenue during

the year. There was also a movement in our share of reserves of \$10 million.

Our share of carried forward losses in Reach and Australia-Japan Cable as at 30 June 2011 were \$559 million and \$148 million respectively. The restructure of Reach and acquisition of assets as announced on 26 January 2011 resulted in an accounting gain for Telstra. The gain will have no direct impact on our share of carried forward losses from our 50% investment in Reach. We will continue to account for our share of Reach's operating results and our carried forward losses will reduce to the extent of any net profit reported by Reach. Reach's net operating results has been impacted by the profit on sale of assets arising from the restructured transaction.

### Depreciation and amortisation

	2011 \$m	Year ended 30 June 2010 \$m	Change \$m	Change %
Depreciation . . . . .	3,454	3,440	14	0.4
Amortisation . . . . .	1,005	906	99	10.9
<b>Total depreciation and amortisation . . . . .</b>	<b>4,459</b>	<b>4,346</b>	<b>113</b>	<b>2.6</b>

Total depreciation and amortisation expenditure increased by 2.6% to \$4,459 million.

Depreciation increased by 0.4% or \$14 million from fiscal 2010 primarily due to higher communications plant and other plant and equipment depreciation. This increase was driven by asset additions and improvements predominantly within the core network data, core network transport, core content-IP products, mobile access and fixed access assets. This was partially offset by land and buildings depreciation which decreased due to the retirement of exchange sites during the year in line with our divestment program.

Amortisation expense increased by 10.9% or \$99 million predominantly due to software additions and improvements to our asset base comprising customer relations, network operations and workflow management applications and our billing systems.



## Full year results and operations review - June 2011

### Net finance costs

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Borrowing costs . . . . .	1,174	1,059	115	10.9
Finance leases . . . . .	12	12	-	-
Finance Income . . . . .	(127)	(67)	(60)	89.6
<b>Net Borrowing Costs</b> . . . . .	<b>1,059</b>	<b>1,004</b>	<b>55</b>	<b>5.5</b>
Unwinding of discount on liabilities recognised at present value . . . . .	20	21	(1)	(4.8)
Loss on fair value hedges - effective . . . . .	27	26	1	3.8
(Gain)/loss on cashflow hedges - ineffective . . . . .	(6)	5	(11)	(220.0)
Loss/(gain) on transactions not in a designated hedge relationship or de-designated from fair value hedge relationships . . . . .	125	(36)	161	(447.2)
Other . . . . .	14	16	(2)	(12.5)
<b>Capitalised interest</b> . . . . .	<b>(104)</b>	<b>(73)</b>	<b>(31)</b>	<b>42.5</b>
<b>Net finance costs</b> . . . . .	<b>1,135</b>	<b>963</b>	<b>172</b>	<b>17.9</b>

Net finance costs increased by 17.9% or \$172 million from the prior year.

The increase in net interest on borrowings of \$55 million during the period principally arises from an increase in the average yield on net debt (from 6.4% to 7.2%). This was mainly due to:

- higher refinancing yields on new debt;
- increases in base interest rates flowing through to the floating rate component of our debt portfolio; and
- new policy settings implemented during the year to raise the minimum level of liquidity and to prefund major payments earlier. This contributes to higher interest costs as in the current market borrowing yields (to maintain higher liquidity) exceed investment yields.

The impact of higher interest rates has been partially offset by a reduction in the average level of net debt over the period reflected in a \$331 million reduction year on year to \$13,595 million.

The movement in loss on transactions not in or de-designated from fair value hedge relationships (increase of \$161 million) and loss on fair value hedges (increase of \$1 million) reflects valuation impacts. These include movements in base market interest rates and borrowing margins as at 30 June valuation date and the impact from net present value calculations as borrowings move closer to maturity. These unrealised losses in fiscal 2011 also represent the expected partial reversal of previously recognised unrealised gains.

In addition to the valuation impacts above, the following additional impacts are also applicable to transactions not in or de-designated from fair value hedge relationships and do not qualify for hedge accounting:

- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of \$21 million for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

Although a number of borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction. As it is generally our intention to hold our borrowings and associated derivative instruments to maturity, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and for each transaction will progressively unwind out to nil at maturity.

Our level of capitalised interest has increased for the year to \$104 million due to a progressive increase in the value of the qualifying asset base for which borrowing costs are capitalised.

## Full year results and operations review - June 2011

### Income tax expense and franking account

- Our effective tax rate this fiscal year is 28.7% which is lower than the Australian corporate tax rate of 30%

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Income tax expense . . . . .	1,307	1,598	(291)	(18.2)
Effective tax rate . . . . .	28.7%	28.9%		(0.2)

Income tax expense has decreased by \$291 million from the prior fiscal year with reported profit before income tax declining by \$981 million to \$4,557 million.

Income tax expense is \$60 million lower than the notional income tax expense and the following factors contributed to the decrease:

- the non assessable recovery of the \$147 million shareholder loan as a result of the Reach asset acquisition has decreased income tax expense by \$44 million;
- amended assessments related to prior period research and development claims have resulted in a \$24 million decline in income tax expense;
- a \$70 million capital distribution from FOXTEL is a non assessable capital distribution and has resulted in a \$21 million reduction to the notional income tax expense; and
- the effect of differences in tax rates of overseas subsidiaries has resulted in a reduction of \$17 million to the income tax expense.

partially offset by:

- the share of estimated taxable income from FOXTEL of \$100 million has resulted in an increase of \$30 million to the income tax expense; and
- the non deductible impairment of Octave has resulted in a \$28 million increase to the income tax expense.

During fiscal year 2011, we have paid a total of \$1,523 million of tax instalments for the Telstra tax consolidated group relating to the last quarter of fiscal 2010 and the first three quarters of fiscal 2011 as well as \$138 million of franking deficits tax in relation to the fiscal year 2010 closing balance. We also received \$5 million of franking credits through entity acquisitions and the receipt of franked dividends. Franking credits of \$1,493 million were used when we paid our final 2010 dividend and interim 2011 dividend. In addition, the 2010 income tax return refund has resulted in a further reduction of \$176 million (including the refund of the \$138 million franking deficits tax paid) in our franking credits.

Following the above movements, our franking account balance was \$141 million in deficit at the end of June 2011. We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our final 2011 dividend.

## Full year results and operations review - June 2011

### Major subsidiaries - financial summaries

Below is a financial summary of our three largest subsidiaries: Sensis, CSL New World and TelstraClear.

This information is complementary to the product analysis previously provided in the document and is intended to show these businesses as stand alone entities.

#### Sensis financial summary<sup>(i) (ii)</sup>

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
Total income . . . . .	<b>1,787</b>	1,900	(113)	<b>(5.9)</b>
Operating expenses (excl. depreciation and amortisation) . . . . .	<b>793</b>	804	(11)	<b>(1.4)</b>
EBITDA contribution . . . . .	<b>994</b>	1,096	(102)	<b>(9.3)</b>
Depreciation and amortisation . . . . .	<b>123</b>	84	39	<b>46.4</b>
EBIT contribution . . . . .	<b>871</b>	1,012	(141)	<b>(13.9)</b>
Capital expenditure . . . . .	<b>134</b>	94	40	<b>42.6</b>
EBITDA margin on sales revenue . . . . .	<b>55.6%</b>	57.4%		<b>(1.8)</b>

Amounts included for Sensis represent the contribution to Telstra's consolidated result.

(i) Chinese online businesses are no longer reported within Sensis (Sequel is now in Telstra International and SouFun was in the Other segment until its sale) so all prior period amounts have been removed from the Sensis financial results.

(ii) The above results differ from the segment results reported on page 7 as for segment reporting purposes we monitor our results excluding the impact of investment sales. In the prior corresponding period, Sensis disposed of Universal Publishers which resulted in a net loss of \$9 million.

Sensis total income is split into the following categories:

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
- Yellow Pages® revenue . . . . .	<b>1,119</b>	1,263	(144)	<b>(11.4)</b>
- White Pages® revenue . . . . .	<b>436</b>	415	21	<b>5.1</b>
- Digital marketing services . . . . .	<b>212</b>	212	-	<b>-</b>
- Other revenue . . . . .	<b>1</b>	3	(2)	<b>(66.7)</b>
Total Sensis advertising and directories . . . . .	<b>1,768</b>	1,893	(125)	<b>(6.6)</b>
Other sales revenue . . . . .	<b>19</b>	16	3	<b>18.8</b>
Total Sensis sales revenue . . . . .	<b>1,787</b>	1,909	(122)	<b>(6.4)</b>
Other income . . . . .	<b>-</b>	(9)	9	<b>100.0</b>
<b>Sensis total income</b> . . . . .	<b>1,787</b>	1,900	(113)	<b>(5.9)</b>

Sensis is our advertising subsidiary. Sensis helps you find, buy and sell through service offerings including Yellow Pages®, White Pages®, 1234, Citysearch®, Whereis®, MediaSmart® and Quotify®.

In March 2011, Sensis launched a digital strategy for long term profitable growth. This strategy is designed to help Australian buyers and sellers benefit from the rapidly evolving digital environment. In particular, this strategy seeks to empower small business advertisers with competitive marketing solutions.

Sensis total income declined by 5.9% to \$1,787 million and EBITDA declined by 9.3% to \$994 million, primarily as a result of the structural shift from print directories. In addition, contributing to the decline in performance was the impact of the floods throughout the east coast of Australia and the investment associated with the deployment of the new strategy.

The primary driver of the results has been a reduction of Yellow Pages revenue by 11.4% resulting from a decline in Yellow Pages print directories of 15.8% partially offset by growth in Yellow Pages digital of

6.3%. In the second half, Yellow Pages digital revenue grew 12.8% year on year, driven by an increase in take up of digital offerings. The decline in Yellow Pages print revenue has arisen from higher cancellations and declining yields as customers migrate their advertising to online solutions.

White Pages revenue increased by 5.1% to \$436 million. This was driven by an increase in White Pages print of 2.8% and an increase in White Pages digital revenue of 39.3% due to growth in the number of customers taking the online package product.

Operating expenses declined by 1.4% from the prior year mainly driven by lower paper, printing and distribution costs.

The increase in capital expenditure was associated with our investment in new product development and expanded product offerings.

## Full year results and operations review - June 2011

### CSL New World financial summary

	Year ended 30 June			Year ended 30 June		
	2011 A\$m	2010 A\$m	Change %	2011 HK\$m	2010 HK\$m	Change %
Sales revenue . . . . .	<b>814</b>	770	<b>5.7</b>	<b>6,262</b>	5,264	<b>19.0</b>
Total income . . . . .	<b>819</b>	774	<b>5.8</b>	<b>6,297</b>	5,286	<b>19.1</b>
Operating expenses (excl. depreciation & amortisation) . . . . .	<b>643</b>	557	<b>15.4</b>	<b>4,952</b>	3,806	<b>30.1</b>
EBITDA . . . . .	<b>176</b>	217	<b>(18.9)</b>	<b>1,345</b>	1,480	<b>(9.1)</b>
Depreciation and amortisation . . . . .	<b>84</b>	96	<b>(12.5)</b>	<b>601</b>	606	<b>(0.8)</b>
EBIT . . . . .	<b>92</b>	121	<b>(24.0)</b>	<b>744</b>	874	<b>(14.9)</b>
Capital expenditure . . . . .	<b>73</b>	88	<b>(17.0)</b>	<b>609</b>	600	<b>1.5</b>
EBITDA margin on sales revenue . . . . .	<b>21.6%</b>	<b>28.2%</b>	<b>(6.6)</b>	<b>21.5%</b>	28.1%	<b>(6.6)</b>
Mobile SIOs (thousands) . . . . .	<b>2,993</b>	2,641	<b>13.3</b>	<b>2,993</b>	2,641	<b>13.3</b>

Amounts presented in HK\$ have been prepared in accordance with A-IFRS. Amounts presented in A\$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from the consolidation of fair value adjustments. EBITDA margin differences arise mainly from monthly average rates used for conversion from HK\$ to A\$.

Note: Statistical data represents management's best estimates.

CSL New World is our Hong Kong based wireless business and operates in an intensely competitive market.

Revenue in local currency, grew by 19% compared to the prior year. This was driven by both strong service revenue and device revenue growth. The growth of 13.3% or 352 thousand in customer numbers, and the introduction of new device bundles and service only rate plans were key contributing factors to the growth in services revenue. These new rate plans also enabled higher upfront device revenue recognition which, along with a significant increase in smartphone sales, helped to increase device revenue compared to the prior year.

Operating expenses, excluding depreciation and amortisation, grew by 30.1% in local currency. This resulted from higher handset related costs associated with increased smartphones sales, along with a one-off adjustment which had reduced expenses in the prior comparative period.

In local currency, EBITDA declined by 9.1% due to the one-off expense adjustment as mentioned above. Adjusting for this, the company's underlying EBITDA improved by 4.5%.

The year on year change in the HKD/AUD exchange rate resulted in a decrease in consolidated total income of A\$101 million which was partially offset by a corresponding decrease in expenses (including depreciation and amortisation) of A\$88 million.

Capital expenditure increased by 1.5% in HK\$ and was mainly due to spend on network improvements, the LTE network build, and the opening of new retail shops.



## Full year results and operations review - June 2011

### TelstraClear financial summary

	Year ended 30 June			Year ended 30 June		
	2011 A\$m	2010 A\$m	Change %	2011 NZ\$m	2010 NZ\$m	Change %
Sales revenue . . . . .	516	529	(2.5)	673	664	1.4
Total income . . . . .	514	530	(3.0)	670	666	0.6
Operating expenses (excl. depreciation & amortisation) . . . . .	430	425	1.2	562	533	5.4
EBITDA contribution . . . . .	84	105	(20.0)	108	133	(18.8)
Depreciation and amortisation . . . . .	112	118	(5.1)	138	141	(2.1)
EBIT contribution . . . . .	(28)	(13)	115.4	(30)	(8)	275.0
Capital expenditure . . . . .	66	77	(14.3)	85	88	(3.4)
EBITDA margin on sales revenue . . . . .	16.3%	19.8%	(3.5)	16.0%	20.0%	(4.0)

Amounts presented in NZ\$ represent the New Zealand business excluding intercompany transactions and have been prepared in accordance with A-IFRS. Amounts presented in A\$ represent amounts included in Telstra's consolidated result and include the Australian dollar value of adjustments to consolidate TelstraClear into the Group result.

For the year ended 30 June 2011, revenue in New Zealand (excluding trans Tasman intercompany revenue) has increased by 1.4% in local currency, despite an already difficult economic environment being further impacted by the Christchurch earthquakes in September and February.

Year on year revenue growth was achieved in each of the three revenue segments, Business and Government, Consumer and Wholesale.

Consumer saw growth in broadband customer numbers, leveraging the prior period investment made in access, via unbundled local loop and increased speeds, and investment in the consumer hybrid fibre coaxial (HFC) cable network. Business revenues showed growth, due to customer acquisition arresting a decline experienced over prior periods.

Operating expenses (excluding depreciation and amortisation) increased by 5.4%. This included one-off impacts due to restoration and recovery activities as a result of the dual Christchurch earthquakes. Labour, travel and training costs also increased, due to one-off project costs associated with the transition of a number of call centre activities to service partners. Bad and doubtful debts increased by 5.2%, reflecting the challenging economic environment.

In A\$, we saw a 3% decline in total income to \$514 million. With adjustments on consolidation and the increase in operating costs, reported EBITDA declined 20% in the year to A\$84 million.

The year on year change in the NZD\$ versus the AUD\$ exchange rate resulted in a decrease in consolidated total income of A\$20 million which was offset by a decrease in expenses (including depreciation and amortisation) of A\$21 million.

Capex spend is lower by 3.4% in local currency with targeted investments focussed on a product set with ubiquitous access to ensure readiness to provide a full range of products and services in a UFB (Ultra Fast Broadband) environment.

On a standalone basis, adjusting for intercompany revenues, total income grew by 1.2% and EBITDA declined by 15.3%.

### TelstraClear standalone financial results

	Year ended 30 June		
	2011 NZ\$m	2010 NZ\$m	Change %
Total income . . . . .	701	693	1.2
Operating expenses (excl. depreciation & amortisation) . . . . .	568	536	6.0
EBITDA . . . . .	133	157	(15.3)
Depreciation and amortisation . . . . .	138	141	(2.1)
EBIT . . . . .	(5)	16	(131.3)
Capital expenditure . . . . .	85	88	(3.4)
EBITDA margin on sales revenue . . . . .	19.0%	23.6%	(4.6)

## Full year results and operations review - June 2011

### Statement of financial position

- Given the strength of our balance sheet and debt maturity profile we continue to be able to borrow from the market on competitive terms
- Net assets have decreased reflecting our investment during the year in executing our strategy around customer acquisition and business simplification

### Statement of financial position

	30 Jun 11 \$m	30 Jun 10 \$m	Change \$m	Change %
<b>Current assets</b>				
Cash and cash equivalents . . . . .	2,630	1,936	694	35.8
Other current assets . . . . .	4,823	5,249	(426)	(8.1)
<b>Total current assets</b> . . . . .	<b>7,453</b>	<b>7,185</b>	<b>268</b>	<b>3.7</b>
<b>Non current assets</b>				
Property, plant and equipment . . . . .	21,790	22,894	(1,104)	(4.8)
Intangible assets . . . . .	7,627	8,028	(401)	(5.0)
Other non current assets . . . . .	1,043	1,175	(132)	(11.2)
<b>Total non current assets</b> . . . . .	<b>30,460</b>	<b>32,097</b>	<b>(1,637)</b>	<b>(5.1)</b>
<b>Total assets</b> . . . . .	<b>37,913</b>	<b>39,282</b>	<b>(1,369)</b>	<b>(3.5)</b>
<b>Current liabilities</b>				
Borrowings . . . . .	1,990	2,540	(550)	(21.7)
Other current liabilities . . . . .	6,548	6,142	406	6.6
<b>Total current liabilities</b> . . . . .	<b>8,538</b>	<b>8,682</b>	<b>(144)</b>	<b>(1.7)</b>
<b>Non current liabilities</b>				
Borrowings . . . . .	12,178	12,370	(192)	(1.6)
Other non current liabilities . . . . .	4,905	5,222	(317)	(6.1)
<b>Total non current liabilities</b> . . . . .	<b>17,083</b>	<b>17,592</b>	<b>(509)</b>	<b>(2.9)</b>
<b>Total liabilities</b> . . . . .	<b>25,621</b>	<b>26,274</b>	<b>(653)</b>	<b>(2.5)</b>
<b>Net assets</b> . . . . .	<b>12,292</b>	<b>13,008</b>	<b>(716)</b>	<b>(5.5)</b>
<b>Equity</b>				
Equity available to Telstra entity shareholders . . . . .	12,074	12,696	(622)	(4.9)
Non-controlling interests . . . . .	218	312	(94)	(30.1)
<b>Total equity</b> . . . . .	<b>12,292</b>	<b>13,008</b>	<b>(716)</b>	<b>(5.5)</b>

Our balance sheet remains in a healthy state with net assets of \$12,292 million. During the year we have refinanced several borrowings through a number of capital raisings in debt markets including executing a €500 million 10 year benchmark bond issue in October 2010 with a maturity of March 2021 and a US\$1 billion bond issue in April 2011 with a maturity of October 2021.

Major balance sheet movements included:

- other current assets decreased by 8.1% mainly due to the sell down of our shareholding in SouFun for which the carrying value of assets and goodwill had been reclassified as held for sale in June 2010. This included cash and cash equivalent holdings of \$169 million. The value of derivative assets also decreased mainly due to a strengthening of the Australian dollar. This was partly offset by an increase in trade debtors associated with increased customer acquisition activity;
- property, plant and equipment has declined mainly due to a reduction in capital program expenditure following the peaks of our transformation program in recent years. Reductions include communication plant assets for our core, fixed and mobile access networks as ongoing depreciation and retirements

exceed the level of additions. This was partly offset by an increase due to the acquisition of assets from Reach as part of the Reach restructure;

- intangible assets decreased by 5.0% mainly due to foreign exchange movements and the impairment of the Octave Group goodwill and customer base. This was partly offset by increased capital expenditure on software assets as part of our continuing investment in our IT systems as part of our business simplification strategy;
- other non current assets decreased as a result of a reduction in the value of derivative assets mainly due to a strengthening of the Australian dollar, partly offset by an increase in trade and other receivables due to mobile and fixed repayment option debt;
- total current and non current borrowings decreased by \$742 million due to a combination of net non-cash revaluation gains of \$970 million (offset by revaluation losses on our derivative instruments which are included in other liabilities) partly offset by a net cash inflow of \$156 million from re-financing and borrowing repayments and finance lease additions of \$72 million. The non cash revaluation gains are primarily due to a strengthening of the Australian dollar and also reflect revaluations to fair

## Full year results and operations review - June 2011

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value on a portion of our borrowings in fair value hedges;

- other current liabilities increased due to higher trade creditors and accruals mainly as a result of an increase in expenditure as well as an increase in derivative liabilities. This is partly offset by a decrease in revenues received in advance primarily related to Sensis print revenue; and
- other non current liabilities decreased due to lower defined benefit pension and tax liabilities, partly offset by an increase in derivative liabilities predominantly from a strengthening of the Australian dollar.

Our gross debt position at 30 June 2011 was \$16,232 million, an increase of \$201 million from 30 June 2010. The increase is due to a net non-cash revaluation loss of \$386 million and \$72 million of finance lease additions, partly offset by net borrowing repayments of \$257 million. These net borrowing repayments comprise \$156 million inflow relating to borrowings and \$15 million inflow from non current bank deposits. This was offset by \$428 million outflow relating to the associated derivative instruments.

The increase in cash and cash equivalents of \$694 million includes a net loss of \$72 million for the effect of exchange rate movements and reflects a change in policy settings which requires us to hold more liquidity to prefund major payments. Also of note is \$169 million for the net cash portion of SouFun assets sold which was included in current assets held for sale in June 2010, partly offset by \$7 million classified as held for sale relating to Adstream at June 2011. Adjusting for this the net increase in cash and cash equivalents is \$532 million.

Net debt at 30 June 2011 was \$13,595 million which reflects a decrease of \$331 million from 30 June 2010, comprising the net increase in cash and cash equivalents of \$532 million, partly offset by higher gross debt of \$201 million. Our net debt gearing ratio (net debt as a proportion of equity plus net debt) increased from 51.7% as at 30 June 2010 to 52.5% as at 30 June 2011 which is largely due to a reduction in equity over the period due to a movement in the foreign currency translation reserve as a result of the strengthening of the Australian dollar and the execution of our strategy to invest in customer acquisition and simplify our business.

## Full year results and operations review - June 2011

### Capital expenditure

- Accrued capital expenditure declined marginally by 1.8% to \$3,410 million which is within our market guidance of around 14% capex to sales
- The decline was driven by a reduction in the business improvement program following the completion of key customer focussed initiatives

#### Operating capex by investment driver on an accruals basis

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
New revenue/growth . . . . .	318	326	(8)	(2.5)
Business improvement . . . . .	574	720	(146)	(20.3)
Customer demand and experience . . . . .	1,555	1,573	(18)	(1.1)
Lifecycle maintenance . . . . .	545	471	74	15.7
Legal and regulatory compliance. . . . .	6	7	(1)	(14.3)
Sensis . . . . .	134	94	40	42.6
International . . . . .	279	280	(1)	(0.4)
<b>Operating capital expenditure . . . . .</b>	<b>3,410</b>	<b>3,471</b>	<b>(61)</b>	<b>(1.8)</b>

Our operating capital expenditure declined by 1.8% to \$3,410 million in fiscal 2011 mainly due to the following categories:

- business improvement spend decreased by \$146 million due to the completion of key customer focussed initiatives including customer care, billing enhancements and systems integration;
- customer demand in fiscal 2011 was relatively consistent with previous year spend levels with continued focus on capacity and infrastructure to support mobiles coverage and broadband growth;
- new revenue / growth spend to support new growth businesses has been maintained and includes spend on platform development for emerging products such as digital business initiatives and media applications and experience;
- the international program spend remained consistent with continued demand for international transmission capacity and offshore related investment in TelstraClear and CSL New World.

Partly offsetting the above are increases in the following categories:

- lifecycle maintenance expenditure increased by \$74 million due to costs to support the remediation work resulting from natural disasters that occurred during the second half, increased mobiles site activity and on IP platform upgrade; and
- Sensis increased by \$40 million due to the commencement of numerous new product development projects in fiscal 2011 designed to support product and activity measurement and to enhance the customer experience with expanded product offerings.

## Full year results and operations review - June 2011

### Cash flow summary

- Free cashflow ended the year at \$5,477 million including the net proceeds from the sale of SouFun, down year on year by \$748 million or 12.0%
- We have exceeded cash guidance (excluding investment sales) after strong second half cash flows
- The lower free cashflow this fiscal year is primarily attributable to the investment in growing our customer base and the implementation of programs to support our strategic initiatives

### Cashflow summary

	Year ended 30 June			
	2011 \$m	2010 \$m	Change \$m	Change %
<b>Cashflows from operating activities</b>				
Receipts from customers (inclusive of GST)	27,389	27,128	261	1.0
Payments to suppliers and to employees (inclusive of GST)	(17,860)	(16,218)	(1,642)	10.1
Net cash generated by operations	9,529	10,910	(1,381)	(12.7)
Income taxes paid	(1,511)	(1,219)	(292)	24.0
<b>Net cash provided by operating activities</b>	<b>8,018</b>	<b>9,691</b>	<b>(1,673)</b>	<b>(17.3)</b>
<b>Cashflows from investing activities</b>				
Payments for property, plant and equipment	(2,342)	(2,718)	376	(13.8)
Payments for intangible assets	(909)	(877)	(32)	3.6
Capital expenditure (before investments)	(3,251)	(3,595)	344	(9.6)
Payments for shares in controlled entities (net of cash acquired)	(36)	(95)	59	(62.1)
Total capital expenditure	(3,287)	(3,690)	403	(10.9)
Proceeds from asset sales and finance leases	127	93	34	36.6
Proceeds from sale of shares in controlled entities	288	11	277	n/m
Repayments/loans to jointly controlled and associated entities	2	-	2	n/m
Interest received	122	66	56	84.8
Settlement of hedges in net investments	96	(6)	102	n/m
Dividends received from SouFun	41	-	41	n/m
Distributions received from FOXTEL Partnership	70	60	10	16.7
<b>Net cash used in investing activities</b>	<b>(2,541)</b>	<b>(3,466)</b>	<b>925</b>	<b>(26.7)</b>
<b>Operating cashflows less investing cashflows</b>	<b>5,477</b>	<b>6,225</b>	<b>(748)</b>	<b>(12.0)</b>
<b>Cashflows from financing activities</b>				
Movements in borrowings	(196)	(899)	703	n/m
Repayment of finance lease principal amounts	(61)	(55)	(6)	10.9
Staff repayments of share loans	8	9	(1)	(11.1)
Finance costs paid	(1,135)	(1,042)	(93)	8.9
Dividends paid to equity holders of Telstra Entity	(3,475)	(3,474)	(1)	0.0
Dividends paid to non-controlling interests	(14)	(20)	6	(30.0)
<b>Net cash used in financing activities</b>	<b>(4,873)</b>	<b>(5,481)</b>	<b>608</b>	<b>(11.1)</b>
<b>Net increase in cash and cash equivalents</b>	<b>604</b>	<b>744</b>	<b>(140)</b>	<b>(18.8)</b>

### Net cash provided by operating activities

Net cash from operating activities decreased by \$1,673 million or 17.3%.

Cash receipts from customers grew by 1.0% primarily due to improved sales revenue in the second half of the year. This was partly offset by an increase in debtors influenced by the high take up of our repayment option plans for mobile, T-Hub® and T-Box® as well as higher customer numbers as a result of our strategy to invest and grow our customer base.

Cash payments to suppliers increased by 10.1% driven by our significant investment in directly variable costs as we implemented our strategy to gain market share in mobiles. We also incurred increased expenditure through the implementation of strategic initiatives

relating to simplification of the business and productivity improvement.

Income taxes paid increased by 24.0% for the year primarily due to lower tax refunds and prior year amended assessments in the current year compared to the prior corresponding period as well as higher pay as you go instalments.

### Net cash used in investing activities

Capital expenditure before investments reduced by \$344 million or 9.6% from the prior year primarily driven by lower cash spend on our business improvement program following the completion of several customer focused initiatives. We continued to invest in our network and other assets with \$3,251 million spent on capital works including numerous new



## Full year results and operations review - June 2011

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product development projects, increased mobiles site expenditure and IP platform upgrades.

Interest received was higher year on year by \$56 million due to the increase in cash holdings reflecting our strategy to raise the minimum level of liquidity and to prefund major payments earlier. Additionally, we realised gains of \$96 million mainly from cash settlement rollovers of our cross currency swaps which hedged our net investment in Hong Kong CSL Limited.

Investment spend in fiscal year 2011 was for the acquisition of iVision, an Australian company providing conference call, video conference and teleconferencing services. Prior year investment spend included the 67% acquisition of LMobile and the deferred consideration payment for Octave.

Our proceeds from sale of controlled entities represent \$288 million of net cash proceeds from the sale of our Chinese SouFun investment after the return of cash held on sale of \$169 million. Additionally we received \$23 million from the sale of our associate Keycorp and \$14 million from the sale of our UK voice business.

### Net cash used in financing activities

Our net cash used in financing activities decreased by \$608 million year on year. The net outflow relating to borrowings was \$196 million comprising repayments of \$2,536 million (Euro borrowing of \$2,488 million and Japanese Yen borrowing of \$48 million) partly offset by debt raisings of \$2,340 million (Euro borrowing \$708 million; United States dollar borrowing \$955 million; Japanese Yen borrowing \$60 million; domestic loans totalling \$363 million; and net short term borrowings of \$254 million). Our borrowing repayments were funded by positive cash flows from the underlying business and refinancing from debt issuance. During the year new policy settings were implemented to raise the minimum level of liquidity and to earlier prefund major payments.

The net cash outflow relating to borrowings decreased year on year by \$703 million which reflects our re-financing programs, whereby in the current year we re-financed a larger proportion of debt maturities with new borrowings compared to fiscal year 2010 where we repaid a number of borrowings from cash reserves.

The increase in interest outflows of \$93 million over the prior year reflects an increase in short term market base interest rates on the floating rate debt component of our debt portfolio.

## Corporate Governance Statement

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### Corporate Governance & Board Practices 2011

**Your Board is committed to excellence in corporate governance and enhancing our shareholders' interests.**

Good corporate governance is the hallmark of successful companies – it adds value to the Company through efficient oversight and risk management, while encouraging innovation and entrepreneurship within the Company.

As one of Australia's largest companies, with one of the largest diversified shareholder bases, your Board firmly believes that striving for excellence in corporate governance plays a major part in the Company's continuing success.

We continue to refine and improve our corporate governance systems. The Board evaluates and, where appropriate, implements relevant proposals with the aim of ensuring that we continue to demonstrate our commitment to good corporate governance, having regard to developments in market practice expectations and regulation.

We comply with the ASX Corporate Governance Principles and Recommendations (ASX Principles and Recommendations), and the disclosures set out in this statement reflect the current content of the Board and Board Committee Charters and company policies.

On 30 June 2010, the ASX Corporate Governance Council released amendments to the ASX Principles and Recommendations (Amended ASX Principles and Recommendations), in particular in relation to diversity. While the changes do not take effect until the first financial year beginning on or after 1 January 2011 (being the financial year commencing 1 July 2011 in our case), Telstra has taken steps to early adopt key provisions of the Amended ASX Principles and Recommendations as outlined in this statement.

Further information regarding our corporate governance and Board practices, including copies of our Charters and key policies, can be found on our website at [www.telstra.com/abouttelstra/corp/governance/index.cfm](http://www.telstra.com/abouttelstra/corp/governance/index.cfm).

## Corporate Governance Statement

### Corporate Citizenship & Sustainability

As a good corporate citizen, Telstra's responsibility is to manage our business ethically to produce an overall positive impact on our customers, employees, shareholders and other stakeholders, as well as the wider community and the natural environment.

Telstra's primary corporate responsibilities are to:

- increase shareholder value and protect shareholder interests;
- serve the needs of our customers;
- make Telstra a great place to work;
- provide good stewardship of the environment;
- contribute resources - people, money, technology, products and services - to support the communities in which we operate; and
- advance the national interest by strengthening the capability of the nation's telecommunications infrastructure, and thereby providing a strong foundation for economic growth, productivity improvement, sustainable prosperity and global competitive advantage.

Governance of Telstra's corporate citizenship strategy and performance is provided by the Company's Executive Leadership team, comprised of the Chief Executive Officer (CEO) and Group Managing Directors. Reports on progress are provided regularly to the CEO and the Telstra Board. Telstra has also recently created a new role of Chief Sustainability Officer who will have specific responsibilities in relation to corporate citizenship and sustainability.

Telstra reports publicly on our approach and progress in our annual Corporate Citizenship & Sustainability Report and on our website at [www.telstra.com.au/cr](http://www.telstra.com.au/cr).

### Shareholder Communications

Telstra works hard to keep you, our shareholders, informed about the performance of your Company. Telstra is committed to:

- open, clear, accurate and timely communications with our shareholders about matters affecting the value of their investment in the Company;
- making appropriate use of technology to inform and engage our shareholders; and
- ensuring all communications are consistent with Telstra's continuous disclosure and other applicable legal obligations.

Telstra values a direct, two-way dialogue with shareholders and believes it is important not only to provide relevant information as quickly and efficiently as possible, but also to listen, understand shareholders' perspectives and respond to your feedback.

The specific initiatives Telstra has put in place to make that easier include:

- maintaining an investor relations website;
- writing directly to you, our shareholders, on significant issues that affect your investment;
- placing all announcements made to the market, including transcripts of investor and media briefings and related information, on our website;
- webcasting important events such as briefings and the annual general meeting (AGM); and
- using electronic communications to advise shareholders, who have provided their email address, of significant matters.

### The Board of Directors

#### Role and responsibilities of the Board

Your Board is accountable to you, our shareholders, for overseeing the management and performance of Telstra, and is responsible for setting the Company's overall strategy and governance. The Board's role includes:

- providing strategic direction to the Company by defining the corporate objective, approving the corporate strategy and performance objectives, monitoring developments and approving any variations;
- approving the annual corporate plan and monitoring its implementation;
- approving significant business decisions;
- appointing, assessing the performance of, and determining the remuneration of the CEO;
- overseeing the performance of the executives who report directly to the CEO and any other members of the management team the Remuneration Committee determines should be subject to its supervision, reviewing senior management succession and talent development plans, and reviewing senior management performance measures and remuneration arrangements;
- approving Telstra's overall remuneration framework;
- promoting diversity (including gender diversity) within all levels of the Company;
- ensuring appropriate resources are available to senior management;
- requiring appropriate compliance frameworks and controls to be in place and operating effectively;
- monitoring the integrity of internal control and reporting systems and monitoring strategic risk management systems;
- approving Telstra's statutory accounts and overseeing its financial position as well as internal and external audit activities;

## Corporate Governance Statement

- approving decisions concerning Telstra's capital and determining the dividend policy;
- overseeing the review and update of corporate governance practices and procedures as necessary to support our commitment to excellence in corporate governance in Australia;
- monitoring and influencing Telstra's culture, reputation and ethical standards;
- driving Board succession planning; and
- overseeing shareholder reporting and communications.

Your Board has adopted a Charter that details its role and responsibilities, which is available on our website.

Your Board has delegated responsibility for day-to-day management of the Company to the CEO and there is a formal delegations structure in place which sets out the powers delegated to the CEO and those specifically retained by the Board. A summary of the powers retained by the Board is set out in Appendix 1 to our Board Charter. This is complemented by a formal delegations structure from the CEO to Telstra employees.

### Board membership and size

Telstra's Constitution requires a minimum of 3 Directors. Subject to the Corporations Act, the maximum number of Directors is fixed by your Directors from time to time, but may not be more than 11 unless you, our shareholders, in a general meeting, resolve otherwise. Your Directors must not determine a maximum which is less than the number of Directors in office at the time the determination takes effect.

Your Directors may appoint an individual to be a Director, either as an addition to the existing Directors or to fill a casual vacancy up to the maximum number. Any new Director appointed by your Board during the year is required to stand for election at the next AGM. Individuals may also nominate themselves (prior to the AGM and in accordance with the process outlined in the Constitution) for election as a Director at the AGM.

Any decision on the appointment of a new Director is made by your Board on the basis of advice received from the Nomination Committee.

The tenure of the CEO as a Director is linked to his or her executive office. Under Telstra's Constitution, no other Director may hold office for more than three years or beyond the third AGM following their appointment (whichever is the later) without re-election. In accordance with the ASX Listing Rules, the Company must hold an election of Directors each year. If no Director would otherwise be required by Telstra's Constitution to submit for election or re-election, then the procedure in rule 23.4(b) of Telstra's Constitution must be followed.

A recommendation to re-elect a Director at the end of their term is not automatic. Prior to each AGM, your Board will determine if it will recommend to the shareholders that they vote in favour of the re-election of the Directors due to stand for re-election. This decision is made by your Board, having regard to the Directors' annual performance reviews and any other matters it considers relevant.

The Nomination Committee may negotiate the retirement or resignation of individual Directors after consultation with the Board.

### Board composition

Your Board's policy is that the Board needs to have an appropriate mix of skills, experience, expertise and diversity (including gender diversity) to be well equipped to help the Company navigate the range of challenges that we face.

The skills, experience and expertise which the Board considers to be particularly relevant include those in the areas of telecommunications, information technology, multimedia, advertising, retail and sales, infrastructure, Government relations, Australian and international business, finance and legal.

In respect of diversity, the Board considers that diversity includes differences that relate to gender, age, ethnicity and cultural background. It also includes differences in background and life experience, communication styles, interpersonal skills, education, functional expertise and problem solving skills.

Your Board has an appropriate mix of relevant skills, experience, expertise and diversity. This enables it to discharge its responsibilities and deliver the corporate objective, as well as seek new ways of driving performance through innovation and entrepreneurship.

Since 1 July 2010, one new non-executive Director has been appointed to the Telstra Board. Dr Nora Scheinkestel was appointed to the Board effective 12 August 2010 and her appointment was approved by shareholders at Telstra's 2010 AGM. Dr Scheinkestel has significant expertise in the financial sector, as well as broad experience as a director of large Australian companies operating in increasingly competitive markets.

In respect of Dr Scheinkestel's appointment, the Board undertook a formal selection process and engaged an executive search firm to assist in the process. The Board established criteria regarding the general qualifications and experience of a candidate to serve on the Board of a major public company like Telstra. In addition, it set criteria regarding the specific qualifications a candidate should possess to ensure the Board maintained the appropriate mix of skills, experience, expertise and diversity. The Board also undertook an assessment of whether a candidate satisfied the requirements of the Board's Charter.

## Corporate Governance Statement

Formal letters of appointment are provided to all new Directors setting out the key terms and conditions of their appointment.

All new Directors participate in a formal induction process co-ordinated by the Company Secretary. This induction process includes briefings on the Company's financial, strategic, operational and risk management position, the Company's governance framework and key developments in the Company and the industry and environment in which it operates.

Telstra also has in place a continuing education program for Directors which is included in the annual Board cycle.

A brief biography of each Director setting out their experience, expertise and membership of Telstra Board Committees, together with details of the year of initial appointment and re-election (where applicable), is included in the Directors' Report.

### Role of the Chairman

The Chairman must be an independent Director and is appointed by your Board. Telstra's Chairman, Catherine Livingstone, is an independent non-executive Director. She has been a Director of Telstra since 2000 and was elected Chairman in 2009.

The Chairman's principal responsibilities are to ensure that the Board fulfils its obligations under the Board Charter and as required under relevant legislation, and to provide appropriate leadership to your Board and Telstra. The Chairman's specific responsibilities include:

- representing the views of your Board to all shareholders and maintaining appropriate ongoing contact with major shareholders to ensure your Board understands their views;
- establishing the timetable and working with the CEO and Company Secretary to agree the agenda for Board meetings;
- chairing Board meetings, non-executive Directors' meetings and shareholder meetings;
- facilitating Board and non-executive Directors' meetings to ensure:
  - the discussions are conducted in an open and professional manner where Directors are encouraged to express their views, leading to objective, robust analysis and debate; and
  - the core issues facing Telstra are addressed;
- working with the CEO to ensure the CEO provides the Board with the information it requires to contribute effectively to the Board decision making process and to monitor the effective implementation of Board decisions;
- maintaining a regular dialogue and mentoring relationship with the CEO and senior management, serving as the primary link

between your Board and management and providing continuity between Board meetings;

- guiding and promoting the ongoing effectiveness and development of your Board and individual Directors; and
- ensuring the meetings of shareholders are conducted in an open and proper manner with appropriate opportunity to ask questions.

### Director Independence

Your Board recognises the important contribution independent Directors make to good corporate governance. All Directors, whether independent or not, are required to act in the best interests of the Company and to exercise unfettered and independent judgment.

The Board, at least annually, assesses the independence of each non-executive Director, having regard to the specific considerations set out in the Board Charter. These considerations are consistent with those set out in the ASX Principles and Recommendations.

In our view, consistent with the ASX Principles and Recommendations, independent Directors must not be members of management and must be free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Director's unfettered and independent judgment and ability to act in the best interests of the Company. Materiality is assessed on a case-by-case basis from the perspective of both Telstra and the relevant Director and consideration is given to both qualitative and quantitative factors.

Your Board's current policy is that the CEO and the Chief Financial Officer (CFO) are the only executive Directors and that the non-executive Directors should be independent Directors, as defined in the Board Charter.

With the exception of the CEO and CFO, all Directors are non-executive Directors and have been determined by your Board to be independent. During fiscal 2011, no non-executive Director had any relationship that could materially interfere with, or be perceived to materially interfere with, his or her unfettered and independent judgement and ability to act in the best interests of the Company.

Your Board's Charter provides that if at any time during the year a Director ceases or may have ceased to be independent, he/she is required to advise the Chairman immediately. Where the Board determines a Director is no longer independent, an announcement will be made to the market.



## Corporate Governance Statement

### Board Meetings

Your Board meets regularly to discuss, among other things, strategic matters, business performance oversight, senior executive appointments, performance and remuneration, financial matters, risk management, compliance and relationships with stakeholders. It has scheduled meetings and meets on other occasions to deal with specific matters that need attention as required. Your Board liaises with senior management outside Board meetings where appropriate, and may consult with other Telstra employees and advisers and seek additional information.

Details of the number of meetings held by your Board during fiscal 2011 and attendance by Board members are set out in the Directors' Report.

### The Board and the Company Secretary

The Company Secretary plays an important role in supporting the effectiveness of the Board by monitoring that Board policy and procedures are followed, and co-ordinating the completion and despatch of Board agendas and materials in a timely manner. The Company Secretary reports directly to the Board through the Chairman and all Directors have access to the Company Secretary.

### Board access to management and independent professional advice

Directors have complete access to senior management through the Chairman, CEO or Company Secretary at any time. In addition to regular presentations by senior management to the Board and Board Committee meetings, Directors may seek briefings from senior management on specific matters.

Your Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at Telstra's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties. All Committees of the Board have access to independent professional advice on the same basis.

In certain circumstances, each Director has the right to seek independent professional advice at Telstra's expense, within specified limits, or with the prior approval of the Chairman.

### Performance Evaluation

Your Board annually reviews its performance (including its performance against the requirements of its Charter), the performance of individual Committees and the performance of individual Directors (including the performance of the Chairman as Chairman of the Board).

In recent years, these performance reviews have been conducted both internally and externally, generally on an alternating basis. In line with this approach and on the basis that the fiscal 2010 review was undertaken with the assistance of an external facilitator, the fiscal 2011 Board performance review (including a review of Board Committee and individual Director performance) was conducted internally, led by the Chairman. The process comprised:

- a whole of Board discussion around what currently works well and areas for improvement;
- one-on-one review meetings between the Chairman and each Director; and
- a review of the Chairman's performance which was facilitated by the Chairman of the Audit Committee.

As noted above, your Board makes recommendations to you, the shareholders, regarding the re-election of Directors having regard to the outcome of these reviews.

During the year, the Board also implemented the recommendations arising from the fiscal 2010 performance reviews.

### Declaration of interests

Directors are required to take all reasonable steps to avoid actual, potential or perceived conflicts of interest and to be sensitive to situations in which these may arise. This is a matter for ongoing consideration in view of the dynamic and rapidly changing nature of Telstra's business.

The Corporations Act, Telstra's Constitution and the Board Charter require the Directors to disclose any conflicts of interest and, in certain circumstances, to abstain from participating in any discussion or voting on matters in which they have a material personal interest.

If a Director believes that he or she may have a conflict of interest or material personal interest in a matter, the Director is required to disclose the matter in accordance with the requirements of the Corporations Act and the Constitution, and must follow the procedures set out in the Board Charter to deal with such circumstances.

### Board Committees

Six standing Committees assisted our Board during fiscal 2011:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee;
- Technology Committee;
- NBN (National Broadband Network) Committee; and

## Corporate Governance Statement

- NBN Due Diligence Committee.

The members of each Committee, their qualifications and their attendance at Committee meetings during the year are set out in the Directors' Report. Following each Committee meeting, your Board receives a report from that Committee on its activities.

Each Committee operates in accordance with a written Charter or document approved by your Board. Your Board appoints the members and the Chairman of each Committee. With the exception of the Technology and NBN related Committees, it is a Board requirement that only independent Directors can serve on Board Committees.

The role, function, Charter, performance and membership of each Committee are reviewed each year as part of your Board's annual evaluation process.

### Audit Committee

#### ***Role and responsibilities of the Audit Committee***

The Audit Committee:

- assists your Board in discharging its responsibilities by monitoring and advising on:
  - financial reporting including:
    - the integrity, truth and fairness of the view given by Telstra's financial statements;
    - the integrity of Telstra's financial systems and processes; and
    - the appropriateness of Telstra's accounting policies and practices and consistency with current and emerging accounting standards;
  - Telstra's overall risk management process and the management of specific risk areas as directed by your Board (refer to the section entitled "Risk Oversight and Management" below for further information);
  - the effectiveness and operation of Telstra's Financial Reporting Compliance Framework;
  - the effectiveness and operation of other material aspects of our internal control environment;
  - compliance with legal and regulatory requirements and Company policies;
  - the external audit, including the external auditor's qualifications, scope, independence and performance, and the policy regarding the performance of non-audit services by the external auditor;
  - the non-audit services disclosures to be made in the annual report, including the reasons for being satisfied that the auditor's independence was not compromised by the provision of these services;

- the objectivity and performance of the internal audit function;
- the structure and operation of our corporate governance framework and related disclosures;
- provides a forum for communication between your Board, management and both the internal and external auditors; and
- provides a conduit to your Board for external advice on audit, risk management and compliance matters.

During the 2011 fiscal year, the Audit Committee addressed its responsibilities under its Charter, which is available on our website.

#### ***Composition and membership of the Audit Committee***

The Audit Committee is comprised of at least three Board members, all of whom must be independent non-executive Directors. Each member is expected to:

- be financially literate (be able to read and understand financial statements) and have sufficient financial knowledge to allow them to discharge their duties and actively challenge information presented by management, internal and external auditors;
- have a reasonable knowledge of Telstra, the industries in which it operates and its risks and controls; and
- have the capacity to devote the required time and attention to prepare for, and attend, Committee meetings.

At least one member of the Audit Committee should have relevant qualifications and experience (that is, they should be a qualified accountant or other finance professional with experience of financial and accounting matters).

In addition, the Chairman of the Audit Committee must not be the Chairman of the Board and no Director may serve as a member of the Audit Committee if that Director serves on the Audit Committee of more than two other public companies, unless the Board determines such service does not impair the Director's ability to serve on the Committee.

#### ***Meetings of the Audit Committee***

Audit Committee meetings are held on a regular basis, as determined annually in advance by your Board, and scheduled to correspond with our financial reporting cycle. Special meetings may be convened as required.

Other members of your Board can attend Audit Committee meetings and the Audit Committee may ask management, the external auditor and others to attend meetings and provide any required advice.

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The Audit Committee regularly meets with the internal auditor and the external auditor in the absence of management.

### ***Relationship with external auditor***

The Audit Committee oversees the relationship with the external auditor including:

- reviewing and agreeing on the terms of engagement for the external auditor prior to the commencement of each annual audit of the financial statements;
- reviewing the external auditor's proposed audit scope and audit approach, including materiality levels, for the current year in the light of Telstra's circumstances and changes in regulatory and other requirements; and
- approving the provision of recurring audit (and any non-audit) services as part of the annual approval of the audit plan.

The Audit Committee provided an annual, formal, written report detailing the nature and amount of any non-audit services rendered by the external auditor during the most recent fiscal year and an explanation of how the provision of those non-audit services are compatible with auditor independence. Details of amounts paid or payable to the auditor for non-audit services provided during the year are disclosed in Note 8 to the financial statements.

Telstra shareholders appointed Ernst & Young as the Company's external auditor at the 2007 AGM following the resignation of the Australian National Audit Office at the conclusion of T3. The Board, on recommendation of the Audit Committee, extended Ernst & Young's tenure as external auditor to the 2010 financial year. The Audit Committee offered the external audit to tender during fiscal 2010 and, following this process, the Board (on recommendation of the Audit Committee) reappointed Ernst & Young as the Company's external auditor. Ernst & Young is appointed as the Company's external auditor until the end of the 2013 fiscal year.

In accordance with the Corporations Act, the lead Ernst & Young partner on the audit is required to rotate at the completion of a 5 year term. This occurred on signing of the fiscal 2007 audit opinion. A rotation occurred after the fiscal 2011 half year accounts were signed as the lead partner retired from Ernst & Young. The Board undertook a process with Ernst & Young and agreed the new lead partner.

The external auditor attends the AGM and is available to answer your shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

### **Nomination Committee**

#### ***Role and responsibilities of the Nomination Committee***

The Nomination Committee monitors and advises on:

- Board composition and performance (including Board diversity);
- Director independence; and
- appointment of the CEO and CEO succession planning.

During the 2011 fiscal year, the Nomination Committee addressed its responsibilities under its Charter, which is available on our website.

#### ***Composition and membership of the Nomination Committee***

The Nomination Committee is comprised of at least three independent Directors including the Chairman of the Board. Each member is expected to:

- have a reasonable knowledge of Telstra and the industries in which it operates; and
- have the capacity to devote the required time and attention to prepare for, and attend, Committee meetings.

#### ***Meetings of the Nomination Committee***

Nomination Committee meetings are held on a regular basis, as determined annually in advance by the Board. Special meetings may be convened as required.

Other members of the Board can attend Nomination Committee meetings and the Committee can invite others, including any Telstra employees, to attend all or part of its meetings as it deems necessary or appropriate. However, if a person has a material personal interest in a matter that is being considered at a meeting, they must not be present for consideration of that matter.

The Board's policy and procedure for the selection, nomination and appointment of Directors is discussed in more detail in the sections above entitled "Board membership and size" and "Board composition".

### **Remuneration Committee**

#### ***Role and responsibilities of the Remuneration Committee***

The Remuneration Committee monitors and advises on:

- Board remuneration;
- CEO and Company Secretary performance and remuneration;
- the performance and remuneration of the executives who report directly to the CEO and any other members of the management team the Remuneration Committee determines should be subject to its supervision;

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- remuneration strategies, practices and disclosures;
- employee share and option plans;
- management succession, capability and talent development;
- diversity (at all levels of the Company below Board level); and
- occupational health and safety (excluding those aspects which the Audit Committee has responsibility for under the Audit Committee Charter, in particular in relation to compliance and risk management).

The Committee also exercises the administrative powers delegated to it by your Board under Telstra's share option plans and, in certain circumstances, makes offers to employees under those plans.

During the 2011 fiscal year, the Remuneration Committee addressed its responsibilities under its Charter, which is available on our website.

### ***Composition and membership of the Remuneration Committee***

The Remuneration Committee is comprised of at least three Board members including the Chairman of the Board, all of whom must be independent non-executive Directors. Each member is expected to:

- be familiar with the legal and regulatory disclosure requirements in relation to remuneration;
- have adequate knowledge of executive remuneration issues, including executive retention and termination policies, and short term and long term incentive arrangements;
- have a reasonable knowledge of Telstra and the industries in which it operates; and
- have the capacity to devote the required time and attention to prepare for, and attend, Committee meetings.

Our Remuneration Committee structure complies with the Amended ASX Principles and Recommendations.

### ***Meetings of the Remuneration Committee***

Remuneration Committee meetings are held on a regular basis as determined annually in advance by your Board and scheduled to correspond with our remuneration review and reporting cycle. Special meetings may be convened as required.

Other members of your Board can attend Remuneration Committee meetings and the Remuneration Committee may invite other people, including any Telstra employees, to attend all or part of its meetings, as it deems necessary or appropriate. However, if a person has a material personal interest in a matter that is being considered at a meeting, he/she must not be present for consideration of that matter.

### ***Our Remuneration Framework***

Information in relation to Telstra's remuneration framework (including information regarding the remuneration strategy and policies and their relationship to Company performance), can be found in the Remuneration Report which forms part of the Directors' Report, together with details of the remuneration paid to:

- Board members; and
- senior executives who were the key management personnel of the Company during fiscal 2011.

The Remuneration Committee obtains external advice from independent remuneration consultants in determining Telstra's remuneration practices where considered appropriate.

Each year, your Board reviews the CEO's performance against agreed measures, broader expectations and other relevant factors. The CEO undertakes a similar exercise in relation to senior management. The results of the CEO's annual performance review of senior management are considered by your Board. The process for evaluating the performance of the CEO and senior executives is discussed in greater detail in our Remuneration Report (particularly in the context of determining levels of compensation and awards). In fiscal 2011, the performance of the CEO and key management personnel was reviewed in the manner set out in our Remuneration Report.

### ***Technology Committee***

The Technology Committee allows the Board to review technology developments which may be relevant to Telstra's business in greater detail than is possible at Board meetings. The Committee regularly reviews product development activities, including proposed new technology products and timelines to market. The Committee's primary purpose is educative and all Directors are encouraged to attend Committee meetings (which are scheduled to coincide with Board meetings).

During the 2011 fiscal year, the Technology Committee addressed its responsibilities under its Charter, which is available on our website.

### ***NBN Committee***

The NBN Committee was established during fiscal 2009. The role of the NBN Committee was to assist the Board in discharging its responsibilities by monitoring and advising on the formulation and implementation of the Company's strategy in relation to the Federal Government's NBN policy initiative and the associated regulatory issues, and other matters arising from, or in connection with, the NBN. The Committee ceased operation during the second half of fiscal 2011 and was superseded by the NBN Due Diligence Committee.



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### NBN Due Diligence Committee

The NBN Due Diligence Committee was established during fiscal 2011. The role of the Committee is to assist the Board in discharging its responsibilities by co-ordinating and overseeing the due diligence process required in connection with the NBN related resolution proposed to be put to shareholders at Telstra's 2011 AGM.

### Risk Oversight and Management

#### *Management of opportunities and risks*

Telstra faces a variety of risks due to the complexity of its business and the dynamic business environment in which we operate. The effective management of risks enhances Telstra's ability to achieve its financial, customer and people goals and to meet its corporate responsibilities, thereby protecting and enhancing shareholder value. Telstra's commitment is to manage those risks that arise in the course of Telstra's business to an acceptable level, so as to maximise opportunities and minimise negative outcomes. Recognising this, Telstra continues to improve its approach for managing, monitoring and reporting risks related to the successful pursuit of its business objectives. Risks are monitored and reported regularly throughout the year by management and the Board as part of the strategic planning, business planning, budgeting and performance management processes.

This approach is supported by Telstra's Risk Management framework which includes the Telstra Risk Management Policy and Risk Management methodology and tools. The framework aligns with ISO 31000 Risk Management – Principles and Guidelines, the global standard for risk management, and is also supported by Telstra's Business Principles and a number of other policies that directly or indirectly seek to manage risks including: Credit Management Transactions; Regulatory Risk Management and Strategy Policy; Tax Risk Management and Assurance Policy; and Treasury Transactions.

Telstra regularly reviews its Risk Management framework to ensure that it continues to effectively promote and enable the identification, management and monitoring of risks across the Company.

#### *Risk management roles and responsibilities*

Risk management occurs at all levels of the Company. Your Board has ultimate responsibility for the risk management framework, including the processes for regular review and update of Telstra's material business risk profile and the policies, systems and processes that are used to manage risk.

The Audit Committee supports your Board in fulfilling these responsibilities by overseeing the design and implementation of Telstra's risk management framework, especially as it relates to operational, financial and compliance risks.

Telstra management has primary responsibility for assessing, managing and monitoring of risks related to the achievement of their business objectives. Management is responsible for ensuring that an effective risk management and internal control framework is implemented within their business. Each employee is empowered and expected to understand and manage the risks within their areas of authority when making decisions and undertaking day to day activities.

In addition, Telstra has groups which manage and report in specialised areas such as Compliance, Climate Change, Treasury, Insurance, Credit, and Regulatory risks.

Telstra's Risk Management and Assurance group provide tools and advice to the business to support them with their risk management accountabilities. They also support management, the Audit Committee and the Board by providing independent assurance on the effectiveness of selected business processes, risk mitigation and internal controls, as per the agreed annual Coordinated Assurance and Advisory Plan.

For the financial year ended 30 June 2011, the CEO and CFO have provided the Board with the certifications required by the Corporations Act and the ASX Principles and Recommendations. Specifically, your Board has received:

- reports from management as to the effectiveness of the Company's management of its material business risks;
- the declaration from the CEO and CFO required in accordance with section 295A of the Corporations Act that the Company's financial reports for the year ended 30 June 2011 presented a true and fair view of the Company's financial position and performance and were in accordance with relevant accounting standards; and
- assurance from the CEO and CFO that the section 295A declaration was founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

### **Telstra Values, the Telstra Group Code of Conduct & Business Principles and other Company policies**

Together with the Telstra Values and the Telstra Group Code of Conduct & Business Principles, we have a number of Company policies which operate to promote ethical and responsible decision making and behaviour. These provide guidance to our Directors, senior management and employees on the standards of ethical business and personal behaviour required of all of our officers and employees in performing their daily business activities. A mandatory training program for all employees is in place to reinforce these standards.



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The Telstra Values, Telstra Group Code of Conduct & Business Principles and some of our key Company policies (or summaries of them) are available on our website.

### Whistleblowing

We have a Whistleblowing policy and a confidential whistleblowing service which provides our staff with an avenue to report suspected unethical, illegal or improper behaviour. The whistleblowing process is supported by an independent service provider which specialises in receiving sensitive reports or disclosures. All reports or disclosures are treated as confidential and can be made anonymously. Our Ethics Committee, which is made up of senior managers, monitors all reports and disclosures made under this process. This Committee also monitors all investigations, recommendations and the implementation of actions.

The Audit Committee oversees the whistleblowing program, receives reports from the Ethics Committee, and provides an escalation channel for the Ethics Committee where required.

### Anti Bribery & Anti Corruption

Telstra has a zero tolerance approach to bribery and corruption. Telstra's policy on anti bribery and anti corruption states that employees and contractors of Telstra must show integrity and be honest and trustworthy in all their dealings with others. It provides that bribes, pay-offs, secret commissions, kick backs and any like payments (including facilitation payments) are strictly prohibited and staff should never make or accept, or agree to make or accept, such payments. The policy also provides that when staff give or receive a gift, prize, or hospitality, they must consider the implications of the giving or acceptance of that gift, prize or hospitality, to ensure that it cannot reasonably be considered a bribe, pay-off or kick-back, or be construed as being likely to improperly influence a business outcome. The policy aims to ensure that Telstra complies with applicable anti-bribery and anti-corruption laws and regulations.

In addition, Telstra has a policy in place regarding conflicts of interest and outside activities, which provides a process to manage conflicts of interest, and assist employees, contractors and managers to understand what Telstra considers to be a conflict of interest and how to deal with any actual, perceived or potential conflicts.

### Securities Trading

Telstra's securities trading policy restricts the buying or selling of Telstra securities by Directors, the CEO, senior management and certain other designated employees to three "window" periods (between 24 hours and one month following the release of the annual results, the release of the half-yearly results and the close of the AGM) and at such other times as the Board permits. Trading during these window periods is subject to the overriding requirement that buying or selling of Telstra securities is not permitted at any time by any person who possesses price-sensitive information which is not generally available in relation to those securities. Closed periods apply at all other times under the policy.

In addition, Directors, the CEO, senior management and relevant employees must notify the Company Secretary before they, or their close relatives, buy or sell our securities. Changes to the interests of Directors in our securities are, as required by law, notified to the ASX.

The policy also prohibits Directors, senior management and other designated people from using Telstra shares as collateral in any financial transaction (including margin loan arrangements), engaging in any stock lending arrangements in relation to Telstra shares, and buying and selling (or otherwise dealing in) Telstra shares on a short-term trading basis.

Further, Directors, the CEO, senior management and relevant employees are prohibited from entering into arrangements which effectively operate to limit the economic risk of their security holdings in Telstra allocated under our incentive plans during the period the shares are held in trust on their behalf by the trustee or prior to the exercise of any security.

The policy specifies the types of trades which are excluded from the operation of the policy. It also expressly sets out the exceptional circumstances where otherwise prohibited trading may be permitted, with prior written clearance, and the procedure for obtaining such permission.

### Market disclosure

Telstra has established procedures intended to ensure that it complies with its market disclosure obligations. In particular, a comprehensive continuous disclosure procedure is in place and is reviewed and updated on a regular basis. The aim of this procedure is to ensure that price-sensitive information is released in a timely fashion to the various stock exchanges on which Telstra's shares and debt securities are listed.

The continuous disclosure procedure provides that:

- Board approval and input is required in respect of announcements that relate to matters that are within the reserved powers of the Board (and responsibility for which has not been delegated to management) or matters that are

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otherwise of fundamental significance to Telstra;

- where Board approval and input cannot be obtained due to the requirement for immediate disclosure to the market, to ensure compliance with the continuous disclosure laws, the CEO and CFO may authorise disclosure prior to Board approval and input;
- the CEO and CFO are responsible for determining whether a proposed announcement is required to be considered and approved by the Board;
- ultimate management responsibility for continuous disclosure rests with the CEO and the CFO;
- the responsibilities of the Continuous Disclosure Committee (the Committee), which is chaired by the Company Secretary, include:
  - ensuring there is an adequate system in place for the disclosure of all material information to the ASX;
  - advising the CEO and the CFO in relation to the disclosure of information reported to the Committee;
- the Committee's membership includes the Company Secretary, the General Counsel - Finance and Administration, the Deputy CFO, the Director - Investor Relations and a representative of Public Policy and Communications (or their delegates);
- senior management, including Group Managing Directors (other than the CFO) and their direct reports, all Group Financial Controllers and certain legal and regulatory counsel must immediately inform the Committee of any potentially price-sensitive information or proposal as soon as they become aware of it;
- where material information has originated in the office of the CEO or the CFO or has been reported directly to them, the CEO or CFO may, at their discretion, seek the advice of, or a recommendation from, the Committee in deciding whether to make or approve an ASX announcement in relation to that material information;
- if the matter is disclosable, an announcement is prepared and immediately sent via the Company Secretary's office electronically to all relevant stock exchanges.

Telstra has implemented several practices internally to keep the Committee informed about potentially disclosable matters and to reinforce the importance of its continuous disclosure obligations. These practices are reviewed regularly and include:

- every Director is made aware of our continuous disclosure obligations upon taking office and each member of senior management undertakes

training with the General Counsel - Finance and Administration (or delegate), in relation to our continuous disclosure obligations;

- the Committee maintains a list of issues which, although not yet disclosable, are monitored in case they become disclosable;
- all proposed media releases and external speeches and presentations to be made by senior management are reviewed by internal legal counsel to determine whether they should be disclosed;
- a weekly email is distributed to all members of the senior management team which requires reporting of any potentially disclosable matters or a "nil response" if they have no matters to report;
- a specific information paper is prepared for each Board meeting summarising ASX announcements and details of significant matters considered by the Committee but judged not to be disclosable; and
- the Company Secretary maintains a record of all market announcements. The announcements are also posted on our website after market release is confirmed.

Telstra's Investor Relations Communication Policy governs communications and the provision of information to shareholders, brokers and analysts. The aim of this policy is to ensure that we provide investors and the financial community with appropriate and timely information whilst at the same time ensuring that Telstra fulfils its statutory reporting obligations under the Corporations Act and the ASX Listing Rules.

Telstra provides advance notification of significant group briefings, such as our results announcements, and we make them widely accessible through the use of webcasting. We also keep a summary record for internal use of the issues discussed at group or one-on-one briefings with investors and analysts.

### Legal and Regulatory Compliance

Telstra is committed to conducting its business in compliance with its legal and regulatory obligations. Your Board and the senior management team are committed to ensuring there is an appropriate compliance framework and controls in place to provide an appropriate level of confidence that the Company is operating in compliance with relevant laws, regulations and industry codes. This is achieved through the Compliance & Corporate Ethics Framework (C&CEF). Your Board has given the Audit Committee specific responsibility for reviewing Telstra's approach to achieving compliance with laws, regulations and associated industry codes in Australia and overseas, and for the general oversight of compliance issues. This oversight is facilitated by the preparation of regular compliance reports highlighting aspects of the C&CEF.

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The C&CEF brings together Telstra's business units and the individual subject matter specific compliance programs in an integrated, consistent and collaborative way. Telstra maintains a comprehensive program-based approach to compliance, which is a key element of the C&CEF. Subject matter experts work with the business units to help understand the many legal and regulatory obligations and responsibilities faced by the Company and translate them into appropriate practice. There are currently 15 programs under the C&CEF, including health and safety, environment, privacy, competition and consumer (formerly trade practices), diversity, disability, fraud, industry regulation, information security, operational separation, financial reporting, records management, whistleblowing, policy governance, and continuous disclosure.

This program-based approach at a corporate level is supported by a network of senior personnel appointed to the role of Business Unit Compliance Manager. They are, in turn, supported by other personnel at the business unit level with specific responsibility for the implementation of the compliance programs within their business unit.

### Political and Other Donations

Telstra does not make political donations. However, in line with other major publicly listed companies, we do pay fees to attend events organised by political parties where those events allow for discussion on major policy issues with key opinion leaders and policy makers.

We make donations and contribute funds to community and non-profit organisations as part of our approach to corporate citizenship. Further discussion of your Company's corporate citizenship is provided above in the section entitled "Corporate Citizenship & Sustainability".

### Diversity and Inclusion at Telstra

At Telstra, diversity includes differences that relate to gender, age, ethnicity, disability, sexual orientation and cultural background. It also includes differences in background and life experience, communication styles, interpersonal skills, education, functional expertise and problem solving skills.

Having a diverse range of employees better enables us to provide the best in service to our customers. It enables us to foster greater innovation, stronger problem solving capability, greater customer connection, increased morale, motivation and engagement.

Diversity and inclusion at Telstra are business imperatives. Our approach is based on three strategic pillars:

- our customers – to leverage diversity as a business driver;

- our communities – to be a leader in diversity and inclusion in the broader community;
- our people – to attract, recruit, engage and retain diverse talent, and embed inclusive practices within each part of our employee life-cycle.

Our diversity and inclusion framework has five core principles – meritocracy, fairness and equality, contribution to commercial success, that it's everyone's business, and that, at Telstra, it's a part of who we are.

Diversity and inclusion at Telstra is led by Telstra's Diversity Council, which is chaired by the CEO and has been in place since 2006.

On 30 June 2010, the ASX Corporate Governance Council released the Amended ASX Principles and Recommendations which included amendments in relation to diversity. While the changes do not take effect until the first financial year beginning on or after 1 January 2011 (in Telstra's case the financial year commencing 1 July 2011), Telstra has over the past year already taken steps to adopt key provisions of the Amended ASX Principles and Recommendations. Telstra continues to be an early-adopter of best practice corporate governance standards.

As disclosed in last year's Annual Report, these steps include:

- responsibility for diversity has been included in the Board Charter, the Nomination Committee Charter (Board diversity) and the Remuneration Committee Charter (diversity at all levels of the Company below Board level); and
- the Board has formally adopted policies in relation to diversity at Board level and at all levels below the Board, reflecting the principles and practices Telstra has had in place for a number of years – this provides the framework for measurable objectives to be set by the Board.

The Board has also now established measurable objectives for achieving diversity at all levels of the Company, as outlined below.

### ***FY12 Measurable Objectives***

The Board has established the following measurable objectives for achieving diversity at all levels of the Company in respect of fiscal 2012:

- that by the end of FY13, there will be 3 women on the Board, representing a female gender representation among non-executive Directors of at least 30%;
- 50% female representation in 2013 graduate intake;
- promotion rates for women to exceed their representation at Business Unit level;

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- engagement of identified groups\* equal to or greater than national benchmarks; and
- female representation for 30 June 2012 at 32% (Telstra) and 25% (Executive Management).

\*Identified Groups are female employees, Indigenous employees, other culturally and linguistically diverse employees, employees with a disability, and gay, lesbian, bisexual, transgender and intersex employees.

Telstra has in place a range of initiatives to achieve these measurable objectives, and diversity and inclusion at Telstra in general, including in the areas of Board diversity, gender diversity, flexible work practices, Indigenous, disability, sexual orientation and gender identity.

### **Board diversity**

As noted above, the Board has set a measurable objective that by the end of FY13, there will be 3 women on the Board, representing a female gender representation among non-executive Directors of at least 30%.

As at 30 June 2011, there were 2 women on the Board (including the Chairman of the Board), representing a female gender representation among non-executive Directors of 22% (being 2 of 9 members). As noted earlier, Dr Nora Scheinkestel was appointed to the Board effective 12 August 2010.

There are a number of initiatives the Board has in place to meet its strategic imperative of ensuring the Company has a diverse Board and to achieve its measurable objective regarding Board diversity. These include:

- ensuring a diverse range of qualified candidates is considered for Board appointments;
- developing a pipeline of potential Board candidates;
- evolving a Board skills matrix and using the matrix to identify any gaps in the experience, skills and background, including gender and diversity generally, of Directors on the Board;
- participating in programs to assist in the development of a broader pool of skilled and experienced Board candidates, including support for the AICD ASX 200 Chairmen's Mentoring Program;
- including diversity as a regular agenda item for Nomination Committee meetings; and
- reporting on the use of professional intermediaries (such as external search firms) to identify and assess qualified candidates (as disclosed earlier in the section entitled "Board composition").

### **Gender diversity**

At Telstra, it is critical that gender is not a barrier to participation. Our approach to gender diversity is to involve both women and men in creating an inclusive environment. The achievements of Telstra Corporation Limited in fiscal 2011 include:

- development and launch of a segmented employment brand and website to increase the attraction of women into roles at Telstra;
- further closure of our gender pay equity gap through close analysis and deliberate action to correct differences in pay that cannot be explained by differences in length of service or levels of performance when comparing people doing the same jobs;
- piloting of a targeted sponsorship experience for identified high potential women in our Network Construction area;
- embedding of inclusive practice across the employee life-cycle, into the responsibilities of our middle and senior managers;
- participation by more than 450 Telstra women in My Mentor, a 12-week multimedia program that aims to improve strategic business skills, with modules covering personal branding, taking risks, career planning, increasing visibility and profile, influencing and negotiation, and integrating work and life;
- Telstra's continued support of our women participating in women's development events and programs, and partnering with organisations such as Catalyst, Sustaining Women in Business, Business Chicks, Women in Engineering, One Million Women, Chief Executive Women and Females in Information Technology and Telecommunications;
- Telstra men, including our CEO, continued as ambassadors and supporters of the White Ribbon Foundation campaign to eliminate violence against women;
- the expansion of Telstra's Women's Network, which now has more than 2,000 members across the Company, to become the Telstra Gender Equality Network (GEN) - the GEN now includes men so that they can actively participate as people who also champion gender equality at Telstra; and
- Telstra was a finalist in the 2010 Equal Opportunity for Women in the Workplace Agency's Business Achievement Awards for our Next Generation Gender Diversity program.



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### *Women in management roles at Telstra\**

Role	As at 30 June 2011		As at 30 June 2010	
	By Number	By Percentage	By Number	By Percentage
Executive Management	56	22.7%	65	22.4%
Middle Management	2,064	27.3%	2,120	27.6%
Operational	8,256	32.6%	8,437	32.5%
<b>TOTAL</b>	<b>10,385</b>	<b>31.3%</b>	<b>10,622</b>	<b>31.3%</b>

\* Includes full time and part time staff paid by Telstra Corporation Limited and Sensis Pty Ltd only and excludes casual staff, all other controlled entity-paid staff and agency staff.

### **Work-life flexibility**

Telstra's approach to flexible work practices exceeds legislative requirements, and is underpinned by progressive leave policies including access to paid parental leave (which is additional to the Commonwealth funded scheme), personal (including carer's) leave, cultural leave, career break leave and the ability to purchase additional leave to enable employees to balance their work and personal commitments. Our approach is designed to facilitate the maintenance by our people of a healthy balance between work and other activities and interests.

In fiscal 2011, we continued to implement our leading policies on flexible work, requiring managers to consider all requests for flexible work, respond within a specified period and provide written advice of a refusal with clear reasons. Telstra's policy states that we will support flexible working arrangements unless the manager can show that a significant negative business impact will result from the arrangement. These amendments extend beyond the minimum requirements of the National Employment Standards to include all types of requests for flexible work arrangements.

### **Other Initiatives**

Our commitment to, and work in, other areas of Diversity and Inclusion during fiscal 2011 has also resulted in achievements in each of the following areas:

*Indigenous* – distribution of laptops to Indigenous children in remote communities through our partnership with One Laptop Per Child Australia; provision of \$3.5 million through the Telstra Foundation to fund projects that will make a positive difference to the education outcomes of Indigenous students; continued connection of Indigenous customers with our Indigenous Hotline service to further promote appropriate, targeted and affordable telecommunications services; hosting of 14 new Indigenous trainees; launch of Welcome to Country and Acknowledgement of Country protocols for use at our corporate events and gatherings; and incorporation of suppliers accredited by the Australian Indigenous Minority Supplier Council into our procurement processes.

*Disability* – launch of Telstra's 5th Disability Action Plan, consolidating our commitment to customers and employees with a disability; commencement of our partnership with the National Disability Recruitment Co-ordinator and implementation of audit recommendations to ensure accessible and inclusive recruitment processes for applicants and new starters with a disability.

*Sexual Orientation and Gender Identity* – Telstra ranked 5th in the Top 10 employers for the inclusion of gay, lesbian, bisexual and transgender employees in the inaugural Australian Workplace Equality Index; continued community support through Midsumma, Sydney Mardi Gras, Aids Trust of Australia community activities.

Further information regarding Telstra's customer and community diversity and inclusion initiatives can be found in our Corporate Citizenship & Sustainability Report, which is available on our website at [www.telstra.com.au/cr](http://www.telstra.com.au/cr).



## Corporate Governance Statement

### Compliance with the ASX Principles and Recommendations

The table below is provided to facilitate your understanding of Telstra's compliance with the ASX Principles and Recommendations\*.

Recommendation		Please refer to the following sections of the Corporate Governance Statement
<b>Recommendation 1.1:</b> Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓	See "Role and Responsibilities of the Board". See also the Board Charter including Appendix 1 which is available on our website.
<b>Recommendation 1.2:</b> Companies should disclose the process for evaluating the performance of senior executives.	✓	See the Remuneration Report (in particular, page 70) which forms part of the Directors' Report.
<b>Recommendation 2.1:</b> A majority of the board should be independent directors.	✓	See "Director Independence".
<b>Recommendation 2.2:</b> The chair should be an independent director.	✓	See "Role of the Chairman".
<b>Recommendation 2.3:</b> The roles of chair and chief executive officer should not be exercised by the same individual.	✓	See "Role of the Chairman".
<b>Recommendation 2.4:</b> The board should establish a nomination committee.	✓	See "Nomination Committee". See also the Nomination Committee Charter which is available on our website.
<b>Recommendation 2.5:</b> Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓	See "Performance Evaluation".
<b>Recommendation 3.1:</b> Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>The practices necessary to maintain confidence in the company's integrity;</li> <li>The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	✓	See "Telstra Values, the Telstra Group Code of Conduct & Business Principles, and other Company Policies". See also the Telstra Group Code of Conduct & Business Principles which are available on our website.
<b>Recommendation 3.2:</b> Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	✓	See "Securities Trading". See also our securities trading policy which is available on our website.
<b>Recommendation 4.1:</b> The board should establish an audit committee.	✓	See "Audit Committee".
<b>Recommendation 4.2:</b> The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists only of non-executive directors;</li> <li>consists of a majority of independent directors;</li> <li>is chaired by an independent chair, who is not chair of the board; and</li> <li>has at least three members.</li> </ul>	✓	See "Audit Committee".

\* The table includes all recommendations in the ASX Principles and Recommendations other than the "Guide to Reporting" recommendations.

## Corporate Governance Statement

Recommendation		Please refer to the following sections of the Corporate Governance Statement
<b>Recommendation 4.3</b> The audit committee should have a formal charter.	✓	See "Audit Committee". See also the Audit Committee Charter which is available on our website.
<b>Recommendation 5.1:</b> Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓	See the "Market Disclosure" in "Telstra Values, the Telstra Group Code of Conduct & Business Principles, and other Company Policies".
<b>Recommendation 6.1:</b> Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓	See "Shareholder Communications". See also the Telstra Group Code of Conduct & Business Principles which are available on our website.
<b>Recommendation 7.1:</b> Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓	See "Risk Oversight & Management". See also the Telstra Group Code of Conduct & Business Principles which are available on our website.
<b>Recommendation 7.2:</b> The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓	See "Risk Oversight & Management".
<b>Recommendation 7.3:</b> The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓	See "Risk Oversight & Management".
<b>Recommendation 8.1:</b> The board should establish a remuneration committee.	✓	See "Remuneration Committee". See also the Remuneration Committee Charter which is available on our website.
<b>Recommendation 8.2:</b> Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓	See the Remuneration Report (in particular page 75) which forms part of the Directors' Report.

## Shareholder Information

### Listing Information

#### Markets in which our shares are traded

We are listed, and all our issued shares are quoted on the Australian Securities Exchange (**ASX**) and the New Zealand Stock Exchange (**NZX**).

#### Markets on which our debt securities are listed

We also have debt securities listed on the ASX, the London Stock Exchange and the Swiss Stock Exchange.

#### Distribution of securities and security holdings

The following table shows the number of listed shares on issue at 1 August 2011:

Title of class	Identity of person or group	Amount owned	%
Listed Shares	Listed shareholders	12,443,074,357	100.00

#### Distribution of shares

The following table summaries the distribution of our listed shares as at 1 August 2011:

Size of Holding	Number of Shareholders	%	Number of Shares	%
1-1,000	678,471	48.87%	392,305,126	3.15%
1,001-2,000	247,069	17.80%	360,234,177	2.90%
2,001-5,000	266,722	19.21%	852,893,534	6.85%
5,001-10,000	113,334	8.16%	794,815,722	6.39%
10,001-100,000	79,606	5.73%	1,847,909,579	14.85%
100,001 and over	3,062	0.22%	8,194,916,219	65.86%
<b>Total</b>	<b>1,388,264</b>	<b>100.00%</b>	<b>12,443,074,357</b>	<b>100.00%</b>

The number of shareholders holding less than a marketable parcel of shares was 37,442 holding 4,632,378 shares.

## Shareholder Information

### Substantial shareholders

As at 1 August 2011, we are not aware of any substantial shareholders.

The Future Fund Board of Guardians notified the Company that as at 23 March 2011, it had ceased to be a substantial shareholder.

### Twenty largest shareholders as at 1 August 2011

The following table sets out the Top 20 holders of our shares (when multiple holdings are grouped together):

Shareholders	Number of Shares	% of Issued Shares
1 HSBC Custody Nominees (Australia) Limited	2,242,315,037	18.02%
2 National Nominees Limited	1,711,690,352	13.76%
3 J P Morgan Nominees Australia Ltd	1,504,480,902	12.09%
4 Citicorp Nominees Pty Limited	492,416,447	3.96%
5 RBC Global Services Australia Nominees Pty Ltd	297,670,956	2.39%
6 Cogent Nominees Pty Limited	203,728,371	1.64%
7 AMP Life Limited	115,061,060	0.92%
8 J P Morgan Nominees Australia Ltd (cash income A/C)	106,411,123	0.86%
9 Citicorp Nominees Pty Limited	77,094,746	0.62%
10 UBS Wealth Management Australia Nominees Pty Ltd	56,361,439	0.45%
11 UBS Nominees P/L	50,762,067	0.41%
12 Australian Foundation Investment Company Limited	50,070,000	0.40%
13 Queensland Investment Corporation	46,472,332	0.37%
14 Neweconomy Com Au Nominees Pty Limited	46,418,851	0.37%
15 Australian Reward Investment Alliance	38,503,246	0.31%
16 Telstra Growthshare Pty Ltd	33,437,411	0.27%
17 Tasman Asset Management Ltd	27,746,551	0.22%
18 UBS Nominees Pty Ltd	26,370,000	0.21%
19 Argo Investments Limited	26,004,800	0.21%
20 Questor Financial Services Limited	22,068,983	0.18%
<b>Total</b>	<b>7,175,084,674</b>	<b>57.66%</b>

### Voting Rights

Shareholders (whether residents or non-residents of Australia) may vote at a meeting of shareholders in person, directly or by proxy, attorney or representative, depending on whether the shareholder is an individual or a company.

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present in person or by proxy, attorney or representative has one vote and, on a poll, has one vote for each fully paid share held. Presently, we have only one class of fully paid ordinary shares and these do not have any voting restrictions. If shares are not fully paid, on a poll the number of votes attaching to the shares is pro-rated accordingly.

## 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 and the entities it controlled at the end of, or during the year ended, 30 June 2011. Financial comparisons used in this report are of results for the year ended 30 June 2011 compared with the year ended 30 June 2010.

### 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.

### Strategy

We are Australia's largest telecommunications and information services company. We offer a full range of products and services throughout Australia and various telecommunication services in certain overseas countries. We have the telecommunications networks, distribution channels and an integrated portfolio of assets - including BigPond®, Sensis® and FOXTEL - to deliver attractive services to all of our customers.

Our strategy is very clear:

- Focus on improving our customer satisfaction;
- Grow our customer base;
- Simplify our business; and
- Develop new growth businesses from our Network Applications and Services (NAS), Asian and Media assets.

Telstra must continue to prepare itself to compete in a restructured industry as competition intensifies and new telecommunications infrastructure, such as the NBN, is built. Our network and information technology investments, including the world class mobile (Next G®) and fixed core (Next IP™) networks, are providing us with the capability to streamline our processes and provide integrated telecommunication services that are simple and valued by our customers. This is differentiating us from our competitors and improving our capability to satisfy customer needs.

### Milestones

#### Customer satisfaction

This year's achievements demonstrate real progress against our strategy. Telstra recorded a 3% improvement in our *customer satisfaction* rating in the year. While this reflects progress, it is a multi-year programme and remains the highest priority for the entire company. Customer service initiatives launched in the past year include:

- Weekend technician services, with around 80 thousand weekend appointments used by customers;
- 24/7 contact centres, with more than 5 million calls made to us after hours;

- Telstra.com improvements which have enabled more than 300 thousand customers to activate international roaming online;
- Consumer customers being able to book appointments online for a personal shopping experience in certain Telstra stores; and
- Improved online and mobile account self-serve options for bills and payments.

### Customer growth

We supported our initiative to *retain and grow our customer base* with significant in-year investment which has produced strong results with customer market share growth and lower churn. Of particular note is that we added 2 million mobile customers in Australia and Hong Kong, added 659 thousand new bundles, and sold 190 thousand T-Box® and 175 thousand T-Hub® units during the year. Other customer initiatives included:

- Continued expansion of Telstra's retail footprint so that it now includes 293 Telstra Stores and 80 Telstra Business Centres;
- Launching Australia's fastest 3G hotspot with the launch of the Telstra Ultimate Wi-Fi device; and
- Commencing the upgrade of our Next G network with LTE (Long Term Evolution) technology which will help provide customers with faster data speeds and higher quality mobile video conferencing.

### Simplification

Our initiatives to *simplify the business* continue to be implemented and we exceeded our fiscal 2011 target for productivity improvements through the delivery of improved processes. This included simplified mobile and fixed broadband plans and the implementation of a streamlined organisational structure involving the merger of the Telstra Consumer and Telstra Country Wide business units.

### Growth

The company has also highlighted that it sees *growth opportunities in NAS, our Asian and Media assets*. Our focus remains on organic growth, although we would consider small acquisitions if they create clear value for shareholders. The uptake of the T-Hub® and T-Box®, restructuring of our Reach network assets in Asia and significantly improved performance at CSL New World are indicators of the progress we are making in these areas.

Other growth initiatives over the year included:

- Announcing the \$800 million investment in cloud computing capabilities;
- Acquisition of iVision to significantly improve our capabilities in video conferencing;
- Launching the Digital Business solution which combines high-speed fixed broadband and high-definition IP broadband telephony in a



## Directors' Report

seamless way for Australian small businesses;  
and

- Unveiling the FOXTEL on T-Box service.

### National Broadband Network (NBN)

On 23 June Telstra signed conditional Definitive Agreements with NBN Co and the Commonwealth for Telstra's participation in the rollout of the NBN. Telstra continues to value these agreements and associated policy undertakings at approximately \$11 billion in post-tax net present value terms (discounted to June 2010), consistent with the Financial Heads of Agreement announced in June 2010. The company has subsequently submitted a Structural Separation Undertaking and associated Migration Plan to the ACCC. The company is working closely with the ACCC with a view to obtaining acceptance of our Structural Separation Undertaking before the AGM.

Telstra is committed to giving shareholders an opportunity to vote on Telstra's participation in the NBN at the company's AGM on 18 October 2011. The approval of Telstra's shareholders is one of the key conditions which must be satisfied before these Agreements may be implemented.

We are pleased to have reached these important milestones and look forward to providing shareholders with an Explanatory Memorandum which will outline the basis for the Board's recommendation to shareholders.

### Financial performance

#### Results

Net profit for the year was \$3,250 million (2010: \$3,940 million) down 17.5%. This result was after deducting:

- net finance costs of \$1,135 million (2010: \$963 million); and
- income tax expense of \$1,307 million (2010: \$1,598 million).

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) decreased by 6.4% to \$10,151 million. Earnings before interest and income tax expense (EBIT) decreased by 12.4% to \$5,692 million on a reported basis. This result reflects the impact of our strategic initiatives.

### Revenue

Revenue (excluding finance income) increased by \$176 million or 0.7% to \$25,093 million (2010: \$24,917 million). Total *Public Switched Telephony Network (PSTN)* revenue declined by 7.9% during the year to \$5,370 million. This rate of decline is consistent with the 8.0% decline in fiscal 2010 and continues to highlight the structural shift away from PSTN driven by both lower usage and line loss. While usage continues to decline across all calling categories, with local calls falling 13.6% and national long distance declining 8.6%, PSTN line loss during the year was 3.3%, the lowest rate of decline in four years. This improvement reflects the impact of our bundled offers.

*Fixed retail broadband* revenue (including hardware) increased by 1.4% to \$1,594 million. There was also continued net growth in fixed broadband customers in the second half with 158 thousand customers added for the year, our strongest performance in three years. Our bundled offers, some of which include the Telstra T-Box and T-Hub products and the improved value of our fixed broadband plans has driven the strong turnaround in fixed broadband momentum across fiscal 2011. Lower cancellations have been an important driver of the improvement, with the net cancellation rate in fixed broadband falling to 17.3% from 22.8% in the prior year.

*Wholesale broadband* revenues declined by 9.8% as the growth in Unconditioned Local Loop (ULL) uptake by competitors continued to be strong, with more than one million ULL services in operation for the first time. Line Spectrum Sharing (LSS) services declined for the first time, decreasing by 1.4% reflecting the shift to ULL by competitors.

Domestic *Mobile* revenue growth accelerated during the year to 10.7% as we began to see the benefits of growing our domestic customer base by 1.66 million services. In the second half mobile growth was 11.4%, improving from 10.0% in the first half. The improved momentum is testament to our network quality and the increased value of our mobile plans. During the second half we launched our very popular Freedom Connect™ plans which offer increased value to our customers. Mobile services revenue grew by 7.4% while mobile hardware revenue was up 35.5% to \$1,160 million. We continue to believe improving mobile hardware revenue is a lead indicator of accelerating mobiles services revenue growth.

## Directors' Report

Our *IP Access and Data* business continued to focus on the migration to IP from legacy technologies with revenues declining slightly by 0.3% to \$1,771 million. Within this category, IP Access revenue grew 16.2% in the year to \$970 million. Our IP business continued to produce significant contract wins during the year. We continue to believe there is good potential in leveraging our IP access customer relationships to provide more IP based network applications and services to customers such as cloud computing, video conferencing, IP telephony and managed data networks.

Our *Network Applications and Services (NAS)* revenue grew 10.7% this year to \$1,144 million and remains a strategic growth driver for Telstra. This was driven by strong growth in unified communications and managed data networks. To support the development of this business Telstra announced an \$800 million investment in cloud computing, the acquisition of iVision Pty Ltd on 31 March 2011 and has also announced a new Applications and Ventures Group.

In March 2011, *Sensis* launched a digital strategy for long term profitable growth. This strategy is designed to help Australian buyers and sellers benefit from the rapidly evolving digital environment. In particular, this strategy seeks to empower small business advertisers with competitive marketing solutions. Sensis' revenue declined by 6.4% to \$1,787 million and EBITDA declined by 9.4% to \$993 million. Contributing to the decline in performance was the impact of the floods throughout the east coast of Australia and the investment associated with the deployment of the new strategy.

*Telstra International* is focussed on Asia and is predominantly made up of the Asian Reach network assets, the CSL New World mobile business in Hong Kong and a number of China online businesses. CSL New World grew income by 5.8% to \$819 million after driving improved operating momentum into the business through the year including the addition of 352 thousand new customers. Improvements included strong growth in smart phones sales and the launch of new rate plans focussing on customer needs. In local currency, revenues grew strongly by 19% including service revenue growth of 7.4%. EBITDA declined by 9.1% due to a one off adjustment relating to a favourable dispute settlement included in the last fiscal year. Excluding this adjustment, underlying EBITDA rose by 4.5%.

### Operating Expenses

Operating Expenses (before depreciation and amortisation) in the year increased by 6.8% or \$970 million to \$15,154 million. This expenditure was in-line with our expectations as we undertook a number of strategic initiatives in 2011 to improve customer service, acquire customers and simplify the business. Including depreciation and amortisation, expenses rose by 5.8%. This expense total includes an impairment reversal on the restructure of the Reach network assets of \$147 million and the impairment in the carrying value of China online businesses, Octave and LMobile of \$133 million and \$27 million respectively.

Labour expenses in the year increased by 5.9% to \$3,924 million. Salary costs increased by 2.1% in the year and redundancy charges were up 75% to \$224 million as we undertook the reorganisation and the simplification of our business. Salary costs in the second half were impacted by network restoration costs associated with natural disasters of \$27 million.

Directly Variable Costs (DVCs) or Goods and Services Purchased increased by 15.4% to \$6,183 million largely as a result of our strategic initiatives to grow customer numbers. Mobile hardware cost of goods sold increased by 46.9% or \$426 million to \$1,335 million. Postpaid mobile subsidies increased by \$33 million or 5.5% to \$631 million.

Other expenses decreased by 1.4% or \$70 million to \$5,047 million with much of the decrease a result of lower impairment charges this fiscal year offset by our initiatives to simplify the business.

Depreciation and amortisation has increased by 2.6% from the prior year to \$4,459 million. The higher depreciation in fiscal 2011 was primarily due to higher communications plant and other plant and equipment depreciation. This increase was driven by asset additions and improvements predominantly within the core network data, core network transport, core content-IP products, mobile access and fixed access assets. This was partially offset by land and buildings depreciation which decreased due to the retirement of exchange sites during the year in line with our divestment program.

Amortisation expense increased by 10.9% or \$99 million predominantly due to software additions and improvements to our asset base comprising customer relations, network operations and work flow management applications and our billing systems.

### Cash flow and financial condition

We reported a strong free cashflow position with free cashflow of \$5,477 million generated in the year, a decrease of \$748 million or 12.0% from fiscal 2010. Importantly, we continue to invest in the business with accrued capital expenditure of \$3,410 million in the year, or 13.6% of sales revenue.

## Directors' Report

This cash position, combined with our borrowing program, will continue to support our ongoing operating and investing activities within our target financial parameters.

Our net debt at 30 June 2011 was \$13,595 million, down \$331 million from 30 June 2010. The decrease is due to strong free cashflow being used for net repayments of borrowings, resulting in net debt gearing of 52.5%. A number of successful refinancings in the year has also lengthened our debt maturity profile. In 2012 Telstra has approximately \$2 billion of long term debt to refinance.

Our credit rating at 30 June 2011 is consistent with the prior year. Our credit ratings are as follows:

	Long term	Short term	Outlook
Standard & Poors	A	A1	Negative
Moody's	A2	P1	Under review for possible downgrade
Fitch	A	F1	Negative

### Dividends, investor returns and other key ratios

Our basic earnings per share decreased 16.9% from 31.4 cents per share to 26.1 cents per share in fiscal 2011. Other relevant measures of return include the following:

- Return on average assets - 15.9% (2010: 17.3%); and
- Return on average equity - 26.1% (2010: 30.9%).

Return on average assets and return on average equity are lower in fiscal 2011 primarily due to the decreased profit in fiscal 2011.

On 11 August 2011, the directors resolved to pay a final fully franked dividend of 14 cents per ordinary share (\$1,738 million), bringing dividends per share for fiscal 2011 to 28 cents per share. The record date for the final dividend will be 26 August 2011 with payment being made on 23 September 2011. Shares will trade excluding entitlement to the dividend on 22 August 2011.

Dividends paid during the year were as follows:

Dividend	Date resolved	Date paid	Fully Franked Dividend per share	Total dividend (\$ million)
Final dividend for the year ended 30 June 2010	12 Aug 2010	24 Sep 2010	14 cents	1,737
Interim dividend for the year ended 30 June 2011	10 Feb 2011	25 March 2011	14 cents	1,738

### Corporate Citizenship

Over the last 12 months we have continued to demonstrate our leadership as a good corporate citizen. Telstra continues to play a unique role supporting Australia and Australians through good and bad times.

Our major contributions in the past year include:

#### Telecommunication Services

- Assisting one million low income customers every month through our *Access for Everyone* programs; and
- Providing over 114 thousand fixed lines at special rates to our charity and not for profit customers;

#### Corporate Programs

- Contributing over \$1 million in donations from Telstra and our employees for disaster relief appeals;
- Providing more than 28 thousand older Australians with face to face training on how to use mobile phones and the internet via our *Telstra Connected Seniors* program;
- Providing thousands of Australians affected by natural disasters in Queensland, New South Wales, Victoria, South Australia and Western Australia with Telstra assistance packages; and
- Recognising more than 4 thousand women through the Telstra Business Women's Awards nomination process;

#### Telstra Foundation

- Contributing almost \$3 million to support social innovation, cyber safety and Indigenous community development programs via the Telstra Foundation;
- Recognising 62 Indigenous artists through the *Telstra Art Award* selection process; and
- Distributing 625 *Telstra's Kids Fund* grants to grass-roots organisations across the country to the value of \$750,000.

### Significant changes in the state of affairs

There were no significant changes in the state of affairs of our company during the financial year ended 30 June 2011.

### Business strategies, likely developments and prospects

The directors believe, on reasonable grounds, that we would be likely to be unreasonably prejudiced if the directors were to provide more information than there is in this report or the financial report about:

- the business strategies, likely developments and future prospects of our operations; or
- the expected results of those operations in the future.

## Directors' Report

We do note, however, that in the last year, the Federal and State Governments have enacted and/or proposed a number of legislative reforms which affect our business operations. We are managing the impact of these reforms as and when they occur.

### Outlook

Over the past year Telstra has recorded a turnaround in operational results, with strong customer growth, lower churn, a return to revenue growth and higher market share in fixed broadband and mobile.

In fiscal 2012, the strategic initiatives will continue to bear fruit. The year will see productivity and other benefits from a continuing simplification programme. For 2012, we expect Telstra to return to full year earnings growth with low single digit revenue growth and low single digit EBITDA growth on the back of strong second half performance in fiscal 2011. Capex to sales will continue to be around 14% of sales with free cashflow of between \$4.5 and \$5.0 billion. The NBN is not expected to have a material impact on Telstra's financial results in 2012.

Guidance Summary*	
Measure	Fiscal 2012 Guidance
Total Revenue	Low single digit growth
EBITDA	Low single digit growth
Capex/sales	14%
Free cashflow	\$4.5 - \$5.0 billion
Dividend	28 cents fully franked

\* Guidance assumes wholesale product price stability, and excludes any further impairments to investments and any proceeds on the sale of businesses.

As announced in November 2010, it is also the company's intention to maintain a 28 cent fully franked dividend for fiscal 2012, subject to the Board's normal approval process for dividend declaration and there being no unexpected material events. The directors also remain committed to a broader review of capital management after shareholders have voted on our proposed participation in the rollout of the NBN and subject to global financial market conditions.

### 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 following:

- Our 50% jointly controlled entity, FOXTEL, announced on 11 July 2011 that it had entered into definitive agreements with AUSTAR and Liberty Global to acquire all of the issued shares in AUSTAR. The transaction remains subject to a number of approvals including from the Foreign Investment Review Board, ACCC, AUSTAR minority shareholders and the court. The transaction will be funded by a combination of FOXTEL bank debt and shareholder debt

contributions in the form of subordinated shareholder notes. Our contribution will be up to \$450 million. The final amount will be determined following the satisfaction of the conditions precedent.

- On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of \$24 million. Payment is deferred for a period of up to two years and is subject to commercial rates of interest. The disposal of our share of net assets of \$24 million will have a minimal profit or loss impact.
- On 6 July 2011, Telstra announced changes to its organisational structure. Effective 1 August 2011, the entire sales and retail customer service workforce was unified in a single business unit, Telstra Customer Sales and Service, responsible for sales and services to all segments including consumer, business, enterprise and government customers. A new business unit, Applications and Ventures Group, was also created to invest and partner with other companies and government agencies to provide a new range of digital services for business and consumers, including health and education sectors.

### 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:

- Nora L Scheinkestel was appointed as a non-executive Director effective 12 August 2010.

Information about our directors and senior executives is provided as follows and forms part of this report:

- names of directors and details of their qualifications, experience, special responsibilities and directorships of other listed companies are given on pages 62 to 66;
- number of Board and Committee meetings and attendance by Directors at these meetings is provided on page 67;
- details of director shareholdings in Telstra are shown on page 67; and
- details of director and senior executive remuneration is detailed in the Remuneration Report on pages 69 to 83.

### Company Secretary

The qualifications and experience of our Company Secretary are detailed on page 66 and form part of this report.

The current Company Secretary, Carmel Mulhern, has been appointed the Group General Counsel effective 1 January 2012. Damien Coleman who is currently General Counsel, Finance and Administration, will succeed Ms Mulhern in the Company Secretary role on that date.



## Directors' Report

### Directors' and officers' indemnity

#### *Constitution*

Telstra's constitution provides for it to indemnify each officer, to the maximum extent permitted by law, for any liability incurred as an officer of Telstra or a related body corporate. It also provides for Telstra to indemnify each officer, to the maximum extent permitted by law for legal costs and expenses incurred in defending civil or criminal proceedings.

If one of Telstra's officers or employees is asked by Telstra to be a director or other officer of a company which is not related to it, Telstra's constitution provides for it to indemnify the officer or employee for any liability he or she incurs. This indemnity only applies if the liability was incurred in the officer's or employee's capacity as an officer of that other company. Telstra's constitution also allows it to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in Telstra's constitution.

#### *Deeds of indemnity in favour of directors, officers and employees*

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

- directors of the Telstra Entity (including past directors);
- secretaries and executive officers of the Telstra Entity (other than Telstra Entity directors) and directors, secretaries and executive officers of Telstra's wholly owned subsidiaries;
- directors, secretaries and executive officers of a related body corporate of the Telstra Entity (other than a wholly owned subsidiary) while the director, secretary or executive officer was also an employee of the Telstra Entity or a director or employee of a wholly owned subsidiary of the Telstra Entity (other than Telstra Entity directors); and
- certain employees of Telstra in particular circumstances.

Each of these deeds provides an indemnity as permitted under Telstra's constitution and the Corporations Act 2001. The deeds in favour of directors of the Telstra Entity also give directors certain rights of access to Telstra's books and require it to maintain insurance cover for the directors.

Additionally, Telstra has executed an indemnity in favour of employees (including executive officers other than directors) in respect of certain liabilities incurred in the formulation, entering into or carrying out, of a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991 (Cwth)). The indemnity is subject to an exclusion for liabilities arising out of conduct involving a lack of good faith. Although all Telstra Sale Schemes conducted by the Commonwealth Government have been completed, the indemnity will remain in place while it is possible for claims to arise under a Telstra Sale Scheme.

It is intended that a deed of indemnity be executed in favour of certain employees, not otherwise covered by an indemnity or directors' and officers' insurance, in respect of certain liabilities which may be incurred as part of the NBN transaction.

#### *Directors' and officers' insurance*

Telstra maintains a directors' and officers' insurance policy that, subject to some exceptions, provides worldwide insurance cover to past, present or future directors, secretaries or executive officers of the Telstra Entity and its subsidiaries. Telstra has paid the premium for the policy. The directors' and officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

### Environmental regulation and performance

Telstra's operations are subject to significant environmental regulation under Commonwealth, State and Territory law, particularly with regard to:

- the impact of the installation and maintenance of telecommunications infrastructure;
- energy and water efficiency;
- reporting of a range of environmental matters including energy use and greenhouse gas emissions;
- packaging of products;
- procurement of services;
- site contamination and pollution; and
- waste management.

Telstra is subject to the Energy Efficiency Opportunities Act 2006 (Cwth). Telstra registered on 31 March 2007 and has submitted annual public and bi-annual government reports to the Department of Resource Energy and Tourism, meeting all legislative requirements. The next reports are due by 31 December 2011.

Telstra is required to report on its greenhouse gas emissions, energy consumption and energy production under the National Greenhouse and Energy Reporting Act 2007 (Cwth). Telstra registered by 31 August 2009 and has reported to the Department of Climate Change and Energy Efficiency annually. The next report is due 31 October 2011.

Telstra has well established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force. Telstra has not been fined or prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.



## Directors' Report

Telstra notes the Australian Government's announcement on 10 July 2011 that it intends to legislate to introduce a carbon pricing system from 1 July 2012. The system will require companies with operations that emit greenhouse gas emissions above a certain threshold to purchase carbon emissions permits, at an initial price of \$23 for each tonne of carbon dioxide equivalent greenhouse gas they emit.

Telstra is currently in the process of assessing the potential impacts of the proposed system on its business. Based on the information currently available, it appears unlikely that Telstra will be directly liable under the system to purchase emission permits. However, Telstra may experience an indirect cost impact from the system as a result of the impacts on electricity prices and other parts of Telstra's supply chain. Telstra is currently reviewing the Government's announcement and will undertake an assessment of its likely implications for Telstra once the final detail of the system is settled, but Telstra does not believe it will be material for the company.

### Non-audit services

During fiscal 2011, Telstra's auditor Ernst & Young has been employed on assignments additional to its statutory audit duties. Details of the amounts paid or payable to Ernst & Young for audit and non-audit services provided during the year are detailed in note 8 to the financial statements.

The directors are satisfied that the provision of non-audit services during fiscal 2011 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (the Act), and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all recurring audit engagements are approved by the Audit Committee each year through the Audit Committee's approval of the annual audit plan;
- additional audit and non-audit services up to \$100,000 require approval from the Chief Financial Officer which is communicated to the Audit Committee at the next meeting;
- additional audit and non-audit services between \$100,000 and \$250,000 require approval from the Chairman of the Audit Committee; services greater than \$250,000 require approval from the Audit Committee;
- fees earned from non-audit work undertaken by Ernst & Young are capped at 1.0 times the total audit fee; and
- the provision of non-audit services by Ernst & Young is monitored by the Audit Committee via semi-annual reports to the Audit Committee.

Ernst & Young is specifically prohibited from performing any of the following services:

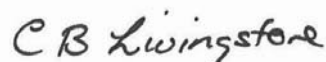
- bookkeeping services and other services related to preparing our accounting records of financial statements;
- financial information system design and implementation services;
- appraisal or valuation services, fairness opinions, or contribution in kind reports;
- actuarial services;
- internal audit services;
- management or human resources functions;
- temporary staff assignments;
- broker or dealer, investment advisor, or investment banking services; and
- legal services or expert services unrelated to the audit.

A copy of the auditors' independence declaration is set out on page 68 and forms part of this report.

### Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998 and issued pursuant to section 341(1) of the Corporations Act 2001. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars (\$m), except where otherwise indicated.

This report is made on 11 August 2011 in accordance with a resolution of the directors.



Catherine B Livingstone AO  
Chairman

11 August 2011



David I Thodey  
Chief Executive Officer and Executive Director

11 August 2011

## Directors' Report

### Directors' profiles

As at 11 August 2011, our Directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected <sup>(1)</sup>
Catherine B Livingstone . . . . .	55	Chairman, Non-executive Director	2000	2008
David I Thodey . . . . .	57	Chief Executive Officer, Executive Director	2009	-
John V Stanhope . . . . .	60	Executive Director	2009	-
Geoffrey A Cousins . . . . .	68	Non-executive Director	2006	2009
Russell A Higgins . . . . .	61	Non-executive Director	2009	-
John P Mullen . . . . .	56	Non-executive Director	2008	-
Nora L Scheinkestel . . . . .	51	Non-executive Director	2010	-
John M Stewart . . . . .	62	Non-executive Director	2008	-
John W Stocker . . . . .	66	Non-executive Director	1996	2009
Steven M Vamos . . . . .	53	Non-executive Director	2009	-
John D Zeglis . . . . .	64	Non-executive Director	2006	2009

<sup>(1)</sup> Other than the CEO, directors may not hold office for more than three years or beyond the third annual general meeting (AGM) following their appointment (whichever is the later) without re-election. A director appointed to fill a casual vacancy must stand for election at the next AGM.

A brief biography for each of the directors as at 11 August 2011 is presented below:

**Catherine B Livingstone** – AO, BA (Hons), Hon DSc (Murdoch), Hon DBus (Macquarie), FCA, FTSE, FAICD

Ms Livingstone joined Telstra as a non-executive Director in November 2000 and was appointed as Chairman in May 2009. She is the Chairman of the Nomination Committee and a member of the Remuneration, Audit, Technology and NBN Due Diligence Committees. She was Chairman of the NBN Committee whilst it was operative.

#### Experience:

Ms Livingstone is a Chartered Accountant and has held several finance and general management roles predominantly in the medical devices sector. Ms Livingstone was the Chief Executive of Cochlear Limited (1994 – 2000).

#### Directorships of other listed companies - current:

Director, Macquarie Bank Limited (2003 - ), Macquarie Group Limited (2007 - ) and WorleyParsons Ltd (2007 - ).

#### Directorships of listed companies - past three years:

Nil

#### Other:

Current: Director, Future Directions International Pty Ltd (2007 - ); Member, New South Wales Innovation Council (2007 - ) and the Royal Institution of Australia (2009 - ).

Former: Chairman, CSIRO (2001 - 2006); Chairman and Director, Australian Business Foundation (2000 – 2005); Director, Goodman Fielder Ltd (2000 – 2003), Rural Press Limited (2000 – 2003), Macquarie Graduate School of Management Pty Ltd (2007 - 2008) and Sydney Institute (1998 – 2005). Previously, also Member, Department of Accounting and Finance Advisory Board Macquarie University, Business/ Industry/Higher Education Collaboration Committee (BIHECC) and Federal Government's National Innovation System Review Panel.

#### David I Thodey - BA, FAICD

Mr Thodey became Chief Executive Officer and an executive director in May 2009.

#### Experience:

Mr Thodey joined Telstra in April 2001 as Group Managing Director of Telstra Mobiles. He was appointed to the position of Group Managing Director Telstra Enterprise and Government in December 2002 and was responsible for the company's corporate, government and large business customers in Australia, TelstraClear in New Zealand and Telstra's International sales division.

Before joining Telstra, Mr Thodey was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive positions in marketing and sales with IBM across Asia Pacific. He holds a Bachelor of Arts in Anthropology and English from Victoria University in New Zealand. Mr Thodey attended the Kellogg Post-Graduate School General Management Program at Northwestern University in Chicago.

#### Directorships of other listed companies - current:

Nil

#### Directorships of listed companies - past three years:

Nil

## Directors' Report

### Other:

Current: Chairman of Sensis Pty Ltd (2009 – ).

Former: Chairman, TelstraClear New Zealand (2003 – 2009); Chairman, Basketball Australia (2008 – 2010).

**John V Stanhope** - B Com (Economics and Accounting), FCPA, FCA, FAICD, FAIM

Mr Stanhope was appointed as an executive Director in May 2009. He was appointed to the role of Chief Financial Officer (CFO) and Group Managing Director, Finance & Administration in October 2003. In July 2011 Mr Stanhope's title changed to Chief Financial Officer and Group Managing Director Finance.

On 29 June 2011 Mr Stanhope announced his retirement from the Company as CFO and Director effective 31 December 2011.

### Experience:

Since joining Telstra in 1967, Mr Stanhope has held a number of operational roles and a range of senior financial management positions, including Director, Finance. In this role, which he assumed in 1995, he contributed to the T1 and T2 share sales, cost reduction programs, growth strategies, debt raising, capital management and organisational restructures.

In his current role as CFO and GMD Finance, Mr Stanhope is responsible for finance; treasury; taxation, risk management and assurance; investor relations; corporate security and investigations, NBN Engagement and Telstra Clear. He also managed Telstra's involvement in the Federal Government's T3 sale of Telstra shares.

### Directorships of other listed companies - current:

Director, AGL Energy Limited (2009 - ).

### Directorships of listed companies - past three years:

Nil

### Other:

Current: Chairman, TelstraClear Ltd (2009 - ); Director, TelstraClear Ltd (2001 - ), CSL New World Mobility Ltd (2004 - ), Telstra Super Pty Ltd (1996 - ), Sensis Pty Ltd (1998 - ), , Sequel Limited (2008 - ), Octave Investments Holdings Limited (2009 - ), Dotad Media Holdings Limited (2010 - ), Foxtel Management Pty Ltd (2010 - ), Foxtel Cable Television Pty Ltd (2010 - ) and Melbourne International Jazz Festival (2009 - ); Member, Financial Reporting Council (2006 - ).

Former: Soufun Holdings Ltd (2007 - 2010) and Reach Ltd (2004 – 2007); Business Coalition for Tax Reform (2003 - 2010), G100 (2002 - 2011).

### Geoffrey A Cousins

Mr Cousins joined Telstra as a non-executive Director in November 2006. He is a member of the Nomination and Remuneration Committees.

### Experience:

Mr Cousins has more than 26 years experience as a company director. Mr Cousins was previously the Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network, Hoyts Cinemas group and NM Rothschild & Sons Limited. He was the first Chief Executive of Optus Vision and before that held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia.

### Directorships of other listed companies - current:

Nil

### Directorships of listed companies - past three years:

Nil

### Other:

Current: Chairman, St. James Ethics Foundation (2010 - ).

Former: Chairman, Cure Cancer Australia (2004 - 2007), Director, Insurance Australia Group Ltd (2000 - 2007), The Starlight Foundation (1988 - 1994) and Museum of Contemporary Art (1990 – 1994); Director, Globe International Limited (2001 - 2003), Sydney Theatre Company Ltd (1990 – 1996), St George Foundation Ltd (1989 – 1995) and The Smith Family (1988 – 1994); President, The Shore Foundation Ltd (1992 – 1994).

Mr Cousins was previously a consultant to the Prime Minister.

### Russell A Higgins - AO, BEc, FAICD

Mr Higgins joined the Telstra Board as a non-executive Director in September 2009. He is a member of the Audit and NBN Due Diligence Committees. He was a member of the NBN Committee whilst it was operative.

### Experience:

Mr Higgins is an experienced company director who has worked at very senior levels of both government and private sectors. He is Chairman of the Global Carbon Capture and Storage Institute, a global initiative to accelerate the worldwide development of carbon capture and storage technologies. From 2003 to 2004, he was Chairman of the then Prime Minister's Energy Task Force. Prior to that he was Secretary of the Department of Industry, Science and Resources.

### Directorships of other listed companies - current:

Director, APA Group (2004 - ) and Ricegrowers Limited (SunRice) (2005 - ).

## Directors' Report

### Directorships of listed companies - past three years:

Nil

### Other:

Current: Chairman, Global Carbon Capture and Storage Institute (2009 - ); Chair, CSIRO Energy Transformed Flagship Advisory Committee (2005 - ); Director, St. James Ethics Foundation (2010 - ).

Former: Chairman, Snowy Hydro-Electric Scheme (1992 - 1997), CRC for Coal in Sustainable Development (2004 - 2008), APEC Energy Working Group (1993 - 1997); Director, Australian Biodiesel Group (2006 - 2007), Export Finance and Insurance Corporation (1997 - 2002), CSIRO (1997 - 2002), Austrade (1997 - 2002), Australian Tourist Commission (1997 - 2002) and Australian Sports Commission (1997 - 2002).

### John P Mullen

Mr Mullen joined Telstra as a non-executive Director in July 2008. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee.

### Experience:

Mr Mullen has worked for over two decades in a multitude of senior positions with different multinationals. His corporate experience includes 10 years with the TNT Group, with two years as its Chief Operating Officer. From 1991 to 1994, he held the position of Chief Executive Officer of TNT Express Worldwide, based in the Netherlands. Mr Mullen joined Deutsche Post World Net (DPWN) as an Advisor in 1994, becoming Chief Executive Officer of DHL Express Asia Pacific in 2002 and Joint Chief Executive Officer, DHL Express in 2005. From 2006 to 2009, Mr Mullen was Global Chief Executive Officer, DHL Express. On 14 February 2011 Mr Mullen was appointed as the new Managing Director and Chief Executive Officer of Asciano Ltd.

### Directorships of other listed companies - current:

Chief Executive Officer and Executive Director, Asciano Ltd (2011 - ).

### Directorships of listed companies - past three years:

Director, Brambles Limited (2009 - 2011), MAP Airports Limited (2010 - 2011), Deutsche Post World Net, Board of Management, Germany (2005 - 2009) and Embark Corporation USA (2006 - 2009).

### Other:

Current: Member, Australian Graduate School of Management (2005 - ).

Former: Chairman, National Foreign Trade Council (Washington DC) (2008 - 2010); Director, International Swimming Hall of Fame (USA) (2005 - 2008).

### Nora L Scheinkestel - LLB(Hons), PhD, FAICD

Dr Scheinkestel joined Telstra as a non-executive Director in August 2010. She is a member of the Audit Committee and Chairman of the NBN Due Diligence Committee.

### Experience:

Dr Nora Scheinkestel is an experienced company director having served in a wide range of industry sectors and in the public, government and private spheres. Dr Scheinkestel is also an Associate Professor at the Melbourne Business School at Melbourne University and a member of the Takeovers Panel. Dr Scheinkestel's executive background is as a senior banking executive in international and project financing, responsible for the development and financing of major projects in Australasia and South East Asia. Her current consulting practice assists government, corporate and institutional clients in areas such as corporate governance, strategy and finance. In 2003, Dr Scheinkestel was awarded a centenary medal for services to Australian society in business leadership.

### Directorships of other listed companies - current:

Director, AMP Limited (2003 - ), Orica Limited (2006 - ) and Pacific Brands Limited (2009 - ).

### Directorships of listed companies - past three years:

Director, PaperlinX Ltd (2000 - 2009).

### Other:

Current: AMP Capital Investors Limited (2004 - ) and AMP Bank Limited (2006 - ).

Former: Chairman, South East Water Limited (2002 - 2005) and Energy21 and Stratus Networks Gas Group (1997 - 1999); Director, IOOF Funds Management (1998 - 2001), Medical Benefits Fund of Australia Ltd (1997 - 2001), Hydro Tasmania (2001 - 2004), City West Water Ltd (1995 - 2002), Docklands Authority (1998 - 2003), Newcrest Mining Limited (2000 - 2007), Mayne Pharma Limited (2005 - 2007), Mayne Group Limited (2005) and North Limited (1996 - 2000).



## Directors' Report

### John M Stewart - BA, FCIB, ACII

Mr Stewart joined Telstra as a non-executive Director in April 2008. He is a member of the Audit Committee.

#### Experience:

Mr Stewart has had a long and successful career in the finance industry since he first joined Woolwich PLC in 1977. Mr Stewart was appointed to the Board of Woolwich in 1995 and became Chief Executive in 1996. Following Woolwich's acquisition by Barclays PLC in October 2000, Mr Stewart was appointed Deputy Chief Executive Officer and became a member of the Barclays Group Board and Group Executive Committee. In August 2003, he joined the Group comprising National Australia Bank (NAB), the Clydesdale & Yorkshire banks in the UK, the Bank of New Zealand, and nabCapital, as Chief Executive, Europe and Principal Board Member. In February 2004, Mr Stewart was appointed Group Chief Executive Officer of NAB and retired from the NAB effective 31 December 2008.

#### Directorships of other listed companies - current:

Chairman, Legal & General Group plc (2010 - );  
Director, Bank of England (2009 - ).

#### Directorships of Listed companies - past three years:

Director and Chief Executive Officer, National Australia Bank (2004 - 2008).

#### Other:

Former: Chair, Australian Bankers' Association (2007 - 2008); Director, Business Council of Australia (2006 - 2008); Executive Director, Barclays PLC (2000 - 2003); Group CEO, Woolwich PLC (1996 - 2000); Member, Scottish Enterprise's International Advisory Board (2006 - 2009) and the Federal Attorney General's Business-Government Advisory Group on national security. Mr Stewart was also a member of a former Prime Minister's Task Group on Emissions Trading.

### John W Stocker - AO, MB.BS, BMedSc, PhD, FRACP, FTSE

Dr Stocker joined Telstra as a non-executive Director in October 1996. He is Chairman of the Audit Committee and a member of the Technology and NBN Due Diligence Committees. He was a member of the NBN Committee whilst it was operative.

#### Experience:

Dr Stocker has had a distinguished career in pharmaceutical research and extensive experience in management of research and development, and its commercialisation including in his roles as Chief Executive of CSIRO (1990 - 1995) and subsequently, as Chief Scientist for the Commonwealth of Australia (1996 - 1999).

#### Directorships of other listed companies - current:

Director, Nufarm Limited (1998 - ).

#### Directorships of listed companies - past three years:

Chairman, Sigma Pharmaceuticals Ltd (2005 - 2010).

#### Other:

Current: Principal, Foursight Associates Pty Ltd (1996 - ).

Former: Chairman, Grape and Wine Research and Development Corporation (1997 - 2004), Sigma Company Ltd (1998-2005), CSIRO (2007 - 2010) and The Australian Wine Research Institute Ltd (2009 - 2010); Director, Cambridge Antibody Technology Group plc (1995 - 2006), Circadian Technologies Ltd (1996 - 2008).

### Steven M Vamos - BEng (Hons)

Mr Vamos joined the Telstra Board as a non-executive Director in September 2009. He is also a member of the Remuneration and Nomination Committees and was a member of the NBN Committee whilst it was operative.

#### Experience:

Mr Vamos has over 30 years experience in the information technology, internet and online industry. He led Microsoft Australia and New Zealand from 2003 to January 2007 before moving to the United States to become the company's online business head of worldwide Sales and International Operations. Previously, he was Chief Executive Officer of ninemsn. Mr Vamos also worked for Apple Computer in the 1990s after spending 14 years in senior management roles at IBM Australia. He is the founding President of the Society for Knowledge Economics (SKE), a not-for-profit think tank that encourages new and better practices in leadership and management.

#### Directorships of other listed companies - current:

Nil

#### Directorships of listed companies - past three years:

Nil

#### Other:

Current: President, Society for Knowledge Economics (2005 - ); Director, eGeneration Investments Pty Limited (1999 - ).

Former: Chief Executive Officer, ninemsn (1998 - 2002); Vice President, Australia and New Zealand, Microsoft (2003 - 2007).



## Directors' Report

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### **John D Zeglis** - BSc Finance, JD Law

Mr Zeglis joined Telstra as a non-executive Director in May 2006. He is a Chairman of the Technology Committee.

#### **Experience:**

Mr Zeglis has a legal background, and became partner with the law firm Sidley & Austin in 1978. He was General Counsel of AT&T from 1986 - 1998. His qualifications include a BSc in Finance from the University of Illinois, and a JD in Law from Harvard.

Mr Zeglis has had a long and distinguished career in the US telecommunications sector. He joined AT&T in 1984, and was elected as President of AT&T in 1998 and Chairman and Chief Executive Officer of the AT&T Wireless Group in 1999. He continued as CEO of AT&T Wireless until retiring in November 2004 following the company's sale to Cingular Wireless.

#### **Directorships of other listed companies - current:**

Director, Helmerich & Payne Corporation (1989 - ).

#### **Directorships of listed companies - past three years:**

Nil

#### **Other:**

Current: Director, The Duchossois Group (including AMX) (2011 - ) and State Farm Automobile Insurance (2004 - ).

Former: Director, Georgia Pacific Corporation (2001 - 2005); Sara Lee Corporation (1998 - 2000); and Illinois Power Company (1992 - 1996).

### **Company secretary**

#### **Carmel C Mulhern** - BA, LLB, LLM, FCIS

Ms Mulhern was appointed company secretary of Telstra Corporation Limited on 7 September 2007.

Ms Mulhern joined Telstra in July 2000 as Corporate Counsel and was appointed General Counsel Finance and Administration in 2001. In those roles, she has been responsible for Telstra's continuous disclosure compliance, preparation of the annual report and all legal aspects of the annual general meeting and annual financial results announcements. She played a key role in the T2 and T3 floats, Telstra's first off-market share buy-back, and the introduction of a dividend reinvestment plan. Before joining Telstra, Ms Mulhern was a senior associate in a leading national law firm and associate to justices of the High Court of Australia and Supreme Court of Victoria.

## Directors' Report

### Directors' meetings

Each director attended the following Board and committee meetings during the year as a member of the Board or relevant committee:

Board			Committees <sup>(1)</sup>									
			Audit		Nomination		Remuner- ation		Technology		NBN/NBN DDC	
	a	b	a	b	a	b	a	b	a	b	a	b
C B Livingstone <sup>(5)(6)</sup>	18	18	7	7	3	3	6	6	2	2	10	10
D I Thodey <sup>(5)</sup>	18	18	-	-	-	-	-	-	-	-	5	5
J V Stanhope <sup>(5)(6)</sup>	18	18	-	-	-	-	-	-	-	-	10	9
G A Cousins	18	17	-	-	3	3	6	6	-	-	-	-
R A Higgins <sup>(5)(6)</sup>	18	18	7	7	-	-	-	-	-	-	10	8
J P Mullen	18	17	-	-	3	3	6	6	-	-	-	-
J M Stewart	18	18	7	7	-	-	-	-	-	-	-	-
J W Stocker <sup>(5)(6)</sup>	18	18	7	7	-	-	-	-	2	2	10	10
S M Vamos <sup>(3)(5)</sup>	18	18	1	1	3	3	6	6	-	-	5	5
J D Zeglis	18	18	-	-	-	-	-	-	2	2	-	-
N L Scheinkestel <sup>(2)(4)(6)</sup>	16	16	1	1	-	-	-	-	-	-	5	5

Column a: number of meetings held while a member.  
Column b: number of meetings attended.

- (1) Committee meetings are open to all non-executive Directors to attend in an ex officio capacity.  
(2) Appointed as non-executive Director effective 12 August 2010.  
(3) Resigned from the Audit Committee effective 30 September 2010.  
(4) Appointed to the Audit Committee on 15 May 2011.

- (5) Was a member of the NBN Committee which ceased operation on 1 March 2011.  
(6) Is a member of the NBN Due Diligence Committee, which commenced on 29 March 2011.

### Director shareholdings in Telstra

As at 11 August 2011:

#### Directors

	Number of shares held		
	Direct Interest	Indirect Interest	Total
Catherine B Livingstone	-	125,000	125,000
David I Thodey	118,523	486,190	604,713
John V Stanhope	277,227	165,291	442,518
Geoffrey A Cousins	10,000	21,765	31,765
Russell A Higgins	5,320	35,193	40,513
John P Mullen	-	26,159	26,159
Nora L Scheinkestel	-	30,000	30,000
John M Stewart	25,000	9,031	34,031
John W Stocker	18,114	163,614	181,728
Steven M Vamos	-	40,000	40,000
John D Zeglis	66,500	37,493	103,993



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

In relation to our audit of the financial report of Telstra Corporation Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A stylized, handwritten signature of 'Ernst &amp; Young' in a cursive script.

Ernst & Young

A handwritten signature in cursive script, appearing to read 'SJ Ferguson'.

SJ Ferguson  
Partner  
Melbourne, Australia  
11 August 2011

## Remuneration Report

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Dear Shareholder,

Telstra is pleased to present its Remuneration Report (the Report) for fiscal 2011.

Telstra and its Remuneration Committee (the Committee) work to create compensation programs that link employees' pay with company performance and the creation of shareholder value. In designing these programs, we take into account feedback from institutional and retail investors, government agencies, community leaders, proxy advisors, and external remuneration and legal consultants. Based on results documented in this Report, as well as our historical Remuneration Reports, we feel we have succeeded in aligning pay to performance – in both prosperous and challenging market environments.

This year, the Committee's key focus was continuing to strengthen the ties between company performance, shareholder interests, and remuneration. Telstra has embarked on a journey to significantly improve the satisfaction levels of all our customers. Improved customer satisfaction increases customer loyalty and retention which, in turn, enhance critical shareholder measures such as Revenue, Free Cashflow, EBITDA, and Earnings per Share. To assist with attaining our customer satisfaction goals and reinforcing their importance, we have amended our incentive plans. All participants in the fiscal 2011 Short Term Incentive (STI) plan, including the CEO and Senior Executives, have a significant portion of their target STI tied to customer satisfaction objectives.

To further align executive remuneration with shareholder interests, Telstra reinstated its STI deferral policy effective 1 July 2010. The previous deferral was suspended while the taxation treatment of deferred remuneration was being reviewed by the Federal Government. With clarity in place on the taxation issue, Senior Executives are now required to defer 25% of their STI award into Telstra shares over a period of one and two years with a risk of forfeiture for certain types of departures from the company. As an early adopter of progressive remuneration practices, Telstra has included a clawback provision in the STI deferral giving the Committee discretion to reduce or eliminate deferred awards in the event of misconduct or fraud at the corporate or individual level.

The design principles of the fiscal 2011 Long Term Incentive (LTI) plan have remained consistent with the fiscal 2009 and 2010 plans but the Committee has adjusted the composition of at-risk remuneration for Senior Executives. Information and analysis from our external advisors showed that Telstra's LTI grants had gradually moved towards the high end of the market when compared to other large Australian corporations. Although Telstra's grants did not increase during this period, the market shifted towards more conservative LTI awards following the global economic downturn. To better align with market practice and reduce any potential that the larger equity grants could encourage excessive risk taking, we have rebalanced the incentive amounts for the LTI and STI plans. Details of these changes, along with the STI deferral policy, are described in the Report.

Considering the changes to LTI and STI award opportunities, together with the re-establishment of the STI deferral policy, the Committee is confident that our executive remuneration programs strike the appropriate balance between the focus on near-term and long-term goals, more closely align pay with shareholder interests, and treat executives fairly for their contributions to achieving our objectives.

Finally, you will notice a few new names in our list of Senior Executives. With the appointment of some very talented external staff, we believe we have strengthened the executive team and created an excellent combination of new thought leadership and critical institutional knowledge.

On behalf of the Board, I invite you to review the full Report.

John Mullen

Chairman, Remuneration Committee

## Remuneration Report

### 1. Introduction

The Directors of Telstra Corporation Limited (the Company) present the Remuneration Report (the Report), prepared in accordance with section 300A of the Corporations Act 2001, for the Telstra Group for the year ended 30 June 2011 (fiscal 2011).

The information provided in this Report has been audited as required by section 308(3C) of the Corporations Act 2001. This Report forms part of the Directors' Report.

### 2. Key Management Personnel (KMP)

KMP comprise the Directors of the Company and Senior Executives. The term "Senior Executives" refers to:

- The Chief Executive Officer; and
- All other executives who fall within the definition of Key Management Personnel of the Group (being those persons with authority and responsibility for planning, directing and controlling the activities of the Company and the Group, directly or indirectly).

The Senior Executives disclosed in this Report are as follows:

Name	Most Recent KMP Position Title
David Thodey	Chief Executive Officer (CEO)
Bruce Akhurst	Group Managing Director (GMD) - Sensis
Gordon Ballantyne	GMD - Telstra Consumer and Country Wide
Nerida Caesar	Former GMD - Telstra Enterprise and Government
Paul Geason	GMD - Telstra Enterprise and Government and former GMD - Telstra Wholesale
Kate McKenzie	GMD - Telstra Innovation, Products and Marketing
Brendon Riley	Chief Operations Officer - Telstra Operations
Michael Rocca	Former Chief Operations Officer - Telstra Operations
Deena Shiff	GMD - Telstra Business
John Stanhope	CFO and GMD - Finance and Administration

The Senior Executives in the above table include the five highest paid Company and Group executives for the fiscal 2011 year.

Tables 7.1 (Senior Executives) and 7.2 (Non-executive Directors) provide details of the period during which an individual has held a particular KMP position (or more than one position) during fiscal 2011.

### 3. Principles and Structure of Senior Executive Remuneration

#### 3.1 Key Principles

The key principles of our remuneration philosophy are to:

- Implement best practice programs to help drive the achievement of our strategic and financial objectives;

- Reinforce Telstra's values and cultural priorities;
- Link a significant component of at-risk remuneration to annual performance results and the creation of long term shareholder value; and
- Provide market competitive remuneration to attract, motivate and retain highly skilled Senior Executives.

Total Remuneration comprises fixed remuneration, short term incentives and long term incentives. The aggregate value of these components creates the overall structure by which Telstra measures the competitiveness of our executive remuneration position versus the market.

#### 3.2 Fixed Remuneration

Fixed remuneration is made up of base salary (including salary sacrifice benefits and applicable fringe benefits tax) and superannuation.

The level of fixed remuneration is set based on the Senior Executive's responsibilities, performance, qualifications and experience. Telstra benchmarks its Senior Executives' fixed remuneration against organisations within the ASX 20 and also against international telecommunications firms. During fiscal 2011 the Remuneration Committee received market data from Ernst & Young. Ernst & Young were engaged by and reported directly to the Remuneration Committee. The information did not include a remuneration recommendation (as defined in the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011) which came in effect on 1 July 2011.

Additional information is obtained from publicly disclosed remuneration sources and the Remuneration Committee considers various inputs before making decisions on KMP remuneration.

#### 3.3 Short Term Incentive Plan (STI)

##### 3.3.1 STI Plan Design

The STI is an annual "at-risk" component of remuneration for the Senior Executives and is delivered in cash and deferred shares. Senior Executives are paid an annual STI only when they have met thresholds linked to Telstra's financial performance, customer satisfaction and individual key performance indicators. The performance measures of the STI plan operate independently of each other.

For all Senior Executives (other than for Sensis), the fiscal 2011 performance measures of the STI Plan were Free Cashflow, EBITDA, Total Income, Customer Satisfaction and Individual Accountabilities.

For the GMD - Sensis, the above Company measures comprise 20 per cent of the STI Plan with the remainder covering Sensis Revenue, Sensis EBITDA, and Individual Accountabilities.

These performance measures were selected for the STI Plan as they are seen as a critical link between achieving



## Remuneration Report

outcomes of the business strategy and increasing shareholder value. Financial measures for fiscal 2011 were set in accordance with Telstra's financial plan and strategy.

The objective of the Customer Satisfaction measure is to provide a reward mechanism for achieving increased customer loyalty and retention.

Actual Customer Satisfaction scores are undertaken by third party research companies and the results audited by Telstra's internal Risk Management and Assurance Group.

The Customer Satisfaction score is defined as the average customer survey results for Telstra Consumer and Country Wide, Telstra Business and Telstra Enterprise and Government using a three month average score over 1 April to 30 June 2011.

For the GMD Sensis, the Customer Satisfaction measure is specific to the Sensis business unit, and for the GMD Wholesale the Customer Satisfaction measure is specific to the Wholesale business unit.

Individual performance measures are set at the beginning of the year and are based on individual contribution to the achievement of Telstra strategy.

Depending on the role they perform, each Senior Executive has a maximum STI opportunity ranging from 150 per cent to 200 per cent of their fixed remuneration where stretch targets are met. However, if threshold performance is not met, the STI payment is nil.

At the end of each fiscal year, the Board reviews the Company's audited financial results and the results of the other performance measures. The Board then assesses performance against each measure to determine the percentage of STI that is payable.

The Remuneration Committee exercised its discretion to amend STI targets (as outlined in 3.5) during the final assessment of the results on 27 July 2011 to reflect accounting impacts and the effect of the natural disasters on Telstra's performance in fiscal 2011.

The adjustment for accounting changes affected the financial results negatively but the adjustments for the natural disasters affected both the financial and customer satisfaction measures positively.

Overall the STI outcome increased from 39.1% of potential maximum to 46.5% of potential maximum.

The Board believes the methods of assessing the financial and customer satisfaction measures are appropriate and provide a rigorous assessment of Telstra's performance.

STI payment results for fiscal 2011, compared to fiscal 2010, as a percentage of the maximum award were as follows:

Name	Fiscal 2011	Fiscal 2010 (1)
David Thodey	49.0%	21.7%
Bruce Akhurst	44.0%	8.6%
Gordon Ballantyne	49.0%	n/a
Nerida Caesar	n/a	21.7%
Paul Geason	59.1%	44.4%
Kate McKenzie	46.5%	19.2%
Brendon Riley	46.5%	n/a
Michael Rocca	n/a	21.7%
Deena Shiff	44.0%	21.7%
John Stanhope	48.9%	21.7%
<b>Average Total:</b>	<b>48.4%</b>	<b>22.6%</b>

(1) Prior year comparative information has been restated to reflect the fiscal 2011 Senior Executives.

The table below details the fiscal 2011 results and payout percentage for the STI Plan.

Measure	Result	Outcome (% of maximum)
Total Income (1)	Above Gateway	42.5%
EBITDA (2)	Above Target	62.0%
Free Cashflow (3)	Above Target	67.0%
Customer Satisfaction (4)	Above Gateway	37.5%
Sensis Income (5)	Gateway Missed	0%
Sensis EBITDA Contribution(6)	Above Target	62.0%
Sensis Customer Satisfaction (7)	Stretch Achieved	100.0%
Wholesale Customer Satisfaction (8)	Stretch Achieved	100.0%

(1) Total Income is Total Telstra Income excluding profit or loss on Land and Building disposals.

(2) EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation (excluding profit or loss on Land and Building disposals, Redundancy and Restructuring provision).

(3) Free Cashflow is Free Cashflow (excluding CAPEX for Investment and Spectrum; and proceeds from Land and Building disposals).

(4) Customer Satisfaction is the average result for Consumer and Country Wide, Business and Enterprise and Government customer satisfaction results using a three month average score for 1 April 2011 to 30 June 2011 for Consumer and Country Wide and Business and second half of the financial year for Enterprise and Government.

(5) Sensis Income is Sensis External Income.

(6) Sensis EBITDA Contribution is Sensis External Income less Sensis External Expenses (before Depreciation and Amortisation).

(7) Sensis Customer Satisfaction is measured using the average customer score for the Yellow and White Pages campaigns for the period February to April 2011.

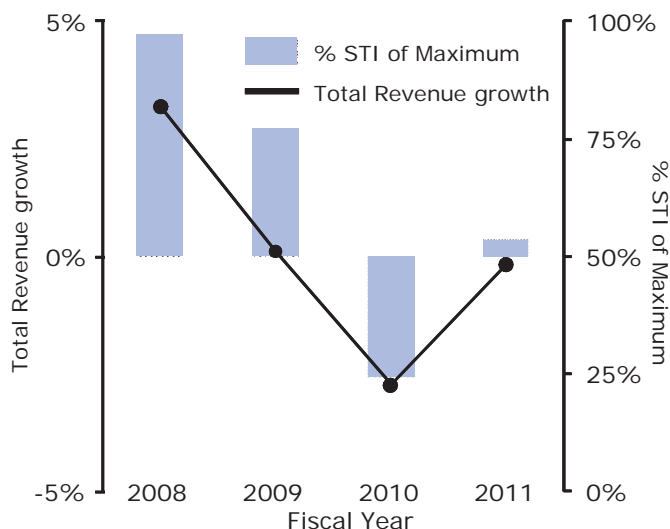
(8) Wholesale Customer Satisfaction is measured annually using a Customer Value Analysis Survey which rates the overall performance of Telstra Wholesale (overall performance excluding price).

The graph below demonstrates the link between actual STI payments and Total Revenue growth.

In this example, STI payments as a percentage of the maximum STI opportunity align to the direction of Telstra's total revenue percentage growth over the previous four fiscal years.

## Remuneration Report

Comparison of Total Revenue Growth to  
% of STI Maximum Paid



### 3.3.2 STI Deferral

In fiscal 2011, Telstra re-introduced an STI deferral program for its Senior Executives.

Senior Executives are required to defer 25 per cent of their actual STI payment into Telstra shares. The deferral period for 50 per cent of the shares deferred is 12 months from the date of deferral. The deferral period for the remaining 50 per cent of the shares deferred is 24 months from the date of deferral. The date of deferral is 19 August 2011.

During the deferral period, senior executives earn dividends on deferred shares.

If a Senior Executive departs Telstra for any reason other than a Permitted Reason prior to an exercise date, entitlements to deferred shares are forfeited. A Permitted Reason is defined as death, total and permanent disablement, or redundancy.

Deferred shares may be forfeited if a clawback event occurs. A clawback event includes circumstances where a Senior Executive has engaged in fraud or gross misconduct, where the financial results that led to the shares being granted are subsequently shown to be materially misstated, or where there has been a significant and unintended reduction in the financial performance of the Telstra Group. The decision to clawback deferred shares is at the discretion of the Board.

## 3.4 Long Term Incentive (LTI) Plan

### 3.4.1 Fiscal 2011 LTI Plan

Telstra's Senior Executives (and other invited senior management employees) participate in the fiscal 2011 LTI Plan (the Plan). The equity instruments under the Plan are offered at no cost. However, the performance

measures of Relative Total Shareholder Return (RTSR) and Free Cashflow Return on Investment (FCF ROI) must be satisfied in order for participants to realise any reward.

The design of the fiscal 2011 LTI plan is aimed at ensuring that Telstra maintains a combination of absolute (FCF ROI) and relative (RTSR) performance measures. Performance is measured over a three year period ending on 30 June 2013. An additional one year holding lock is placed on any vested shares before they can be traded.

The LTI is provided through restricted shares. Allocations of restricted shares are split 50 per cent to RTSR and 50 per cent to FCF ROI, with each performance measure operating independently of the other. Senior Executives earn restricted shares based on performance against these objectives. Vesting of the restricted shares is outlined below.

After 30 June 2013, the Board will review the Company's audited financial results to determine the percentage of restricted shares that vest. No reward is available under the Plan for performance below target for either RTSR or FCF ROI.

The Remuneration Committee sought feedback from shareholders and engaged Ernst & Young - an external, independent remuneration consulting firm during 2010 as part of the design process for the fiscal 2011 LTI Plan.

#### 3.4.1.1 Vesting of Restricted Shares

Until the restricted shares vest, an executive has:

- No legal or beneficial interest in the underlying shares;
- No entitlement to receive dividends from the shares; and
- No voting rights in relation to the shares.

If a performance hurdle is satisfied, a specified number of restricted shares will vest and the executive will be the beneficial owner of an equivalent number of restricted trust shares. Any restricted shares that vest are subject to a further restriction period which prevents any participant from trading or disposing of their vested restricted shares. The restriction period expires after 30 June 2014. The trustee holds the restricted trust shares in trust until the shares are transferred to the executive at the end of the restriction period (unless the shares are forfeited). This restriction period is designed to further strengthen the link between executive and shareholder interests by ensuring executives remain focussed on long term generation of shareholder value.

There is no retesting of restricted shares and any restricted shares that do not vest following the performance period will lapse.

At the end of fiscal 2013, the Board will review the Company's audited financial results and the results of the other performance measures to determine the percentage of restricted shares that vest. If a Senior Executive resigns, retires (for a non-medical related reason) or is terminated for misconduct prior to 30 June

## Remuneration Report

2014, any unvested restricted shares will lapse on cessation of employment and any vested restricted shares will be forfeited (unless the Board determines otherwise).

In the event of cessation for reasons such as redundancy, death, total and permanent disablement, medical related retirement or separation by mutual agreement, a pro rata amount of unvested restricted shares will lapse based on the remaining performance period. The portion relating to the Senior Executive's completed service may still vest at the end of the performance period subject to meeting the performance measures of the Plan. A Senior Executive who ceases employment in these circumstances will retain any vested restricted shares held by them at this time (subject to the restriction period described below).

In certain limited circumstances, such as a takeover event where 50 per cent or more of all issued fully paid shares are acquired, the Board may exercise discretion to give notice that restricted shares (that have not lapsed) have vested.

### 3.4.1.2 Relative Total Shareholder Return (RTSR)

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

The restricted shares related to RTSR will only vest where the growth in Telstra's shareholder value is at least at the 50<sup>th</sup> percentile of the comparator group for the performance period. At the 50<sup>th</sup> percentile, 25 per cent of restricted shares vest, increasing in a straight line to 100 per cent of restricted shares vesting at the 75<sup>th</sup> percentile of the comparator group.

To ensure an appropriate match of Telstra Senior Executives against global peers, the comparator group consists of large market capitalisation telecommunications firms in developed economies.

In addition to Telstra, the entire comparator group for the fiscal 2011 LTI Plan is: AT&T Inc; Belgacom Group; Bell Canada Enterprises Inc; BT Group plc; Deutsche Telekom AG; France Telecom SA; Koninklijke KPN N.V.; KT Corporation; Nippon Telegraph & Telephone Corp; NTT DoCoMo Inc; Portugal Telecom SGPS SA; Qwest Communications International Inc; Singapore Telecommunications Ltd; SK Telecom Co Ltd; Sprint Nextel Corporation; Swisscom AG; Telekom Austria AG; Telecom Italia Sp.A.; Telecom Corporation of New Zealand Ltd; Telefonica S.A.; Telenor ASA; TeliaSonera AB; Verizon Communications Inc and Vodafone Group plc. The Board has discretion to add or change members of the comparator group under the Plan terms.

Qwest Communications International Inc was acquired by CenturyLink during fiscal 2011 and the board determined that they be excluded from any current or future performance testing.

### 3.4.1.3 Free Cashflow Return on Investment (FCF ROI)

Free Cashflow (FCF) is the average annual Free Cashflow of Telstra (less finance costs) over the performance period.

FCF ROI, as determined by the Board, is calculated by dividing the average annual Free Cashflow over the entire three year performance period by Telstra's average investment over the same three year period (which is the average of the sum of net debt and shareholders' funds as at 30 June 2010 and 30 June 2013).

The target and stretch performance measures for FCF ROI are detailed in the table below:

Performance Period	Test Date	FCF ROI (at Target)	FCF ROI (at Stretch)
1 July 2010 to 30 June 2013	30 June 2013	14.9%	16.4%

The number of restricted shares that will vest is calculated as follows:

- If Target level performance is achieved, 50 per cent of the FCF ROI allocation of restricted shares will vest;
- If Stretch performance level is achieved, 100 per cent of the FCF ROI allocation of restricted shares will vest;
- If the result achieved is between Target and Stretch, the number of vested restricted shares for that period is scaled proportionately between 50 per cent and 100 per cent; and
- No restricted shares will vest if FCF ROI is below Target.

### 3.4.2 LTI Plans vesting in fiscal 2011

Section 5 of this Report provides full details of vesting events that occurred during fiscal 2011 for all relevant LTI plans.

## 3.5 Variation Guidelines

The Remuneration Committee may, in its absolute discretion, vary or amend STI and/or LTI targets in circumstances where an event occurs that has an unexpected consequence on the results of the respective plans' performance measures. Examples may include:

- Regulatory and accounting changes;
- Legislative changes; and
- Significant business developments such as acquisitions, divestitures, or material changes in Telstra's strategic business plan.

## 3.6 National Broadband Network (NBN) and Remuneration

Performance measures for future STI and LTI plans will be developed using the most up to date forecasts for the financial impacts of the NBN agreements. If historical STI and LTI performance measures are affected by the

## Remuneration Report

NBN agreements, the Committee may use its discretion to amend incentive plans based on Telstra's Variation Guidelines.

### 3.7 Retention Incentives

In exceptional circumstances, Telstra has put in place structured retention plans. These are designed to protect the Company from the loss of employees who possess specific skill sets considered critical to the business and where Telstra is vulnerable to losing key personnel. Such retention plans are not restricted to Senior Executives. No Senior Executive is currently covered by a retention incentive.

### 3.8 Executive Share Ownership Policy

Telstra's Executive Share Ownership Policy requires Senior Executives to acquire and retain a number of shares equivalent in value to a minimum of 100 per cent of their fixed remuneration by the later of 30 June 2015 or within five years of first appointment to Senior Executive level.

### 3.9 Restrictions and Governance

Directors, Senior Executives and other designated people are prohibited from using Telstra shares as collateral in any financial transaction (including margin loan arrangements) or any stock lending arrangement.

Directors, Senior Executives and other relevant employees are prohibited from entering into arrangements which effectively operate to limit the economic risk of their security holdings in Telstra allocated under incentive plans. The prohibition is in place during the period the shares are held in trust on their behalf by the trustee or prior to the exercise of any security. This ensures Senior Executives are not permitted to hedge against Telstra's LTI plans.

Directors, Senior Executives and other relevant employees are required to confirm that they comply with this policy restriction on an annual basis; this enables the Company to monitor and enforce the policy.

## 4. Chief Executive Officer (CEO) Remuneration

### 4.1 CEO Remuneration Mix

The structure of the CEO's remuneration package is consistent with the principles and structure of Telstra's remuneration for other Senior Executives as detailed in Section 3 of this Report.

The CEO's fixed remuneration (referred to as "Total Fixed Remuneration" in his service agreement) is \$2.3 million per annum.

The fiscal 2011 annual STI opportunity for the CEO was 100 per cent of fixed remuneration at target performance and 200 per cent of fixed remuneration at stretch performance.

The fiscal 2011 annual LTI opportunity for the CEO was 100 per cent of fixed remuneration at target

performance and 200 per cent of fixed remuneration at stretch performance.

Details of the CEO's total remuneration are provided in table 7.1 of this Report.

For fiscal 2012, the Board has approved an increase of 6% in Mr Thodey's fixed remuneration taking it to \$2,438,000 effective as of 1 October 2011. The STI and LTI opportunity as a percentage of fixed remuneration remains unchanged.

### 4.2 CEO Separation Arrangements

Table 7.8 of this Report provides details of the CEO's termination arrangements.

## 5. Linking Remuneration and Company Performance

The table in section 5.1 provides a summary of the key financial results for Telstra over the past five financial years. The tables in sections 5.2 to 5.4 provide a summary of how those results have impacted the remuneration outcomes for Senior Executives.

### 5.1 Financial Performance

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

Performance Measure	Fiscal 2011 \$m	Fiscal 2010 \$m	Fiscal 2009 \$m	Fiscal 2008 \$m	Fiscal 2007 \$m
<b>Earnings</b>					
Sales revenue	24,983	24,813	25,371	24,657	23,673
EBITDA	10,151	10,847	10,948	10,416	9,861
Net profit available to Telstra	3,231	3,883	4,073	3,692	3,253
<b>Shareholder value</b>					
Share price (\$) (1)(2)	2.89	3.25	3.39	4.24	4.59
Total dividends paid/declared per share (cents)	28.0	28.0	28.0	28.0	28.0

(1) The share prices displayed were as at 30 June for the respective fiscal year.

(2) The closing share price for fiscal 2006 was \$3.68.

### 5.2 Average STI Payment as a Percentage of Maximum Payment

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

Performance Measure	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007
STI Received	48.4%	22.7%	50.9%	81.9%	78.5%



## Remuneration Report

### 5.3 Detailed Results of LTI Plans as at 30 June 2011

The fiscal 2008 LTI plan reached its final testing point on 30 June 2011.

In addition, the fiscal 2009 LTI plan reached its interim test point on 30 June 2011 in accordance with the Terms of that Plan.

The Board assesses each measure that is required to be tested as at that time to determine if the performance hurdles have been achieved. The following tables show the results of the Board's assessment and the percentage of options and restricted shares that have vested as a result.

#### 5.3.1 Fiscal 2008 LTI Plan final testing as at 30 June 2011

Measure - Fiscal 2008 LTI	% of total allocation tested at 30 June 2010	% vested
Total Shareholder Return	20%	0%
Return On Investment	20%	0%

#### 5.3.2 Fiscal 2009 LTI Plan interim testing as at 30 June 2011

Measure - Fiscal 2009 LTI	% of total allocation tested at 30 June 2011	% vested
Relative Total Shareholder Return	15%	0%
Return On Investment	15%	0%

Refer to section 7.4 for further details of Telstra's Long Term Incentive Plans.

### 5.4 Remuneration Mix of Senior Executives

In fiscal 2011, Telstra realigned the balance of STI and LTI for its Senior Executives to better align with market practice and reduce any potential to encourage risk taking associated with larger equity instrument grants.

The tables below show a comparison of the fiscal 2010 and fiscal 2011 remuneration mix based on the target level of reward for Senior Executives as at 30 June for each respective fiscal year.

In accordance with the tables in Section 7 of this Report, the variable components of STI and LTI plans will only vest (and provide a reward to a Senior Executive) if the performance measures of the relevant Plans are achieved.

#### 5.4.1 – Chief Executive Officer

Component	Fiscal 2011	Fiscal 2010
Fixed Remuneration	33.33%	35.7%
Short Term Incentive	33.33%	28.6%
Long Term Incentive	33.33%	35.7%
Total	100.00%	100.00%

#### 5.4.2 – Other Senior Executives – (Chief Financial Officer, GMD Sensis, GMD Telstra Consumer and Country Wide, GMD Chief Operations Officer, GMD Telstra Business and GMD Telstra Enterprise and Government)

Component	Fiscal 2011	Fiscal 2010
Fixed Remuneration	35.7%	35.7%
Short Term Incentive	35.7%	28.6%
Long Term Incentive	28.6%	35.7%
Total	100.0%	100.0%

#### 5.4.3 – Other Senior Executives – (GMD Telstra Innovation, Products and Marketing and GMD Wholesale).

Component	Fiscal 2011	Fiscal 2010
Fixed Remuneration	44.4%	45.4%
Short Term Incentive	33.3%	27.3%
Long Term Incentive	22.2%	27.3%
Total	100.0%	100.0%

For the positions of GMD Telstra Innovation, Products and Marketing and the GMD Wholesale, the realignment of STI and LTI resulted in a five per cent increase in total at target reward opportunity when expressed as a percentage of fixed remuneration.

Table 7.1 details the time in each position held by each Senior Executive in fiscal 2011.

## 6. Non-executive Director Remuneration

### 6.1 Remuneration Policy and Strategy

Telstra's non-executive Directors are remunerated in accordance with Telstra's Constitution which provides for:

- An aggregate pool of fees, set and varied only by approval of a resolution of shareholders at the annual general meeting (AGM);
- The total non-executive Director fees not exceeding the current annual limit of \$3 million per annum, as approved by shareholders at the AGM in November 2007; and
- The Board determining how fees are allocated among the Directors within the fee pool, based on independent advice and market practice.

### 6.2 Remuneration Structure

Telstra's non-executive Directors are remunerated with set fees. This enables them to maintain their independence and impartiality when making decisions about the future direction of the Company. Non-



## Remuneration Report

executive Director fee levels do not incorporate an at-risk component.

The Board has established guidelines to encourage non-executive Directors to hold Telstra shares equivalent to at least 50 per cent of their annual fees. Such shares are to be acquired over a five year period from the later of 1 July 2009 or the date of appointment, to align the remuneration structure with the interests of our shareholders.

All Board and permanent Committee fees, including superannuation, paid to non-executive Directors in fiscal 2011 remain within the approved fee pool. Section 3.9 of this Report provides details on Restrictions and Governance as they apply to non-executive Directors.

Board and Committee fees are set out in the table below. Committee fees do not apply to the position of Chairman of the Telstra Board.

<b>Board Fees</b>	<b>Chairman</b>	<b>Non-executive Director</b>
Board (fiscal 2011)	\$679,800	\$226,600
<b>Committee Fees</b>	<b>Committee Chair</b>	<b>Committee Member</b>
Audit Committee	\$70,000	\$35,000
Remuneration Committee	\$50,000	\$25,000
Nomination Committee	-	\$7,000
Technology Committee	\$7,000	\$7,000

In fiscal 2011, selected non-executive Directors provided services to the Telstra Board NBN (National Broadband Network) Committee and the NBN Due Diligence Committee that were over and above their regular Committee obligations. As allowed under the company's constitution, fees for services rendered in relation to the NBN Committee and NBN Due Diligence Committee were paid out of the funds of the Company and not the Directors' Fee Pool.

As disclosed in the fiscal 2010 Remuneration Report, the Board approved a 3 per cent increase to the non-executive Director base fee and an increase to the Remuneration Committee fee structure effective 12 August 2010. No increase is proposed for fiscal 2012.

Table 7.2 provides full details of non-executive Director remuneration for fiscal 2011.

### 6.3 Components of the Total Remuneration Package (TRP)

Each year, non-executive Directors allocate their total remuneration between the following two primary components:

<b>Cash</b>	<b>Superannuation</b>
Minimum 30 per cent of TRP as cash.	Minimum superannuation guarantee applies.

### 6.4 Equity Compensation – Directshare

The Company also operates the Directshare Plan. Directors may nominate a percent of TRP as Telstra

shares through the Directshare plan. The Growthshare Trustee retains discretion to determine whether to accept the Director's application for the relevant percentage to be received as Directshares. Participation in this plan is optional.

The shares are allocated to the participating non-executive Director at market price. To preserve non-executive Director independence and impartiality, there are no performance hurdles in respect of this Plan.

### 6.5 Retirement Benefits

Superannuation contributions, in accordance with legislation and Telstra policy, are included as part of each non-executive Director's total remuneration. 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 superannuation contributions.

Table 7.2 provides full details of non-executive Director remuneration for fiscal 2011.

### 6.6 Other

In June 2011, the Board approved an arms-length consulting agreement between Telstra and eGeneration Investments Pty Limited, of which Steve Vamos, a non-executive Director, is a director and shareholder.

The agreement is limited in terms of time commitment (200 hours at \$450 per hour) and scope (services in relation to aspects of the Company's media strategy only).

## Remuneration Report

### 7. Remuneration Tables and Data

#### 7.1 Senior Executives remuneration (main table)

Name	Year	Short Term Employee Benefits					Post-employment Benefits	Termination Benefits	Other Long Term Benefits	Equity Settled Share-based Payments		Total
		Salary and Fees (1)	Short Term Incentives (cash) (2)	Non-monetary Benefits (3)	Other (4)	Superannuation (5)				Short Term Incentive Shares (6)	Accounting Value of Other Equity (at risk) (7) (8)	
		(\$)	(\$)	(\$)	(\$)	(\$)		(\$)	(\$)	(\$)	(\$)	(\$)
David Thodey	2011	2,058,875	1,688,775	7,609	-	39,755	-	52,466	-	562,925	694,516	5,104,921
	2010	1,961,748	696,000	10,856	-	38,252	-	50,000	-	-	435,745	3,192,601
Bruce Akhurst	2011	1,055,979	880,099	11,029	-	273,271	-	33,231	-	293,366	387,479	2,934,454
	2010	1,041,113	179,744	10,586	-	270,887	-	32,800	-	-	390,058	1,925,188
Gordon Ballantyne (9)	2011	1,084,801	807,675	42,765	600,000	15,199	-	27,500	-	269,225	-	2,847,165
	2010	-	-	-	-	-	-	-	-	-	-	-
Nerida Caesar (10)	2011	471,738	-	15,648	-	8,536	-	12,007	-	-	53,123	561,052
	2010	785,539	278,400	8,296	64,000	14,461	-	20,000	-	-	130,927	1,301,623
Paul Geason (11)	2011	731,546	586,937	10,471	-	15,199	-	18,669	-	195,646	124,190	1,682,658
	2010	635,539	345,150	5,921	39,000	14,461	-	16,250	-	-	36,429	1,092,750
Kate McKenzie	2011	827,426	466,387	9,372	-	60,699	-	22,203	-	155,462	147,923	1,689,472
	2010	209,900	52,054	4,985	10,140	15,442	-	5,634	-	-	-426,313	-128,158
Brendon Riley(12)	2011	365,563	258,275	17,281	1,000,000	5,122	-	9,267	-	86,092	-	1,741,600
	2010	-	-	-	-	-	-	-	-	-	-	-
Michael Rocca (13)	2011	981,640	-	12,826	-	254,046	-	30,892	-	-	434,382	4,274,944
	2010	958,189	420,210	11,259	1,096,600	249,311	-	30,188	-	-	361,084	3,126,841
Deena Shiff	2011	838,090	699,382	14,801	-	213,816	-	26,298	-	233,127	306,636	2,332,150
	2010	859,569	356,700	10,520	82,000	165,431	-	25,625	-	-	306,951	1,806,796
John Stanhope	2011	1,401,026	1,048,729	14,318	-	15,199	-	35,406	-	349,576	410,001	3,274,255
	2010	1,365,539	480,240	16,785	110,400	14,461	-	34,500	-	-	296,481	2,318,406
TOTAL KMP AND TOP 5 HIGHEST PAID EXECUTIVES	2011	9,816,684	6,436,259	156,120	1,600,000	900,842	-	267,939	-	2,145,419	2,558,250	26,442,671
	2010	7,817,136	2,808,498	79,208	1,402,140	782,706	-	214,997	-	-	1,531,362	14,636,047

(1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.

(2) Short term incentive relates to performance in fiscal 2010 and fiscal 2011 respectively and is based on actual performance for Telstra and the individual. Where a Senior Executive was not a KMP for the entire fiscal 2011 year, only the portion of the STI relating to period as KMP for fiscal 2011 is shown.

(3) Includes the benefit of interest-free loans under TESOP97 and TESOP99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"), the value of personal home security services provided by Telstra and the value of the personal use of products and services related to Telstra employment and the value of personal travel costs.

(4) Includes a sign-on bonus for Gordon Ballantyne and a sign-on bonus for Brendon Riley.

(5) Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives.

(6) This includes the value of STI shares allocated under the fiscal 2011 STI plan whereby 25 per cent of the STI payment was provided as restricted shares to be distributed over 2 years at 12 month intervals. In relation to fiscal 2010, there were no restricted incentive shares provided under the fiscal 2010 STI plan.

(7) In accordance with AASB 2, the accounting value represents a portion of the fair value of options and restricted shares that had not yet fully vested as at the commencement of the financial year. This value includes an assumption that options and restricted shares will vest at the end of the vesting period. The amount included as remuneration is not related to, nor indicative of the benefit (if any) that may ultimately be realised by each Senior Executive should the options become exercisable or the restricted shares become restricted trust shares. The accounting value includes the negative amount for options and restricted shares forfeited or lapsed during the year that failed to satisfy non-market (ie non-TSR and non RTSR) performance targets. Refer to table 7.5 for further information.

## Remuneration Report

- (8) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in fiscal 2011 and fiscal 2010. For fiscal 2011, this has occurred for the fiscal 2008 and fiscal 2009 LTI plans that failed to satisfy non-market (ie non-TSR and non-RTSR) performance targets, resulting in equity instruments lapsing. For market based hurdles (ie TSR and RTSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.
- (9) Gordon Ballantyne does not have any equity settled share-based payments as part of his remuneration.
- (10) Nerida Caesar qualifies as a KMP for the period 1 July 2010 up to the date of her cessation on 21 January 2011. As a result, the table above only includes remuneration during her period of service as a KMP.
- (11) Paul Geason qualifies as a KMP for the period 1 July 2010 to 21 January 2011 in his capacity as GMD Telstra Wholesale and for the period 22 January 2011 to 30 June 2011 in his capacity as GMD Telstra Enterprise and Government.
- (12) Brendon Riley qualifies as a KMP for the period 28 February 2011, when he was appointed as Chief Operations Officer, to 30 June 2011. As a result, he does not have equity settled share-based payments as part of his remuneration. The table above only includes remuneration during his period of service as a KMP.
- (13) Michael Rocca qualifies as a KMP for the period 1 July 2010 to 27 February 2011 during which time he was Chief Operations Officer, however his remuneration disclosed in the above table is up to 29 June 2011 as he falls within the five highest paid Company and Group executives for fiscal 2011. Mr Rocca's Termination Payment is based on his contract of employment dated 14 August 2002 which pre-dates the termination benefits provisions of the Corporations Act which became effective 24 November 2009 and Mr Rocca's contract of employment has not been extended, renewed or varied since that date. Mr Rocca's termination payments are comprised of \$65,056 payment in lieu of notice, a termination payment equivalent to 12 months fixed remuneration of \$1,249,763 and a pro-rata payment based on the target STI opportunity.

## Remuneration Report

### 7.2 Non-executive Director Remuneration

Name	Year	Short Term Employee Benefits		Post-employment Benefits	Equity Settled Share-based Payments	Total
		Salary and Fees (1) (\$)	Non-monetary Benefits (2) (\$)	Superannuation (\$)	Directshare (\$)	
Catherine B Livingstone Chairman	<b>2011</b>	<b>662,323</b>	<b>5,870</b>	<b>15,199</b>	-	<b>683,392</b>
	2010	645,539	-	14,461	-	660,000
Geoffrey A Cousins Director	<b>2011</b>	<b>242,066</b>	-	<b>15,199</b>	-	<b>257,265</b>
	2010	232,539	-	14,461	-	247,000
Russell A Higgins Director	<b>2011</b>	<b>249,692</b>	<b>367</b>	<b>15,199</b>	-	<b>265,258</b>
	2010	206,870	-	13,732	-	220,602
John P Mullen (3) Director	<b>2011</b>	<b>281,690</b>	<b>1,028</b>	-	-	<b>282,718</b>
	2010	250,647	760	-	-	251,407
John M Stewart Director	<b>2011</b>	<b>258,259</b>	-	<b>2,582</b>	-	<b>260,841</b>
	2010	225,552	-	37,856	-	263,408
John W Stocker Director	<b>2011</b>	<b>291,692</b>	<b>150</b>	<b>15,199</b>	-	<b>307,041</b>
	2010	324,164	528	14,461	-	339,153
Steven M Vamos Director	<b>2011</b>	<b>241,290</b>	<b>1,955</b>	<b>26,118</b>	-	<b>269,363</b>
	2010	207,983	-	18,684	-	226,667
Nora L Scheinkestel (4) Director	<b>2011</b>	<b>218,048</b>	-	<b>13,450</b>	-	<b>231,498</b>
	2010	-	-	-	-	-
John D Zeglis (3) Director	<b>2011</b>	<b>232,841</b>	-	-	-	<b>232,841</b>
	2010	198,019	-	-	28,981	227,000
Total	<b>2011</b>	<b>2,677,901</b>	<b>9,370</b>	<b>102,946</b>	-	<b>2,790,217</b>
	2010	2,291,313	1,288	113,655	28,981	2,435,237

- (1) Includes fees for membership on Board Committees. The fees also includes additional fees for services provided in relation to the NBN Committee and the NBN Due Diligence Committee. This includes an amount of \$4,050 for John Stocker, Russell Higgins and Steve Vamos.
- (2) These payments relate to telecommunications and other services and equipment provided to non-executive Directors to assist them in performing their duties. From time to time, Telstra may also make products and services available to non-executive Directors without charge to allow them to familiarise themselves with Telstra's products and services and with recent technological developments.
- (3) John Mullen and John Zeglis had no superannuation component due to their respective off shore and non-resident status for superannuation purposes.
- (4) Nora Scheinkestel qualifies as a KMP from 12 August 2010, when she was appointed as a non-executive Director of the Company.

## Remuneration Report

### 7.3 STI Payments (cash and shares)

Name	Year	Maximum Potential STI (1) (\$)	Current Year Grant of STI (2) (3) (4) (\$)	% of the Maximum Potential	% Forfeited	Total Grant of STI (\$)
David Thodey	<b>2011</b>	<b>4,600,000</b>	<b>2,251,700</b>	<b>49.0%</b>	<b>51.0%</b>	<b>2,251,700</b>
	2010	3,200,000	696,000	21.7%	78.3%	696,000
Bruce Akhurst	<b>2011</b>	<b>2,670,000</b>	<b>1,173,465</b>	<b>44.0%</b>	<b>56.0%</b>	<b>1,173,465</b>
	2010	2,099,200	179,744	8.6%	91.4%	179,744
Gordon Ballantyne	<b>2011</b>	<b>2,200,000</b>	<b>1,076,900</b>	<b>49.0%</b>	<b>51.0%</b>	<b>1,076,900</b>
	2010	-	-	-	-	-
Nerida Caesar	<b>2011</b>	-	-	-	-	-
	2010	1,280,000	278,400	21.7%	78.3%	278,400
Paul Geason	<b>2011</b>	<b>1,323,869</b>	<b>782,583</b>	<b>59.1%</b>	<b>40.9%</b>	<b>782,583</b>
	2010	780,000	345,150	44.4%	55.6%	345,150
Kate McKenzie	<b>2011</b>	<b>1,338,750</b>	<b>621,849</b>	<b>46.5%</b>	<b>53.5%</b>	<b>621,849</b>
	2010	270,411	52,045	19.2%	80.8%	52,054
Brendon Riley	<b>2011</b>	<b>741,370</b>	<b>344,367</b>	<b>46.5%</b>	<b>53.5%</b>	<b>344,367</b>
	2010	-	-	-	-	-
Michael Rocca	<b>2011</b>	-	-	-	-	-
	2010	1,932,000	420,210	21.7%	78.3%	420,210
Deena Shiff	<b>2011</b>	<b>2,121,750</b>	<b>932,509</b>	<b>44.0%</b>	<b>56.0%</b>	<b>932,509</b>
	2010	1,640,000	356,700	21.7%	78.3%	356,700
John Stanhope	<b>2011</b>	<b>2,856,600</b>	<b>1,398,305</b>	<b>48.9%</b>	<b>51.1%</b>	<b>1,398,305</b>
	2010	2,208,000	480,240	21.7%	78.3%	480,240

- (1) The maximum potential STI refers to the maximum potential STI specific to fiscal 2011 and fiscal 2010 respectively, where the Senior Executive was a KMP, adjusted for any variation in fixed remuneration throughout fiscal 2011 and fiscal 2010 that impacts the maximum potential STI available.
- (2) The current year grant of STI is pro rata adjusted to reflect the STI component that relates to the Senior Executive's tenure as a KMP. Accordingly any STI component awarded that relates to a period of time where the Senior Executive was not a KMP is excluded from this table.
- (3) There were no restricted incentive shares provided under the fiscal 2010 STI plan.
- (4) The STI for fiscal 2011 and fiscal 2010 was approved by the Board on 11 August 2011 and 12 August 2010 respectively. For fiscal 2011, the restricted shares, which represent 25% of the STI award, vest in equal parts over one and two years on the anniversary of their allocation date, subject to the Senior Executive's continued employment. Refer to Note 27 of the financial statements for further details. For fiscal 2010, there were no restricted incentive shares provided under the fiscal 2010 STI plan.
- (5) The grant date for both the cash and the equity component of the fiscal 2011 STI will be subsequent to the date of this Report.



## Remuneration Report

### 7.4 Summary of LTI Plans as at 30 June 2011

As at 30 June 2011 the vesting status of all LTI equity plans is as follows:

Plan	Type of Instrument Granted	Performance Period	Result (1)	Future Financial Years in which Grants Vest	Accounting Value Yet to Vest (2)	
					Min (\$)	Max (\$)
Growthshare 2008	Options	30% of the plan had a test point at 30 June 2009.  30% of the plan had a test point at 30 June 2010.  40% of the plan was tested at 30 June 2011 as follows:  1/07/2007 – 30/06/2011 in respect of TSR (20% of the total plan)  1/07/2007 – 30/06/2011 in respect of ROI (20% of the total plan)	15% (of the 30%) related to the ROI performance measures for the entire plan vested.  0% vested.  0% vested.  0% vested.	No further testing.	n/a	n/a
Growthshare 2009	Options	1/07/2008 – 30/06/2012	30% of the plan was tested at 30/06/2010 of which 0% vested.	Options and restricted shares may vest subject to plan performance measures in fiscal 2012.	n/a	n/a
	Restricted Shares	1/07/2009 – 30/06/2012	30% of the plan was tested at 30/06/2011 of which 0% vested.		nil	323,633
Growthshare 2010	Restricted Shares	1/07/2009 – 30/06/2012	The first and only test point of the plan is 30/06/2012.	Restricted shares that may vest in fiscal 2012 are subject to a further one year restriction period that ends on 21 August 2013.	nil	929,208
Growthshare 2011	Restricted Shares	1/07/2010 – 30/06/2013	The first and only test point of the plan is 30/06/2013.	Restricted shares that may vest in fiscal 2013 are subject to a further one year restriction period that ends on 20 August 2014.	nil	5,202,975

(1) 85% of the Growthshare 2008 LTI plan and 37.5% of the Growthshare 2009 LTI plan expired as at 30 June 2011. Refer to Note 27 of the financial statements for further information.

(2) The values included in the above table have been calculated by applying option valuation methodologies as described in Note 27 to the financial statements.

## Remuneration Report

### 7.5 Accounting value of all LTI instruments

Name	Year	Accounting Value of LTI Equity Allocations (1) (2) (3)				Accounting Value as a % of Total Remuneration (4)
		Options (\$)	Performance rights (\$)	Restricted shares (\$)	Total (\$)	(%)
David Thodey	2011	49,113	-	645,403	694,516	13.6%
	2010	323,982	(154,108)	265,871	435,745	13.6%
Bruce Akhurst	2011	52,909	-	334,570	387,479	13.2%
	2010	349,107	(166,758)	207,709	390,058	20.3%
Gordon Ballantyne	2011	-	-	-	-	-
	2010	-	-	-	-	-
Nerida Caesar	2011	20,453	-	32,670	53,123	9.5%
	2010	44,313	-	86,614	130,927	10.1%
Paul Geason	2011	-	-	124,190	124,190	7.4%
	2010	-	-	36,429	36,429	3.3%
Kate McKenzie	2011	6,510	-	141,413	147,923	8.8%
	2010	(252,376)	(67,917)	(106,020)	(426,313)	-
Brendon Riley	2011	-	-	-	-	-
	2010	-	-	-	-	-
Michael Rocca	2011	241,359	-	193,023	434,382	10.2%
	2010	317,415	(147,496)	191,165	361,084	11.5%
Deena Shiff	2011	41,017	-	265,619	306,636	13.1%
	2010	259,834	(115,156)	162,273	306,951	17.0%
John Stanhope	2011	38,951	-	371,050	410,001	12.5%
	2010	251,916	(147,038)	191,603	296,481	12.8%

- (1) The value of each instrument is calculated by applying valuation methodologies as described in note 27 to the financial statements and is then amortised over the relevant vesting period. The values included in the table relate to the current year amortised value of all LTI instruments detailed in the Equity Settled Share Based Payments section in the remuneration table 7.1. Refer to note 27 to the financial statements for details on employee share plans.
- (2) When a vesting scale is used, the table reflects the maximum achievable allocation.
- (3) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in fiscal 2011 and fiscal 2010. For fiscal 2011, this has occurred for the fiscal 2008 and fiscal 2009 LTI plans that failed to satisfy non-market (ie non-TSR and non-RTSR) performance targets, resulting in equity instruments lapsing. For market based hurdles, (ie TSR and RTSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.
- (4) Total Remuneration is the sum of short term employee benefits, post employment benefits, termination benefits, other long term benefits and equity settled share based payments as detailed in table 7.1 of this Report.

### 7.6 Number of equity instruments granted, vested and exercised during fiscal 2011

Name	Restricted Shares Granted (1)	Restricted Shares Vested (2)	Deferred Incentive Shares Granted and Vested (3)	Performance Rights Exercised
David Thodey	1,355,932	-	-	9,525
Bruce Akhurst	724,068	-	-	10,307
Gordon Ballantyne	-	-	-	-
Nerida Caesar	-	-	-	-
Paul Geason	242,924	-	-	-
Kate McKenzie	302,544	-	-	15,007
Brendon Riley	-	-	-	-
Michael Rocca	-	-	-	9,095
Deena Shiff	575,390	-	-	7,029
John Stanhope	774,672	-	-	9,078

- (1) Restricted shares granted during fiscal 2011 relate to the LTI plan for fiscal 2011.
- (2) There were no restricted shares that vested during fiscal 2011.
- (3) The allocation of incentive shares under the fiscal 2011 STI plan were made subsequent to the reporting date of 30 June 2011, therefore they have not been included in the table above.

## Remuneration Report

### 7.7 Value of options, performance rights and restricted shares granted, exercised and lapsed/forfeited in fiscal 2011

Name	Granted during period (1) (\$)	Exercised (2) (\$)	Expired/Forfeited Value Foregone (3) (4) (\$)
David Thodey	2,366,101	26,860	182,517
Bruce Akhurst	1,263,499	29,065	196,603
Gordon Ballantyne	-	-	-
Nerida Caesar	-	-	-
Paul Geason	423,902	-	20,454
Kate McKenzie	527,939	42,017	69,679
Brendon Riley	-	-	-
Michael Rocca	-	25,647	-
Deena Shiff	1,004,056	19,821	153,597
John Stanhope	1,351,803	26,870	144,755

- (1) The grant date of the fiscal 2011 LTI plan was 17 February 2011. The fair value of the RTSR and FCF ROI restricted shares granted in fiscal 2011 at the grant date is \$1.06 and \$2.43 respectively. The fair value reflects the valuation approach required by AASB 2 using a Monte Carlo simulation option pricing model, as explained in Note 27 to the financial statements.
- (2) Each equity instrument was exercised for one fully paid Telstra share by paying the prescribed exercise price of \$1 in total for all of the performance rights exercised on a particular day. The values reflect the market value at the date of exercise after deducting any exercise price paid.
- (3) The value of equity instruments that have lapsed during the year represents the value foregone and is calculated at the date the equity instruments lapsed using an option pricing model and after deducting any exercise price that would have been payable. The expiry date of the restricted shares that expired during fiscal 2011 was 30 June 2011.
- (4) As the options granted under the fiscal 2008 and fiscal 2009 LTI plans had an exercise price that was greater than the market price of Telstra shares (ie were out of the money), there was no value associated with these lapsed options.

### 7.8 KMP Contract Details

The key terms and conditions of service contracts for current Senior Executives are summarised below. There are no individual contracts for services with our non-executive Directors.

Name	Term of Agreement	Fixed Remuneration at end of fiscal 2011	Additional Conditions	Notice Period (1)	Termination Payment (2) (3)
David Thodey	Ongoing	\$2,300,000	(4)	6 months	12 months
Bruce Akhurst	Ongoing	\$1,335,000	Nil	6 months	12 months
Gordon Ballantyne	Fixed Term	\$1,100,000	(5)	6 months	(6)
Paul Geason	Ongoing	\$825,000	Nil	6 months	12 months
Kate McKenzie	Ongoing	\$892,500	Nil	6 months	12 months
Brendon Riley	Ongoing	\$1,100,000	Nil	6 months	12 months
Deena Shiff	Ongoing	\$1,060,875	Nil	6 months	12 months
John Stanhope	Ongoing	\$1,482,300	Nil	6 months	12 months

- (1) Upon notice being given, Telstra can require the Senior Executive to work through the notice period or terminate employment immediately by providing payment in lieu of notice.
- (2) Payment is calculated on fixed remuneration as at date of termination. There will be no payment if termination is a result of serious misconduct or redundancy in cases where Telstra's redundancy policy overrides the termination provisions of the service contract.
- (3) All KMP contracts with an effective date on or after 24 November 2009 are subject to the Executive Termination Provisions of the Corporations Act that became effective from that date. This includes contracts for Gordon Ballantyne and Brendon Riley.
- (4) In relation to David Thodey's contract, if the Board forms the view that the CEO is not performing to the standard required of a CEO, Telstra may terminate by providing four months written notice.
- (5) Due to the fixed term nature (four years) of Gordon Ballantyne's employment, his contract allows for participation in a cash based LTI plan to a stretch value of \$4,579,548 in lieu of participation in Telstra equity LTI plans. Any payment under this plan is subject to the same terms and performance criteria as Telstra's fiscal 2011 LTI plan that applies to other Senior Executives in this Report. If the performance criteria for Free Cashflow Return On Investment and Relative Total Shareholder Return are not met then this is nil payment opportunity under this cash based LTI plan.
- (6) If Telstra terminates Gordon Ballantyne's employment, his contract allows for a termination payment that is the lesser of 12 months fixed remuneration or the period from the termination date to the original completion date of his contract.

## Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

### Financial Report

as at 30 June 2011

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## Income Statement

for the year ended 30 June 2011

		Telstra Group	
		Year ended 30 June	
	Note	2011 \$m	2010 \$m
<b>Income</b>			
Revenue (excluding finance income) . . . . .	6	25,093	24,917
Other income . . . . .	6	211	112
		<b>25,304</b>	<b>25,029</b>
<b>Expenses</b>			
Labour . . . . .		3,924	3,707
Goods and services purchased . . . . .		6,183	5,360
Other expenses . . . . .	7	5,047	5,117
		<b>15,154</b>	<b>14,184</b>
Share of net (profit) from jointly controlled and associated entities . . . . .	26	(1)	(2)
		<b>15,153</b>	<b>14,182</b>
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) . . . . .		<b>10,151</b>	<b>10,847</b>
Depreciation and amortisation . . . . .	7	4,459	4,346
Earnings before interest and income tax expense (EBIT) . . . . .		<b>5,692</b>	<b>6,501</b>
Finance income . . . . .	6	127	67
Finance costs . . . . .	7	1,262	1,030
Net finance costs . . . . .		<b>1,135</b>	<b>963</b>
<b>Profit before income tax expense</b> . . . . .		<b>4,557</b>	<b>5,538</b>
Income tax expense . . . . .	9	1,307	1,598
<b>Profit for the year</b> . . . . .		<b>3,250</b>	<b>3,940</b>
<b>Attributable to:</b>			
Equity holders of Telstra Entity . . . . .		3,231	3,883
Non-controlling interests . . . . .		19	57
		<b>3,250</b>	<b>3,940</b>
<b>Earnings per share (cents per share)</b>		<b>cents</b>	<b>cents</b>
Basic . . . . .	3	26.1	31.4
Diluted . . . . .	3	26.1	31.3

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



## Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	Telstra Group	
		Year ended 30 June	
		2011	2010
		\$m	\$m
<b>Profit for the year</b>			
Attributable to equity holders of Telstra Entity . . . . .		3,231	3,883
Attributable to non-controlling interests . . . . .		19	57
		3,250	3,940
<b>Foreign currency translation reserve</b>			
Reserves recognised on equity accounting our interest in jointly controlled and associated entities . . . 26		-	(1)
Translation of financial statements of non-Australian controlled entities . . . . .		(328)	(88)
Income tax on movements in the foreign currency translation reserve . . . . .		(42)	(9)
Transfer of foreign currency balances to income statement on disposal of SouFun . . . . .		11	-
Transfer of income tax on foreign currency balances to income statement on disposal of SouFun . . . . .		4	-
		(355)	(98)
<b>Cash flow hedging reserve</b>			
Changes in fair value of cash flow hedges . . . . .		(845)	(1,041)
Changes in fair value transferred to other expenses . . . . .		238	793
Changes in fair value transferred to goods and services purchased . . . . .		93	129
Changes in fair value transferred to finance costs . . . . .		267	199
Changes in fair value transferred to property, plant and equipment . . . . .		3	12
Income tax on movements in the cash flow hedging reserve . . . . .		73	(28)
		(171)	64
<b>Retained profits</b>			
Actuarial gain/(loss) on defined benefit plans . . . . . 24		182	(157)
Income tax on actuarial gain/(loss) on defined benefit plans . . . . .		(54)	46
		128	(111)
<b>Non-controlling interests</b>			
Translation of financial statements of non-Australian controlled entities . . . . .		(49)	(9)
Actuarial gain/(loss) on defined benefit plans . . . . . 24		1	(1)
		(48)	(10)
<b>Total other comprehensive income</b> . . . . .		(446)	(155)
<b>Total comprehensive income for the year</b> . . . . .		2,804	3,785
Total comprehensive income attributable to equity holders of Telstra Entity . . . . .		2,833	3,738
Total comprehensive income attributable to non-controlling interests . . . . .		(29)	47

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

## Statement of Financial Position

as at 30 June 2011

		Telstra Group	
		As at 30 June	
	Note	2011 \$m	2010 \$m
<b>Current assets</b>			
Cash and cash equivalents . . . . .	20	2,630	1,936
Trade and other receivables . . . . .	10	4,137	3,981
Inventories . . . . .	11	283	295
Derivative financial assets . . . . .	17(f)	83	173
Current tax receivables . . . . .		4	3
Prepayments . . . . .		275	218
Assets classified as held for sale . . . . .	12	41	579
<b>Total current assets</b>		<b>7,453</b>	<b>7,185</b>
<b>Non current assets</b>			
Trade and other receivables . . . . .	10	340	217
Inventories . . . . .	11	22	17
Investments - accounted for using the equity method . . . . .	26	2	17
Investments - other . . . . .		1	1
Property, plant and equipment . . . . .	13	21,790	22,894
Intangible assets . . . . .	14	7,627	8,028
Derivative financial assets . . . . .	17(f)	285	592
Non current tax receivables . . . . .		382	321
Deferred tax assets . . . . .	9	-	3
Defined benefit assets . . . . .	24	11	7
<b>Total non current assets</b>		<b>30,460</b>	<b>32,097</b>
<b>Total assets</b>		<b>37,913</b>	<b>39,282</b>
<b>Current liabilities</b>			
Trade and other payables . . . . .	15	4,093	3,843
Provisions . . . . .	16	394	389
Borrowings . . . . .	17(a)	1,990	2,540
Derivative financial liabilities . . . . .	17(f)	634	384
Current tax payables . . . . .		404	335
Revenue received in advance . . . . .		1,018	1,102
Liabilities classified as held for sale . . . . .	12	5	89
<b>Total current liabilities</b>		<b>8,538</b>	<b>8,682</b>
<b>Non current liabilities</b>			
Other payables . . . . .	15	177	248
Provisions . . . . .	16	696	727
Borrowings . . . . .	17(a)	12,178	12,370
Derivative financial liabilities . . . . .	17(f)	1,799	1,518
Deferred tax liabilities . . . . .	9	1,730	1,927
Defined benefit liability . . . . .	24	205	464
Revenue received in advance . . . . .		298	338
<b>Total non current liabilities</b>		<b>17,083</b>	<b>17,592</b>
<b>Total liabilities</b>		<b>25,621</b>	<b>26,274</b>
<b>Net assets</b>		<b>12,292</b>	<b>13,008</b>
<b>Equity</b>			
Share capital . . . . .	19	5,610	5,590
Reserves . . . . .		(843)	(312)
Retained profits . . . . .		7,307	7,418
Equity available to Telstra Entity shareholders . . . . .		12,074	12,696
Non-controlling interests . . . . .		218	312
<b>Total equity</b>		<b>12,292</b>	<b>13,008</b>

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

## Statement of Cash Flows

for the year ended 30 June 2011

	Note	Telstra Group	
		Year ended 30 June	
		2011	2010
		\$m	\$m
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax (GST))		27,389	27,128
Payments to suppliers and to employees (inclusive of GST)		(17,860)	(16,218)
Net cash generated by operations		9,529	10,910
Income taxes paid		(1,511)	(1,219)
<b>Net cash provided by operating activities</b>	20	8,018	9,691
<b>Cash flows from investing activities</b>			
Payments for:			
- property, plant and equipment		(2,342)	(2,718)
- intangible assets		(909)	(877)
Capital expenditure (before investments)		(3,251)	(3,595)
- shares in controlled entities (net of cash acquired)	20	(36)	(95)
Total capital expenditure		(3,287)	(3,690)
Proceeds from:			
- sale of property, plant and equipment		16	24
- sale of intangible assets		-	2
- sale of shares in controlled entities (net of cash disposed)	20	288	11
- sale of businesses		14	1
- sale of associates		23	-
Proceeds from finance lease principal amounts		74	66
Repayment of loans to jointly controlled and associated entities		2	-
Interest received		122	66
Settlement of hedges in net investments		96	(6)
Dividends received		41	-
Distributions received from FOXTEL Partnership	6	70	60
<b>Net cash used in investing activities</b>		(2,541)	(3,466)
<b>Operating cash flows less investing cash flows</b>		5,477	6,225
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,340	1,777
Repayment of borrowings		(2,536)	(2,676)
Repayment of finance lease principal amounts		(61)	(55)
Staff repayments of share loans		8	9
Finance costs paid		(1,135)	(1,042)
Dividends paid to equity holders of Telstra Entity	4	(3,475)	(3,474)
Dividends paid to non-controlling interests		(14)	(20)
<b>Net cash used in financing activities</b>		(4,873)	(5,481)
<b>Net increase in cash and cash equivalents</b>		604	744
Cash and cash equivalents at the beginning of the year		2,105	1,381
Effects of exchange rate changes on cash and cash equivalents		(72)	(20)
<b>Cash and cash equivalents at the end of the year</b>	20	2,637	2,105

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

## Statement of Changes in Equity

for the year ended 30 June 2011

### Telstra Group

	Share capital \$m	Reserves				Retained profits \$m	Non-controlling interests \$m	Total \$m
		Foreign currency translation (i) \$m	Cash flow hedging (ii) \$m	Consolidation fair value (iii) \$m	General reserve (iv) \$m			
<b>Balance at 1 July 2009</b>	5,576	(384)	93	14	4	7,115	263	12,681
Profit for the year	-	-	-	-	-	3,883	57	3,940
Other comprehensive income	-	(98)	64	-	-	(111)	(10)	(155)
Total comprehensive income for the year	-	(98)	64	-	-	3,772	47	3,785
Dividends	-	-	-	-	-	(3,474)	(10)	(3,484)
Non-controlling interests on acquisitions	-	-	-	-	-	-	12	12
Transfers to retained profits	-	-	-	(5)	-	5	-	-
Amounts repaid on share loans provided to employees	9	-	-	-	-	-	-	9
Share-based payments	5	-	-	-	-	-	-	5
<b>Balance at 30 June 2010</b>	5,590	(482)	157	9	4	7,418	312	13,008
Profit for the year	-	-	-	-	-	3,231	19	3,250
Other comprehensive income	-	(355)	(171)	-	-	128	(48)	(446)
Total comprehensive income for the year	-	(355)	(171)	-	-	3,359	(29)	2,804
Dividends	-	-	-	-	-	(3,475)	(14)	(3,489)
Non-controlling interests on disposals	-	-	-	-	-	-	(51)	(51)
Transfers to retained profits	-	-	-	(5)	-	5	-	-
Amounts repaid on share loans provided to employees	8	-	-	-	-	-	-	8
Share-based payments	12	-	-	-	-	-	-	12
<b>Balance at 30 June 2011</b>	<b>5,610</b>	<b>(837)</b>	<b>(14)</b>	<b>4</b>	<b>4</b>	<b>7,307</b>	<b>218</b>	<b>12,292</b>

(i) The foreign currency translation reserve is used to record exchange differences arising from the conversion of the non-Australian controlled entities' financial statements into Australian dollars. This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in jointly controlled and associated entities.

(ii) The cash flow hedging reserve represents, where a hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedge instrument. These gains or losses are transferred to the income statement when the hedged item affects income, or in the case of forecast transactions, are included in the measurement of the initial cost of property, plant and equipment or inventory.

(iii) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited's net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets.

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

## Notes to the Financial Statements

### 1. Basis of preparation

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

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

- year, fiscal year or financial year means the year ended 30 June;
- reporting date means the date 30 June; and
- 2011 means fiscal 2011 and similarly for other fiscal years.

The financial report of the Telstra Group for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 11 August 2011.

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

#### 1.1 Basis of preparation of the financial report

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

Both the functional and presentation currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non Australian controlled entities is not Australian dollars. As a result, the results of these entities are translated to Australian dollars for presentation in the Telstra Group financial report.

This financial report is prepared in accordance with historical cost, except for some categories of investments and some financial instruments which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

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

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

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

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

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

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure the company's operating performance.

Our management uses EBITDA and earnings before interest and income tax expense (EBIT), in combination with other financial measures, primarily to evaluate the company's operating performance before financing costs, income tax and non-cash capital related expenses.

In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net profit in understanding cash flows generated from operations that are available for payment of income taxes, debt servicing and capital expenditure. In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

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

#### 1.3 Rounding

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



## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements

#### 2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2011.

##### (a) Impairment - Non financial assets

AASB 2009-5: "Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project" became applicable from 1 July 2010. Except for the following amendments, there was no impact as a result of AASB 2009-5:

- AASB 136: "Impairment of Assets" has been amended so that the allocation of goodwill to a cash generating unit (CGU) for the purposes of impairment testing can no longer be allocated to a CGU that is larger than an operating segment. As such, goodwill previously allocated to our Telstra Entity (ubiquitous network) CGU, is now allocated and tested at the lower operating segment level. There has been no impairment identified for this goodwill for the year ended 30 June 2011, as disclosed in note 21 to our financial statements; and
- AASB 107: "Statement of Cash Flows" has been amended so that only expenditures that result in a recognised asset in the statement of financial position are eligible to be classified as investing activities in the statement of cash flows. As such, acquisition costs paid on the acquisition of controlled entities and recognised as an expense during the year, have been disclosed as cash flows arising from operating activities. Refer to the statement of cash flows and note 20.

##### (b) Australian Additional Disclosures

In addition to the above change, we have elected to early adopt and apply AASB 1054: "Australian Additional Disclosures" and AASB 2011-1: "Amendments to Australian Standards arising from the Trans-Tasman Convergence Project" in our financial report for the year ended 30 June 2011.

AASB 1054 and AASB 2011-1 were issued by the AASB in May 2011 and relocate the Australian-specific disclosure requirements, relating to audit fees, the franking account and reconciliation of net operating cash flow to profit or loss, from various accounting standards to AASB 1054. In addition, AASB 1054 requires the financial statements to state whether they have been prepared by a for-profit or not-for-profit entity.

AASB 2011-1 also removes three Australian disclosure requirements with the aim of harmonising Australian and New Zealand financial reporting standards and makes consequential changes to a number of accounting standards and interpretations as a result of AASB 1054. Both standards are applicable to annual reporting periods beginning on or after 1 July 2011, however early adoption is permitted.

The main changes to our disclosures for the year ended 30 June 2011 from early adopting these standards are as follows:

- Dividends - the requirement to disclose the impact on the franking account for dividends proposed or declared before the

accounts are authorised for issue has also been removed. Refer to note 4;

- Audit Fee disclosures - the requirement to separately disclose the amount of each of the non-audit services provided by the auditor has been removed. The audit fee disclosure now aggregates the amount of all non-audit services. Refer to note 8; and
- Expenditure commitments - the requirement to disclose time bands for capital commitments and other expenditure commitments have been removed. Refer to note 22 and note 30.

##### (c) Other

Other accounting standards that are applicable for the year ended 30 June 2011 are as follows:

- AASB 2009-8: "Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions";
- AASB 2009-10: "Amendments to Australian Accounting Standards - Classification of Rights Issues";
- AASB Interpretation 19: "Extinguishing Financial Liabilities with Equity Instruments";
- AASB 2009-13: "Amendments to Australian Accounting Standards arising from Interpretation 19";
- AASB 2010-1: "Amendments to Australian Accounting Standards - Limited exemption from comparative AASB 7 Disclosures for first-time adopters"; and
- AASB 2010-3: "Amendments to Australian Accounting Standards arising from the Annual Improvements project".

These new accounting standards do not have any material impact on our financial results.

#### 2.2 Principles of consolidation

The consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the year and the consolidated results and cash flows for the year. The effect of all intragroup transactions and balances are eliminated in full from our consolidated financial statements.

An entity is considered to be a controlled entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity so as to obtain benefits from its activities.

Where we do not control an entity for the entire year, results and cash flows for those entities are only included from the date on which control commences, or up until the date on which there is a loss of control.

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

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.2 Principles of consolidation (continued)

We account for the acquisition of our controlled entities using the acquisition method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the fair value of acquisition over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

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

#### 2.3 Foreign currency translation

##### (a) Transactions and balances

Foreign currency transactions are converted into the relevant functional currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at reporting date are converted into the relevant functional currency at market exchange rates at reporting date. Any currency translation gains and losses that arise are included in our income statement. Where we enter into a hedge for a specific expenditure commitment or for the construction of an asset, hedging gains and losses are accumulated in other comprehensive income over the period of the hedge and are transferred to the carrying value of the asset upon completion, or included in the income statement at the same time as the discharge of the expenditure commitment.

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Telstra Corporation Limited.

##### (b) Financial reports of foreign operations that have a functional currency that is not Australian dollars

Our operations include subsidiaries, associates, and jointly controlled entities, the activities and operations of which are in an economic environment where the functional currency is not Australian dollars. The financial statements of these entities are translated to Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at reporting date;
- equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/accumulated losses) are translated at the exchange rates current at the dates of those movements;
- income statements are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and

- currency translation gains and losses are recorded in other comprehensive income.

Refer to note 18 for details regarding our accounting policy for derivative financial instruments and foreign currency monetary items that are used to hedge our net investment in entities which have a functional currency not in Australian dollars.

#### 2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits, bills of exchange and promissory notes that are held for the purposes of meeting short term cash commitments rather than investment purposes.

Bank deposits are recorded at amounts to be received. Bills of exchange and promissory notes are classified as 'available-for-sale' financial assets and are held at fair value. The carrying amount of these assets approximates their fair value due to the short term to maturity.

#### 2.5 Trade and other receivables

Trade and other receivables are considered financial assets. They are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

An allowance for doubtful debts is raised to reduce the carrying amount of trade receivables, based on a review of outstanding amounts at reporting date. The allowance for doubtful debts is based on historical trends and management's assessment of general economic conditions. An allowance for doubtful debts is raised when management considers there is a credit risk, insolvency risk or incapacity to pay a legally recoverable debt. Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in the income statement.

#### 2.6 Inventories

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

For the majority of inventory items, we assign cost using the weighted average cost basis. For materials used in the production of directories the 'first in first out' basis is used for assigning cost.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.6 Inventories (continued)

Net realisable value of items expected to be sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less costs to sell. We calculate net realisable value of inventories by making certain price assumptions to project selling prices into the future and assumptions about technologies at reporting date.

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

#### 2.7 Construction contracts

##### (a) Valuation

We record construction contracts in progress at cost (including any profits recognised) less progress billings and any provision for foreseeable losses. Cost includes:

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

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

##### (b) Recognition of revenue and profit

Revenue and profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion. Refer to note 2.17(d) for further details.

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

##### (c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

#### 2.8 Investments

##### (a) Jointly controlled and associated entities

###### (i) Jointly controlled entities

A jointly controlled entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in jointly controlled entities, including partnerships, are accounted for using the equity method of accounting in the Telstra Group financial statements.

Under the equity method of accounting, we adjust the initial recorded amount of the investment for our share of:

- profits or losses after tax for the year since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses;
- dividends or distributions received; and
- deferred profit brought to account.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior years share of losses and reserve reductions.

Where we have long term assets that in substance form part of our investment in equity accounted interests and the equity accounted amount of the investment falls below zero, we reduce the value of these long term assets in proportion with our cumulative losses.

###### (ii) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20% and 50%, and are able to significantly influence the decisions of the entity, that entity is an associated entity. Associated entities are accounted for using the equity method of accounting in the Telstra Group financial statements.

##### (b) Jointly controlled assets

A jointly controlled asset involves the joint control of one or more assets acquired and dedicated for the purpose of a joint venture. The assets are used to obtain benefits for the venturers. Where the asset is significant we record our share of the asset. We record income and expenses based on our percentage ownership interest of the jointly controlled asset.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.8 Investments (continued)

##### (c) Listed securities and investments in other corporations

Our investments in listed securities and in other corporations are classified as 'available-for-sale' financial assets and are measured at fair value at each reporting date. Fair values are calculated on the following basis:

- for listed securities traded in an organised financial market, we use the current quoted market bid price at reporting date; and
- for investments in unlisted entities whose securities are not traded in an organised financial market, we establish fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent arms length transactions involving instruments that are substantially the same.

We remeasure the fair value of our investments in listed securities and other corporations at each reporting date. Any gains or losses are recognised in other comprehensive income until we dispose of the investment, or we determine it to be impaired, at which time we transfer all cumulative gains and losses to the income statement. Purchases and sales of investments are recognised on settlement date, being the date on which we receive or deliver an asset.

#### 2.9 Impairment

##### (a) Non-financial assets

Our tangible and intangible assets (excluding inventories, assets arising from construction contracts, current and deferred tax assets, defined benefit assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment, or where an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment wherever 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 costs to sell or its value in use. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal. We recognise any reduction in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

The expected net cash flows included in determining recoverable amounts of our assets are discounted to present values using a market determined, risk adjusted, discount rate. When determining an appropriate discount rate, we use the weighted average cost of capital (WACC) as an initial point of reference, adjusted for specific risks associated with each different category of assets assessed.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs and for goodwill, cannot be allocated to a CGU that is larger than an operating segment. Our CGUs are determined according to the lowest level of aggregation for which an active market exists and the assets involved generate largely independent cash inflows.

We apply management judgement to establish our CGUs. We have determined that assets which form part of our ubiquitous telecommunications network work together to generate net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, we have determined that the ubiquitous telecommunications network is a single CGU. We have referred to this CGU as the Telstra Entity CGU in our financial report.

The Telstra Entity CGU excludes the hybrid fibre coaxial (HFC) cable network, which we consider not to be integrated with the rest of our telecommunications network. Refer to note 21 for further details.

##### (b) Financial assets

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets are impaired.

For listed securities and investments in other corporations, we consider the financial asset to be impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its acquisition cost. At this time, all revaluation losses in relation to impaired financial assets that have been accumulated within other comprehensive income are recognised in the income statement.

For financial assets held at cost or amortised cost, we consider the financial asset to be impaired when there is objective evidence as a result of one or more events that the present value of estimated discounted future cash flows is lower than the carrying value. Any impairment losses are recognised immediately in the income statement.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.10 Property, plant and equipment

##### (a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 2.10(b). The cost of our constructed property, plant and equipment is directly attributable in bringing the asset to the location and condition necessary for its intended use and includes:

- the cost of material and direct labour;
- an appropriate proportion of direct and indirect overheads; and
- where we have an obligation for removal of the asset or restoration of the site, an estimate of the cost of restoration or removal if that cost can be reliably estimated.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of our property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed.

We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. In fiscal 2011, we revised the methodology for calculating our capitalised interest adjustment to reflect our new process for identifying capital expenditure related to incomplete projects. This change has decreased the amount of capitalised interest that would have been recorded in our property, plant and equipment by \$30 million for fiscal 2011.

We review our property, plant and equipment assets and property, plant and equipment under construction on a regular basis to ensure that the assets are still in use and that the projects are still expected to be completed. Refer to note 7 for details of impairment losses recognised on our property, plant and equipment.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The unwinding of this discount is recorded within finance costs.

We account for our assets individually where it is practical, feasible and in line with commercial practice. Where it is not practical and feasible, we account for assets in groups. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained. This is the case for certain communication assets as we assess our technologies to be replaced by a certain date.

##### (b) Depreciation

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

The service lives of our significant items of property, plant and equipment are as follows:

	Telstra Group	
	As at 30 June	
	2011	2010
Property, plant and equipment	Service life (years)	Service life (years)
<b>Buildings</b>		
Buildings . . . . .	52-53	53-55
Fitouts . . . . .	10-20	10-20
Leasehold improvements . . . . .	5-40	7-40
<b>Communication assets</b>		
Network land and buildings . . . . .	10-58	5-55
Network support infrastructure . . . . .	3-52	4-52
Access fixed . . . . .	3-30	4-30
Access mobile . . . . .	3-17	4-16
Content/IP products - core . . . . .	4-10	5-10
Core network - data . . . . .	3-8	4-8
Core network - switch . . . . .	2-25	5-23
Core network - transport . . . . .	5-30	6-30
Specialised premise equipment . . . . .	3-8	3-8
International connect . . . . .	11-21	6-15
Managed service . . . . .	3-12	9-10
Network control layer . . . . .	2-13	3-11
Network product . . . . .	2-9	3-9
<b>Other plant and equipment</b>		
IT equipment . . . . .	3-5	3-5
Motor vehicles/trailer/caravan/huts . . . . .	5-15	3-15
Other plant and equipment . . . . .	2-20	2-20

The service lives and residual values of our assets are reviewed each year. We apply management judgement in determining the service lives of our assets. This assessment includes a comparison with international trends for telecommunications companies and, in relation to communication assets, includes a determination of when the asset may be superseded technologically or made obsolete.



## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

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

##### (b) Depreciation (continued)

We have performed an assessment on the impact on service lives that the National Broadband Network (NBN) may have, in terms of whether entry into the Definitive Agreements (DAs) on 23 June 2011 with NBN Co Limited (NBN Co) and the Commonwealth Government requires any acceleration of depreciation or asset retirement in fiscal 2011. As part of the assessment, various discussions with internal technical experts involved in the assessment of the rollout of the NBN have been held, focusing on an analysis by broad technology categories of our major communication assets. The assessment also considered the written down values for each category of asset and its weighted average remaining service life (WARSL) in comparison with the timeline of the proposed rollout of the NBN. Our assessment shows that the WARSL for the existing network assets impacted by the disconnection obligations that will apply under the DAs, if they come into full force and effect, falls within the anticipated NBN roll out period of 10 years. Therefore, the impact of the DAs on depreciation expense is expected to be minimal.

Further, the DAs remain subject to a number of conditions precedent that need to be satisfied or waived for the DAs to come into full force and effect, including Telstra shareholder approval of the DAs, and ACCC acceptance of Telstra's structural separation undertaking and approval of Telstra's draft migration plan. The conditions precedent also require the location and details of certain infrastructure required by NBN Co to be confirmed via an agreed initial rollout plan and ordering processes.

As such, we have concluded no further adjustments for fiscal 2011 are required, in addition to the annual service life reassessment, the results of which are noted below. Refer to note 21 and note 30 for further discussion on the NBN.

The net effect of the reassessment of service lives for fiscal 2011 was an increase in our depreciation expense of \$79 million (2010: \$124 million decrease) for the Telstra Group.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network. We charge the cost of repairs and maintenance, including the cost of replacing minor items which are not substantial improvements, to operating expenses.

#### 2.11 Leased plant and equipment

We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains substantially all such risks and benefits.

##### (a) Telstra as a lessee

Where we acquire non current assets via a finance lease, the lower of the fair value of the asset and the present value of future minimum lease payments is capitalised as equipment under finance leases at the beginning of the lease term. Capitalised lease assets are depreciated on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

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

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

##### (b) Telstra as a lessor

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

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

#### 2.12 Intangible assets

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

##### (a) Goodwill

On the acquisition of investments in controlled entities, jointly controlled and associated entities, when we pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is considered to be goodwill. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a jointly controlled or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment in accordance with note 2.9 on an annual basis, or when an indication of impairment exists.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.12 Intangible assets (continued)

##### (b) Internally generated intangible assets

Research costs are recorded as an expense as incurred.

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

##### Software assets

We record direct costs associated with the development of business software for internal use as software assets if the development costs satisfy the criteria for capitalisation described above.

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed; and
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project.

We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. In fiscal 2011, we revised the methodology for calculating our capitalised interest adjustment to reflect our new process for identifying capital expenditure related to incomplete projects. This change has decreased the amount of capitalised interest that would have been recorded in our software assets developed for internal use by \$15 million for fiscal 2011.

We review our software assets and software assets under development on a regular basis to ensure the assets are still in use and projects are still expected to be completed. Refer to note 7 for details of impairment losses recognised on our intangible assets.

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives to us. Amortisation commences once the software is ready for use.

##### (c) Acquired intangible assets

We acquire other intangible assets either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. We apply management judgement to determine the appropriate fair value of identifiable intangible assets.

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite

life are not amortised but tested for impairment in accordance with note 2.9 on an annual basis, or where an indication of impairment exists.

##### (d) Deferred expenditure

Deferred expenditure mainly includes costs incurred for basic access installation and connection fees for in place and new services, and direct incremental costs of establishing a customer contract.

Significant items of expenditure are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Any costs in excess of future revenue are recognised immediately in the income statement. Handset subsidies are considered to be separate units of accounting and expensed as incurred.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised.

##### (e) Amortisation

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

	Telstra Group	
	As at 30 June	
	2011	2010
	Expected benefit (years)	Expected benefit (years)
<b>Identifiable intangible assets</b>		
Software assets . . . . .	9	7
Patents and trademarks . . . . .	9	9
Mastheads . . . . .	5	5
Licences . . . . .	13	13
Brandnames. . . . .	18	19
Customer bases . . . . .	10	10
Deferred expenditure . . . . .	4	4

The service lives of our identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense through to the end of the reassessed useful life for both that current year and future years. The net effect of the reassessment for fiscal 2011 was a decrease in our amortisation expense of \$105 million (2010: \$49 million decrease) for the Telstra Group.

In relation to acquired intangible assets, we apply management judgement to determine the amortisation period based on the expected useful lives of the respective assets. In some cases, the useful lives of certain acquired intangible assets are supported by external valuation advice on acquisition. In addition, we apply management judgement to assess annually, the indefinite useful life assumption applied to certain acquired intangible assets.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.13 Trade and other payables

Trade and other payables, including accruals, are recorded when we are required to make future payments as a result of purchases of assets or services. Trade and other payables are carried at amortised cost.

#### 2.14 Provisions

Provisions are recognised when the group has:

- a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events;
- it is probable that a future sacrifice of economic benefits will arise; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

##### (a) Employee benefits

We accrue liabilities for employee benefits to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement and include related on costs.

Certain employees who have been employed by Telstra for at least 10 years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in our employee benefits provision.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of reporting date, including long service leave, at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

We calculate present values using rates based on government guaranteed securities with similar due dates to our liabilities.

We apply management judgement in estimating the following key assumptions used in the calculation of our long service leave provision at reporting date:

- weighted average projected increases in salaries; and
- discount rate.

Refer to note 16 for further details on the key management judgements used in the calculation of our long service leave provision.

##### (b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on the risks specific to the liability with similar due dates.

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

##### (c) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation to those affected by the restructuring that the restructuring will be carried out.

#### 2.15 Borrowings

Borrowings are included as non current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

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

Our borrowings fall into two categories:

##### (a) Borrowings in a designated hedging relationship

Our offshore borrowings which are designated as hedged items are subject to either fair value or cash flow hedges. The method by which they are hedged determines their accounting treatment.

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges (to hedge against changes in value due to interest rate or currency movements) is adjusted for fair value movements attributable to the hedged risk.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.15 Borrowings (continued)

##### (a) Borrowings in a designated hedging relationship (continued)

Fair value is calculated using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve which is independently derived and representative of Telstra's cost of borrowing. These borrowings are remeasured each reporting period and the gains or losses are recognised in the income statement along with the associated gains or losses on the hedging instrument. When using a discounted cashflow analysis, our assumptions are based on market conditions existing at reporting date.

Borrowings subject to cash flow hedges (to hedge against currency movements) are recognised initially at fair value based on the applicable spot price plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost and translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

When currency gains or losses on the borrowings are recognised in the income statement, the associated gains or losses on the hedging instrument are also transferred from the cash flow hedging reserve to the income statement.

##### (b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include offshore loans, Telstra bonds and domestic loans.

All such instruments are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

##### (c) Statement of cash flows presentation

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

#### 2.16 Share capital

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

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

Where we undertake a share buy-back, contributed equity is reduced in accordance with the structure of the buy-back arrangement. Costs associated with the buy-back, net of tax, are also deducted from contributed equity. We also record the purchase of Telstra Entity shares by our employee share plan trusts as a reduction in share capital.

Share based remuneration associated with our employee share plans is recognised as additional share capital. Non-recourse loans provided to employees to participate in these employee share plans are recorded as a reduction in share capital.

Refer to note 2.21 for further details regarding our accounting for employee share plans.

#### 2.17 Revenue recognition

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, discounts, sales incentives, duties and taxes.

##### (a) Rendering of services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

We record revenue earned from:

- telephone calls on completion of the call; and
- other services generally at completion, or on a straight line basis over the period of service provided, unless another method better represents the stage of completion.

Installation and connection fee revenues that are not considered to be separate units of accounting are deferred and recognised over the average estimated customer life. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life in accordance with note 2.12(d).

In relation to basic access installation and connection revenue, we apply management judgement to determine the estimated customer contract life. Based on our reviews of historical information and customer trends, we have determined that our average estimated customer life is 5 years (2010: 5 years).

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.17 Revenue recognition (continued)

##### (b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

Generally we record the full gross amount of sales proceeds as revenue, however if we are acting as an agent under a sales arrangement, we record the revenue on a net basis, being the gross amount billed less the amount paid to the supplier. We review the facts and circumstances of each sales arrangement to determine if we are an agent or principal under the sale arrangement.

##### (c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period.

##### (d) Construction contracts

We record construction revenue and profit on a percentage of contract completion basis. The percentage of completion is calculated based on estimated costs to complete the contract.

Our construction contracts are classified according to their type. There are two types of construction contracts, these being material intensive and short duration. Revenue and profit are recognised on a percentage of completion basis using the appropriate measures as follows:

- for material intensive projects (actual costs/planned costs) x planned revenue, including profit; and
- for short duration projects (which are those that are expected to be completed within a month), revenues, profit and costs are recognised on completion.

##### (e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis for which revenues are recognised at the time the advertisement is published.

All of our Yellow Pages® and White Pages® directory print revenues are recognised on delivery of the published directories to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

##### (f) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

##### (g) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

##### (h) Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

We allocate the consideration from the revenue arrangement to its separate units based on the relative selling prices of each unit. If neither vendor specific objective evidence nor third party evidence exists for the selling price, then the item is measured based on the best estimate of the selling price of that unit. The revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above.

For eligible mobile repayment option (MRO) and mobile cap plans, MRO bonus credits are credited to customer accounts on a monthly basis. MRO bonus credits are considered sales incentives and therefore are recorded as a reduction to revenue. Where they form part of a bundled arrangement, the reduction in revenue is allocated to both the handset and services revenue based on their relative selling prices, where they both contribute towards the customer earning the MRO bonus credits.

##### (i) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and Telstra will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.



## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.17 Revenue recognition (continued)

##### (i) Government grants (continued)

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is measured at amortised cost. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan, which is measured at amortised cost, and the actual proceeds received. The benefit is accounted for in accordance with our accounting policy for government grants described above.

#### 2.18 Taxation

##### (a) Income taxes

Our income tax expense represents the sum of current tax and deferred tax. Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Both our current tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our current and deferred tax is recognised as an expense in the income statement, except when it relates to items directly debited or credited to other comprehensive income or equity, in which case our current and deferred tax is also recognised directly in other comprehensive income or equity.

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

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

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

In respect of our investments in subsidiaries, jointly controlled and associated entities, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Management judgement is required to determine the amount of deferred tax assets that can be recognised. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses and tax credits, can be utilised.

During fiscal 2011, Telstra entered into an agreement with Ericsson to upgrade our mobile (3G) network to a Long Term Evolution (LTE) technology for a selected number of mobile sites. As a result of the different treatments under tax and accounting requirements, a deferred tax asset of \$77 million (\$256 million at 30%) has been recognised as at 30 June 2011. This deferred tax asset will unwind over a period of approximately 10-14 years.

For accounting purposes the equipment is recorded at its cost of \$30 million, which represents what Telstra paid Ericsson for the equipment, including directly attributable costs.

For tax purposes the equipment is measured at fair value, which is \$286 million. Telstra, together with an independent third party valuer, performed a valuation to determine the fair value of this equipment.

The carrying amount of our deferred tax assets is reviewed at each reporting date. We reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

The Telstra Entity and its Australian resident wholly owned entities have formed a tax consolidated group. The Telstra Entity is the head entity and recognises, in addition to its transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. The Telstra Entity and the entities in the tax consolidated group account for their own current tax expense and deferred tax amounts arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a separate taxpayer.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.18 Taxation (continued)

##### (a) Income taxes (continued)

We offset deferred tax assets and deferred tax liabilities in the statement of financial position where they relate to income taxes levied by the same taxation authority and to the extent that we intend to settle our current tax assets and liabilities on a net basis. Our deferred tax assets and deferred tax liabilities are netted within the tax consolidated group, as these deferred tax balances relate to the same taxation authority. We do not net deferred tax balances between controlled entities, apart from those within the tax consolidated group.

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

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

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

#### 2.19 Earnings per share

Basic earnings per share is determined by dividing the profit attributable to ordinary shareholders after tax, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders after tax by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of the instruments in the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans).

#### 2.20 Post-employment benefits

##### (a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

##### (b) Defined benefit plans

We currently sponsor a number of post-employment benefit plans. As these plans have elements of both defined contribution and defined benefit, these hybrid plans are treated as defined benefit plans.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit is recognised as a liability. If the fair value of the plan assets exceeds the present value of the defined benefit obligations, the net surplus is recognised as an asset. We recognise the asset as we have the ability to control this surplus to generate future funds that are available to us in the form of reductions in future contributions or as a cash refund. Fair value is used to determine the value of the plan assets at reporting date and is calculated by reference to the net market values of the plan assets.

Defined benefit obligations are based on the expected future payments required to settle the obligations arising from current and past employee services. This obligation is influenced by many factors, including final salaries and employee turnover. We engage qualified actuaries to calculate the present value of the defined benefit obligations. These obligations are measured gross of tax.

The actuaries use the projected unit credit method to determine the present value of the defined benefit obligations of each 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 government guaranteed securities with similar due dates to these expected cash flows.

We recognise all our defined benefit costs in the income statement with the exception of actuarial gains and losses that are recognised directly in other comprehensive income via retained profits. Components of defined benefit costs include current and past service cost, interest cost and expected return on assets. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

We apply judgement in estimating the following key assumptions used in the calculation of our defined benefit liabilities and assets at reporting date:

- discount rates;
- salary inflation rate; and
- expected return on plan assets.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.20 Post-employment benefits (continued)

##### (b) Defined benefit plans (continued)

The estimates applied in the actuarial calculation have a significant impact on the reported amount of our defined benefit plan liabilities and assets. If the estimates prove to be incorrect, the carrying value may be materially impacted in the next reporting period. Additional volatility may also potentially be recorded in other comprehensive income to reflect differences between actuarial assumptions of future outcomes applied at the current reporting date and the actual outcome in the next annual reporting period.

Refer to note 24 for details on the key estimates used in the calculation of our defined benefit liabilities and assets.

#### 2.21 Employee Share Plans

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

The Telstra Growthshare Trust (Growthshare) was established to allocate equity based instruments as required. Current equity based instruments include options, performance rights, restricted shares, incentive shares, Directshares and Ownshares. Restricted shares are subject to performance hurdles. Incentive shares are subject to a specified period of service. Options and performance rights can be subject to performance hurdles or a specified period of service.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also include the results, position and cash flows of Growthshare.

We recognise an expense for all share based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is charged against profit or loss over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

#### 2.22 Derivative financial instruments

We use derivative financial instruments such as forward exchange contracts, cross currency swaps and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations.

The use of hedging instruments is governed by the guidelines set by our Board of Directors.

Derivative financial instruments are included as non current assets or liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current assets or liabilities.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as 'held for trading' financial instruments. All of our derivative financial instruments are stated at fair value.

Derivative assets are derecognised when the rights to receive cash flows from the derivative assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract. We do not offset the receivable or payable with the underlying financial asset or financial liability being hedged, as the transactions are usually with different counterparties and are not generally settled on a net basis.

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, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our statement of financial position.

Our derivative instruments that are held to hedge exposures can be classified into three different types, depending on the reason we are holding them - fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. For all of our hedging instruments, any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective, are recognised directly in the income statement in the period in which they occur. The extent to which gains or losses on the hedged item and the hedge instrument do not offset represents ineffectiveness which may result in significant volatility in the income statement.

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

Purchases and sales of derivative instruments are recognised on the date on which we commit to purchase or sell an asset.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.22 Derivative financial instruments (continued)

##### (a) Fair value hedges

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period.

Where a fair value hedge qualifies for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged.

##### (b) Cash flow hedges

We use cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period. Cash flow hedges are used for our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument are recognised directly in other comprehensive income in the cash flow hedging reserve until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment), the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create some volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in other comprehensive income at that time remain in other comprehensive income and are recognised when the hedged item is ultimately recognised in the income statement.

If a forecast hedged transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that were reported in other comprehensive income are transferred immediately to the income statement.

##### (c) Hedges of a net investment in a foreign operation

Our investments in foreign operations are exposed to foreign currency risk, which arises when we translate the net assets of our foreign investments from their functional currency to Australian dollars. We hedge our net investments to mitigate exposure to this

risk by using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

Gains and losses on remeasurement of our derivative instruments designated as hedges of foreign investments are recognised in the foreign currency translation reserve in equity to the extent they are considered to be effective.

The cumulative amount of the recognised gains or losses included in equity are transferred to the income statement when the foreign operation is sold.

##### (d) Derivatives and borrowings that are de-designated from fair value hedge relationships or not in a designated hedging relationship

Derivatives associated with borrowings de-designated from fair value hedge relationships or not in a designated hedge relationship for hedge accounting purposes are classified as 'held for trading'.

For borrowings de-designated from fair value hedge relationships, from the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are accounted for on an amortised cost basis consistent with a revised effective interest rate as at the de-designation date. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives. The cumulative gains or losses previously recognised from the re-measurement of these borrowings as at the date of de-designation are unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs.

For borrowings not in designated hedge relationships for hedge accounting purposes, the derivatives are recognised at fair value and the borrowings are accounted for on an amortised cost basis. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives.

Any gains or losses on remeasuring to fair value forward exchange contracts that are not in a designated hedging relationship are recognised directly in the income statement in the period in which they occur within other expenses or other income.

##### (e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives 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.

## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.23 Contingent Liabilities

A contingent liability is a liability of sufficient uncertainty that it does not qualify for recognition as a liability, or a liability whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Telstra. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

We first determine whether an obligation should be recorded as a liability or a contingent liability. This requires management to assess the probability that Telstra will be required to make payment as well as an estimate of that payment. This assessment is made based on the facts and circumstances for each, factoring in past experience and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Refer to note 23, note 26 and note 30 for further details on Telstra's contingent liabilities.

#### 2.24 Recently issued accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the year ended 30 June 2011, but will be applicable to the Telstra Group in future reporting periods, are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Telstra.

##### (a) Transfer of Financial Assets Disclosures

AASB 2010-6: "Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets" was issued in November 2010. AASB 2010-6 adds and amends existing disclosure requirements for transfers of financial assets in AASB 7: "Financial Instruments: Disclosures".

The amendments increase the disclosure requirements for financial assets that are either (legally) transferred but not derecognised (due to not meeting the accounting requirements) or derecognised but the transferor retains some level of continuing involvement in the financial asset.

The amendments to AASB 7 are applicable to annual reporting periods beginning on or after 1 July 2011, with early adoption permitted. It is anticipated that these amendments will have minimal impact on Telstra as we do not have complex financial assets.

##### (b) Financial Instruments - Classification, Measurement and Derecognition

AASB 9: "Financial Instruments" was re-issued in December 2010 to include the accounting requirements for classifying and measuring financial liabilities and the derecognition requirements for financial assets and liabilities. Two related omnibus standards AASB 2010-7: "Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)" and AASB 2009-11: "Amendments to Australian Accounting Standards arising from AASB 9" make a number of amendments to other accounting standards as a result of the amendments to AASB 9 and must be adopted at the same time.

Most of the added requirements on the classification and measurement of financial liabilities and all of the added requirements on the derecognition of financial instruments have been carried forward unchanged from the existing standard AASB 139: "Financial Instruments - Classification and Measurement". The only change made relates to the requirements for the fair value option for financial liabilities, to address the issue of own credit risk. For financial liabilities designated at fair value, the portion of the change in fair value due to changes in own credit risk now generally must be presented in other comprehensive income, rather than within profit or loss.

The amendments to AASB 9 are applicable to annual reporting periods beginning on or after 1 January 2013, with early adoption permitted. It is anticipated that this change will have minimal impact on Telstra as all of our financial liabilities are either classified at amortised cost or in a hedge relationship.

##### (c) Consolidated Financial Statements

IFRS 10: "Consolidated Financial Statements" was issued by the IASB in May 2011 and replaces both the existing IAS 27: "Consolidated and Separate Financial Statements" and SIC 12: "Consolidation - Special Purpose Entities". This new standard revises the definition of control and related application guidance so that a single control model can be applied to all entities. This standard will apply to Telstra from 1 July 2013 and we are currently assessing the impact on Telstra. Early adoption is permitted.

There have also been consequential amendments to IAS 27: "Consolidated and Separate Financial Statements" resulting from the issuance of IFRS 10. These amendments are applicable from 1 July 2013 and will have no impact on Telstra as we already comply with the amendments.



## Notes to the Financial Statements (continued)

### 2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

#### 2.24 Recently issued accounting standards to be applied in future reporting periods (continued)

##### (d) Joint Arrangements

IFRS 11: "Joint Arrangements" was also issued by the IASB in May 2011 and provides for a more realistic reflection of joint arrangements by focussing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. This standard is applicable from 1 July 2013, with early adoption permitted. Management is assessing the impact on Telstra.

##### (e) Disclosure of Interests in Other Entities

IFRS 12: "Disclosure of Interests in other Entities" was issued by the IASB in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is applicable from 1 July 2013 and management is currently assessing the impacts of the standard, which will be limited to disclosure impacts only.

There have also been consequential amendments to IAS 28: "Investment in Associates" as a result of the above new standard. These amendments are applicable from 1 July 2013 and will have no impact on Telstra as we already comply with the amendments.

##### (f) Fair Value Measurement

IFRS 13: "Fair Value Measurement" was issued by the IASB in May 2011 and provides a precise definition of a fair value, is a single source of fair value measurement and prescribes disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard will apply to Telstra from 1 July 2013, although early adoption is permitted. We are currently assessing the impacts of this standard on Telstra.

##### (g) Presentation of Items of Other Comprehensive Income (OCI)

IAS 1: "Presentation of Financial Statements" was amended by the IASB in June 2011 and provides improvements to the presentation of items of OCI. The main change is the requirement to group items within OCI that will be reclassified to the profit or loss in subsequent periods separately, from items of OCI that will not. The amendments also reaffirm existing requirements that items of OCI and profit or loss can be presented as either a single statement or two consecutive statements. The revised IAS 1 will apply to Telstra from 1 July 2012 however, early adoption is permitted. These amendments will have no financial impact on Telstra as these changes impact disclosure requirements only.

##### (h) Employee Benefits

IAS 19: "Employee Benefits" was issued by the IASB in June 2011 to replace the existing employee benefits standard. The key changes are as follows:

- Actuarial gains and losses have been renamed to 'remeasurements' and will be recognised immediately in OCI. Actuarial gains or losses will no longer be deferred using the corridor approach or recognised in profit or loss;
- Measurement of defined benefit expense will include net interest income or expense, calculated by applying a discount rate to the net defined benefit asset or liability. The discount rate used is based on either a corporate or government bond rate. This will remove the requirement to include an expected return on plan assets as part of the measurement of the defined benefit expense;
- Presentation of defined benefit cost has been disaggregated into three components; service cost to be presented in profit or loss, net interest on the net defined benefit asset or liability in the profit or loss as part of finance costs and remeasurements to be presented in OCI; and
- Additional disclosures are required about the characteristics of benefit plans, the amounts recognised in the financial statements and the risks arising from defined benefit plans.

The revised IAS 19 will apply to Telstra from 1 July 2013, although early adoption is permitted. We are currently assessing the impacts of this standard.

##### (i) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards that are applicable in future years:

- AASB 124: "Related Party Disclosures";
- AASB 2009-12: "Amendments to Australian Accounting Standards";
- AASB 2009-14: "Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement";
- AASB 2010-4: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2010-5: "Amendments to Australian Accounting Standards";
- AASB 2010-8: "Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets";
- AASB 2010-9: "Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"; and
- AASB 2011-4 "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements".

We do not expect these accounting standards to materially impact our financial results upon adoption.

## Notes to the Financial Statements (continued)

### 3. Earnings per share

	Telstra Group	
	Year ended 30 June	
	2011 cents	2010 cents
<b>Basic earnings per share.</b>	<b>26.1</b>	31.4
<b>Diluted earnings per share.</b>	<b>26.1</b>	31.3
	<b>\$m</b>	<b>\$m</b>
<b>Earnings used in the calculation of basic and diluted earnings per share</b>		
Profit for the year attributable to equity holders of Telstra Entity	3,231	3,883
	<b>Number of shares millions</b>	
<b>Weighted average number of ordinary shares</b>		
Weighted average number of ordinary shares on issue	12,443	12,443
Effect of shares held by employee share plan trusts (a)(b)	(61)	(70)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	12,382	12,373
Effect of dilutive employee share instruments (c)	15	24
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	12,397	12,397

(a) In order to underpin the equity instruments issued under the Growthshare plan, the Telstra Growthshare Trust purchases Telstra shares on the market. These shares are not considered to be outstanding for the purposes of computing basic and diluted earnings per share.

(b) Share options issued under the Telstra Employee Share Ownership Plan Trust I (TESOP97) and II (TESOP99) are not considered outstanding for the purposes of computing basic earnings per share.

(c) In fiscal 2011 and fiscal 2010, the following equity instruments are considered dilutive to earnings per share:

- incentive shares granted under the Growthshare short term incentive scheme;
- certain performance rights granted under the Growthshare long term incentive scheme; and
- share options issued under TESOP97.

In fiscal 2011 and fiscal 2010, the following equity instruments are not considered dilutive to earnings per share:

- certain performance rights, restricted shares and options issued under Growthshare; and
- share options issued under TESOP99.

Refer to note 27 for details regarding equity instruments issued under the Growthshare and TESOP share plans.

## Notes to the Financial Statements (continued)

### 4. Dividends

	Telstra Entity	
	Year ended 30 June	
	2011 \$m	2010 \$m
<b>Dividends paid</b>		
Previous year final dividend paid . . . . .	1,737	1,737
Interim dividend paid . . . . .	1,738	1,737
Total dividends paid . . . . .	3,475	3,474
<b>Dividends paid per ordinary share</b>		
	cents	cents
Previous year final dividend paid . . . . .	14.0	14.0
Interim dividend paid . . . . .	14.0	14.0
Total dividends paid . . . . .	28.0	28.0

Dividends paid are fully franked at a tax rate of 30%.

Dividends per share in respect of each fiscal year are detailed below:

	Telstra Entity	
	Year ended 30 June	
	2011 cents	2010 cents
<b>Dividends per ordinary share</b>		
Interim dividend paid . . . . .	14.0	14.0
Final dividend to be paid (a) . . . . .	14.0	14.0
Total dividends. . . . .	28.0	28.0

	Telstra Entity	
	Year ended 30 June	
	2011 \$m	2010 \$m
<b>The combined amount of exempting and franking credits available to us for the next fiscal year are:</b>		
Franking account balance. . . . .	(141)	(138)
Exempting account (b) . . . . .	24	24
Franking credits that will arise from the payment of income tax payable as at 30 June (c) . . . . .	369	320
Exempting credits that we may be prevented from distributing in the next fiscal year (b) . . . . .	(24)	(24)
	228	182

(a) As the final dividend for fiscal 2011 was not determined or publicly recommended by the Board as at 30 June 2011, no provision for dividend has been raised in the statement of financial position. The final dividend has been reported as an event subsequent to reporting date. Refer to note 31 for further details.

(b) In relation to our exempting account, there are statutory restrictions placed on the distribution of credits from this account. As a result of these restrictions, it is unlikely that we will be able to distribute our exempting credits.

(c) Franking credits that will arise from the payment of income tax are expressed at the 30% tax rate on a tax paid basis.

## Notes to the Financial Statements (continued)

### 5. Segment information

#### Operating segments

We report our segment information on the same basis as our internal management reporting structure, which drives how our company is organised and managed.

During the year ended 30 June 2011, the following changes were made to our operating segments:

- Telstra Consumer and Telstra Country Wide, formerly two segments, merged and became one reportable segment, Telstra Consumer and Country Wide;
- the business unit "Telstra International" was created in fiscal 2010 and takes the geographic and operational responsibility for CSL New World (CSL NW), our interests in our mainland China businesses and international managed network and hosting operations under the International brand. Previously, CSL NW was a separate reportable segment and the rest of the International Group was combined under the segment called "Other International Unit". CSL NW, Other International Unit and our China businesses (previously in the Sensis segment and excluding SouFun) now form part of one reportable segment, Telstra International;
- SouFun, which previously formed part of the Sensis segment, was disposed of on 17 September 2010. Its results up to the date of sale have been reported under the "All Other" category; and
- our Chief Marketing Office segment has been renamed as Telstra Innovation, Products and Marketing.

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparatives are restated to reflect the changes described above as well as any organisational changes which have occurred since the prior reporting period to present a like-for-like view.

The Telstra Group for fiscal 2011 is organised into the following operating segments for internal management reporting purposes:

**Telstra Consumer and Country Wide (TC&CW)** is responsible for providing the full range of telecommunication products, services and solutions (across Mobiles, Fixed and Wireless Broadband, Telephony and Pay TV) to consumer customers in metropolitan, regional, rural and remote areas of Australia. This is achieved through inbound and outbound call centres, Telstra Shops (owned and licensed), Telstra Dealers and Telstra Digital. Established in 2011, Telstra Digital is responsible for delivering self service capabilities for all Telstra customers, across all phases of the customer experience from browsing to buying and bill and service requests.

**Telstra Business (TB)** is responsible for the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to small to medium enterprises.

**Telstra Enterprise and Government (TE&G)** is responsible for provision of network services and applications and integrated voice, data and mobile solutions via Telstra Next Generation Services® to enterprise and government customers.

**Telstra Operations (TOps)** is responsible for:

- overall planning, design, engineering and architecture of Telstra networks, technology and information technology;
- construction of infrastructure for our Company's fixed, mobile, Internet protocol (IP) and data networks;
- delivery of customer services across these networks;
- operation, assurance and maintenance, including activation and restoration of these networks;
- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs; and
- delivery of network-centric professional services, managed services and outsourcing services for Telstra customers.

**Telstra Wholesale (TW)** is responsible for the provision of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers. Telstra Wholesale also provides core access services to NBN Co Limited for trial site deployment.

**Sensis** is responsible for the management and growth of the domestic directories and advertising business, including print, voice and digital directories, digital mapping and satellite navigation, digital display advertising and business information services. This includes the management of leading information brands including Yellow Pages®, White Pages®, Whereis®, Citysearch®, 1234, Mediasmart® and Quotify®.

**Telstra International (TI)** is responsible for managing Telstra's assets outside Australia and New Zealand, including:

- CSL New World Mobility Limited, our 76.4% owned subsidiary in Hong Kong, responsible for providing full mobile services including handset sales, voice and data products to the Hong Kong market. These services are delivered over CSL's 3G and Long Term Evolution networks;
- our interests in our mainland China business, providing online advertising services in auto, IT and consumer electronics and Mobile Value Added Service segments. Businesses include Norstar Media, Autohome/PCPop, Sharp Point and ChinaM, and LMobile; and
- the Telstra International global networks and managed services business, that has more than 1,300 points of presence throughout Australia, Asia Pacific, Europe and the U.S, and is a provider of international voice, satellite and IP data services in Asia and has interests in more than 20 submarine cables. This includes the Reach entities and other assets we acquired as part of the restructure of our joint venture with PCCW, Reach.

**TelstraClear (TClear)**, our New Zealand subsidiary, is responsible for providing full telecommunications services to the New Zealand market.

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

#### Operating segments (continued)

**Telstra Innovation, Products and Marketing (TIPM)** is responsible for innovation, product, promotion and pricing across Telstra. TIPM is also responsible for the overall brand, sponsorship, promotion and advertising direction of Telstra, as well as maintaining good industry analyst relations and embedding market based management across the company. This is done by delivering data-driven customer insights that put the customer at the centre of everything Telstra does.

**Telstra Cable** is responsible for:

- the management of our investment in the FOXTEL partnerships;
- the development of new business opportunities between Telstra and FOXTEL; and
- the hybrid fibre coaxial (HFC) cable network.

**Corporate areas** include:

- Legal Services - provides operational and strategic legal support and advice across the Company;
- Strategy and Corporate Services - manages Telstra's public policy, communications, corporate strategy and mergers and acquisitions. This includes responsibility for government relations at every level, regulatory positioning and negotiation, and corporate social responsibility (including the Telstra Foundation);
- Finance and Administration - encompasses the functions of corporate planning, accounting and administration, credit management, billing, treasury, risk management and assurance, investor relations and procurement. It also provides financial support to all business units and financial management of the majority of Telstra Entity's fixed assets (including network assets);
- The Telstra Board and the Office of the Company Secretary;
- Human Resources - supports Telstra in organisational design, implementation of people and culture initiatives, leadership development, talent management, health, safety and the environment, professional development and all employment and remuneration policies;
- The Office of the CEO; and
- Customer Experience - is responsible for driving change that improves the customer experience and delivering Telstra-wide productivity improvements.

In our segment financial results, the "All Other" category consists of various business units that do not qualify as reportable segments in their own right. These include:

- TIPM;
- Telstra Cable;
- SouFun; and
- our Corporate areas.

Revenue for the "All Other" segment relates primarily to our revenue earned by Telstra Cable from providing access to our HFC network and other services to FOXTEL. Finance and Administration, in the Corporate area, is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges as well as impairment of property, plant and equipment and software.

Refer to note 31 for changes in the organisational structure announced after reporting date.

#### Segment results

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their "underlying earnings before interest, income tax expense, depreciation and amortisation (EBITDA) contribution" and "underlying earnings before interest and income tax expense (EBIT) contribution" to the Telstra Group. EBITDA contribution and EBIT contribution excludes the effects of all inter-segment balances and transactions. As such, only transactions external to the Telstra Group are reported. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBIT and profit before income tax expense in the financial statements.

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

- the Telstra Entity fixed assets (including network assets) are managed centrally. The resulting depreciation and amortisation is also recorded centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- rental costs associated with personal computers, laptops, printers and other related equipment for the Telstra Entity.

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

- sales revenue associated with mobile handsets for TC&CW, TB and TE&G are mainly allocated to the TC&CW segment along with the associated costs of goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&CW, TB and TE&G depending on the type of customer serviced;
- TOPs recognise certain expenses in relation to the installation and running of the hybrid fibre coaxial (HFC) cable network; and
- the domestic promotion and advertising expense for Telstra Entity is recorded centrally in TIPM.



## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

The following tables detail the underlying results of our business segments, based on the reporting structure as at 30 June 2011:

#### Telstra Group

Year ended 30 June 2011	TC&CW \$m	TB \$m	TE&G \$m	TOps \$m	TW \$m	Sensis \$m	TI \$m	TClear \$m	All Other \$m	Total \$m
Revenue from external customers for operating segments (e)(f) . . . . .	9,954	4,500	4,242	120	2,194	1,787	1,285	516	194	24,792
Other non-operating segment revenue . . . . .	-	-	-	-	-	-	-	-	185	185
Other income . . . . .	61	8	(3)	8	-	-	4	(2)	32	108
<b>Total income</b> . . . . .	<b>10,015</b>	<b>4,508</b>	<b>4,239</b>	<b>128</b>	<b>2,194</b>	<b>1,787</b>	<b>1,289</b>	<b>514</b>	<b>411</b>	<b>25,085</b>
Labour expenses . . . . .	470	220	311	1,354	65	405	184	95	812	3,916
Goods and services purchased . . . . .	3,251	926	572	237	74	128	662	256	51	6,157
Other expenses . . . . .	999	141	77	2,214	18	260	220	80	1,019	5,028
Share of equity accounted profits . . . . .	-	-	(1)	-	-	-	-	-	-	(1)
<b>EBITDA contribution</b> . . . . .	<b>5,295</b>	<b>3,221</b>	<b>3,280</b>	<b>(3,677)</b>	<b>2,037</b>	<b>994</b>	<b>223</b>	<b>83</b>	<b>(1,471)</b>	<b>9,985</b>
Depreciation and amortisation . . . . .	-	-	14	76	-	123	121	111	4,010	4,455
<b>EBIT contribution</b> . . . . .	<b>5,295</b>	<b>3,221</b>	<b>3,266</b>	<b>(3,753)</b>	<b>2,037</b>	<b>871</b>	<b>102</b>	<b>(28)</b>	<b>(5,481)</b>	<b>5,530</b>

#### Telstra Group

Year ended 30 June 2010	TC&CW \$m	TB \$m	TE&G \$m	TOps \$m	TW \$m	Sensis \$m	TI \$m	TClear \$m	All Other \$m	Total \$m
Revenue from external customers for operating segments (e) . . . . .	9,613	4,418	4,169	74	2,280	1,909	1,378	529	291	24,661
Other non-operating segment revenue . . . . .	-	-	-	-	-	-	-	-	196	196
Other income . . . . .	54	12	1	6	-	-	3	-	36	112
<b>Total income</b> . . . . .	<b>9,667</b>	<b>4,430</b>	<b>4,170</b>	<b>80</b>	<b>2,280</b>	<b>1,909</b>	<b>1,381</b>	<b>529</b>	<b>523</b>	<b>24,969</b>
Labour expenses . . . . .	479	205	310	1,315	69	374	178	92	685	3,707
Goods and services purchased . . . . .	2,577	876	509	232	84	150	638	255	40	5,361
Other expenses . . . . .	1,027	129	84	2,279	17	280	235	78	821	4,950
Share of equity accounted profits . . . . .	-	-	(2)	-	-	-	-	-	-	(2)
<b>EBITDA contribution</b> . . . . .	<b>5,584</b>	<b>3,220</b>	<b>3,269</b>	<b>(3,746)</b>	<b>2,110</b>	<b>1,105</b>	<b>330</b>	<b>104</b>	<b>(1,023)</b>	<b>10,953</b>
Depreciation and amortisation . . . . .	-	-	17	74	-	84	139	118	3,913	4,345
<b>EBIT contribution</b> . . . . .	<b>5,584</b>	<b>3,220</b>	<b>3,252</b>	<b>(3,820)</b>	<b>2,110</b>	<b>1,021</b>	<b>191</b>	<b>(14)</b>	<b>(4,936)</b>	<b>6,608</b>

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

A reconciliation of EBIT contribution for reportable segments to Telstra Group reported EBIT and profit before income tax expense is provided below:

	Note	Telstra Group	
		Year ended 30 June	
		2011	2010
		\$m	\$m
EBIT contribution for reportable segments . . . . .		11,011	11,544
All other . . . . .		(5,481)	(4,936)
Total all segments . . . . .		5,530	6,608
<b>Amounts excluded from underlying results:</b>			
- net gain on disposal of non current assets . . . . .		12	-
- net gain on disposal of associated entities (a) . . . . .		8	-
- net loss on disposal of businesses (b) . . . . .		(16)	-
- net gain on disposal of controlled entities (c) . . . . .		69	-
- gain from derecognition of contingent consideration (d) . . . . .	6	30	-
- distribution from FOXTEL Partnership (e) . . . . .	6	70	60
- EBIT contribution from Reach related operations (f) . . . . .		2	-
- impairment in value of goodwill and intangibles (g) . . . . .	14	(160)	(168)
- reversal of impairment in value of amount owed by joint ventures (h) . . . . .	7	147	-
- reversal of impairment in value of investments . . . . .	7	-	1
- <b>Telstra Group EBIT (reported)</b> . . . . .		<b>5,692</b>	<b>6,501</b>
- Net finance costs . . . . .		(1,135)	(963)
- <b>Telstra Group profit before income tax expense (reported)</b> . . . . .		<b>4,557</b>	<b>5,538</b>

(a) We sold our 48.2% holding in Keycorp Limited on 8 December 2010 for a total consideration of \$23 million, resulting in a gain on sale of \$8 million.

(b) On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business for a total consideration of \$14 million resulting in a loss on disposal of \$16 million. Refer to note 20 for further details.

(c) On 17 September 2010, our controlled entity Telstra International Holdings sold its 50.6% shareholding in SouFun resulting in a net gain of \$69 million. Refer to note 20 for further details.

(d) The \$30 million gain from the derecognition of contingent consideration relates to the fiscal 2010 acquisition of LMobile Group. Refer to note 20 for further details.

(e) The \$70 million (2010: \$60 million) distribution received from FOXTEL has been recorded as revenue in the income statement, but excluded from reportable segment revenue.

(f) Revenue of \$46 million and EBIT contribution of \$2 million related to Reach operations, acquired in fiscal 2011, have been recorded in the income statement but excluded from TI reportable segment results. Refer to note 20 for further details regarding the restructure of the Reach joint venture.

(g) The impairment of goodwill and intangibles relates to the Octave Group (impairment of goodwill and customer bases of \$133 million) and to the LMobile Group (impairment of goodwill of \$27 million) (2010: \$168 million impairment of goodwill relates to CSL New World).

(h) As part of the restructure of Reach, Telstra's joint venture with PCCW, Telstra acquired a number of assets from Reach. The purchase price of \$147 million was paid by an offset against the shareholder loan due from Reach, which was fully provided for by Telstra. As such, \$147 million of the provision for the loan was reversed as it was no longer required. Refer to note 20 for further details regarding the restructure of the Reach joint venture.

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

	Telstra Group	
	Year ended 30 June	2010
	2011	
	\$m	\$m
<b>Information about our geographic operations (i)</b>		
<b>Revenue from external customers</b>		
Australian customers . . . . .	23,188	22,969
Offshore customers . . . . .	1,905	1,948
	<b>25,093</b>	<b>24,917</b>
<b>Carrying amount of non current assets (j)</b>		
Located in Australia . . . . .	27,607	28,010
Located offshore . . . . .	2,557	3,485
	<b>30,164</b>	<b>31,495</b>

(i) Our geographical operations are split between our Australian and offshore operations. Our offshore operations include CSL New World (Hong Kong), Norstar Media, Autohome/PCPop, ChinaM, Sharp Point and LMobile which are part of our TI segment, our international business, including Telstra Europe (UK), that serves multi-national customers also in the TI segment and TelstraClear (New Zealand). No individual geographical area forms a significant part of our operations apart from our Australian operations.

(j) The carrying amount of our segment non current assets excludes derivative assets, defined benefit assets and deferred tax assets.

	Note	Telstra Group	
		Year ended 30 June	2010
		2011	
		\$m	\$m
<b>Information about our products and services</b>			
PSTN products . . . . .		5,370	5,832
Fixed internet . . . . .		2,091	2,144
ISDN products . . . . .		877	905
Other fixed revenue . . . . .		1,165	1,101
Mobiles . . . . .		8,100	7,317
IP and data access . . . . .		1,771	1,777
Network applications and services . . . . .		1,144	1,033
Offshore content . . . . .		85	144
Advertising and directories . . . . .		1,909	2,165
CSL New World . . . . .		814	770
TelstraClear . . . . .		516	529
Other offshore services revenue . . . . .		299	293
Pay TV bundling . . . . .		584	511
Other sales revenue (k) . . . . .		258	292
Other revenue (l) . . . . .	6	110	104
<b>Total revenue</b> . . . . .	<b>6</b>	<b>25,093</b>	<b>24,917</b>

(k) Other sales revenue includes \$102 million relating to HFC cable network usage (2010: \$84 million).

(l) Other revenue primarily consists of distributions from our FOXTEL Partnership and rental income.

## Notes to the Financial Statements (continued)

### 6. Income

	Note	Telstra Group	
		Year ended 30 June	
		2011	2010
		\$m	\$m
<b>Sales revenue</b>			
Rendering of services . . . . .		11,539	11,864
Sale of goods . . . . .		1,690	1,223
Rent of network facilities and access . . . . .		9,572	9,328
Construction contracts . . . . .		273	233
Advertising and directory services. . . . .		1,909	2,165
		<b>24,983</b>	<b>24,813</b>
<b>Other revenue (excluding finance income)</b>			
Distribution from FOXTEL Partnership . . . . .	29	70	60
Rent from property. . . . .		40	44
		<b>110</b>	<b>104</b>
<b>Total revenue (excluding finance income)</b> . . . . .		<b>25,093</b>	<b>24,917</b>
<b>Other income</b>			
Net gain on disposal of non current assets (i) . . . . .		75	2
Gain from derecognition of contingent consideration . . . . .	20	30	-
Other miscellaneous income . . . . .		106	110
		<b>211</b>	<b>112</b>
<b>Total income (excluding finance income)</b> . . . . .		<b>25,304</b>	<b>25,029</b>
<b>Finance income</b>			
Interest on cash and cash equivalents. . . . .	17	117	57
Interest on finance lease receivable . . . . .		10	10
		<b>127</b>	<b>67</b>
<b>Total income</b> . . . . .		<b>25,431</b>	<b>25,096</b>

(i) Non current assets includes property, plant and equipment, intangibles and investments.

## Notes to the Financial Statements (continued)

### 7. Expenses

	Note	Telstra Group	
		Year ended 30 June	
		2011	2010
		\$m	\$m
<b>Labour</b>			
Included in our labour expenses are the following:			
Employee redundancy . . . . .		224	128
Share based payments . . . . .	27	12	5
Defined benefit plan expense . . . . .	24	268	249
<b>Cost of goods sold . . . . .</b>		<b>2,644</b>	<b>2,076</b>
<b>Other expenses</b>			
Impairment losses:			
- impairment in value of inventories . . . . .		43	16
- impairment in value of trade and other receivables . . . . .		421	439
- impairment in value of property, plant and equipment . . . . .	13	38	40
- impairment in value of intangibles (a) . . . . .	14	51	2
- impairment in value of goodwill (a) . . . . .	14	121	168
		<b>674</b>	<b>665</b>
Reversal of impairment losses:			
- reversal of impairment in value of trade and other receivables . . . . .	10	(80)	(71)
- reversal of impairment in value of amount owed by joint ventures . . . . .		(147)	-
- reversal of impairment in value of investments . . . . .		-	(1)
		<b>(227)</b>	<b>(72)</b>
Rental expense on operating leases . . . . .		561	565
Net foreign currency translation gains . . . . .		(1)	(1)
Service contracts and other agreements . . . . .		2,359	2,275
Promotion and advertising . . . . .		334	349
General and administration . . . . .		902	930
Other operating expenses . . . . .		445	406
		<b>5,047</b>	<b>5,117</b>
<b>Depreciation of property, plant and equipment . . . . .</b>	<b>13</b>	<b>3,454</b>	<b>3,440</b>
<b>Amortisation of intangible assets . . . . .</b>		<b>1,005</b>	<b>906</b>
		<b>4,459</b>	<b>4,346</b>
<b>Finance costs</b>			
Interest on borrowings . . . . .	17	1,186	1,071
Unwinding of discount on liabilities recognised at present value . . . . .		20	21
Loss on fair value hedges - effective (b) . . . . .		27	26
(Gain)/loss on cash flow hedges - ineffective . . . . .		(6)	5
Loss/(gain) on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (c) . . . . .		125	(36)
Other . . . . .		14	16
		<b>1,366</b>	<b>1,103</b>
Less: interest on borrowings capitalised (d) . . . . .		(104)	(73)
		<b>1,262</b>	<b>1,030</b>
<b>Research and development expenses . . . . .</b>		<b>6</b>	<b>9</b>



## Notes to the Financial Statements (continued)

### 7. Expenses (continued)

(a) We have recognised an impairment loss of \$172 million relating to impairment of goodwill (\$121 million) and other intangible assets (\$51 million) in Telstra Group financial statements. Refer to note 14 and note 21 for further details regarding impairment.

(b) We use our cross currency and interest rate swaps as fair value hedges to convert our foreign currency borrowings into Australian dollar floating rate borrowings. The \$27 million unrealised loss for the current year (2010: loss of \$26 million) reflects a partial reversal of previously recognised gains. The following valuation impacts have contributed to the net revaluation loss of \$27 million:

- reduction in the number of future interest flows as we approach maturity of the financial instruments;
- movement in base market rates and Telstra's borrowing margin as at 30 June valuation date; and
- discount factor unwinding as borrowings move closer to maturity.

It is important to note that in general, it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and will progressively unwind to nil at maturity.

Refer to note 18 for further details regarding our hedging strategies.

(c) A combination of the following factors has resulted in a net unrealised loss of \$125 million (2010: gain of \$36 million) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described at (b) above for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of \$21 million for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

Notwithstanding that these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

(d) Interest on borrowings has been capitalised using a capitalisation rate of 7.33% (2010: 7.25%). We applied the revised accounting standard AASB 123: "Borrowing Costs" prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009. The \$31 million net increase from prior year (reduction in finance costs) is due to the progressive increase in the value of the qualifying asset base for which borrowing costs are capitalised.

## Notes to the Financial Statements (continued)

### 8. Remuneration of auditors

	Telstra Group	
	Year ended 30 June	
	2011 \$m	2010 \$m
<b>Audit fees</b>		
Ernst & Young has charged the following amounts for auditing and reviewing the financial reports. . . . .	<b>8.309</b>	8.521
<b>Other services</b>		
Other services provided by Ernst & Young in their own right . . . . .	<b>7.113</b>	1.470

#### Other services

Other services comprise audit related fees and non-audit services.

Audit related fees charged by Ernst & Young (EY) amounted to \$0.396 million (2010: \$1.064 million) and are for services that are reasonably related to the performance of the audit or review of our financial statements and other assurance engagements. These services include assurance services over debt raising prospectuses, additional control assessments around our transformation program, various accounting advice and additional audit services arising on the acquisition of newly acquired controlled entities.

Non-audit services of \$6.717 million (2010: \$0.406 million) comprise the following:

- tax fees charged by EY which mainly relate to tax advisory services, and licence fees and technical services in relation to our tax return software; and
- other services that relate to all additional services performed by EY, other than those disclosed as auditing and reviewing the financial reports, audit related and tax. These services include various reviews and non assurance services across the Group, including a number of projects as part of our strategy around customer acquisition and business simplification which occurred in fiscal 2011. These projects have predominantly contributed to the increase in other services from prior year.

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

Fees earned by EY for non-audit services are capped at a maximum of 1.0 times the total audit and audit related fees.

The Audit Committee approves the recurring audit and non-audit fees. The provision of additional audit and non-audit services by EY must be approved by the Chief Financial Officer, the Chairman of the Audit Committee or the Audit Committee if not covered by the Audit Committee pre-approval, subject to confirmation by both management and EY that the provision of these services does not compromise auditor independence. All EY engagements approved by the Chief Financial Officer are reported to the Audit Committee at the next meeting.

## Notes to the Financial Statements (continued)

### 9. Income taxes

Telstra Group		
As at 30 June		
	2011 \$m	2010 \$m
<b>Major components of income tax expense</b>		
Current tax expense . . . . .	1,519	1,182
Deferred tax resulting from the origination and reversal of temporary differences . . . . .	(209)	369
(Over)/under provision of tax in prior years . . . . .	(3)	47
	<b>1,307</b>	<b>1,598</b>
<b>Notional income tax expense on profit differs from actual income tax expense recorded as follows:</b>		
Profit before income tax expense . . . . .	4,557	5,538
Notional income tax expense calculated at the Australian tax rate of 30% . . . . .	1,367	1,661
Which is adjusted by the tax effect of:		
Effect of different rates of tax on overseas income . . . . .	(17)	(36)
Non assessable and non deductible items . . . . .	(16)	74
Amended assessments . . . . .	(24)	(148)
(Over)/under provision of tax in prior years . . . . .	(3)	47
Income tax expense on profit . . . . .	<b>1,307</b>	<b>1,598</b>
Income tax recognised directly in other comprehensive income or equity during the year . . . . .	<b>19</b>	<b>(9)</b>
<b>Telstra Group</b>		
<b>As at 30 June</b>		
	<b>2011 \$m</b>	<b>2010 \$m</b>
<b>(Deferred tax liability)/deferred tax asset</b>		
<b>Deferred tax items recognised in the income statement (*)</b>		
Property, plant and equipment . . . . .	(1,434)	(1,686)
Intangible assets . . . . .	(876)	(827)
Borrowings and derivative financial instruments . . . . .	(90)	(178)
Provision for employee entitlements . . . . .	252	261
Revenue received in advance . . . . .	52	81
Provision for workers' compensation . . . . .	21	50
Allowance for doubtful debts . . . . .	64	67
Defined benefit liability/asset (a) . . . . .	138	160
Trade and other payables . . . . .	135	79
Other provisions . . . . .	52	51
Income tax losses (b) . . . . .	46	74
Other . . . . .	(29)	(14)
	<b>(1,669)</b>	<b>(1,882)</b>
<b>Deferred tax items recognised in other comprehensive income or equity (c)</b>		
Defined benefit liability/asset (a) . . . . .	(74)	(20)
Derivative financial instruments . . . . .	13	(22)
	<b>(61)</b>	<b>(42)</b>
<b>Net deferred tax liability . . . . .</b>	<b>(1,730)</b>	<b>(1,924)</b>
<b>Our net deferred tax liability is split as follows:</b>		
Deferred tax assets recognised in the statement of financial position . . . . .	-	3
Deferred tax liabilities recognised in the statement of financial position . . . . .	(1,730)	(1,927)
	<b>(1,730)</b>	<b>(1,924)</b>

(\*) This includes the impact of foreign exchange movements in the deferred tax items recognised in the income statement.

## Notes to the Financial Statements (continued)

### 9. Income taxes (continued)

	Telstra Group As at 30 June	
	2011 \$m	2010 \$m
<b>Deferred tax assets not recognised (d)</b>		
Income tax losses . . . . .	55	62
Capital tax losses . . . . .	172	160
Deductible temporary differences . . . . .	308	464
	<b>535</b>	<b>686</b>

(a) Our net deferred tax asset on our defined benefit liability for the Telstra Group is \$64 million (2010: \$140 million net deferred tax asset).

(b) We have recognised a deferred tax asset for the unused tax losses of our offshore controlled entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. We have prepared a management budget in line with our current knowledge of future events to support our view of sufficient future taxable profits being available to offset our unused tax losses.

(c) When the underlying transactions to which our deferred tax relates are recognised directly in other comprehensive income or equity, the temporary differences associated with these adjustments are also recognised directly in other comprehensive income or equity.

(d) Our deferred tax assets not recognised in the statement of financial position may be used in future years if the following criteria are met:

- our controlled entities have sufficient future taxable profit to enable the income tax losses and temporary differences to be offset against that taxable profit;
- we have sufficient future capital gains to be offset against those capital losses;
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

#### Tax consolidation

The Telstra Entity and its Australian resident wholly owned entities previously elected to form a tax consolidated group. As a consequence of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes.

The Telstra Entity, as the head entity in the tax consolidated group, recognises, in addition to its own transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the group. However, the Telstra Entity and its Australian resident wholly owned entities account for their own current tax expense and deferred tax amounts.

Upon tax consolidation, the entities within the tax consolidated group entered into a tax sharing agreement. The terms of this agreement specified the methods of allocating any tax liability in the event of default by the Telstra Entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains with the Telstra Entity for tax purposes.

A tax funding arrangement is also in place for entities within the tax consolidated group under which:

- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any current tax receivable assumed;
- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any deferred tax assets relating to unused tax losses and tax credits; and
- Australian resident wholly owned entities compensate the Telstra Entity for any current tax payable assumed.

The funding amounts are based on the amounts recorded in the financial statements of the wholly owned entities.

Amounts receivable of \$14 million (2010: \$30 million) to the Telstra Entity and amounts payable by the Telstra Entity of \$206 million (2010: \$231 million) under the tax funding arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

## Notes to the Financial Statements (continued)

### 10. Trade and other receivables

		Telstra Group	
		As at 30 June	
	Note	2011 \$m	2010 \$m
<b>Current</b>			
Trade receivables (a) . . . . .		3,341	3,182
Allowance for doubtful debts (a) . . . . .		(230)	(231)
		<b>3,111</b>	<b>2,951</b>
Amounts owed by jointly controlled and associated entities . . . . .	29	35	-
Finance lease receivable (b) . . . . .		52	65
Accrued revenue . . . . .		864	895
Bank deposits with maturity greater than 90 days . . . . .		1	16
Other receivables . . . . .		74	54
		<b>991</b>	<b>1,030</b>
		<b>4,137</b>	<b>3,981</b>
<b>Non current</b>			
Trade receivables (a) . . . . .		233	80
Amounts owed by jointly controlled and associated entities . . . . .	29	5	219
Allowance for amounts owed by jointly controlled and associated entities . . . . .	29	(5)	(182)
		-	37
Finance lease receivable (b) . . . . .		92	83
Other receivables . . . . .		15	17
		<b>107</b>	<b>100</b>
		<b>340</b>	<b>217</b>

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

The ageing of current and non current trade receivables is detailed below:

Telstra Group				
As at 30 June				
	2011		2010	
	Gross \$m	Allowance \$m	Gross \$m	Allowance \$m
Not past due	2,063	(24)	1,723	(5)
Past due 0 - 30 days . . . . .	830	(30)	817	(16)
Past due 31 - 60 days . . . . .	187	(20)	195	(17)
Past due 61 - 90 days . . . . .	96	(21)	111	(24)
Past due 91 - 120 days . . . . .	79	(21)	93	(30)
Past 120 days . . . . .	319	(114)	323	(139)
	<b>3,574</b>	<b>(230)</b>	<b>3,262</b>	<b>(231)</b>

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

Telstra Group		
Year ended 30 June		
	2011 \$m	2010 \$m
<b>Opening balance</b> . . . . .	(231)	(249)
- additional allowance . . . . .	(84)	(78)
- addition due to acquisition . . . . .	(2)	-
- amounts used . . . . .	5	19
- amounts reversed . . . . .	80	71
- foreign currency exchange differences . . . . .	2	1
- transfer of SouFun's balance to assets held for sale . . . . .	-	5
<b>Closing balance</b> . . . . .	<b>(230)</b>	<b>(231)</b>



## Notes to the Financial Statements (continued)

### 10. Trade and other receivables (continued)

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

Our policy requires customers to pay us in accordance with agreed payment terms. Depending on the customer segment, our settlement terms are generally 14 to 30 days from date of invoice. All credit and recovery risk associated with trade receivables has been provided for in the statement of financial position.

Our trade receivables include our customer deferred debt and White Pages® directory charges. Our customer deferred debt allows eligible customers the opportunity to repay the cost of their mobile handset, other hardware and approved accessories monthly over 12, 18 or 24 months. The loan is provided interest free to our mobile postpaid customers. Similarly, the White Pages® directory entries can be repaid over 12 months.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

We hold security for a number of trade receivables, including past due or impaired receivables in the form of guarantees, deeds of undertaking, letters of credit and deposits. During fiscal 2011, the securities we called upon were insignificant.

We have used the following basis to assess the allowance loss for trade receivables:

- a statistical approach to apply risk segmentation to the debt, and applying the historical impairment rate to each segment at the end of the reporting period;
- an individual account by account assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

As at 30 June 2011, trade receivables with a carrying amount of \$1,305 million (2010: \$1,313 million) for the Telstra Group were past due but not impaired.

These trade receivables, along with our trade receivables that are neither past due nor impaired, comprise customers who have a good debt history and are considered recoverable.

#### (b) Finance lease receivable

We enter into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The average term of finance leases entered into is between 2 to 5 years (2010: 2 to 5 years).

	<b>Telstra Group</b>	
	<b>As at 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$m</b>	<b>\$m</b>
<b>Amounts receivable under finance leases</b>		
Within 1 year . . . . .	59	72
Within 1 to 5 years . . . . .	99	88
After 5 years . . . . .	1	2
Total minimum lease payments . . . . .	159	162
Less unearned finance income . . . . .	(15)	(14)
Present value of minimum lease payments	144	148
<b>Included in the financial statements as:</b>		
Current finance lease receivables . . . . .	52	65
Non current finance lease receivables . . . . .	92	83
	144	148

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is 7.5% (2010: 7.0%) per annum.

## Notes to the Financial Statements (continued)

### 11. Inventories

	Telstra Group	
	As at 30 June	
	2011 \$m	2010 \$m
<b>Current</b>		
Finished goods recorded at cost . . . . .	169	171
Finished goods recorded at net realisable value . . . . .	48	55
Total finished goods . . . . .	217	226
Raw materials and stores recorded at cost . . . . .	15	26
Construction contracts (a) . . . . .	51	43
	283	295
<b>Non current</b>		
Finished goods recorded at net realisable value . . . . .	22	17
	22	17
<b>(a) Construction contract disclosures are shown as follows:</b>		
Contract costs incurred and recognised profits . . . . .	353	315
Progress billings . . . . .	(302)	(272)
	51	43

## Notes to the Financial Statements (continued)

### 12. Non current assets held for sale

At 30 June 2011 we were committed to dispose of our 64.4% shareholding in Adstream (Aust) Pty Ltd (Adstream). The disposal was subsequently completed on 21 July 2011. Refer to note 31 for further details. In accordance with AASB 5: "Non-current Assets Held for Sale and Discontinued Operations" the carrying value of assets and liabilities of Adstream have been classified as held for sale as at 30 June 2011.

On 1 December 2009, the shareholders of SouFun decided to commence a process to prepare SouFun for an offer of the shares in that company to the public. At that time, we announced that we intended to sell down our shareholding as part of the process. As at 30 June 2010, the carrying value of assets and liabilities of SouFun were classified as held for sale. On 17 September 2010, we sold our shareholding in SouFun and therefore disposed of the carrying value of assets and liabilities of SouFun, which were classified as held for sale up to the date of disposal. Refer to note 20 for further details on this disposal.

Adstream is included in the Sensis reportable segment and SouFun is included in the All Other segment category in our segment information disclosures in note 5.

		Telstra Group	
		As at 30 June	
	Note	2011 \$m	2010 \$m
<b>Current assets</b>			
Cash and cash equivalents . . . . .	20	7	169
Trade and other receivables . . . . .		3	45
Inventories . . . . .		-	8
Current tax receivables . . . . .		-	1
Prepayments . . . . .		-	2
<b>Total current assets</b>		<b>10</b>	<b>225</b>
<b>Non current assets</b>			
Property, plant and equipment . . . . .	13	1	7
Intangible assets . . . . .	14	29	347
Deferred tax assets . . . . .		1	-
<b>Total non current assets</b>		<b>31</b>	<b>354</b>
<b>Total assets</b>		<b>41</b>	<b>579</b>
<b>Current liabilities</b>			
Trade and other payables . . . . .		2	38
Provisions . . . . .		1	1
Current tax liabilities . . . . .		1	12
Revenue received in advance . . . . .		-	33
<b>Total current liabilities</b>		<b>4</b>	<b>84</b>
<b>Non current liabilities</b>			
Deferred tax liabilities . . . . .		1	5
<b>Total non current liabilities</b>		<b>1</b>	<b>5</b>
<b>Total liabilities</b>		<b>5</b>	<b>89</b>
<b>Net assets</b>		<b>36</b>	<b>490</b>

## Notes to the Financial Statements (continued)

### 13. Property, plant and equipment

	<b>Telstra Group</b>	
	<b>As at 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$m</b>	<b>\$m</b>
<b>Land and site improvements</b>		
At cost . . . . .	40	41
<b>Buildings (including leasehold improvements)</b>		
At cost . . . . .	1,040	1,013
Accumulated depreciation and impairment. . . . .	(541)	(546)
	499	467
<b>Communication assets (including leasehold improvements)</b>		
At cost . . . . .	56,025	53,814
Accumulated depreciation and impairment. . . . .	(35,397)	(32,137)
	20,628	21,677
<b>Communication assets under finance lease</b>		
At cost . . . . .	287	624
Accumulated depreciation and impairment. . . . .	(272)	(536)
	15	88
<b>Other plant, equipment and motor vehicles</b>		
At cost . . . . .	1,667	1,584
Accumulated depreciation and impairment. . . . .	(1,059)	(963)
	608	621
<b>Equipment under finance lease</b>		
At cost . . . . .	1	-
Accumulated depreciation and impairment. . . . .	(1)	-
	-	-
<b>Total property, plant and equipment</b>		
At cost . . . . .	59,060	57,076
Accumulated depreciation and impairment. . . . .	(37,270)	(34,182)
	21,790	22,894

## Notes to the Financial Statements (continued)

### 13. Property, plant and equipment (continued)

#### Telstra Group

	Land and site improve- ments \$m	Buildings (a) \$m	Comm- unication assets (a) (b) \$m	Comm- unication assets under finance lease \$m	Other plant, equipment and motor vehicles \$m	Equipment under finance lease \$m	Total property, plant and equipment (c) \$m
<b>Written down value at 1 July 2009</b>	29	496	22,462	185	723	-	23,895
- additions	14	56	2,326	-	126	-	2,522
- acquisitions through business combinations	-	-	-	-	1	-	1
- disposals	(2)	(5)	(8)	-	(3)	-	(18)
- disposals through sale of controlled entities	-	-	-	-	(1)	-	(1)
- impairment losses	-	(1)	(38)	-	(1)	-	(40)
- depreciation expense	-	(73)	(3,104)	(47)	(216)	-	(3,440)
- transfer to assets held for sale	-	-	-	-	(7)	-	(7)
- net foreign currency exchange differences	-	(6)	(12)	-	(2)	-	(20)
- other	-	-	51	(50)	1	-	2
<b>Written down value at 30 June 2010</b>	41	467	21,677	88	621	-	22,894
- additions	-	97	2,167	-	197	1	2,462
- acquisitions through business combinations	-	-	-	-	38	-	38
- disposals	(1)	(1)	(4)	-	(2)	-	(8)
- impairment losses	-	-	(36)	-	(2)	-	(38)
- depreciation expense	-	(55)	(3,155)	(9)	(234)	(1)	(3,454)
- transfer to assets held for sale	-	-	-	-	(1)	-	(1)
- net foreign currency exchange differences	-	(9)	(85)	-	(9)	-	(103)
- other	-	-	64	(64)	-	-	-
<b>Written down value at 30 June 2011</b>	40	499	20,628	15	608	-	21,790

(a) Includes leasehold improvements.

(b) Includes certain network land and buildings which are essential to the operation of our communication assets.

(c) Includes \$72 million of capitalised borrowing costs (2010: \$44 million) directly attributable to qualifying assets.

#### Work in progress

As at 30 June 2011, the Telstra Group has property, plant and equipment under construction amounting to \$1,333 million (2010: \$1,293 million). As these assets are not installed and ready for use, there is no depreciation being charged on these amounts.



## Notes to the Financial Statements (continued)

### 14. Intangible assets

	Telstra Group	
	As at 30 June	
	2011 \$m	2010 \$m
<b>Goodwill</b>	<b>1,415</b>	<b>1,802</b>
<b>Internally generated intangible assets</b>		
Software assets developed for internal use (a)	7,499	6,727
Accumulated amortisation and impairment	(2,843)	(2,280)
	<b>4,656</b>	<b>4,447</b>
<b>Acquired intangible assets</b>		
Mastheads	337	337
Accumulated amortisation and impairment	(135)	(67)
	<b>202</b>	<b>270</b>
Patents and trademarks	36	36
Accumulated amortisation and impairment	(11)	(9)
	<b>25</b>	<b>27</b>
Licences	810	859
Accumulated amortisation and impairment	(459)	(414)
	<b>351</b>	<b>445</b>
Customer bases	643	818
Accumulated amortisation and impairment	(485)	(546)
	<b>158</b>	<b>272</b>
Brand names	193	232
Accumulated amortisation and impairment	(87)	(92)
	<b>106</b>	<b>140</b>
<b>Total acquired intangible assets</b>	<b>842</b>	<b>1,154</b>
<b>Deferred expenditure</b>		
Deferred expenditure	1,494	1,626
Accumulated amortisation and impairment	(780)	(1,001)
	<b>714</b>	<b>625</b>
<b>Total intangible assets</b>		
At cost	12,427	12,437
Accumulated amortisation and impairment	(4,800)	(4,409)
	<b>7,627</b>	<b>8,028</b>

## Notes to the Financial Statements (continued)

### 14. Intangible assets (continued)

#### Telstra Group

	Goodwill \$m	Software assets developed \$m	Mastheads \$m	Patents and trademarks \$m	Licences \$m	Customer bases \$m	Brand names \$m	Deferred expenditure (b) (c) \$m	Total intangible assets (d) \$m
<b>Written down value at 1 July 2009</b>	2,346	4,202	337	26	511	314	175	505	8,416
- additions	-	963	-	1	-	-	2	613	1,579
- acquisition through business combinations	58	2	-	2	1	19	1	-	83
- disposals	-	(5)	-	-	-	-	-	-	(5)
- disposals through sale of controlled entities	(1)	-	-	(1)	-	-	-	(2)	(2)
- amounts written off	-	-	-	-	-	-	-	(2)	(2)
- impairment losses (e)	(168)	(2)	-	-	-	-	-	-	(170)
- amortisation expense	-	(708)	(67)	(1)	(60)	(52)	(13)	(491)	(1,392)
- net foreign currency exchange differences	(107)	(3)	-	-	(9)	(10)	(7)	-	(136)
- transfers to non current assets held for sale	(326)	-	-	-	-	(1)	(20)	-	(347)
- other	-	(2)	-	-	2	2	2	-	4
<b>Written down value at 30 June 2010</b>	1,802	4,447	270	27	445	272	140	625	8,028
- additions	-	1,050	-	-	2	-	-	665	1,717
- acquisition through business combinations	40	1	-	-	-	9	-	-	50
- disposals through sale of businesses	(15)	-	-	-	-	(11)	-	-	(26)
- impairment losses (e)	(121)	(12)	-	-	-	(39)	-	-	(172)
- amortisation expense	-	(819)	(68)	(2)	(60)	(42)	(12)	(576)	(1,579)
- net foreign currency exchange differences	(267)	(11)	-	-	(36)	(26)	(22)	-	(362)
- transfers to non current assets held for sale	(24)	-	-	-	-	(5)	-	-	(29)
<b>Written down value at 30 June 2011</b>	1,415	4,656	202	25	351	158	106	714	7,627

## Notes to the Financial Statements (continued)

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### 14. Intangible assets (continued)

(a) As at June 2011, we had software assets under development amounting to \$593 million (2010: \$392 million). As these assets were not installed and ready for use, there is no amortisation being charged on the amounts.

(b) During fiscal 2005, we entered into an arrangement with our jointly controlled entity, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU) agreement, including committed capital expenditure for the period until 2022.

The IRU is amortised over the contract periods for the capacity on the various international cable systems, which range from 5 to 22 years. The IRU is deemed to be an extension of our investment in Reach. The IRU has a carrying value of nil in the consolidated financial statements due to the recognition of equity accounted losses in Reach.

(c) The majority of the deferred expenditure relates to the deferral of basic access installation costs, which are amortised to goods and services purchased in the income statement. In addition, the deferred expenditure also includes direct incremental costs of establishing a customer contract.

(d) Includes \$32 million (2010: \$29 million) of capitalised borrowing costs directly attributable to qualifying assets.

(e) We have recognised an impairment charge of \$160 million against goodwill (\$121 million) and customer bases (\$39 million) for the Octave and LMobile Group CGUs (2010: \$168 million impairment of goodwill in CSL New World). Refer to note 21 for further details regarding these impairments.

## Notes to the Financial Statements (continued)

### 15. Trade and other payables

		Telstra Group	
		As at 30 June	
		2011	2010
		\$m	\$m
<b>Current</b>			
Trade creditors (a) . . . . .		970	840
Accrued expenses . . . . .		1,751	1,586
Accrued capital expenditure . . . . .		583	600
Accrued interest . . . . .		365	325
Deferred consideration for capital expenditure . . . . .		48	53
Other creditors (a) . . . . .		376	439
		<b>4,093</b>	<b>3,843</b>
<b>Non current</b>			
Deferred consideration for capital expenditure . . . . .		123	185
Other creditors . . . . .		54	63
		<b>177</b>	<b>248</b>

(a) Trade creditors and other creditors are non interest bearing liabilities. We generally process trade creditor payments once they have reached 30 days for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

## Notes to the Financial Statements (continued)

### 16. Provisions

Telstra Group		
As at 30 June		
	2011 \$m	2010 \$m
<b>Current</b>		
Employee benefits (a) . . . . .	302	296
Workers' compensation (b) . . . . .	25	27
Other (b) . . . . .	67	66
	<b>394</b>	<b>389</b>
<b>Non current</b>		
Employee benefits (a) . . . . .	539	549
Workers' compensation (b) . . . . .	127	138
Other (b) . . . . .	30	40
	<b>696</b>	<b>727</b>
<b>(a) Aggregate employee benefits</b>		
Current provision for employee benefits . . . . .	302	296
Non current provision for employee benefits . . . . .	539	549
Accrued labour and on-costs (i) . . . . .	376	322
	<b>1,217</b>	<b>1,167</b>

(i) Accrued labour and related on-costs are included within our current trade and other payables (refer to note 15).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees.

Non current employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount:

Telstra Group		
As at 30 June		
	2011	2010
Weighted average projected increase in salaries, wages and associated on-costs . . . . .	4.75%	4.75%
Discount rates . . . . .	5.2%	5.1%



## Notes to the Financial Statements (continued)

### 16. Provisions (continued)

#### (b) Movement in provisions, other than employee benefits

	Telstra Group	
	Year ended 30 June	
	2011	2010
	\$m	\$m
<b>Workers' compensation (i)</b>		
<b>Opening balance</b>	165	169
- additional provisions	7	12
- amount used	(27)	(24)
- unwinding of discount on liabilities recognised at present value	8	7
- effect of any change in the discount rate	(1)	(1)
- reversal of amounts unused	-	(1)
- other	-	3
<b>Closing balance</b>	152	165
<b>Restructuring</b>		
<b>Opening balance</b>	-	49
- amount used	-	(33)
- unwinding of discount on liabilities recognised at present value	-	1
- reversal of amounts unused	-	(17)
<b>Closing balance</b>	-	-
<b>Redundancy</b>		
<b>Opening balance</b>	-	4
- additional provisions	-	4
- amount used	-	(5)
- reversal of amounts unused	-	(3)
	-	-
<b>Other (ii)</b>		
<b>Opening balance</b>	106	171
- additional provisions	54	55
- amount used	(60)	(80)
- effect of any change on discount rate	1	-
- reversal of amounts unused	(1)	(36)
- foreign currency exchange differences	(4)	(5)
- transfer to non current assets held for sale	-	(1)
- other	1	2
<b>Closing balance</b>	97	106

#### (i) Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The timing of these payments may vary, however the average time payments are expected for is 9 years (2010: 9 years).

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation.

#### (ii) Other

Other provisions include provision for lease incentives, provision for restoration costs, provision for onerous leases and other provisions.

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments

This note provides information on our capital structure and our underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial instruments.

Section (a) includes details on our gearing.

Section (b) sets out the carrying values, fair values and contractual face values of our financial instruments. The amounts provided in this section are prior to netting offsetting risk positions.

Section (c) provides information on our net debt position based on contractual face values and after netting offsetting risks. We consider this view of net debt based on our net contractual obligations to be useful additional information to investors on our underlying economic position, as it portrays our residual risks after hedging and excludes the effect of fair value measurements. This is relevant on the basis that we generally hold our borrowings and associated derivatives to maturity and hence revaluation gains and losses will generally not be realised.

Section (d) includes a reconciliation of movements in gross and net debt positions.

Section (e) includes details on our interest expense and interest rate yields.

Section (f) provides further details on our derivative financial instruments.

Section (g) provides information on the method for estimating fair value of our financial instruments.

Details regarding interest rate, foreign exchange and liquidity risk are disclosed in note 18.

#### (a) Capital management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

During 2011, we paid dividends of \$3,475 million (2010: \$3,474 million). Refer to note 4 for further details.

#### Agreement with lenders

During the current and prior years there were no defaults or breaches on any of our agreements with our lenders.

#### Gearing and net debt

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets (excluding finance lease receivables) and financial liabilities, including derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

During fiscal 2011 we reduced our target range for the net debt gearing ratio from 55 to 75 per cent to 50 to 70 per cent in light of market and business considerations. The gearing ratios and carrying value of our net debt are shown in Table A below:

<b>Table A</b>		<b>Telstra Group</b>	
		<b>As at 30 June</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$m</b>	<b>\$m</b>
<b>Current</b>			
<b>Short term debt</b>			
Promissory notes . . . . .		<b>508</b>	274
		<b>508</b>	274
<b>Long term debt-current portion</b>			
Telstra bonds . . . . .		<b>439</b>	-
Offshore loans (i) . . . . .		<b>998</b>	2,223
Finance leases. . . . . 22		<b>45</b>	43
		<b>1,482</b>	2,266
		<b>1,990</b>	2,540
<b>Non current</b>			
<b>Long term debt</b>			
Telstra bonds and domestic loans (ii) . . . . .		<b>3,515</b>	3,587
Offshore loans (i) . . . . .		<b>8,569</b>	8,697
Finance leases. . . . . 22		<b>94</b>	86
		<b>12,178</b>	12,370
		<b>14,168</b>	14,910
Short term debt . . . . .		<b>508</b>	274
Long term debt (including current portion) . . . . .		<b>13,660</b>	14,636
<b>Total debt</b> . . . . .		<b>14,168</b>	14,910
Net derivative financial liability . 17(f)		<b>2,065</b>	1,137
Bank deposits with maturity greater than 90 days. . . . . 10		<b>(1)</b>	(16)
<b>Gross debt</b> . . . . .		<b>16,232</b>	16,031
Cash and cash equivalents . . . . . 20		<b>(2,637)</b>	(2,105)
<b>Net debt</b> . . . . .		<b>13,595</b>	13,926
<b>Total equity</b> . . . . .		<b>12,292</b>	13,008
<b>Total capital</b> . . . . .		<b>25,887</b>	26,934
		<b>%</b>	<b>%</b>
<b>Gearing ratio.</b> . . . .		<b>52.5</b>	51.7

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments (continued)

#### (a) Capital management (continued)

##### Gearing and net debt (continued)

Net debt included in the table above is based on the carrying values of our financial instruments which are provided in Table C in the following section (b). For interest bearing financial instruments we adopt a 'clean price' whereby the reported balance of our derivative instruments and borrowings excludes accrued interest. Accrued interest is recorded in current 'trade and other receivables' and current 'trade and other payables' in the statement of financial position.

Our borrowings are unsecured, except for finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us. We have no assets pledged as security for our borrowings. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities. Details of interest rates and maturity profiles are included in note 18.

We are not subject to any externally imposed capital requirements.

##### (i) Offshore loans

Offshore loans comprise debt raised overseas. Our policy is to swap foreign currency borrowings into Australian dollars, except for a small proportion of foreign currency borrowings/cross currency swaps used to hedge translation foreign exchange risk associated with our offshore investments, and some cash balances/finance leases held in foreign currencies by our foreign controlled entities. The carrying amounts of offshore loans are denominated in the following currencies.

TABLE B	Telstra Group	
	As at 30 June	
	2011	2010
	\$m	\$m
Australian dollar . . . . .	249	249
Euro . . . . .	5,242	7,064
United States dollar . . . . .	2,280	1,697
British pound sterling . . . . .	299	352
Japanese yen . . . . .	558	610
New Zealand dollar . . . . .	272	286
Swiss francs . . . . .	627	613
Hong Kong dollar . . . . .	40	49
	<b>9,567</b>	<b>10,920</b>

##### (ii) Telstra bonds and domestic loans

Telstra bonds currently on issue relate to wholesale investors and mature up until the year 2020. During fiscal 2011 no Telstra bonds matured (2010: nil). During fiscal 2011 domestic loans totalling \$363 million were entered into with terms of 8 to 10 years (2010: \$148 million with a term of 10 years). During fiscal 2011, there were no domestic loan repayments (2010: \$1,350 million).

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments (continued)

#### (b) Financial instruments

The carrying amounts, fair values and face values of each category of our financial instruments are shown in Table C. The amounts disclosed are prior to netting offsetting risk positions of financial instruments in a hedge relationship.

We also have potential financial liabilities not included in the tables below which may arise from certain contingencies disclosed in note 23 and note 30.

Table C

	Telstra Group			Telstra Group		
	As at 30 June 2011			As at 30 June 2010		
	Carrying amount	Fair value	Face value	Carrying amount	Fair value	Face value
	Receivable/(Payable)			Receivable/(Payable)		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Financial instruments included in net debt</b>						
Cash at bank and on hand . . . . .	363	363	363	543	543	543
<b>Available for sale - at fair value</b>						
Bank deposits, bills of exchange and promissory notes (i)	2,275	2,275	2,304	1,578	1,578	1,594
<b>In designated hedge relationships - at fair value</b>						
Net cross currency swap liability - hedging instrument . . . . .	(1,502)	(1,502)	(1,468)	(1,159)	(1,159)	(1,243)
Net interest rate swap (liability)/asset - hedging instrument . . . . .	(18)	(18)	-	190	190	-
Net forward contract (liability)/asset - hedging instrument . . . . .	(31)	(31)	(42)	3	3	(13)
Promissory notes - hedged item (ii) . . . . .	(279)	(279)	(279)	(69)	(69)	(69)
Offshore loans - hedged item (ii) . . . . .	(1,423)	(1,423)	(1,451)	(2,562)	(2,572)	(2,514)
<b>In designated hedge relationships - at amortised cost</b>						
Offshore loans - hedged item . . . . .	(5,519)	(5,675)	(5,557)	(6,146)	(6,489)	(6,178)
Telstra bonds and domestic loans - hedged item . . . . .	(274)	(266)	(275)	(274)	(261)	(275)
Promissory notes - hedging instrument . . . . .	(194)	(195)	(196)	(205)	(205)	(206)
Offshore loans - hedging instrument . . . . .	(272)	(288)	(274)	(285)	(298)	(288)
<b>Not in designated hedge relationship - at fair value</b>						
Net forward contract asset . . . . .	5	5	3	17	17	12
Net cross currency swap liability . . . . .	(587)	(587)	(610)	(325)	(325)	(382)
Net interest rate swap asset . . . . .	68	68	-	137	137	-
<b>De-designated from hedge relationship - at amortised cost</b>						
Offshore loans . . . . .	(1,680)	(1,818)	(1,772)	(1,214)	(1,413)	(1,329)
<b>Other financial liabilities - at amortised cost</b>						
Finance lease payable . . . . .	(139)	(139)	(165)	(129)	(129)	(159)
Promissory notes . . . . .	(35)	(35)	(35)	-	-	-
Offshore loans . . . . .	(673)	(714)	(675)	(713)	(788)	(716)
Telstra bonds and domestic loans . . . . .	(3,680)	(3,714)	(3,699)	(3,313)	(3,321)	(3,334)
<b>Telstra Group net debt</b>	<b>(13,595)</b>	<b>(13,973)</b>	<b>(13,828)</b>	<b>(13,926)</b>	<b>(14,561)</b>	<b>(14,557)</b>
<b>Other financial instruments</b>						
<b>Loans and receivables at amortised cost</b>						
Finance lease receivable . . . . .	144	144	159	148	148	163
Trade/other receivables and accrued revenue . . . . .	4,297	4,297	4,527	3,996	3,996	4,227
Amounts owed by jointly controlled and associated entities . . . . .	35	35	40	37	37	219
<b>Financial liabilities at amortised cost</b>						
Trade/other creditors and accrued expenses . . . . .	(4,099)	(4,099)	(4,099)	(3,853)	(3,853)	(3,853)
Deferred consideration for capital expenditure . . . . .	(171)	(171)	(239)	(238)	(238)	(349)
<b>Net financial liabilities</b>	<b>(13,389)</b>	<b>(13,767)</b>	<b>(13,440)</b>	<b>(13,836)</b>	<b>(14,471)</b>	<b>(14,150)</b>
<b>Total financial assets</b>	<b>7,187</b>	<b>7,187</b>	<b>7,396</b>	<b>6,649</b>	<b>6,649</b>	<b>6,758</b>
<b>Total financial liabilities</b>	<b>(20,576)</b>	<b>(20,954)</b>	<b>(20,836)</b>	<b>(20,485)</b>	<b>(21,120)</b>	<b>(20,908)</b>
<b>Net financial liabilities</b>	<b>(13,389)</b>	<b>(13,767)</b>	<b>(13,440)</b>	<b>(13,836)</b>	<b>(14,471)</b>	<b>(14,150)</b>

(i) For financial assets and financial liabilities with a short-term to maturity, the carrying amount is considered to approximate fair value.

(ii) These borrowings are in fair value hedges. The carrying amount of our borrowings in fair value hedges is adjusted for fair value movements attributable to the hedged risk.

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments (continued)

#### (b) Financial instruments (continued)

As shown in Table C, the carrying amount of net debt is lower than that based on contractual face values. This is primarily due to the impact of revaluation gains on our debt portfolio as a result of having locked in lower debt margins on our borrowings as compared to market rates applicable as at 30 June.

#### (c) Net position on a contractual face value basis

The amounts disclosed in Table D represent the net contractual face values of our financial instruments on a post hedge basis.

			Telstra Group	
			As at 30 June	
			Face value	
			2011	2010
			\$m	\$m
Currency				
<b>Interest bearing financial assets included in net debt</b>				
Cash and cash equivalents . . . . .	Floating	Australian dollar	2,278	1,602
Cash and cash equivalents held in foreign currencies . . . . .	Floating	Various	239	442
Bank deposits with maturity greater than 90 days . . . . .	Floating	Australian dollar	1	-
Bank deposits with maturity greater than 90 days . . . . .	Floating	Foreign	-	16
			<b>2,518</b>	<b>2,060</b>
<b>Interest bearing financial liabilities included in net debt</b>				
Cross currency and interest rate swap liability (i) . . . . .	Fixed	Australian dollar	(6,169)	(6,059)
Borrowings . . . . .	Fixed	Australian dollar	(2,392)	(2,016)
Borrowings (ii) . . . . .	Fixed	Foreign	(229)	(328)
Borrowings (ii) . . . . .	Floating	Foreign	(77)	-
Cross currency and interest rate swap liability (i) . . . . .	Floating	Australian dollar	(5,256)	(5,945)
Borrowings . . . . .	Floating	Australian dollar	(1,475)	(1,435)
Forward contract liability - net (iii) . . . . .	Floating	Australian dollar	(318)	(72)
Cross currency and interest rate swap liability . . . . .	Floating	Foreign	(383)	(633)
Borrowings (iv) . . . . .	Floating	Foreign	(196)	(206)
			<b>(16,495)</b>	<b>(16,694)</b>
Net interest bearing debt . . . . .			<b>(13,977)</b>	<b>(14,634)</b>
Non-interest bearing cash included in net debt . . . . .		Various	149	77
<b>Net debt - based on contractual face values . . . . .</b>			<b>(13,828)</b>	<b>(14,557)</b>

(i) These amounts represent the end hedge position as described in our hedge relationships in note 18 Table H.

(ii) Includes offshore loans of \$274 million (2010: \$288 million) used to hedge our investment in TelstraClear Limited as described in note 18 Table K. The balance also includes \$32 million (2010: \$40 million) relating to finance leases.

(iii) Includes final pay legs \$1,029 million (2010: \$1,211 million) as described in note 18 Table J. The balance also includes receive legs relating to hedges of forecast purchases, trade and other non interest bearing liabilities of \$711 million (2010: \$1,139 million).

(iv) Comprises promissory notes used to hedge our investment in TelstraClear Limited as described in note 18 Table K.

The above table represents our economic residual position after netting offsetting risks of our derivative and non-derivative financial instruments in a hedge relationship.

Accordingly, consistent with our policy to swap foreign currency borrowings into Australian dollars, only our Australian dollar end positions are included in the table above, except for a small proportion of foreign currency borrowings/cross currency swaps used to hedge translation foreign exchange risk associated with our offshore investments, and some cash balances/finance leases held in foreign currencies by our foreign controlled entities. These foreign currency amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June.

Total net debt in Table D agrees to the face value of our financial instruments included in net debt in Table C. The face values differ from the statement of financial position carrying amounts. The carrying amounts reflect a part of our borrowing portfolio at fair value with the remaining part at amortised cost, whereas the face values represent the undiscounted contractual liability at maturity date.



## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments (continued)

#### (d) Movements in Net Debt

The decrease in the carrying amount (including net cash movements) of our net debt during the year of \$331 million for the Telstra Group (30 June 2010: decrease of \$1,729 million) is represented by the movements shown in Table E below:

Table E		Telstra Group	
	Year ended		
	30 June		
	2011	2010	
	\$m	\$m	
New offshore and domestic loans . . . . .	(2,086)	(1,777)	
Net short term borrowings/(maturities) and bank deposits greater than 90 days . . . . .	(254)	28	
Repayment of offshore and domestic loans . . . . .	2,536	2,648	
Finance lease repayments . . . . .	61	55	
<b>Net cash outflow</b> . . . . .	<b>257</b>	<b>954</b>	
<b>Non-cash movements in gross debt before tax</b>			
Revaluation (losses)/gains affecting cash flow hedging reserve . . . . .	(244)	92	
Revaluation gains affecting foreign currency translation hedging reserve . . . . .	32	36	
Revaluation (losses)/gains affecting other expenses in the income statement . . . . .	(21)	17	
Revaluation losses affecting finance costs in the income statement (i) . . . . .	(153)	(6)	
Finance lease additions . . . . .	(72)	(88)	
	<b>(458)</b>	<b>51</b>	
<b>Total (increase)/decrease in gross debt</b> . . . . .	<b>(201)</b>	<b>1,005</b>	
Net increase in cash and cash equivalents (including foreign currency exchange differences) . . . . .	532	724	
<b>Total decrease in net debt</b> . . . . .	<b>331</b>	<b>1,729</b>	

(i) The net revaluation loss of \$153 million affecting finance costs includes a loss of \$27 million from fair value hedges (2010: loss of \$26 million) and a loss of \$125 million (2010: gain of \$36 million) from transactions either not designated or de-designated from fair value hedge relationships (refer to note 7 for further detail). Also included in this net loss is \$1 million (2010: \$16 million) comprising amortisation of discounts (recorded in interest on borrowings) and other adjustments.

We have issued the following long term debt during the year for refinancing purposes:

- \$708 million Euro bond in October 2010, matures 15 March 2021;
- \$354 million domestic bond in November 2010 (\$201 million) and May 2011 (\$153 million), matures 15 July 2020;
- \$60 million Japanese Yen private placement in December 2010, matures 9 December 2020;
- \$955 million United States dollar bond in April 2011, matures 12 October 2021; and
- \$9 million other domestic loan in June 2011, matures 30 July 2018.

Our unsecured promissory notes are used principally to support working capital and short term liquidity, as well as hedging certain offshore investments. Our short term unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

The following long term debt funding was repaid during the year:

- \$2,488 million Euro bond, matured on 29 June 2011; and
- \$48 million Japanese Yen private placement, matured on 13 September 2010.

Long term debt that will mature during fiscal 2012 totals \$2,023 million. This represents the contractual face value amount after hedging which is different from the statement of financial position carrying amount for current borrowings (\$1,437 million excluding promissory notes and finance leases). The carrying amount of \$1,437 million reflects the amount of our borrowings due to mature during fiscal 2012 prior to netting offsetting risk positions of associated derivative instruments hedging these borrowings. This carrying amount reflects a mixed measurement basis with part of the borrowing portfolio recorded at fair value and the remaining part at amortised cost which is compliant with the requirements under Australian Accounting Standards.

Consistent with our hedging policy to swap foreign currency borrowings into Australian dollars (except for a small proportion of foreign currency borrowings used to hedge translation foreign exchange risk) the majority of these borrowings were swapped into Australian dollars at inception of the borrowing through to maturity through the use of cross currency and interest rate swaps, creating synthetic Australian dollar obligations. These post hedge obligations are reflected in our total contractual Australian dollar liability at maturity of \$2,023 million.

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments (continued)

#### (e) Interest and yields

The net interest on borrowings is shown in Table F below. Where applicable, finance costs are assigned to categories on the basis of the hedged item.

**Table F**

	Telstra Group	
	As at 30 June	
	2011	2010
	\$m	\$m
<b>Interest on borrowings (i)</b>		
<b>Financial instruments in hedge relationships</b>		
Domestic loans in cash flow hedges (ii) . . . . .	19	19
Offshore loans in cash flow hedges (ii) . . . . .	545	422
Offshore loans in fair value hedges (ii) . . . . .	175	205
Promissory notes in fair value hedges (ii) . . . . .	4	3
Derivatives and borrowings hedging net foreign investments . . . . .	1	(1)
<b>Available for sale</b>		
Promissory notes . . . . .	3	-
<b>Other financial instruments</b>		
Offshore loans not in a hedge relationship or de-designated from fair value hedge relationships (ii) . . . . .	194	152
Telstra bonds and domestic loans . . . . .	225	254
Other . . . . .	8	5
Finance leases . . . . .	12	12
	<b>1,186</b>	<b>1,071</b>
<b>Finance income on net debt</b>		
Cash and cash equivalents . . . . .	117	57
<b>Net interest on net debt</b> . . . . .	<b>1,069</b>	<b>1,014</b>

(i) The interest expense as shown in Table F above is categorised based on the classification of financial instruments applicable as at 30 June.

(ii) Interest expense is a net amount after offsetting interest income and interest expense on associated derivative instruments.

The year-on-year increase in net interest on borrowings principally arises from an increase in the average yield on average net debt. The average yield on average net debt during the current year was 7.22% (2010: 6.42%) for the Telstra Group. Reflected in the increase in yield is an increase in short term market base interest rates in the current year compared to the prior year, resulting in higher costs on the floating rate debt component of our debt portfolio and higher refinancing yields. The impact of higher interest rates has been partly offset by a year-on-year reduction in the volume of average net debt.

During the year, new policy settings were implemented to raise the minimum level of liquidity and to pre-fund major payments earlier. This higher liquidity contributes to higher interest costs as borrowing yields (to maintain higher liquidity) exceed investment yields.

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments (continued)

#### (f) Derivative financial instruments

All our derivatives are in designated hedge relationships which satisfy the requirements for hedge accounting, except for a number of derivatives classified as held for trading which are in economic relationships but not in a designated hedge relationship for hedge accounting purposes. Refer to note 18 for details on hedging relationships.

Derivative financial instruments for the Telstra Group as at 30 June are shown in Table G and Table H below. For these derivative instruments the fair value equates to the carrying amounts in the statement of financial position which differs from the face values which are also provided in other tables within this note.

Table G

Telstra Group									
As at 30 June 2011									
	Cross currency swaps		Interest rate swaps		Forward contracts		Total	Total	Total
	Asset \$m	Liability \$m	Asset \$m	Liability \$m	Asset \$m	Liability \$m	Asset \$m	Liability \$m	Net \$m
<b>Current</b>									
Fair value hedge . . . . .	-	(261)	8	-	-	(4)	8	(265)	(257)
Cash flow hedge (i) . . . . .	-	(336)	11	(8)	1	(17)	12	(361)	(349)
Hedge of net investment in foreign operation . . . . .	59	-	-	-	-	-	59	-	59
Held for trading (ii) . . . . .	-	-	-	-	4	(8)	4	(8)	(4)
	59	(597)	19	(8)	5	(29)	83	(634)	(551)
<b>Non current</b>									
Fair value hedge . . . . .	13	(51)	8	(40)	-	-	21	(91)	(70)
Cash flow hedge (i) . . . . .	10	(946)	176	(173)	-	-	186	(1,119)	(933)
Hedge of net investment in foreign operation . . . . .	10	-	-	-	-	-	10	-	10
Held for trading (ii) . . . . .	-	(587)	68	-	-	(2)	68	(589)	(521)
	33	(1,584)	252	(213)	-	(2)	285	(1,799)	(1,514)
	92	(2,181)	271	(221)	5	(31)	368	(2,433)	(2,065)

Table H

Telstra Group									
As at 30 June 2010									
	Cross currency swaps		Interest rate swaps		Forward contracts		Total	Total	Total
	Asset \$m	Liability \$m	Asset \$m	Liability \$m	Asset \$m	Liability \$m	Asset \$m	Liability \$m	Net \$m
<b>Current</b>									
Fair value hedge . . . . .	-	(150)	36	-	1	-	37	(150)	(113)
Cash flow hedge (i) . . . . .	-	(203)	52	(21)	6	(4)	58	(228)	(170)
Hedge of net investment in foreign operation . . . . .	59	(4)	-	-	-	-	59	(4)	55
Held for trading (ii) . . . . .	-	-	-	-	19	(2)	19	(2)	17
	59	(357)	88	(21)	26	(6)	173	(384)	(211)
<b>Non current</b>									
Fair value hedge . . . . .	98	(169)	35	-	-	-	133	(169)	(36)
Cash flow hedge (i) . . . . .	19	(806)	299	(211)	-	-	318	(1,017)	(699)
Hedge of net investment in foreign operation . . . . .	3	(6)	-	-	-	-	3	(6)	(3)
Held for trading (ii) . . . . .	1	(326)	137	-	-	-	138	(326)	(188)
	121	(1,307)	471	(211)	-	-	592	(1,518)	(926)
	180	(1,664)	559	(232)	26	(6)	765	(1,902)	(1,137)

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments (continued)

#### (f) Derivative financial instruments (continued)

(i) Gains or losses recognised in the cash flow hedging reserve on cross currency swap and interest rate swap contracts will be continuously released to the income statement until the underlying borrowings are repaid. Gains or losses recognised in the cash flow hedging reserve on forward exchange contracts will be released to the income statement when the underlying forecast transaction occurs and affects profit or loss. However, where the underlying forecast transaction is a purchase of a non financial asset (for example property, plant and equipment) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date the asset is recognised.

(ii) Derivatives which are classified as held for trading are in economic relationships but are not in a designated hedge relationship for hedge accounting purposes. These derivatives include cross currency and interest rate swaps associated with a long term Euro bond issue not in a designated hedge relationship and with a number of offshore borrowings denominated in United States dollars, Euro and British pounds sterling which were in fair value hedges and were de-designated from the hedge relationship for hedge accounting purposes as they did not meet requirements for hedge effectiveness. Notwithstanding that these held for trading derivatives do not satisfy the requirements for hedge accounting, these relationships are in effective economic relationships based on contractual amounts and cash flows over the life of the transaction. Also included in held for trading derivatives are forward contracts economically hedging trade creditors and other liabilities denominated in a foreign currency.

#### (g) Fair Value Hierarchy

We use various methods in estimating the fair value of our financial instruments. The methods comprise:

- Level 1: the fair value is calculated using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety has been determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10% change in the overall fair value of the instrument.

The fair value of the financial instruments and the classification within the fair value hierarchy are summarised in Tables I and J below, followed by a description of the methods used to estimate the fair value.

Table I

	Telstra Group			
	As at 30 June 2011			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Available for sale</b>				
<b>Investments - other</b>				
Quoted securities . . .	1	-	-	1
<b>Derivative assets</b>				
Cross currency swaps . .	-	92	-	92
Interest rate swaps . . .	-	271	-	271
Forward contracts . . .	-	5	-	5
	1	368	-	369
<b>Derivative liabilities</b>				
Cross currency swaps . .	-	(2,181)	-	(2,181)
Interest rate swaps . . .	-	(221)	-	(221)
Forward contracts . . .	-	(31)	-	(31)
	-	(2,433)	-	(2,433)
	1	(2,065)	-	(2,064)

Table J

	Telstra Group			
	As at 30 June 2010			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Available for sale</b>				
<b>Investments - other</b>				
Quoted securities . . .	1	-	-	1
<b>Derivative assets</b>				
Cross currency swaps . .	-	180	-	180
Interest rate swaps . . .	-	559	-	559
Forward contracts . . .	-	26	-	26
	1	765	-	766
<b>Derivative liabilities</b>				
Cross currency swaps . .	-	(1,664)	-	(1,664)
Interest rate swaps . . .	-	(232)	-	(232)
Forward contracts . . .	-	(6)	-	(6)
	-	(1,902)	-	(1,902)
	1	(1,137)	-	(1,136)

## Notes to the Financial Statements (continued)

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### 17. Capital management and financial instruments (continued)

#### (g) Fair Value Hierarchy (continued)

##### Cross currency and interest rate swaps

The net fair values of our cross currency and interest rate swaps are determined using valuation techniques which utilise data from observable and unobservable market data. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. In particular, the following inputs are used to derive yield curves used in the calculation of fair value of our derivatives:

- base curves which are readily available market data and quoted for all major currencies; and
- pricing data reflecting Telstra's borrowing margins obtained from selected market participants with whom Telstra has or would transact in capital markets. We generally use the mid point of the pricing data range in calculating the yield curve. This pricing data used to estimate Telstra's borrowing margins is not observable, however sensitivity analysis on changes to this input, by using the maximum point in the pricing range, does not result in a significant change to the fair value of our cross currency and interest rate swaps.

We have therefore classified these derivatives based on the observable market inputs (Level 2).

##### Forward contracts

The fair value of our forward exchange contracts is calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. These market rates are observable and therefore these derivatives have been classified as Level 2.

## Notes to the Financial Statements (continued)

### 18. Financial risk management

We undertake transactions using a range of financial instruments including:

- cash assets;
- receivables;
- payables;
- deposits;
- bills of exchange and promissory notes;
- listed investments and investments in other corporations;
- various forms of borrowings, including medium term notes, promissory notes, bank loans and private placements; and
- derivatives.

Our activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance and support the delivery of our financial targets. We manage our risks with a view to the outcomes of both our financial results and the underlying economic position. Financial risk management is carried out centrally by our Treasury department, which is part of our Corporate area, under policies approved by the Board of Directors (the Board). The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

We enter into derivative transactions in accordance with Board approved policies to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps; and
- forward exchange contracts.

We do not speculatively trade in derivative financial instruments. Our derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from our business activities.

Section (a) of this note sets out the key financial risk factors that arise from our activities, including our policies for managing these risks.

Sections (b) and (c) provide details of our hedging strategies and hedge relationships that are used for financial risk management. In particular, these sections provide additional context around our hedge transactions and the resulting economic and risk positions.

#### (a) Risk and mitigation

The risks associated with our main financial instruments and our policies for minimising these risks are detailed below. These risks comprise market risk, credit risk and liquidity risk.

##### Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. Components of market risk to which we are exposed are discussed below.

##### (i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Interest rate risk arises from interest bearing financial assets and liabilities. Non derivative interest bearing assets are predominantly short term liquid assets. Our interest rate liability risk arises primarily from long term foreign debt issued at fixed rates which exposes us to fair value interest rate risk. Our borrowings, which have a variable interest rate attached, give rise to cash flow interest rate risk.

Our debt is sourced from a number of financial markets covering domestic and offshore, short term and long term funding. The majority of our debt consists of foreign currency denominated borrowings. We manage our debt in accordance with targeted currency, interest rate, liquidity, and debt portfolio maturity profiles. Specifically, we manage interest rate risk on our net debt portfolio by:

- adjusting the ratio of fixed interest debt to variable interest debt to our target ratio, as required by our debt management policy;
- ensuring access to diverse sources of funding;
- reducing risks of refinancing by establishing and managing in accordance with target maturity profiles; and
- undertaking hedging activities through the use of derivative financial instruments.

Under our interest rate swaps we agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to note 17 Table D for our residual post hedge fixed and floating interest positions on a contractual face value basis.

We hedge interest rate and currency risk on most of our foreign currency borrowings by entering into cross currency principal swaps and interest rate swaps when required, which have the economic effect of converting foreign currency borrowings to Australian dollar borrowings. 'Hedging strategies' and 'Hedge relationships' contained in sections (b) and (c) of this note provides further information.



## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (i) Interest rate risk (continued)

The weighted average interest rates on our fixed and floating rate financial instruments as at 30 June, which do not have offsetting risk positions, and the principal/notional amounts on which interest is calculated, are shown in Table A below. Interest rate positions on our foreign cross currency and foreign interest rate swaps and on the majority of our foreign borrowings are fully offset. Accordingly, the majority of our instruments in the following table represent Australian dollar interest positions. Principal/notional amounts shown are net of discounts and as such differ from the face value disclosed in note 17 (Table C).

TABLE A

	Telstra Group			
	As at 30 June 2011		As at 30 June 2010	
	Principal/ receivable/ (payable) \$m	Weighted average % (*)	Principal/ receivable/ (payable) \$m	Weighted average % (*)
<b>Fixed rate instruments - Australian interest rate</b>				
Cross currency and interest rate swap payable . . . . .	(6,169)	6.17	(6,059)	6.22
Finance lease payable . . . . .	(122)	7.60	(108)	6.90
Telstra bonds and domestic loans . . . . .	(2,240)	7.26	(1,879)	7.21
<b>Fixed rate instruments - Foreign interest rates</b>				
Bank deposits with maturity greater than 90 days . . . . .	-	-	16	2.23
Finance lease payable . . . . .	(17)	21.00	(21)	21.00
Offshore loans (#) . . . . .	(195)	7.60	(285)	7.43
	<u>(8,743)</u>		<u>(8,336)</u>	
<b>Variable rate instruments - Australian interest rates</b>				
<b>Contractual repricing or maturity 3 months or less</b>				
Cash and cash equivalents (^) . . . . .	2,249	5.07	1,586	4.89
Bank deposits with maturity greater than 90 days . . . . .	1	4.88	-	-
Cross currency swap receivable (#) . . . . .	452	5.02	685	4.85
Cross currency and interest rate swap payable . . . . .	(4,802)	6.23	(6,630)	6.07
Telstra bonds and domestic loans . . . . .	(1,440)	5.53	(1,434)	5.16
Promissory notes . . . . .	(35)	5.18	-	-
<b>Contractual repricing or maturity within 3 to 12 months</b>				
Forward contract liability - net (**) . . . . .	(318)	3.96	(72)	3.60
Cross currency and interest rate swap payable . . . . .	(906)	6.53	-	-
<b>Variable rate instruments - Foreign interest rates</b>				
<b>Contractual repricing or maturity 6 months or less</b>				
Cash and cash equivalents (^) . . . . .	239	1.56	442	0.93
Cross currency swap payable (#) . . . . .	(383)	0.03	(633)	0.05
Offshore loans (#) . . . . .	(77)	7.03	-	-
Promissory notes (#) . . . . .	(194)	2.90	(205)	3.23
	<u>(5,214)</u>		<u>(6,261)</u>	
<b>Net interest bearing debt</b> . . . . .	<u>(13,957)</u>		<u>(14,597)</u>	

(\*) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate, as at reporting date.

(#) These financial instruments are used to hedge our net foreign investments.

(^) Rates on cash and cash equivalents represent average rates earned on net positive cash balances after taking into account bank set-off arrangements.

(\*\*) This balance includes some forward contracts which have a contractual maturity greater than 12 months, however the amounts are not material and have not been separately classified.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (ii) Sensitivity analysis - interest rate risk

The sensitivity analysis included in this section is based on the interest rate risk exposures on our net debt portfolio as at reporting date.

A sensitivity of plus or minus 10 per cent has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. For example, a 10 per cent increase would move short term interest rates (cash) at 30 June 2011 from 4.75% (2010: 4.50%) to 5.23% (2010: 4.95%) representing a 48 (2010: 45) basis points shift. This basis points shift is considered reasonable taking into account the absolute rates as at 30 June and current market conditions.

The results in this sensitivity analysis reflect the net impact on a hedged basis which will be primarily reflecting the Australian dollar floating or Australian dollar fixed position from our cross currency and interest rate swap hedges and therefore the movement in the Australian dollar interest rates is a significant assumption in this sensitivity analysis.

Based on the sensitivity analysis, equity would be affected by the revaluation of our derivatives associated with borrowings designated in a cash flow hedge relationship and finance costs would be impacted by the following:

- the impact on interest expense being incurred on our net floating rate Australian dollar positions during the year;
- the revaluation of our derivatives associated with borrowings de-designated from a fair value hedge relationship or not in a hedge relationship; and
- the ineffectiveness resulting from the change in fair value of both our derivatives and borrowings which are designated in a fair value hedge.

The carrying value of borrowings de-designated from fair value hedge relationships or not in a hedge relationship is not adjusted for fair value movements attributable to interest rate risk. Accordingly, the revaluation gain or loss on our foreign currency derivatives associated with these borrowings will not have an offsetting gain or loss attributable to interest rate movements on the underlying borrowing.

It is important to note that this sensitivity analysis does not include the effect of movements in Telstra's borrowing margins. Whilst margins will be affected by market factors, this risk variable predominantly reflects Telstra specific credit risk and accordingly is not considered a market risk. Furthermore, determining a reasonably possible change in this risk variable with sufficient reliability is impractical. Therefore, the following sensitivity analysis assumes a constant margin and parallel shifts in interest rates across all currencies.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (ii) Sensitivity analysis - interest rate risk (continued)

The following sensitivity analysis is based on our interest rate exposures comprising:

- the revaluation impact on our derivatives and borrowings from a 10 per cent movement in interest rates based on the net debt balances as at reporting date; and
- the effect on interest expense on our floating rate borrowings from a 10 per cent movement in interest rates at each reset date during the year.

At 30 June, if interest rates had moved as illustrated in Table B below, with all other variables held constant and taking into account all underlying exposures and related hedges, profit and equity after tax would have been affected as follows:

**TABLE B**

**Telstra Group**

	+10%				-10%			
	Net profit or loss (*)		Equity (cash flow hedging reserve)		Net profit or loss (*)		Equity (cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		Year ended 30 June		As at 30 June	
	Gain/(loss)		Gain/(loss)		Gain/(loss)		Gain/(loss)	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Revaluation of derivatives and borrowings - fair value hedges of offshore loans . . . . .	3	3	-	-	(3)	(3)	-	-
Revaluation of derivatives - borrowings de-designated from fair value hedges or not in a hedge relationship . . . . .	(5)	(5)	-	-	5	4	-	-
Revaluation of derivatives - cash flow hedges of offshore loans . . . . .	-	-	74	79	-	-	(79)	(84)
Floating rate Australian dollar instruments . . . . .	(39)	(36)	-	-	39	36	-	-
	(41)	(38)	74	79	41	37	(79)	(84)

(\*) The before tax impact is included within finance costs.

##### (iii) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign currency rates. Our foreign currency exchange risk 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; and
- net investments in foreign operations.

We are exposed to foreign exchange risk from various currency exposures, including:

- Euro;
- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Swiss francs;
- Hong Kong dollars;

- Chinese renminbi; and
- Japanese yen.

Our economic foreign currency risk is assessed for each individual currency and for each hedge type, calculated by aggregating the net exposure for that currency for that hedge type.

We minimise our exposure to foreign currency risk by initially seeking contracts effectively denominated in Australian dollars where possible and economically favourable to do so. Where this is not possible we manage our exposure as follows.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (iii) Foreign currency risk (continued)

Cash flow foreign currency risk arises primarily from foreign currency overseas borrowings. We hedge this risk on the major part of our foreign currency denominated borrowings by entering into a combination of interest rate and cross currency swaps at inception to maturity, effectively converting them to Australian dollar borrowings. A relatively small proportion of our foreign currency borrowings are not swapped into Australian dollars where they are used as hedges for foreign exchange exposure such as translation foreign exchange risk from our offshore business investments. Refer to note 17 Table D for our residual post hedge currency exposures on a contractual face value basis.

Foreign exchange risk that arises from transactional exposures such as firm commitments or highly probable transactions settled in a foreign currency (primarily United States dollars) are managed principally through the use of forward foreign currency derivatives. We hedge a proportion of these transactions (such as asset and inventory purchases settled in foreign currencies) in accordance with our risk management policy.

Foreign currency risk also arises on translation of the net assets of our foreign controlled entities which have a functional currency other than Australian dollars. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. We manage this translation foreign exchange risk with forward foreign currency contracts, cross currency swaps and/or borrowings denominated in the currency of the entity concerned. We currently hedge our net investments in TelstraClear Limited and Hong Kong CSL Limited in New Zealand dollars and Hong Kong dollars respectively, where the amount hedged is in the range of 40% to 50%.

In addition, our subsidiaries may hedge foreign exchange transactions such as exposures from asset/liability balances or forecast sales/purchases in currencies other than their functional currency. Where this occurs, external foreign exchange contracts are designated at the group level as hedges of foreign exchange risk on the specific asset/liability balance or forecast transaction.

We also economically hedge a proportion of foreign currency risk associated with trade and other creditor balances using forward foreign currency contracts.

Refer to section (b) 'Hedging strategies' and section (c) 'Hedge relationships' contained in this note for further information.

##### (iv) Sensitivity analysis - foreign currency risk

The sensitivity analysis included in this section is based on foreign currency risk exposures on our financial instruments and net foreign investment balances as at reporting date.

The translation of our investments in foreign operations from their functional currency to Australian dollars represents a translation risk rather than a financial risk. Nevertheless, in this sensitivity analysis we have included the translation impact on our foreign currency translation reserve from movements in the exchange rate. In so doing, this sensitivity analysis reflects the impact on equity from a movement in the exchange rate associated with both the underlying hedged investment and the financial instruments hedging the translation currency risk.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in our foreign currency risk exposure and a worsening of our financial position. A favourable movement in exchange rates implies a reduction in our foreign currency risk exposure and an improvement of our financial position.

A sensitivity of 10 per cent has been selected as this is considered reasonable taking into account the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movements. Comparing the Australian dollar exchange rate against the Euro, the year end rate of 0.7405 (2010: 0.6978) would generate a 10 per cent favourable position of 0.8145 (2010: 0.7676) and an adverse position of 0.6732 (2010: 0.6344). This range is considered reasonable given the volatility that has been observed. For example, over the last five years, the Australian dollar exchange rate against the Euro has traded in the range 0.4755 to 0.7735 (2010: 0.4755 to 0.7178).

Foreign currency risk exposure from recognised assets and liabilities arises primarily from our long term borrowings denominated in foreign currencies. There is no significant impact on profit or loss from foreign currency movements associated with these borrowings as they are effectively hedged.

There is some volatility in profit or loss from exchange rate movements associated with our borrowings de-designated or not in hedge relationships and with our cash flow hedges of forecast transactions.

We are exposed to equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. This foreign currency risk is spread over a number of currencies and accordingly, we have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency. It should be noted that our foreign currency exposure associated with cash flow hedge derivatives is predominantly in Euro and with our offshore investments predominantly in Hong Kong dollars, New Zealand dollars, British pound sterling and Chinese renminbi (relating to our investments in Hong Kong CSL Limited, TelstraClear Limited, Telstra Limited, Sequel Limited, Telstra Robin Holdings Limited and Telstra Octave Holdings Limited).

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (iv) Sensitivity analysis - foreign currency risk (continued)

The following sensitivity analysis is based on our foreign currency risk exposures comprising the revaluation impact on our derivatives and borrowings and net foreign investments from a 10 per cent adverse/favourable movement in foreign exchange rates based on our balances as at reporting date. At 30 June, had the Australian dollar against all applicable currencies moved as illustrated in Table C, with all other variables held constant and taking into account identified underlying exposures and related hedges, net profit and equity after tax would have been affected as follows:

	Telstra Group											
	10% adverse movement						10% favourable movement					
	Net profit or loss		Equity (foreign currency translation reserve)		Equity (cash flow hedging reserve)		Net profit or loss		Equity (foreign currency translation reserve)		Equity (cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		As at 30 June		Year ended 30 June		As at 30 June		As at 30 June	
	Gain/(loss)		Gain/(loss)		Gain/(loss)		Gain/(loss)		Gain/(loss)		Gain/(loss)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revaluation of derivatives and borrowings - de-designated from fair value hedges or not in a hedge relationship (i) . . . . .	(9)	(5)	-	-	-	-	11	8	-	-	-	-
Revaluation of derivatives and underlying exposure - cash flow hedges of forecast transactions (ii) . . . . .	(23)	(21)	-	-	-	-	21	25	-	-	-	-
Revaluation of derivatives - cash flow hedges of offshore loans (iii) . . . . .	-	-	-	-	(11)	(24)	-	-	-	-	14	33
Net foreign investments (iv)	-	-	(90)	(163)	-	-	-	-	110	199	-	-
	(32)	(26)	(90)	(163)	(11)	(24)	32	33	110	199	14	33

(i) The impact of some of our borrowings de-designated from fair value hedge relationships or not in a hedge relationship has resulted in some volatility to profit or loss. The revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings, however there will be some profit or loss impact due to the fact that the derivatives are recorded at fair value and hence the foreign exchange movements are recognised at present value. The borrowings which are accounted for on an amortised cost basis will reflect revaluation movements for changes in the spot exchange rate which are not discounted. Therefore, the impact on profit or loss is primarily attributable to the discounting effect of the foreign exchange gains and losses on the hedging derivatives.

(ii) Adverse and favourable impacts include \$2 million (2010: \$1 million) relating to purchases of property, plant and equipment, which would affect the cost of the asset and would affect profit or loss as the assets are depreciated over their useful lives.

(iii) The lower sensitivity in 2011 compared to 2010 is primarily due to the shift in the fair value of our portfolio as at 30 June valuation dates together with the maturity during the year of our Euro bond in a cash flow hedge.

(iv) The impact on the foreign currency translation reserve relates to the translation of the net assets of our foreign controlled entities including the impact of hedging. The net gain or loss in the sensitivity analysis represents the impact relating to the unhedged portion of the net assets of our foreign controlled entities. The lower sensitivity in 2011 compared to 2010 reflects the sale of our net investment in SouFun Holdings Ltd during fiscal 2011.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to incur a financial loss. We have exposure to credit risk on all financial assets included in our statement of financial position, comprising cash and cash equivalents, trade and other receivables, available-for-sale financial assets, finance lease receivables and derivative financial instruments. To help manage this risk:

- we have a policy for performing credit risk assessments on new and existing customers and where required, establishing credit limits and payment terms for entities we deal with;
- we monitor exposure to high risk debtors on a predictive and pro-active basis;
- we may require collateral where appropriate; and
- we manage exposure to individual entities we either transact with or enter into derivative contracts with, through a system of credit limits.

Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis. We may also be subject to credit risk for transactions which are 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 23 and note 30.

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. We do not have any significant credit risk exposure to a single customer or groups of customers. Ageing analysis and ongoing credit evaluation is performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debt is raised. In addition, receivable balances are monitored on an ongoing basis with the result that our exposure to bad debts is not significant. For further details regarding our trade and other receivables refer to note 10.

In relation to our transactions in money market instruments, forward foreign currency contracts, and cross currency and interest rate swaps there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout (i.e. in-the-money). We have policies that limit the amount of credit exposure to any financial institution. These risk limits are regularly monitored. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with our policy requirements. Our credit risk and financial instruments are spread amongst a number of financial institutions.

One of the methods that we use to manage the credit risk exposure relating to these instruments is to monitor our exposure by country of financial institution based on a value at risk (VaR) methodology. Value at risk calculations are a technique that estimates the potential losses that could occur on risk positions in the future as a result of movements in market rates over a specified time horizon given a specified level of confidence which is statistically determined.

The amounts included in Table D below include the in-the-money market values combined with a potential credit calculation and will therefore not equate to the accounting carrying value, fair value or face value of the transactions as disclosed in note 17.

In determining the potential credit limit factors to be used in these calculations, the following should be noted:

- reference is made to the historical volatility factors relevant to the particular currencies/interest rates applicable to the instruments;
- in determining the volatility factors, reference has been made to the holding period or in this case the maturity of the instrument. In some cases the transaction can have a maturity of up to 10 years and the potential volatility needs to reflect the possible movements over this time period given historical observations; and
- we have used 90 per cent (2010: 99 per cent) confidence levels to determine the applicable potential credit limit factors. This level changed from 99 per cent in the prior year to 90 per cent in the current year in accordance with revised policy settings during fiscal 2011.

The VaR based methodology employed has the following limitations:

- the use of historical data as a proxy for estimating future events may not cover all potential events, in particular this is relevant when trying to estimate potential volatility over a long holding period such as 10 years; and
- the use of a 90 per cent confidence level, by definition, may not take into account movements that may occur outside of this confidence threshold.

Table D Telstra Group				
Credit risk concentrations (VaR based)				
(i)				
	As at 30 June 2011		As at 30 June 2010	
	%	\$m	%	\$m
Australia . . . . .	16.7	1,644	18.7	1,495
United States . . . . .	24.8	2,440	16.2	1,295
Japan . . . . .	0.6	56	4.9	393
Europe . . . . .	19.4	1,911	21.9	1,757
United Kingdom . . . . .	17.3	1,703	21.7	1,737
Canada . . . . .	6.4	629	0.7	57
Switzerland . . . . .	1.0	99	3.1	252
China/Hong Kong . . . . .	10.2	1,001	10.4	831
Singapore . . . . .	3.3	324	2.2	177
New Zealand . . . . .	0.3	36	0.2	20
	100.0	9,843	100.0	8,014



## Notes to the Financial Statements (continued)

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### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle a financial liability or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- generally use instruments that are tradeable in highly liquid markets; and
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments ranging from ultra liquid, highly liquid to liquid instruments.

During the year new policy settings were implemented to raise the minimum level of liquidity and to pre-fund major payments earlier.

We monitor rolling forecasts of liquidity reserves on the basis of expected cash flow. Our objective is to maintain a balance between continuity of funding and flexibility through the use of liquid instruments, borrowings and committed available credit lines.

At 30 June 2011, based on contractual face values, 13 per cent of our debt (after hedging) comprising offshore borrowings, Telstra bonds and domestic loans and excluding promissory notes, will mature in less than one year (2010: 16 per cent).

The contractual maturity of our fixed and floating rate financial liabilities and derivatives and the corresponding carrying values are shown in the following Table E. The contractual maturity amounts (nominal cash flows) represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying values. These amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June. We have also included derivative financial assets in the following table on the basis that these assets have a direct relationship with an underlying financial liability and both the asset and the liability are managed together.

For floating rate instruments, the amount disclosed is determined by reference to the current market pricing for interest rates over the period to maturity.

Also affecting liquidity are cash and cash equivalents, available for sale financial assets and other non-interest bearing financial assets. Liquidity risk associated with these financial instruments is represented by the face values as shown in note 17 Table C.

## Notes to the Financial Statements (continued)

## 18. Financial risk management (continued)

## (a) Risks and mitigation (continued)

## Liquidity risk (continued)

TABLE E

TABLE E	Telstra Group											
	As at 30 June 2011						As at 30 June 2010					
	Contractual maturity (nominal cash flows)						Contractual maturity (nominal cash flows)					
	Carrying amount	Less than 1 year	1 to 2 years	2 to 5 years	over 5 years	Total	Carrying amount	Less than 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Derivative financial liabilities</b>												
Interest rate swaps - pay fixed (i)	(162)	(74)	(66)	(79)	(46)	(265)	(216)	(80)	(76)	(106)	(73)	(335)
Interest rate swaps - pay variable (i)	(55)	(2)	8	(13)	(55)	(62)	(16)	(23)	-	-	-	(23)
Cross currency swaps - foreign leg variable (ii)	(382)	(240)	(144)	-	-	(384)	(632)	(333)	(302)	-	-	(635)
Cross currency swaps - AUD leg fixed (ii)	(162)	(11)	(11)	(182)	-	(204)	(268)	(18)	(124)	(154)	(38)	(334)
Cross currency swaps - AUD leg variable (ii)	(11,135)	(1,953)	(2,098)	(4,949)	(6,222)	(15,222)	(11,716)	(3,257)	(1,726)	(4,887)	(5,443)	(15,313)
Forward foreign currency contracts (ii)	(1,164)	(1,153)	(11)	-	-	(1,164)	(1,268)	(1,142)	(59)	(10)	-	(1,211)
<b>Derivative financial assets</b>												
Interest rate swaps - received fixed (i)	248	138	119	151	(43)	365	471	196	173	238	26	633
Interest rate swaps - receive variable (i)	19	26	-	-	-	26	88	90	-	-	-	90
Cross currency swaps - foreign leg fixed (ii)	781	23	35	687	109	854	869	27	50	289	610	976
Cross currency swaps - foreign leg variable (ii)	8,358	852	1,502	2,825	5,067	10,246	9,578	2,369	968	3,572	4,025	10,934
Cross currency swaps - AUD leg variable (ii)	451	313	156	-	-	469	685	412	306	-	-	718
Forward foreign currency contracts (ii)	1,138	837	8	-	-	845	1,288	1,144	56	10	-	1,210
<b>Non-derivative financial liabilities</b>												
Telstra bonds and domestic loans	(3,954)	(677)	(1,683)	(1,312)	(1,243)	(4,915)	(3,587)	(219)	(650)	(2,837)	(820)	(4,526)
Trade/other creditors and accrued expenses	(4,099)	(4,045)	(4)	(17)	(33)	(4,099)	(3,853)	(3,790)	(13)	(13)	(37)	(3,853)
Offshore loans	(9,567)	(1,406)	(1,677)	(3,800)	(5,179)	(12,062)	(10,920)	(2,713)	(1,550)	(4,265)	(4,757)	(13,285)
Finance leases	(139)	(53)	(44)	(50)	(19)	(166)	(129)	(50)	(35)	(49)	(25)	(159)
Promissory notes	(508)	(510)	-	-	-	(510)	(274)	(276)	-	-	-	(276)
Deferred consideration for capital expenditure	(171)	(48)	(29)	(80)	(81)	(238)	(238)	(56)	(49)	(108)	(136)	(349)

(i) Net amounts for interest rate swaps for which net cash flows are exchanged. Classification into net receive and net pay positions is based on the total net cash flows over the life of the contract.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### Liquidity risk (continued)

##### Financing arrangements

Table F

	Telstra Group	
	As at 30 June	
	2011	2010
	\$m	\$m
We have access to the following lines of credit:		
<b>Credit standby arrangements</b>		
Unsecured committed cash standby facilities which are subject to annual review . . . . .	593	382
Amount of credit unused . . . . .	593	382

We have promissory note facilities in place in the United States, Europe, Australia and New Zealand under which we may nominally issue up to \$9,198 million (2010: \$10,372 million). As at 30 June 2011, we had on issue \$508 million (2010: \$274 million) under these facilities. As at 30 June 2011, our subsidiary CSL Limited had a bank bill acceptance facility of \$93 million (2010: \$109 million) of which \$92 million was issued (2010: \$107 million). These facilities are not committed or underwritten and we have no guaranteed access to the funds. Generally, given we retain suitable ratings, our facilities are available, subject to market conditions, unless we default on any terms applicable under the relevant agreements or become insolvent. During the current and prior years there were no defaults or breaches on any of our facility agreements.

#### (b) Hedging strategies

We hold a number of different financial instruments to hedge risks relating to underlying transactions. Our major exposure to interest rate risk and foreign currency risk arises from our long term borrowings. We also have translation currency risk associated with our offshore investments and transactional currency exposures such as purchases in foreign currencies.

We designate certain derivatives as either:

- hedges of the fair value of recognised liabilities (fair value hedges);
- hedges of foreign currency risk associated with recognised liabilities or highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation.

The terms and conditions in relation to our derivative financial instruments are similar to the terms and conditions of the underlying hedged items to maximise hedge effectiveness.

#### Borrowings de-designated from fair value hedge relationships or not in a designated hedge relationship

Our borrowings de-designated from fair value hedge relationships or not in designated hedge relationships comprise:

- a number of offshore borrowings denominated in United States dollars, Euro and British pounds sterling which were in fair value hedges and were de-designated from the hedge relationship for hedge accounting purposes;
- a long term Euro bond issue which is not in a designated hedge relationship for hedge accounting purposes; and
- some forward foreign currency contracts that are not in a designated hedge relationship for hedge accounting purposes, used to economically hedge fair value movements for changes in foreign exchange rates associated with trade creditors and other liabilities denominated in a foreign currency.

During fiscal 2011, a United States dollar bank loan which was in a fair value hedge relationship was de-designated because it did not meet the requirements for hedge effectiveness. Accordingly, we discontinued hedge accounting for this borrowing from the de-designation date of 1 January 2011.

All our financial liabilities de-designated or not in designated hedge relationships are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

All other hedge relationships met hedge effectiveness requirements for hedge accounting purposes at the reporting date.

Refer to section (c) for details on our hedge relationships based on contractual face value amounts and cash flows. Refer to note 7 for the impact on finance costs relating to borrowings de-designated or not in hedge relationships.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (b) Hedging strategies (continued)

##### Fair value hedges

We hold cross currency principal and interest rate swaps to mitigate our exposure to changes in the fair value of foreign denominated debt from fluctuations in foreign currency and interest rates. The hedged items designated are a portion of our foreign currency denominated borrowings. The changes in the fair values of the hedged items resulting from movements in exchange rates and interest rates are offset against the changes in the fair value of the cross currency and interest rate swaps. The objective of this hedging is to convert foreign currency borrowings to floating Australian dollar borrowings.

The net impact on finance costs from remeasuring the fair value of the hedge instruments together with the gains and losses in relation to the hedged item where those gains or losses relate to the hedged risks largely represents ineffectiveness attributable to movements in Telstra's borrowing margins.

The re-measurement of the hedged items resulted in a gain before tax of \$180 million (2010: gain of \$381 million) and the changes in the fair value of the hedging instruments resulted in a loss before tax of \$207 million (2010: gain of \$407 million). This results in a net loss before tax of \$27 million and a net loss after tax of \$19 million (2010: net loss before tax of \$26 million and net loss after tax of \$18 million).

Refer to note 7 for the impact on finance costs relating to borrowings in fair value hedges.

The effectiveness of the hedging relationship is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. Regression analysis is used to analyse the relationship between the derivative financial instruments (the dependent variable) and the underlying borrowings (the independent variable). The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in fair values achieved by the hedge.

Refer to note 17 Table G and Table H for the value of our derivatives designated as fair value hedges.

##### Cash flow hedges

Cash flow hedges are predominantly used to hedge exposures relating to our borrowings and our ongoing business activities where we have highly probable purchase or settlement commitments in foreign currencies.

We enter into cross currency and interest rate swaps as cash flow hedges of future payments denominated in foreign currency resulting from our long term offshore borrowings. The hedged items designated are a portion of the outflows associated with these foreign denominated borrowings. The objective of this hedging is to hedge foreign currency risks arising from spot rate changes and thereby mitigate the risk of payment fluctuations as a result of exchange rate movements.

We also enter into forward exchange contracts as cash flow hedges to hedge forecast transactions denominated in foreign currency which hedge foreign currency risk arising from spot rate changes. The hedged items comprise a portion of highly probable forecast payments for operating and capital items primarily denominated in United States dollars.

The effectiveness of the hedging relationship relating to our borrowings is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. The actual derivative financial instruments in a cash flow hedge are regressed against the hypothetical derivative. The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in cash flows achieved by the hedge.

The effectiveness of our hedges relating to highly probable forecast transactions is assessed prospectively based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedging instrument and the hedged item attributable to exchange rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective.

In relation to our offshore borrowings, ineffectiveness on our cash flow hedges is recognised in the income statement to the extent that the change in the fair value of the hedging derivatives in the cash flow hedge exceed the change in value of the underlying borrowings in the cash flow hedge during the hedging period. During the year, there was no material ineffectiveness attributable to our cash flow hedges (refer to note 7). Also during the year, there was no material impact on profit or loss as a result of discontinuing hedge accounting for forecast transactions no longer expected to occur.

For hedge gains or losses transferred to and from the cash flow hedge reserve refer to the statement of comprehensive income.

Refer to note 17 Table G and Table H for the value of our derivatives designated as cash flow hedges.

The following table shows the maturities of the payments in our cash flow hedges (i.e when the cash flows are expected to occur). These amounts represent the undiscounted cash flows reported in Australian dollars based on the applicable exchange rate as at 30 June and represent the identified foreign currency exposures at reporting date in relation to our cash flow hedges.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (b) Hedging strategies (continued)

##### Cash flow hedges (continued)

Table G	Telstra Group	
	Nominal cash outflows	
	As at 30 June	
	2011 \$m	2010 \$m
<b>Highly probable forecast transactions</b>		
<b>Non-Capital items (i)</b>		
- less than one year . . . . .	(548)	(1,073)
- one to five years . . . . .	-	(35)
<b>Capital items (ii)</b>		
- less than one year . . . . .	(63)	(85)
- one to five years . . . . .	-	(45)
	<b>(611)</b>	<b>(1,238)</b>
<b>Borrowings (iii)</b>		
- less than one year . . . . .	(831)	(1,575)
- one to five years . . . . .	(2,174)	(2,561)
- greater than five years . . . . .	(4,516)	(3,921)
	<b>(7,521)</b>	<b>(8,057)</b>

(i) These amounts will affect our income statement in the same period as the cash flows are expected to occur.

(ii) For purchases of property, plant and equipment, the gains and losses on the associated hedging instruments are included in the measurement of the initial cost of the asset. The hedged asset purchases affect profit or loss as the assets are depreciated over their useful lives. Refer to note 2 for our depreciation policies for property, plant and equipment.

(iii) The impact on our income statement from foreign currency movements associated with these hedged borrowings will affect profit or loss over the life of the borrowing, however the impact on profit or loss is expected to be nil as the borrowings are effectively hedged.

##### Hedges of net investments in foreign operations

We have exposure to foreign currency risk as a result of our investments in offshore activities. This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars. We hedge a portion of our investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the hedging instruments and the change in the value of the hedged net investment from spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective. The prospective effectiveness test is performed based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected.

During the year there was no material ineffectiveness attributable to our hedges of net foreign investments.

In the consolidated statement of comprehensive income, net gains before tax of \$140 million and after tax of \$98 million (2010: gains before tax of \$30 million and after tax of \$21 million) on our hedging instruments were taken directly to equity during the year in the foreign currency translation reserve.

Refer to note 17 Table G and Table H for the value of our derivatives designated as hedges of net foreign investments.

#### (c) Hedge relationships

The following tables provide additional context around our hedge transactions and in particular describes how we arrive at our economic residual risk position as a result of the hedges executed. It should be noted that the economic residual position in each of the following tables will not be equal to the carrying values.

Table H and Table I describe each of our hedge relationships, using cross currency and interest rate swaps as the hedging instruments and comprise effective economic relationships based on contractual face value amounts and cash flows, including hedge relationships that have been de-designated for hedge accounting purposes and foreign denominated borrowings that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to hedge our offshore foreign denominated borrowings, some domestic borrowings and our offshore investment in Hong Kong CSL Limited.

Outlined in the following tables is the pre hedge underlying exposure, each leg of our cross currency and interest rate swaps and the end post hedge position. This post hedge position represents our net final currency and interest positions and is represented in our residual economic position as described in note 17 Table D.

## Notes to the Financial Statements (continued)

## 18. Financial risk management (continued)

## (c) Hedge relationships (continued)

Table H

Telstra Group - 30 June 2011

	Derivative hedging instruments - cross currency and interest rate swaps										Final currency and interest positions	
	Face value		Notional/Face value				Interest rate				Notional/Face Value	
			Interest rate swap	Gross currency swap	Gross currency swap	Gross currency swap	Interest rate swap	Cross currency swap	Cross currency swap	Interest rate swap		
			receive fixed/(pay) float	receive/(pay) float	receive fixed	receive fixed	receive float/(pay) fixed	receive/(pay) float	swap pay fixed	swap receive float/(pay) fixed	(Pay)/receive float	Pay fixed
			\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>In hedge relationships</b>												
<b>Offshore borrowings - fixed</b>												
Swiss francs . . . . .	(550)	550	(550)	-	-	(599)	-	(328)	(271)	(328)		
Euro . . . . .	(4,000)	4,000	(4,000)	-	-	(6,387)	-	(3,679)	(2,708)	(3,679)		
British pound . . . . .	(200)	200	(200)	-	-	(584)	-	(360)	(224)	(360)		
Hong Kong dollar . . . . .	(330)	-	-	330	-	(50)	-	-	(50)	-		
Japanese yen . . . . .	(48,000)	-	-	48,000	-	(526)	(163)	(409)	(117)	(572)		
United States dollar . . . . .	(1,150)	1,000	(1,000)	150	-	(1,158)	-	(955)	(203)	(955)		
<b>Offshore borrowings - floating</b>												
Australian dollar . . . . .	(250)	-	-	-	-	-	-	-	(250)	-		
United States dollar . . . . .	(1,310)	1,310	(500)	-	-	(1,885)	-	-	(1,885)	-		
<b>Domestic loans - floating</b>												
Australian dollar . . . . .	(275)	-	-	-	-	-	-	(275)	-	(275)		
<b>Net foreign investments</b>												
Hong Kong dollar . . . . .	-	(3,200)	-	-	-	452	-	-	452	-		
						(10,737)	(163)	(6,006)	(5,256)	(6,169)		



## Notes to the Financial Statements (continued)

## 18. Financial risk management (continued)

## (c) Hedge relationships (continued)

Table I Telstra Group - 30 June 2010

	Derivative hedging instruments - cross currency and interest rate swaps										Final currency and interest positions	
	Face value		Interest rate		Gross currency		Notional/Face value		Gross currency		Notional/Face Value	
	Pre hedge underlying exposure Native currency		swap receive fixed/(pay) float	swap receive/(pay) float	swap receive/(pay) float	swap receive/(pay) float	swap receive/(pay) float	swap receive/(pay) float	swap receive/(pay) float	swap receive/(pay) float	(Pay)/receive float	Pay fixed
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>In hedge relationships</b>												
<b>Offshore borrowings - fixed</b>												
Swiss francs . . . . .	(550)	(550)	-	-	550	(599)	-	-	(328)	(271)	(328)	(328)
Euro . . . . .	(3,500)	(3,500)	-	-	3,500	(5,679)	-	-	(3,679)	(2,000)	(3,679)	(3,679)
British pound . . . . .	(200)	(200)	-	-	200	(584)	-	-	(360)	(224)	(360)	(360)
Hong Kong dollar . . . . .	(330)	-	-	330	-	(50)	-	-	-	(50)	-	-
Japanese yen . . . . .	(43,000)	-	-	43,000	-	(465)	(163)	(348)	(550)	(117)	(511)	(511)
United States dollar . . . . .	(670)	(500)	500	170	500	(1,177)	-	-	(550)	(627)	(550)	(550)
<b>Offshore borrowings - floating</b>												
Australian dollar . . . . .	(250)	-	-	-	-	-	-	-	(250)	-	(250)	(250)
Euro . . . . .	(1,500)	(1,500)	-	-	1,500	(2,488)	-	-	-	(2,488)	-	-
Japanese yen . . . . .	(3,000)	-	-	-	3,000	(47)	-	-	-	(47)	-	-
United States dollar . . . . .	(791)	-	-	-	791	(806)	(106)	-	-	(806)	(106)	(106)
<b>Domestic loans - floating</b>												
Australian dollar . . . . .	(275)	-	-	-	-	-	-	-	(275)	-	(275)	(275)
<b>Net foreign investments</b>												
Hong Kong dollar	-	-	-	-	(4,200)	685	-	-	-	685	-	-
						(11,210)	(269)	(5,790)		(5,945)	(6,059)	

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (c) Hedge Relationships (continued)

Table J describes each of our hedge relationships, where forward foreign currency exchange contracts are used as the hedging instruments. These relationships comprise effective economic relationships based on contractual face value amounts and cash flows, including relationships that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to economically hedge our promissory notes, forecast transactions denominated in foreign currency, and foreign currency trade and other liabilities.

Outlined in the following table is the pre hedge underlying exposure, each leg of the forward foreign currency contract and the end post hedge position. This post hedge position represents our net final currency positions and is represented in our residual economic position as described in note 17 Table D.

Table J

## Telstra Group

Derivative hedging instruments - forward foreign currency contracts								
Face value		Notional value				Average exchange rate		
Pre hedge underlying exposure (payable)		Forward contract receive		Forward contract pay - final leg				
Native Currency		Native currency		Australian dollars				
2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011	2010	
<b>Forward contracts hedging interest bearing debt</b>								
<b>Promissory notes</b>								
United States dollars - contractual maturity								
2 months (2010: 0-2 months)	(300)	(60)	300	60	(286)	(70)	1.0496	0.8574
<b>Loans from wholly owned controlled entities</b>								
British pounds sterling - contractual maturity								
0-3 months (2010: 0-3 months)	(18)	(5)	18	5	(28)	(10)	0.6457	0.5883
New Zealand dollars - contractual maturity								
0-3 months (2010: 0-3 months)	(363)	(317)	363	317	(277)	(243)	1.3096	1.2527
United States dollars - contractual maturity								
0-3 months (2010: 0-3 months)	(20)	(16)	20	16	(19)	(17)	1.0254	0.8716
<b>Forward contracts hedging forecast purchases and other liabilities</b>								
<b>Forecast transactions</b>								
United States dollars - contractual maturity								
0-12 months (2010: 0-24 months)	(653)	(914)	653	914	(309)	(695)	0.9947	0.8447
Euro - contractual maturity nil (2010: 5-12 months)								
	-	(2)	-	2	-	(3)	-	0.6841
Swedish Krona - contractual maturity 0-3 months (2010: nil)								
	(20)	-	20	-	(2)	-	6.3482	-
<b>Trade and other liabilities - non interest bearing</b>								
United states dollars - contractual maturity								
0-21 months (2010: 0-38 months)	(104)	(144)	104	144	(108)	(173)	0.9652	0.8318
					(1,029)	(1,211)		

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (c) Hedge Relationships (continued)

Table K describes our hedge relationships where offshore loans and promissory notes are used as the hedging instruments. These hedging instruments are used to hedge our net foreign investment in TelstraClear Limited. Outlined in the following table is the pre hedge underlying exposure, the face value of the hedging instruments (New Zealand denominated borrowings and promissory notes) and the end post hedge position and is represented in our residual economic position as described in note 17 Table D.

Table K			Non-derivative hedging instruments			
			Face value			
Hedged amount (i)			Offshore loans and promissory notes (ii)			
			New Zealand dollars		Australian dollars	
New Zealand dollars			(payable)		(payable)	
2011	2010		2011	2010	2011	2010
\$m	\$m		\$m	\$m	\$m	\$m
Net foreign investments						
TelstraClear Ltd (New Zealand dollars).						
609	609		(609)	(609)	(470)	(494)

(i) Amount hedged represents portion of carrying value of net assets.

(ii) At 30 June 2011 the Australian dollar face value of offshore loans was \$274 million (2010: \$288 million) and the Australian dollar value of promissory notes was \$196 million (2010: \$206 million).

## Notes to the Financial Statements (continued)

### 19. Share capital

	Telstra Group	
	As at 30 June	
	2011	2010
	\$m	\$m
Contributed equity . . . . .	5,793	5,793
Share loan to employees . . . . .	(70)	(77)
Shares held by employee share plans . . . . .	(159)	(163)
Net services received under employee share plans . . . . .	46	37
	<b>5,610</b>	<b>5,590</b>

#### Contributed equity

Our contributed equity represents our authorised and issued fully paid ordinary shares. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.

We have 12,443,074,357 (30 June 2010: 12,443,074,357) authorised fully paid ordinary shares on issue.

#### Share loan to employees

The share loan to employees account represents the outstanding balance of the non recourse loans provided to our employees under the Telstra Employee Share Ownership Plan Trusts (TESOP 97 and TESOP 99). Refer to note 27 for further details regarding these plans.

#### Shares held by employee share plans

The shares held by employee share plans represent the cost of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded with contributions and intercompany loans from Telstra Corporation Limited. As at 30 June 2011 the number of shares totalled 32,419,972 (2010: 33,005,592). These shares are excluded from the calculation of basic and diluted earnings per share. Refer to note 3 for further details.

#### Net services received under employee share plans

The net services received under the employee share plans account is used to record the cumulative value of our options, performance rights, restricted shares, incentive shares, direct shares and ownshares issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account.

## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows

	Note	Telstra Group	
		Year ended 30 June	
		2011	2010
		\$m	\$m
<b>(a) Reconciliation of profit to net cash provided by operating activities</b>			
Profit for the year . . . . .		3,250	3,940
<b>Add/(subtract) the following transactions</b>			
Depreciation and amortisation . . . . .	7	4,459	4,346
Finance income . . . . .	6	(127)	(67)
Finance costs . . . . .	7	1,262	1,030
Distribution from FOXTEL Partnership . . . . .	6	(70)	(60)
Share based payments . . . . .	7	12	5
Defined benefit plan expense . . . . .	7	268	249
Net gain on disposal of property, plant and equipment . . . . .		(14)	(10)
Net gain on disposal of intangibles . . . . .		-	(2)
Net gain on disposal of controlled entities . . . . .		(69)	-
Net loss on disposal of businesses . . . . .		16	-
Net gain on disposal of associates . . . . .		(8)	-
Net loss on disposal of investments . . . . .		-	9
Share of net (profits) from jointly controlled and associated entities . . . . .	26	(1)	(2)
Impairment losses (excluding inventories, trade and other receivables) . . . . .	7	210	210
Reversal of impairment losses (excluding trade and other receivables and amounts owed by joint ventures) . . . . .	7	-	(1)
Foreign exchange differences . . . . .		(1)	(1)
<b>Cash movements in operating assets and liabilities</b>			
<b>(net of acquisitions and disposals of controlled entity balances)</b>			
(Increase)/decrease in trade and other receivables . . . . .		(327)	6
Decrease/(increase) in inventories . . . . .		10	(71)
(Increase)/decrease in prepayments and other assets . . . . .		(190)	22
Increase in net defined benefit . . . . .		(348)	(352)
Increase in trade and other payables . . . . .		67	262
Decrease in revenue received in advance . . . . .		(143)	(72)
(Decrease)/increase in net taxes payable . . . . .		(204)	380
Decrease in provisions . . . . .		(34)	(130)
<b>Net cash provided by operating activities . . . . .</b>		<b>8,018</b>	<b>9,691</b>
<b>(b) Cash and cash equivalents</b>			
Cash at bank and on hand . . . . .		356	418
Bank deposits, bills of exchange and promissory notes . . . . .		2,274	1,518
Total cash and cash equivalents . . . . .		2,630	1,936
<b>Reconciliation to the statement of cash flows</b>			
Cash and cash equivalents included in assets held for sale . . . . .	12	7	169
Cash and cash equivalents in the statement of cash flows . . . . .		2,637	2,105

## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows (continued)

#### (c) Acquisitions

##### Fiscal 2011 acquisitions

On 1 February 2011, our controlled entity Sensis Pty Ltd acquired 100% of the issued capital of Life Events Media Pty Ltd (Life Events), an Australian entity in the emerging "Request for Quote" market for a total consideration of \$5 million.

On 28 February 2011, our wholly controlled entity, Telstra Holdings Pty Ltd acquired 100% of the issued capital of Reach Asia Limited, Reach Global Holdings Limited and Reach Network Services Korea Limited. On the same day, our wholly controlled entity, Telstra New Zealand Holdings Limited acquired 100% of the issued capital of Reach Network Services NZ Limited. In addition, we acquired an intercompany loan due from Reach Global Services Limited. We paid \$39 million for these transactions, all of which formed part of the restructure of Reach, Telstra's joint venture with PCCW. These transactions have been reflected in the following 'Total acquisitions' table. As part of this restructure of Reach network assets, we also acquired other assets from Reach totalling \$108 million (refer to section (e)), bringing the total purchase consideration to \$147 million. The consideration was offset against Telstra's shareholder loan due from Reach. The balance of this loan at 30 June 2011 is \$5 million and has been fully provided for. Refer to note 29 for further details.

On 31 March 2011, Telstra Corporation Ltd acquired 100% of the issued capital of iVision Pty Ltd (iVision), an Australian entity primarily involved in the design and implementation of audio visual and video conferencing solutions. Total consideration was \$41 million with \$5 million of this contingent upon the entity achieving certain pre-determined integration targets by 31 December 2012.

We have recognised goodwill of \$4 million on acquisition of Life Events and \$31 million on acquisition of iVision which are not deductible for tax purposes. The following factors contributed to the recognition of goodwill:

- forecast revenues and profitability; and
- strategic benefits to the operations of the Telstra Group.

Since the dates of acquisition, these entities have contributed income of \$64 million and profit before income tax expense of \$1 million. If the acquisitions had occurred on 1 July 2010, our adjusted consolidated income and consolidated profit before income tax expense for the year ended 30 June 2011 for the Telstra Group would have been \$25,440 million and \$4,561 million respectively.

The effect of these acquisitions are detailed below:

	Total acquisitions	
	Year ended 30 June	
	2011	2011
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration for acquisition . . . . .	40	
Contingent consideration for acquisition . . . . .	5	
Deferred consideration . . . . .	1	
Debt forgiveness . . . . .	39	
<b>Total purchase consideration</b> . . . . .	<b>85</b>	
Cash balances acquired . . . . .	(4)	
Contingent consideration . . . . .	(5)	
Deferred consideration . . . . .	(1)	
Debt forgiveness . . . . .	(39)	
<b>Outflow of cash on acquisition</b> . . . . .	<b>36</b>	
	<b>Fair value</b>	<b>Carrying value</b>
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents . . . . .	4	4
Trade and other receivables . . . . .	89	89
Property, plant and equipment . . . . .	38	36
Intangible assets (including goodwill)	15	6
Other assets . . . . .	8	8
Trade and other payables . . . . .	(90)	(90)
Unearned revenue . . . . .	(9)	(9)
Intercompany loan . . . . .	(34)	(34)
Other liabilities . . . . .	(4)	(4)
Deferred tax liabilities . . . . .	(1)	-
Net assets . . . . .	16	6
<b>Goodwill on acquisition</b> . . . . .	<b>35</b>	
<b>Intercompany loan eliminated on consolidation</b> . . . . .	<b>34</b>	
	<b>85</b>	

##### Fiscal 2010 acquisitions

##### L Mobile (Formerly Dotad Group)

On 23 February 2010, our controlled entity Telstra Robin Holdings Limited acquired 67% of the issued capital of Dotad Media Holdings Limited, a company registered in British Virgin Islands, for a total consideration of \$105 million, with \$67 million of this consideration contingent upon the entity achieving certain pre-determined revenue and EBITDA targets over the next three fiscal years and \$6 million deferred until February 2012.



## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows (continued)

#### (c) Acquisitions (continued)

##### Fiscal 2010 acquisitions (continued)

The effect of the acquisition is detailed below:

	<b>Dotad Media Holdings Limited</b>	
	2010	2010
	\$m	\$m
<b>Consideration for acquisition</b>		
Cash consideration for acquisition . . . . .	32	
Contingent consideration for acquisition . . . . .	67	
Deferred consideration for acquisition . . . . .	6	
<b>Total purchase consideration . . . . .</b>	<b>105</b>	
Cash balances acquired . . . . .	(7)	
Contingent consideration . . . . .	(67)	
Consideration deferred . . . . .	(6)	
<b>Outflow of cash on acquisition . . . . .</b>	<b>25</b>	
	Fair value	Carrying value
<b>Assets/(liabilities) at acquisition date</b>		
Cash and cash equivalents . . . . .	7	7
Trade and other receivables . . . . .	10	10
Property, plant and equipment . . . . .	1	1
Intangible assets . . . . .	26	1
Other assets . . . . .	1	1
Trade and other payables . . . . .	(2)	(2)
Income tax payable . . . . .	(2)	(2)
Deferred tax liabilities . . . . .	(6)	-
Net assets . . . . .	35	16
Adjustment to reflect non-controlling interests . . . . .	(11)	
<b>Goodwill on acquisition . . . . .</b>	<b>81</b>	
	<b>105</b>	
Loss after non-controlling interests from acquisition date until 30 June 2010 . . . . .	(1)	

In fiscal 2010 we recognised contingent consideration of \$67 million on acquisition within trade and other payables. At 30 June 2011, we estimated the fair value of the contingent consideration to be \$32 million, this is based on the assumption that some of the revenue and EBITDA targets will not be achieved. The contingent consideration of \$67 million was reduced in fiscal 2011 by \$30 million with a corresponding gain recognised in the income statement, based on the estimated amounts payable under the terms of the acquisition. We also recognised a \$5 million foreign exchange gain on the retranslation of the contingent consideration during the year. Refer to note 6 and note 21 for further details.

At acquisition date, the non-controlling interest recognised in LMobile of \$11 million was measured based on the non-controlling interest's proportionate share of fair value of LMobile's identifiable net assets.

We also paid \$70 million of contingent consideration in fiscal 2010 for the acquisition of Octave Investments Holdings Limited, which was acquired in fiscal 2009.

#### (d) Disposals

##### Fiscal 2011 disposals

##### SouFun

On 17 September 2010, our controlled entity Telstra International Holdings Limited sold its 50.6% shareholding in SouFun Holdings Ltd (SouFun) for a net consideration of \$288 million (net of cash balances of the disposed entity).

The effect of the disposal is detailed below:

	<b>SouFun</b>
	2011
	\$m
<b>Consideration for disposal</b>	
Cash consideration for disposal . . . . .	458
Realised net investment hedge gain . . . . .	12
Interest on net investment hedge . . . . .	2
Underwriting fees . . . . .	(15)
Cash and cash equivalents disposed . . . . .	(169)
<b>Inflow of cash on disposal . . . . .</b>	<b>288</b>
<b>Assets/(liabilities) at disposal date</b>	
Cash and cash equivalents . . . . .	169
Trade and other receivables . . . . .	9
Inventories . . . . .	8
Other assets . . . . .	4
Property, plant and equipment . . . . .	8
Intangibles . . . . .	316
Trade and other payables . . . . .	(35)
Current tax liabilities . . . . .	(18)
Provisions . . . . .	(1)
Deferred tax liabilities . . . . .	(12)
Other liabilities . . . . .	(36)
Net assets . . . . .	412
Adjustment for non-controlling interests . . . . .	(51)
Foreign currency translation reserve disposed . . . . .	23
Deferred tax on net investment hedge gain . . . . .	4
<b>Gain on disposal . . . . .</b>	<b>69</b>

## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows (continued)

#### (d) Disposals (continued)

##### Other current year disposals

On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business for a total consideration of \$14 million, with \$14 million received in cash, resulting in a loss on disposal of \$16 million. The carrying value of the intangible assets disposed amounted to \$26 million and Telstra Limited recognised a provision for restructuring of \$4 million on disposal of the business. The loss on disposal has reduced by \$2 million compared to the \$18 million reported at 31 December 2010 as a result of additional consideration received from the disposal in the second half of fiscal 2011.

We also sold our entire ownership interest of 48.2% in our associated entity Keycorp Limited for a total consideration of \$23 million.

##### Fiscal 2010 disposals

##### Universal Publishers (UP)

On 9 September 2009, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Universal Publishers Pty Ltd for a total consideration of \$3 million (net of cash balances of the disposed entity).

The effect of the disposal is detailed below:

	<b>Universal Publishers</b>	
	2010	2010
	\$m	\$m
<b>Consideration for disposal</b>		
Cash consideration for disposal . . . . .	3	
Cash balances disposed . . . . .	-	
<b>Inflow of cash on disposal . . . . .</b>	<u>3</u>	
		Carrying
	Fair value	value
<b>Assets/(liabilities) at disposal date</b>		
Cash and cash equivalents . . . . .	-	-
Trade and other receivables. . . . .	2	2
Property, plant and equipment . . . . .	1	1
Intangible assets. . . . .	3	3
Other assets. . . . .	8	8
Trade and other payables. . . . .	(2)	(2)
Net assets. . . . .	12	12
<b>Loss on disposal . . . . .</b>	<u>(9)</u>	
	<u>3</u>	

On 30 April 2009, our controlled entity Telstra Service Solutions Holdings sold its 100% shareholding in KAZ Group Pty Limited and KAZ Technology Services Pty Limited for a total consideration of \$205 million (net of cash balances of the disposed entities), with \$8 million of this consideration deferred. This deferred consideration was received during fiscal 2010.

The cash flow effect on the Telstra Group of these two disposals is detailed below:

	<b>Total disposals</b>
	<b>Year ended</b>
	30 June
	2010
	\$m
<b>Consideration for disposal</b>	
Cash consideration for disposal . . . . .	3
Deferred consideration received during the period for prior year disposals . . . . .	8
<b>Inflow of cash on disposal. . . . .</b>	<u>11</u>

#### (e) Significant investing and financing activities that involve components of non cash

##### Acquisition of assets by means of non cash transactions

	<b>Telstra Group</b>	
	<b>Year ended</b>	
	<b>30 June</b>	
	2011	2010
	\$m	\$m
Acquisition of property, plant and equipment by means of finance leases . . . . .	76	87
Acquisition of property, plant and equipment by means of debt forgiveness* . . . . .	108	-

The table above represents those assets acquired during the period which do not impact cash as the acquisition was made via finance leases or debt forgiveness.

\*Relates to the acquisition of assets from Reach. Refer to section (c) for further details.

## Notes to the Financial Statements (continued)

### 21. Impairment

#### Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The carrying amount of our goodwill and intangible assets with an indefinite useful life are detailed below:

	Goodwill		Intangible assets with indefinite useful lives	
	As at 30 June		As at 30 June	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
<b>CGUs</b>				
CSL New World Group *	740	932	-	-
Telstra Europe Group* (a)	54	80	-	-
Sensis Group (b)	215	215	-	-
Location Navigation	14	14	8	8
Adstream Group (c)	-	24	-	-
1300 Australia Pty Ltd	16	16	12	12
Sequel Group*	100	119	-	-
Octave Group* (d)	-	116	-	-
iVision (e)	36	-	-	-
LMobile Group* (f)	45	87	-	-
TelstraClear Group* (g)	129	136	-	-
Other	66	63	1	-
	<b>1,415</b>	<b>1,802</b>	<b>21</b>	<b>20</b>

\* These CGUs operate in overseas locations, therefore the goodwill allocated to these CGUs will fluctuate in line with movements in applicable foreign exchange rates during the year.

(a) On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business resulting in a decrease of \$15 million in goodwill. Refer to note 20 for further details.

(b) Our assessment of the Sensis Group CGU excludes the Location Navigation Group and the Adstream Group that form part of the Sensis reportable segment. These CGUs are assessed separately.

(c) We have classified the carrying value of assets and liabilities for the Adstream Group as held for sale. Refer to note 12 for further details.

(d) As at 31 December 2010, the carrying value of our assets in the Octave Group CGU were tested for impairment based on value in use. This resulted in an impairment charge of \$133 million against goodwill (\$94 million) and other intangible assets (\$39 million) being recognised in the Telstra Group financial statements. The impairment arose as a result of significant changes in the regulatory environment in China in which the Octave Group operates. These changes were disclosed in our Annual Financial Report as at 30 June 2010. These regulatory changes have required us to significantly reduce the estimated future cash flows from the Octave Group, resulting in the impairment charge. The carrying amount of the Octave Group goodwill has been reduced to nil.

(e) On 31 March 2011, Telstra Corporation Ltd acquired 100% of the issued capital of iVision Pty Ltd. Refer to note 20 for further details.

(f) As at 30 June 2011, the carrying value of our assets in the LMobile Group CGU were tested for impairment based on value in use. This resulted in an impairment charge of \$27 million against goodwill being recognised in the Telstra Group financial statements. The impairment arose as a result of increased competitive market pressure in the SMS, MMS and WAP market segments, which contributed to significant uncertainty around future cash flows for the LMobile Group. Given this and the reduced estimated future cash flows, we have estimated that certain pre-determined revenue and EBITDA targets may not be met. As such, in fiscal 2011, we have derecognised \$30 million of the contingent consideration liability recognised at the date of acquisition of LMobile. The \$30 million gain on the derecognition of the contingent consideration liability has been recorded as other income. Refer to note 6 for further details.

## Notes to the Financial Statements (continued)

### 21. Impairment (continued)

#### Cash generating units (continued)

(g) On 24 May 2011, the New Zealand Government announced it had reached agreements to progress the rollout of a new ultra-fast broadband (UFB) network to cover 75% of premises in New Zealand. The UFB is supplementary to the Rural Broadband Initiative (RBI) intended to cover rural areas.

On 4 July 2011, the Telecommunications (TSO, Broadband, and Other Matters) Amendment Act 2011 came into force. The new law provides the framework for the new UFB regime and for Telecom New Zealand's structural separation, a condition of Telecom's participation in the UFB build.

At this stage, it is too early to assess the strategic or business effects of the UFB on TelstraClear Limited, our wholly controlled subsidiary, and the business plan of TelstraClear has not identified any impairment of assets as at 30 June 2011.

#### Ubiquitous Telecommunications Network and Hybrid Fibre Coaxial (HFC) Cable Network

In addition to the above CGUs, we have two further significant CGUs that are reviewed for impairment which have no allocated goodwill. These two CGUs are:

- the Telstra Entity CGU, excluding the HFC cable network; and
- the CGU comprising the HFC cable network.

The Telstra Entity CGU consists of our ubiquitous telecommunications infrastructure network in Australia, excluding the HFC cable network that we consider not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network, comprising the customer access network and the core network, are considered to be working together to generate our net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

The ubiquitous telecommunications network and the HFC cable network are only reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

On 23 June 2011, Telstra entered into Definitive Agreements (DAs) with NBN Co Limited (NBN Co) and the Commonwealth Government for its participation in the rollout of the National Broadband Network (NBN). While this is a key milestone, the DAs remain subject to a number of conditions precedent that must be satisfied or waived for the DAs to come into full force and effect. These include Telstra shareholder approval, and ACCC acceptance of Telstra's structural separation undertaking and approval of Telstra's draft migration plan.

If the conditions precedent are satisfied or waived and the proposed transaction proceeds, we expect our discounted future cash flows to more than support the recoverable amount of both networks. This is based on:

- the consideration we expect to receive under the DAs for:
  - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (but not Pay TV services on the HFC cable network) provided to premises in the NBN fibre footprint;
  - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts; and
  - the sale of lead-in-conduits; and
- forecast cash flows for continuing to:
  - provide Pay TV services via the HFC cable network into the future; and
  - use the core network.

In addition, the NBN build is expected to take 10 years and the weighted average remaining service lives for the existing network assets impacted by the disconnection obligations that will apply under the NBN DAs, if they come into full force and effect, falls within this anticipated NBN rollout period.

Given this, the results of our impairment testing for both networks based on the DAs show that the carrying amounts are recoverable for the year ended 30 June 2011. Further, if the conditions precedent in the DAs are not satisfied or waived and the proposed transaction does not proceed, the results of impairment testing under this scenario as at 30 June 2011 also support the carrying amounts of both of our networks. Refer to note 2.10(b) and note 30 for further discussion on the NBN.

#### Impairment testing

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

Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

## Notes to the Financial Statements (continued)

### 21. Impairment (continued)

#### Impairment testing (continued)

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

	Discount rate		Terminal value growth rate	
	(h)		(i)	
	As at 30 June 2011	2010	As at 30 June 2011	2010
	%	%	%	%
CSL New World Group . . . . .	10.6	10.5	2.0	2.0
TelstraClear Group . . . . .	11.1	11.0	3.0	3.0
Telstra Europe Group . . . . .	9.6	9.1	3.0	3.0
Sensis Group . . . . .	13.2	12.8	3.0	3.0
Location Navigation . . . . .	11.8	12.9	3.0	3.0
Adstream Group . . . . .	12.7	13.0	3.0	3.0
1300 Australia Group . . . . .	12.6	13.0	3.0	3.0
Sequel Group . . . . .	18.2	16.8	5.0	5.0
Octave Group . . . . .	21.2	17.0	5.0	5.0
LMobile Group . . . . .	20.1	19.4	5.0	5.0
iVision . . . . .	17.6	-	3.0	-

(h) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate which is adjusted for specific risks relating to the CGU and the countries in which they operate.

(i) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their respective markets. The terminal value growth rate for the Australian CGUs are aligned at three percent.

Management have determined there are no reasonably possible changes that could occur in these assumptions that would cause the carrying amount of these CGUs to exceed their recoverable amount.

## Notes to the Financial Statements (continued)

### 22. Expenditure commitments

		Telstra Group	
		As at 30 June	
		2011	2010
		\$m	\$m
<b>(a) Capital expenditure commitments</b>			
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:			
<b>Property, plant and equipment commitments *</b>		426	622
<b>Intangible assets commitments</b>		146	384
<b>(b) Operating lease commitments</b>			
Future lease payments for non-cancellable operating leases not recorded in the financial statements:			
Within 1 year		415	441
Within 1 to 5 years.		1,162	1,079
After 5 years		960	781
		<b>2,537</b>	<b>2,301</b>

#### Description of our operating leases

We have operating leases for the following types of assets:

- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers, mechanical aids and heavy excavation equipment; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The weighted average lease term is:

- 6 years for land and buildings;
- 2 years for motor vehicles, 4 to 5 years for light commercial vehicles, and 7 to 12 years for trucks and mechanical aids and heavy excavation equipment; and
- 3 years for personal computers and related equipment.

The majority of our operating leases relate to land and buildings.

We have several subleases with total minimum lease payments of \$9 million (2010: \$19 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 5%, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

\* This includes the Telstra Entity capital expenditure commitments of \$415 million (2010: \$578 million). Refer to note 30 for further details.



## Notes to the Financial Statements (continued)

### 22. Expenditure commitments (continued)

	Note	Telstra Group	
		As at 30 June	
		2011	2010
		\$m	\$m
<b>(c) Finance lease commitments</b>			
Within 1 year . . . . .		53	50
Within 1 to 5 years. . . . .		94	84
After 5 years . . . . .		19	25
Total minimum lease payments . . . . .		166	159
Future finance charges on finance leases . . . . .		(27)	(30)
Present value of net future minimum lease payments . . . . .		139	129
<b>Included in the financial statements as:</b>			
Current borrowings . . . . .	17	45	43
Non current borrowings . . . . .	17	94	86
Total finance lease liabilities . . . . .	17	139	129

#### Description of our finance leases

We have finance leases for the following types of assets:

- property leases in our controlled entity, Telstra Europe Limited; and
- computer mainframes, computer processing equipment and other related equipment.

The weighted average lease term is:

- 24 years for the property leases with a remaining average life of 12 years; and
- 4 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:

- property leases interest rate of 21.0%; and
- computer mainframes, computer processing equipment and associated equipment weighted average interest rate of 7.6%.

We sublease computer mainframes, computer processing equipment and other related equipment as part of our solutions management and outsourcing services that we provide to our customers. Refer to note 10 for further details regarding these finance subleases.

Information regarding our share of our jointly controlled and associated entities' commitments is included in note 26.

## Notes to the Financial Statements (continued)

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### 23. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2011. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

#### Telstra Entity

Refer to note 30 for Telstra Entity contingent liabilities.

#### Other

Other contingent liabilities identified for the Telstra Group, are as follows:

#### 3GIS Partnership

During fiscal 2005, Telstra OnAir Holdings Pty Ltd and its partner, Hutchison 3G Australia Pty Ltd (now known as Vodafone Hutchinson Australia Pty Ltd), entered into agreements relating to the occupation of premises to provide 3GSM radio access network services.

As we are subject to joint and several liability in relation to agreements entered into by the 3GIS Partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from the above agreements are \$91 million (2010: \$147 million).

#### ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 25. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 25 for further information.

## Notes to the Financial Statements (continued)

### 24. Post employment benefits

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans are calculated by an actuary using the projected unit credit method. This method determines each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to calculate the final obligation.

Details of the defined benefit plans we participate in are set out below.

#### Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff transferred into Telstra Super. The Telstra Entity and some of our Australian controlled entities participate in Telstra Super.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions of Telstra Super are closed to new members.

The defined benefit divisions provide benefits based on years of service and final average salary. Post employment benefits do not include payments for medical costs.

Contribution levels made to the defined benefit divisions are designed to ensure that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. The benefits received by members of each defined benefit division take into account factors such as the employees' length of service, final average salary, employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

#### HK CSL Retirement Scheme

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance (ORSO) and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section. Actuarial investigations are undertaken annually for this scheme.

The benefits received by members of the defined benefit schemes are based on the employees' remuneration and length of service.

#### Measurement dates

For Telstra Super actual membership data as at 30 April was used to precisely value the defined obligations as at that date. Details of assets, benefit payments and other cash flows as at 31 May were also provided in relation to Telstra Super. These April and May figures were then rolled up to 30 June to allow for changes in the membership and actual asset return. Contributions as at 30 June were provided in relation to the defined obligation.

Asset values as at 31 May were used to precisely measure the defined benefit liability as at that date for the HK CSL Retirement Scheme. Details of membership data, contributions, benefit payments and other cash flows as at 30 June were also provided in relation to the HK CSL Retirement Scheme.

The fair value of the defined benefit plan assets and the present value of the defined benefit obligations as at the reporting date are determined by our actuary. The details of the defined benefit divisions are set out in the following pages.

#### Other defined contribution schemes

A number of our subsidiaries also participate in defined contribution schemes which receive employer and employee contributions based on a percentage of the employees' salaries. We made contributions to these schemes of \$15 million for fiscal 2011 (2010: \$10 million).

## Notes to the Financial Statements (continued)

### 24. Post employment benefits (continued)

#### (a) Net defined benefit plan (liability)/asset - historical summary

Our net defined benefit plan (liability)/asset recognised in the statement of financial position for the current and previous periods is determined as follows:

Telstra Group					
As at 30 June					
	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Fair value of defined benefit plan assets (b) . . . . .	2,599	2,546	2,503	3,205	4,342
Present value of the defined benefit obligation (c) . . . . .	2,762	2,934	2,847	3,048	3,646
Net defined benefit (liability)/asset before adjustment for contributions tax . . . . .	(163)	(388)	(344)	157	696
Adjustment for contributions tax . . . . .	(31)	(69)	(62)	25	118
<b>Net defined benefit (liability)/asset at 30 June . . . . .</b>	<b>(194)</b>	<b>(457)</b>	<b>(406)</b>	<b>182</b>	<b>814</b>
Comprised of:					
Defined benefit asset . . . . .	11	7	8	182	814
Defined benefit liability . . . . .	(205)	(464)	(414)	-	-
	(194)	(457)	(406)	182	814
<b>Experience adjustments:</b>					
Experience adjustments arising on defined benefit plan assets - gain/(loss) . . . . .	89	(56)	(593)	(525)	261
Experience adjustments arising on defined benefit obligations - gain . . . . .	48	64	72	41	69

#### (b) Reconciliation of changes in fair value of defined benefit plan assets

Telstra Group		
As at 30 June		
	2011 \$m	2010 \$m
<b>Fair value of defined benefit plan assets at beginning of year . . . . .</b>	<b>2,546</b>	<b>2,503</b>
Expected return on plan assets . . . . .	197	195
Employer contributions . . . . .	169	185
Contributions tax . . . . .	(25)	(28)
Member contributions . . . . .	30	53
Benefits paid (i) . . . . .	(382)	(288)
Actuarial gain/(loss) . . . . .	89	(56)
Plan expenses after tax . . . . .	(13)	(12)
Foreign currency exchange differences . . . . .	(12)	(6)
<b>Fair value of defined benefit plan assets at end of year . . . . .</b>	<b>2,599</b>	<b>2,546</b>

The actual return on defined benefit plan assets was 9.7% (2010: 4.9%) for Telstra Super and 16.0% (2010: 10.4%) for the HK CSL Retirement Scheme.

## Notes to the Financial Statements (continued)

### 24. Post employment benefits (continued)

#### (c) Reconciliation of changes in the present value of the wholly funded defined benefit obligation.

	Telstra Group	
	As at 30 June	
	2011 \$m	2010 \$m
<b>Present value of defined benefit obligation at beginning of year</b>	<b>2,934</b>	<b>2,847</b>
Current service cost	124	124
Interest cost	151	158
Member contributions	21	42
Benefits paid (i)	(382)	(288)
Actuarial (gain)/loss	(75)	46
Curtailment loss	3	10
Foreign currency exchange differences	(14)	(5)
<b>Present value of wholly funded defined benefit obligation at end of year</b>	<b>2,762</b>	<b>2,934</b>

(i) Benefits paid include \$356 million (2010: \$267 million) of entitlements (to exiting defined benefit members) which have been retained in Telstra Super but transferred to the defined contribution scheme.

For fiscal 2012, we expect to pay total benefit payments of \$362 million (including benefits retained) to defined benefit members of Telstra Super.

#### (d) Amounts recognised in the income statement and in other comprehensive income

	Note	Telstra Group	
		Year ended 30 June	
		2011 \$m	2010 \$m
<b>The components of the defined benefit plan expense recognised in the income statement within labour expenses are as follows:</b>			
Current service cost		124	124
Interest cost		151	158
Expected return on plan assets		(197)	(195)
Member contributions		(9)	(10)
Curtailment loss		3	10
Plan expenses after tax		13	12
Adjustment for contributions tax		15	17
		<b>100</b>	<b>116</b>
Employer contributions - defined contribution divisions		168	133
<b>Total expense recognised in the income statement</b>	<b>7</b>	<b>268</b>	<b>249</b>
Actuarial gain/(loss) recognised directly in other comprehensive income		183	(158)
Cumulative actuarial losses recognised directly in other comprehensive income		(67)	(250)

## Notes to the Financial Statements (continued)

### 24. Post employment benefits (continued)

#### (e) Categories of plan assets

The weighted average asset allocation as a percentage of the fair value of total plan assets as at 30 June are as follows:

	Telstra Super		HK CSL Retirement Scheme	
	As at 30 June		As at 30 June	
	2011	2010	2011	2010
	%	%	%	%
<b>Asset allocations</b>				
Equity instruments . . . . .	57	53	53	50
Debt instruments . . . . .	2	2	40	48
Property . . . . .	21	22	-	-
Cash . . . . .	4	1	5	2
Private equity . . . . .	12	14	-	-
Infrastructure . . . . .	1	3	-	-
International hedge funds . . . . .	1	5	-	-
Opportunities . . . . .	2	-	2	-
	100	100	100	100

Telstra Super's investments in debt and equity instruments include bonds issued by, and shares in, Telstra Corporation Limited. Refer to note 29 for further details.

#### (f) Principal actuarial assumptions

We used the following major assumptions to determine our defined benefit plan expense for the year ended 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2011	2010	2011	2010
	%	%	%	%
Discount rate . . . . .	5.1	5.1	2.4	3.0
Expected rate of return on plan assets (i) . . . . .	8.0	8.0	6.4	6.3
Expected rate of increase in future salaries . . . . .	4.0	4.0	2.5-4.0	1.0-4.0

We used the following major assumptions to determine our defined benefit obligations at 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2011	2010	2011	2010
	%	%	%	%
Discount rate (ii) . . . . .	5.2	5.1	2.5	2.4
Expected rate of increase in future salaries (iii) . . . . .	4.0	4.0	4.2-4.5	2.5 - 4.0

(i) The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes over the subsequent 10 year period, or longer. Estimates are based on a combination of factors including the current market outlook for interest rates, inflation, earnings growth and currency strength. To determine the aggregate return, the expected future return of each plan asset class is weighted according to the strategic asset allocation of total plan assets.



## Notes to the Financial Statements (continued)

### 24. Post employment benefits (continued)

#### (f) Principal actuarial assumptions (continued)

(ii) The present value of our defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

For Telstra Super we have used the 10-year Australian government bond rate as it has the closest term from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat, implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years.

For the HK CSL Retirement Scheme we have extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange Fund Notes to 12 years to match the term of the defined benefit obligations.

(iii) Our assumption for the salary inflation rate for Telstra Super is 4%, which is reflective of our long term expectation for salary increases. The salary inflation rate for the HK CSL Retirement Scheme is 4.5% in fiscal 2012, 2013 and 2014, and 4.2% thereafter which reflects the long term expectations for salary increases.

#### (g) Employer contributions

##### Telstra Super

The funding deed we have with Telstra Super requires contributions to be made when the average vested benefits index (VBI) in respect of the defined benefit membership (the ratio of defined benefit plan assets to defined benefit members' vested benefits) of a calendar quarter falls to 103% or below. For the quarter ended 30 June 2011, the VBI was 92% (30 June 2010: 86%). We have paid contributions totalling \$443 million for the year ended 30 June 2011 (30 June 2010: \$460 million). This includes employer contributions to the accumulation divisions and employee pre and post tax salary sacrifice contributions, which are excluded from the employer contributions in the reconciliations above. The current contribution rate for the defined benefit divisions of Telstra Super, effective June 2011, is 24% (June 2010: 27%).

The vested benefits, which forms the basis for determining our contribution levels under the funding deed, represents the total amount that Telstra Super would be required to pay if all defined benefit members were to voluntarily leave the fund on the valuation date. The VBI assesses the short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations. We expect to contribute approximately \$423 million in fiscal 2012 which includes contributions to the defined benefit divisions at a contribution rate of 24% for fiscal 2012. This contribution rate could change depending on market conditions during fiscal 2012.

##### HK CSL Retirement Scheme

The contributions payable to the defined benefit divisions are determined by the actuary using the attained age normal funding actuarial valuation method.

Employer contributions made to the HK CSL Retirement Scheme for the financial year ended 30 June 2011 was \$1 million (2010: \$2 million). We expect not to make any contributions to our HK CSL Retirement Scheme in fiscal 2012.

Annual actuarial investigations are currently undertaken for this scheme by Mercer Hong Kong Limited.

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities

Below is a list of our investments in controlled entities.

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2011 \$m	2010 \$m	2011 %	2010 %
<b>Parent entity</b>					
Telstra Corporation Limited (a) . . . . .	Australia				
<b>Controlled entities</b>					
Telstra Finance Limited (a) . . . . .	Australia	-	-	100.0	100.0
Telstra ESOP Trustee Pty Limited . . . . .	Australia	-	-	100.0	100.0
Telstra Growthshare Pty Ltd . . . . .	Australia	-	-	100.0	100.0
Telstra Media Pty Limited . . . . .	Australia	393	393	100.0	100.0
Telstra Multimedia Pty Limited (a) . . . . .	Australia	2,678	2,678	100.0	100.0
Telstra International (Aus) Limited (formerly Telstra International Limited) (a) . . . . .	Australia	2	2	100.0	100.0
Telstra Pay TV Pty Ltd (a) . . . . .	Australia	-	-	100.0	100.0
Chief Entertainment Pty Ltd . . . . .	Australia	-	-	100.0	100.0
Telstra 3G Spectrum Holdings Pty Ltd . . . . .	Australia	302	302	100.0	100.0
Telstra OnAir Holdings Pty Ltd. . . . .	Australia	478	478	100.0	100.0
Telstra Business Systems Pty Ltd (a) . . . . .	Australia	69	69	100.0	100.0
Telstra Plus Pty Ltd. . . . .	Australia	-	-	100.0	100.0
Clayton 770 Pty Ltd . . . . .	Australia	-	-	100.0	100.0
Research Resources Pty Ltd. . . . .	Australia	-	-	100.0	100.0
1300 Australia Pty Ltd . . . . .	Australia	20	20	85.0	85.0
• Alpha Phone Words Pty Ltd . . . . .	Australia	-	-	100.0	100.0
iVision Pty Limited (a)(f)(h) . . . . .	Australia	41	-	100.0	-
• Integrated Vision Pty Ltd (f) . . . . .	Australia	-	-	100.0	-
• iVision (QLD) Pty Ltd (f) . . . . .	Australia	-	-	100.0	-
• iVision Investments Pty Ltd (f) . . . . .	Australia	-	-	100.0	-
• iVision (Unify) Pty Ltd (f) . . . . .	Australia	-	-	100.0	-
• Unify Pty Ltd (f) . . . . .	Australia	-	-	100.0	-
Telstra Communications Limited (a) . . . . .	Australia	29	29	100.0	100.0
• Telecom Australia (Saudi) Company Limited (b)(c)(d)(e) . . . . .	Saudi Arabia	-	-	50.0	50.0
Adstream (Aust) Pty Ltd (i) . . . . .	Australia	23	23	64.4	64.4
• Adstream Limited . . . . .	New Zealand	-	-	100.0	100.0
• Quickcut (Aust) Pty Ltd . . . . .	Australia	-	-	100.0	100.0
Telstra Holdings Pty Ltd (a) . . . . .	Australia	7,474	7,307	100.0	100.0
• Telstra International Holdings Limited. . . . .	Bermuda	-	-	100.0	100.0
• SouFun Holdings Ltd (g) . . . . .	Cayman Islands	-	-	-	55.0
• SouFun.com (Shenzhen) Ltd (g) . . . . .	China	-	-	-	100.0
• SouFun.com (Tianjin) Ltd (g) . . . . .	China	-	-	-	100.0
• SouFun.com (Chongqing) Ltd (g) . . . . .	China	-	-	-	100.0
• SouFun.com (Guangzhou) Ltd (g) . . . . .	China	-	-	-	100.0
• SouFun.com (Shanghai) Ltd (g) . . . . .	China	-	-	-	100.0
• Beijing SouFun Information Consultancy Co. Ltd (g) . . . . .	China	-	-	-	90.0
• China Index Academy Limited (g) . . . . .	Hong Kong	-	-	-	100.0
• Selovo Investments Limited (g) . . . . .	British Virgin Islands	-	-	-	100.0
• Max Impact Investments Limited (g) . . . . .	Hong Kong	-	-	-	100.0
• Zhongzhishizheng Data Technology (Beijing) Co. Ltd (g) . . . . .	China	-	-	-	100.0

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## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2011 \$m	2010 \$m	2011 %	2010 %
<b>Controlled entities (continued)</b>					
• Pendiary Investments Limited (g) . . . . .	British Virgin Islands	-	-	-	100.0
• Bravo Work Investments Limited (g) . . . . .	Hong Kong	-	-	-	100.0
• SouFun Media Technology (Beijing) Co. Ltd (g) . . . . .	China	-	-	-	100.0
• SouFun Network Technology (Beijing) Co. Limited (g) . . . . .	China	-	-	-	100.0
• Telstra Technology Services (Hong Kong) Limited . . . . .	Hong Kong	-	-	75.0	75.0
• Sequel Limited (c)(d)(f) . . . . .	Cayman Islands	-	-	55.0	55.0
• Cheerbright International Holdings Limited (c) . . . . .	British Virgin Islands	-	-	100.0	100.0
• Beijing Cheerbright Technologies Co. Ltd (c) . . . . .	China	-	-	100.0	100.0
• China Topside Limited (c) . . . . .	British Virgin Islands	-	-	-	100.0
• Beijing Topside Technologies Co. Ltd (c) . . . . .	China	-	-	-	100.0
• Norstar Advertising Media Holdings Limited (c) . . . . .	Cayman Islands	-	-	-	100.0
• Shengtuo Shidai (Beijing) Information Technology Co. Ltd (c) . . . . .	China	-	-	-	100.0
• Union Tough Advertisement Limited (c) . . . . .	Hong Kong	-	-	-	100.0
• Haocheng Shidai (Beijing) Advertisement Co. Ltd (c)(d) . . . . .	China	-	-	-	30.0
• Sequel Media Inc. (c)(d)(f) . . . . .	Cayman Islands	-	-	55.0	-
• China Topside Limited (c) . . . . .	British Virgin Islands	-	-	100.0	-
• Beijing Topside Technologies Co. Ltd (c) . . . . .	China	-	-	100.0	-
• Norstar Advertising Media Holdings Limited (c) . . . . .	Cayman Islands	-	-	100.0	-
• Shengtuo Shidai (Beijing) Information Technology Co. Ltd (c) . . . . .	China	-	-	100.0	-
• Union Tough Advertisement Limited (c) . . . . .	Hong Kong	-	-	100.0	-
• Haocheng Shidai (Beijing) Advertisement Co. Ltd (c)(d) . . . . .	China	-	-	30.0	-
• Telstra Asia Holdings Limited (c) . . . . .	British Virgin Islands	-	-	100.0	100.0
• Telstra Octave Holdings Limited (c) . . . . .	British Virgin Islands	-	-	100.0	100.0
• Octave Investments Holdings Limited (c)(d) . . . . .	British Virgin Islands	-	-	67.0	67.0
• Beauty Sunshine Investments Limited (c). . . . .	British Virgin Islands	-	-	100.0	100.0
• Beijing Wireless Permanence Technology Company Limited (c) . . . . .	China	-	-	100.0	100.0
• Sharp Point Group Limited (c) . . . . .	British Virgin Islands	-	-	100.0	100.0
• Beijing Liang Dian Shi Jian Technology Company Limited (c) . . . . .	China	-	-	100.0	100.0
• Telstra Robin Holdings Limited (c) . . . . .	British Virgin Islands	-	-	100.0	100.0
• Dotad Media Holdings Limited (c)(d) . . . . .	British Virgin Islands	-	-	67.0	67.0
• LMobile (China) Holdings Limited (c) . . . . .	Hong Kong	-	-	100.0	100.0
• Beijing Daote Aidi Internet Technology Company (c) . . . . .	China	-	-	100.0	100.0
• Telstra Asia Limited (formerly Reach Asia Limited) (c)(e)(f) . . . . .	British Virgin Islands	-	-	100.0	-
• Telstra South East Asia Holdings Limited (formerly Reach Asia Holdings Limited) (c)(e)(f) . . . . .	British Virgin Islands	-	-	100.0	-
• PT Reach Network Services Indonesia (c)(e)(f) . . . . .	Indonesia	-	-	90.0	-
• Telstra Asia Regional Holdings Limited (formerly Reach Asia Regional Holdings Limited) (c)(e)(f) . . . . .	British Virgin Islands	-	-	100.0	-
• Reach Bandwidth Services Malaysia Sdn. Bhd (c)(e)(f) . . . . .	Malaysia	-	-	51.0	-
• Reach Communications Services (Thailand) Limited (c)(d)(e)(f) . . . . .	Thailand	-	-	49.0	-
• Reach Network (Thailand) Ltd (c)(d)(e)(f) . . . . .	Thailand	-	-	35.9	-

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## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2011 \$m	2010 \$m	2011 %	2010 %
<b>Controlled entities (continued)</b>					
• Reach Network (Thailand) Limited (c)(d)(e)(f)	Thailand	-	-	32.0	-
• Telstra Philippines Holdings Limited (formerly Reach Philippines Holdings Limited) (c)(f)	British Virgin Islands	-	-	100.0	-
• Incomgen Holdings Inc. (c)(d)(f)	Philippines	-	-	40.0	-
• Reach Web Holdings Inc. (c)(f)	Philippines	-	-	60.0	-
• Reach Networks Philippines Inc. (c)(f)	Philippines	-	-	60.0	-
• Reach Networks Philippines Inc. (c)(f)	Philippines	-	-	40.0	-
• Reach Web Holdings Inc. (c)(f)	Philippines	-	-	40.0	-
• Thai Cyber Web Co Limited (c)(d)(e)(f)	Thailand	-	-	48.8	-
• Telstra Global Holdings Limited (formerly Reach Global Holdings Limited) (c)(e)(f)	British Virgin Islands	-	-	100.0	-
• Telstra International Limited (formerly Reach Global Services Limited) (c)(e)(f)	Hong Kong	-	-	100.0	-
• Reach Network Services Korea Limited (c)(e)(f)	Republic of Korea	-	-	100.0	-
• Reach Holdings Limited (c)	Mauritius	-	-	100.0	100.0
• Reach Network India Private Limited (c)	India	-	-	99.9	99.9
• Reach Data Services India Private Limited (c)	India	-	-	99.9	99.9
• Beijing Australia Telecommunications Technical Consulting Services Company Limited (c)	China	-	-	100.0	100.0
• Telstra Holdings (Bermuda) No. 2 Limited	Bermuda	-	-	100.0	100.0
• CSL New World Mobility Limited	Bermuda	-	-	76.4	76.4
• New World PCS Holdings Limited	Cayman Islands	-	-	100.0	100.0
• CSL Limited	Hong Kong	-	-	100.0	100.0
• Hong Kong CSL Limited	Hong Kong	-	-	100.0	100.0
• Big Bang Holdings Limited	Hong Kong	-	-	100.0	100.0
• One2Free PersonalCom Limited	Hong Kong	-	-	100.0	100.0
• Integrated Business Systems Limited	Hong Kong	-	-	100.0	100.0
• New World PCS Limited	Hong Kong	-	-	100.0	100.0
• New World Mobility Limited	Hong Kong	-	-	60.0	60.0
• New World 3G Limited	Hong Kong	-	-	100.0	100.0
• Telstra Holdings (Bermuda) No 1 Limited	Bermuda	-	-	100.0	100.0
• Telstra International HK Limited	Hong Kong	-	-	100.0	100.0
• Telstra Japan Retail KK	Japan	-	-	100.0	100.0
• Telstra International Holdings No. 2 Limited	Bermuda	-	-	100.0	100.0
• Telstra Singapore Pte Ltd	Singapore	-	-	100.0	100.0
• Telstra Global Limited	United Kingdom	-	-	100.0	100.0
• PT Telstra Nusantara (b)	Indonesia	-	-	100.0	100.0
• Telstra Limited	United Kingdom	-	-	100.0	100.0
• Telstra (Cable Telecom) Limited	United Kingdom	-	-	100.0	100.0
• Telstra (PSINet)	United Kingdom	-	-	100.0	100.0
• Telstra (CTE) Limited	United Kingdom	-	-	100.0	100.0
• Cable Telecommunication Limited	United Kingdom	-	-	100.0	100.0
• PSINet Datacentre UK Limited	United Kingdom	-	-	100.0	100.0
• Inteligen Communications Limited	United Kingdom	-	-	100.0	100.0
• PSINet Jersey Limited	Jersey	-	-	100.0	100.0
• PSINet Hosting Centre Limited	Jersey	-	-	100.0	100.0
• Cordoba Holdings Limited	Jersey	-	-	100.0	100.0
• London Hosting Centre Limited	Jersey	-	-	100.0	100.0
• Telstra Inc	United States	-	-	100.0	100.0
• Telstra India (Private) Limited (c)	India	-	-	100.0	100.0
• Telstra NZ Limited	New Zealand	-	-	100.0	100.0

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## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2011	2010	2011	2010
		\$m	\$m	%	%
<b>Controlled entities (continued)</b>					
• Telstra New Zealand Holdings Limited . . . . .	New Zealand	-	-	100.0	100.0
• Telstra Network Services NZ Limited (formerly Reach Network Services NZ Limited) (c)(e)(f) . . . . .	New Zealand	-	-	100.0	-
• TelstraClear Limited . . . . .	New Zealand	-	-	100.0	100.0
• CLEAR Communications Limited . . . . .	New Zealand	-	-	100.0	100.0
• Telstra Telecommunications Private Ltd (c) . . . . .	India	-	-	74.0	49.0
Network Design and Construction Limited (a) . . . . .	Australia	20	20	100.0	100.0
• NDC Global Holdings Pty Limited . . . . .	Australia	-	-	100.0	100.0
• NDC Global Services Pty Limited . . . . .	Australia	-	-	100.0	100.0
Telstra Services Solutions Holdings Limited (a) . . . . .	Australia	313	514	100.0	100.0
Sensis Pty Ltd (a) . . . . .	Australia	851	851	100.0	100.0
• Location Navigation Pty Ltd . . . . .	Australia	-	-	100.0	100.0
• Life Events Media Pty Limited (f) . . . . .	Australia	-	-	100.0	-
• CitySearch Australia Pty Ltd . . . . .	Australia	-	-	100.0	100.0
• Trading Post (Australia) Holdings Pty Ltd (b) . . . . .	Australia	-	-	-	100.0
• Trading Post Group Pty Limited (b) . . . . .	Australia	-	-	-	100.0
• The Personal Trading Post Pty Limited (b) . . . . .	Australia	-	-	-	100.0
• ACN 092 426 778 Pty Ltd (formerly Auto Trader Australia Pty Ltd) (b) . . . . .	Australia	-	-	-	100.0
• ACN 067 264 733 Pty Ltd (formerly WA Auto Trader Pty Ltd) (b) . . . . .	Australia	-	-	-	100.0
• Trading Post (TCA) Pty Limited (b) . . . . .	Australia	-	-	-	100.0
• Trading Post Australia Pty Limited (b) . . . . .	Australia	-	-	-	100.0
• Sensis Holdings Pty Ltd (a) . . . . .	Australia	-	-	100.0	100.0
• Telstra Sensis (Beijing) Co. Limited (c)(e) . . . . .	China	-	-	100.0	100.0
Investment in controlled entities . . . . .		12,693	12,686		
Allowance for impairment in value . . . . .		(7,551)	(7,376)		
Total investment in controlled entities . . . . .		5,142	5,310		

#The amounts recorded are before any provision for reduction in value.

#### (a) ASIC deed of cross guarantee financial information

A deed of cross guarantee was entered into on 17 May 2010, as defined in ASIC Class Order 98/1418 (Class Order). This deed replaces the previous deed of cross guarantee entered into on 28 June 2006.

The following entities form part of the deed of cross guarantee:

- Telstra Corporation Limited;
- Telstra Multimedia Pty Limited;
- Telstra International (Aus) Limited;
- Telstra Pay TV Pty Ltd;
- Telstra Business Systems Pty Ltd;
- iVision Pty Ltd;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- Telstra Services Solutions Holdings Limited;
- Sensis Pty Ltd; and
- Sensis Holdings Pty Ltd.

iVision Pty Ltd was acquired during the year and added via an assumption deed on 29 June 2011.

Telstra Finance Limited is trustee of the closed group. However, it is not a group entity under the Deed.

The relevant group entities under the deed:

- form a closed group and extended closed group as defined in the ASIC Class Order 98/1418 (Class Order);
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001; and
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (a) ASIC deed of cross guarantee financial information (continued)

The consolidated income statement and statement of financial position of the closed group is presented according to the Class Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Closed group statement of financial position	Closed group As at 30 June	
	2011 \$m	2010 \$m
<b>Current assets</b>		
Cash and cash equivalents . . . . .	2,316	1,628
Trade and other receivables . . . . .	3,908	3,694
Inventories . . . . .	257	280
Derivative financial assets . . . . .	83	173
Prepayments . . . . .	222	162
<b>Total current assets</b>	<b>6,786</b>	<b>5,937</b>
<b>Non current assets</b>		
Trade and other receivables . . . . .	1,345	1,299
Inventories . . . . .	22	17
Investments - accounted for using the equity method . . . . .	-	15
Investments - other . . . . .	3,209	3,361
Property, plant and equipment . . . . .	20,504	21,506
Intangible assets . . . . .	5,974	5,757
Derivative financial assets . . . . .	285	592
Non current tax receivables . . . . .	382	321
<b>Total non current assets</b>	<b>31,721</b>	<b>32,868</b>
<b>Total assets</b>	<b>38,507</b>	<b>38,805</b>
<b>Current liabilities</b>		
Trade and other payables . . . . .	3,572	3,422
Provisions . . . . .	384	384
Borrowings . . . . .	2,969	2,957
Derivative financial liabilities . . . . .	634	387
Current tax payables . . . . .	370	317
Revenue received in advance . . . . .	929	1,015
<b>Total current liabilities</b>	<b>8,858</b>	<b>8,482</b>
<b>Non current liabilities</b>		
Other payables . . . . .	57	49
Provisions . . . . .	686	718
Borrowings . . . . .	12,167	12,356
Derivative financial liabilities . . . . .	1,799	1,511
Deferred tax liabilities . . . . .	1,648	1,833
Revenue received in advance . . . . .	298	338
Defined benefit liability . . . . .	205	464
<b>Total non current liabilities</b>	<b>16,860</b>	<b>17,269</b>
<b>Total liabilities</b>	<b>25,718</b>	<b>25,751</b>
<b>Net assets</b>	<b>12,789</b>	<b>13,054</b>
<b>Equity</b>		
Share capital . . . . .	5,610	5,590
Reserves . . . . .	(10)	161
Retained profits . . . . .	7,189	7,303
<b>Equity available to the closed group</b>	<b>12,789</b>	<b>13,054</b>



## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (a) ASIC deed of cross guarantee financial information (continued)

Closed group income statement and retained profits reconciliation	Closed group	
	Year ended 30 June	
	2011	2010
	\$m	\$m
<b>Income</b>		
Revenue (excluding finance income) . . . . .	23,293	22,991
Other income . . . . .	127	97
	<b>23,420</b>	<b>23,088</b>
<b>Expenses</b>		
Labour . . . . .	3,601	3,386
Goods and services purchased . . . . .	5,332	4,558
Other expenses . . . . .	4,718	4,843
	<b>13,651</b>	<b>12,787</b>
Share of net (profit) from jointly controlled and associated entities . . . . .	(1)	(2)
	<b>13,650</b>	<b>12,785</b>
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) . . . . .	9,770	10,303
Depreciation and amortisation . . . . .	4,156	4,019
Earnings before interest and income tax expense (EBIT) . . . . .	<b>5,614</b>	<b>6,284</b>
Finance income . . . . .	191	129
Finance costs . . . . .	1,262	1,011
Net finance costs . . . . .	<b>1,071</b>	<b>882</b>
<b>Profit before income tax expense</b> . . . . .	<b>4,543</b>	<b>5,402</b>
Income tax expense . . . . .	1,306	1,585
<b>Profit for the year available to the closed group</b> . . . . .	<b>3,237</b>	<b>3,817</b>
Retained profits at the beginning of the financial year available to the closed group . . . . .	7,303	7,046
Actuarial (gain)/loss on defined benefit plans . . . . .	178	(155)
Income tax on actuarial loss on defined benefit plans . . . . .	(54)	46
Effect on retained profits from removal of entities from the closed group . . . . .	-	23
<b>Total available for distribution</b> . . . . .	<b>10,664</b>	<b>10,777</b>
Dividends provided for or paid . . . . .	(3,475)	(3,474)
<b>Retained profits at the end of the financial year available to the closed group</b> . . . . .	<b>7,189</b>	<b>7,303</b>

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (b) Liquidations and deregistrations

These companies were liquidated or deregistered during the year.

At 30 June 2011, the following entities were in voluntary liquidation:

- Telecom Australia (Saudi) Company Limited; and
- PT Telstra Nusantara.

#### (c) Controlled entities with different reporting dates

The following companies have reporting dates that differ from our reporting date of 30 June for fiscal 2011:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Sequel Limited and its controlled entities - 31 December;
- Sequel Media Inc. and its controlled entities - 31 December;
- Telstra Sensis (Beijing) Co Limited - 31 December;
- Telstra Asia Holdings Limited and its controlled entities - 31 December;
- Telstra Asia Limited and its controlled entities - 31 December;
- Telstra Global Holdings Limited and its controlled entities - 31 December;
- Reach Network Services Korea Limited - 31 December;
- Reach Holdings Limited - 31 December;
- Reach Network India Private Limited - 31 March;
- Reach Data Services India Private Limited - 31 March;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December;
- Telstra India (Private) Limited - 31 March;
- Telstra Network Services NZ Limited - 31 December; and
- Telstra Telecommunications Private Ltd - 31 March.

Financial reports prepared as at 30 June are used for consolidation purposes.

#### (d) Controlled entities in which our equity ownership is less than or equal to 50%

- We have no direct equity interest in the following entities within the Sequel Limited Group:

- Beijing Autohome Information Technology Co. Ltd; and
- Shijiazhuang Xinfeng Advertising Co. Ltd.

The purpose of these entities is to hold the licenses and approvals required to operate Sequel Limited's internet content provision and advertising business respectively. Sequel Limited has the decision-making powers to control these entities. Sequel Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

- We have no direct equity interest in the following entities within the Sequel Media Inc. Group:

- Beijing Haochen Domain Information Technology Co. Ltd;
- Lianhe Shangqing (Beijing) Advertisement Co. Ltd;
- Beijing POP Information Technology Co. Ltd; and
- Shijiazhuang Xinrong Advertising Co. Ltd.

In addition, our controlled entity Union Tough Advertisement Limited has a 30% direct interest in Haocheng Shidai (Beijing) Advertisement Co. Ltd.

The purpose of these entities is to hold the licenses and approvals required to operate Sequel Media Inc.'s internet content provision and advertising business respectively. Sequel Media Inc. has the decision-making powers to control these entities. Sequel Media Inc. is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

- We have no direct equity interest in the following entities within the Octave Investments Holdings Limited Group:

- Beijing Jun Yuan Zhi Ye Information Technology Company Limited;
- Beijing Shan Lian Hu Dong Network Technology Company Limited;
- Beijing Shan Lian Chuang Yi Digital Technology Company Limited;
- Beijing Chuang Yi He Xian Technology and Trading Company Limited;
- Beijing Shan Lian Xun Tong Digital Technology Company Limited;
- Hunan Zhi Yuan Information Network Technology Development Co Limited;
- Beijing Xunjie Yingxiang Network Technology Company Ltd;
- Beijing Rui Xin Zai Xian System Technology Company Limited;
- Guangzhou Rui Yin Digital Technology Company Limited;
- Shijiazhuang Ruixin Yin Shang Digital Technology Company Limited; and
- Wuhan Rui Yin Zai Xian Digital Technology Company Limited.

The purpose of these entities is to hold the licenses and approvals required to operate Octave Investments Holdings Limited's internet content provision and mobile value added services. Octave Investments Holdings Limited has the decision-making powers to control these entities. Octave Investments Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (d) Controlled entities in which our equity ownership is less than or equal to 50% (continued)

- We have no direct equity interest in the following entities within the Dotad Media Holdings Limited Group:

- Beijing Baifen Tonglian Media Technology Co. Ltd;
- Beijing Baifen Tonglian Information Technology Co. Ltd;
- Shenzhen Huaxin Interactive Technology Co. Ltd;
- Wanzhong Liandong Communication Technology (Beijing) Co. Ltd;
- Shenzhen Baifen Tonglian Information Technology Co. Ltd;
- Xian Huashang Tonglian New Media Co. Ltd; and
- Beijing Zhongxin Changxun Information Technology Co. Ltd.

The purpose of these entities is to hold the licenses and approvals required to operate Dotad Media Holdings Limited's mobile advertising business. Dotad Media Holdings Limited has the decision making powers to control these entities. Dotad Media Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

- We have effective control over the following entities through economic dependency and contractual arrangements with the majority shareholders and have consolidated them into our group:
  - Reach Communications Services (Thailand) Limited;
  - Reach Network (Thailand) Limited;
  - Incomgen Holdings Inc.; and
  - Thai Cyber Web Co. Ltd.
- We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the Board of Directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our Telstra Group financial report. This entity is currently in voluntary liquidation.

#### (e) Controlled entities not individually audited by Ernst & Young

Companies not audited by Ernst & Young, our Australian statutory auditor.

#### (f) New incorporations and business combinations

On 1 February 2011, our controlled entity Sensis Pty Ltd acquired 100% of the issued share capital in Life Events Media Pty Ltd for a total consideration of \$5 million.

On 31 March 2011, we acquired 100% of the issued share capital in iVision Pty Ltd for a total consideration of \$41 million.

On 28 February 2011, we acquired 100% of the issued share capital in Reach Asia Limited, Reach Global Holdings Limited, Reach Network Services Korea Limited and Reach Network Services NZ Limited and an intercompany loan for a total consideration of \$39 million.

Refer to note 20 for further details on our acquisitions.

On 14 June 2011, we established a new entity Sequel Media Inc., which acquired all the shares in China Topside Limited and Norstar Advertising Media Holdings Limited from Sequel Limited on 30 June 2011. These transactions are the result of an internal restructure within the Sequel Limited Group.

#### (g) Sales and disposals

Telstra International Holdings Limited sold its 50.6% shareholding in SouFun Holdings Ltd. Refer to note 20 for further details on our disposals.

#### (h) Name changes

The following entity changed its name subsequent to 30 June 2011:

- iVision Pty Limited changed its name to Telstra iVision Pty Ltd.

#### (i) Non-current assets held for sale

The carrying value of the assets and liabilities of Adstream (Aust) Pty Ltd have been classified as held for sale at 30 June 2011. Refer to note 12 and note 31 for further details.

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities

	Telstra Group As at 30 June	
	2011 \$m	2010 \$m
<b>Investments in jointly controlled entities</b>		
Investments in jointly controlled entities . . . . .	2	2
Allowance for impairment in value . . . . .	-	-
Carrying amount of investments in jointly controlled entities . . . . .	2	2
<b>Investments in associated entities</b>		
Investments in associated entities . . . . .	24	39
Allowance for impairment in value . . . . .	(24)	(24)
Carrying amount of investments in associated entities . . . . .	-	15
	2	17

Our investments in jointly controlled and associated entities are listed below:

Name of Entity	Principal activities	Ownership interest		Telstra Group's carrying amount of investment (*)	
		As at 30 June		As at 30 June	
		2011 %	2010 %	2011 \$m	2010 \$m
<b>Jointly controlled entities</b>					
FOXTEL Partnership (g)(h)	Pay television	50.0	50.0	-	-
FOXTEL Television Partnership (g)(h)	Pay television	50.0	50.0	-	-
Customer Services Pty Limited (g)(h)	Customer service	50.0	50.0	-	-
FOXTEL Management Pty Ltd (g)(h)	Management services	50.0	50.0	-	-
FOXTEL Cable Television Pty Ltd (a)(g)(h)	Pay television	80.0	80.0	-	-
Reach Ltd (incorporated in Bermuda) (e)(g)(h)	International connectivity services	50.0	50.0	-	-
TNAS Limited (incorporated in New Zealand) (e)(g)(h)	Toll free number portability in New Zealand	33.3	33.3	-	-
3GIS Pty Ltd (e)(g)	Management services	50.0	50.0	-	-
3GIS Partnership (e)(g)	3G network services	50.0	50.0	-	-
Bridge Mobile Pte Ltd (incorporated in Singapore) (e)(g)	Regional roaming provider	10.0	10.0	2	2
				2	2
<b>Associated entities</b>					
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (e)(g)(h)	Network cable provider	46.9	46.9	-	-
Telstra Super Pty Ltd (a)(h)	Superannuation trustee	100.0	100.0	-	-
Keycorp Limited (b)(c)(d)(f)(g)	Electronic transactions solutions	-	48.2	-	15
Telstra Foundation Ltd (a)(g)(h)	Charitable trustee organisation	100.0	100.0	-	-
Beijing Huaxin Hezhong Information Technology Co. Ltd (incorporated in China) (b)(e)(g)	Wireless music services	-	30.0	-	-
				-	15

Unless otherwise noted, all investments have a reporting date of 30 June, are incorporated in Australia and our voting power is the same as our ownership interest.

(\*) The Telstra Group carrying amounts are calculated using the equity method of accounting.

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

#### (a) Jointly controlled and associated entities in which we own more than 50% equity

- We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a jointly controlled entity as the other equity shareholders have participating rights that prevent us from dominating the decision-making of the Board of Directors. Effective voting power is restricted to 50% and we have joint control.
- We own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd as we do not control the Board of Directors. We have equal representation with employee representatives on the Board. Our voting power is limited to 44%, which is equivalent to our representation on the Board. The entity is therefore classified as an associated entity as we have significant influence over it.
- We own 100% of the equity of Telstra Foundation Ltd (TFL). TFL is limited by guarantee (guaranteed to \$100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstra Kids Fund. We do not consolidate TFL as we do not control the Board. Our voting power on the Board is limited to 38%, which is equivalent to our representation on the Board.

#### (b) Other changes in jointly controlled and associated entities

On 8 December 2010 we sold our 48.2% interest in Keycorp for a total consideration of \$23 million. Refer to note 20 for further details.

During the period, Dotad Media Holdings Limited (Dotad) sold Beijing Huaxin Hezhong Information Technology Co. Ltd for nominal consideration.

#### (c) Fair value of investments in listed jointly controlled and associated entities

The fair value of our investment in Keycorp Limited at 30 June 2010 was \$15 million.

#### (d) Dividends received

A \$1 million dividend was received from Keycorp Limited during the year (2010: \$1 million).

#### (e) Jointly controlled and associated entities with different reporting dates

The following jointly controlled and associated entities have different reporting dates to our reporting date of 30 June for fiscal 2011:

- Reach Ltd - 31 December;
- TNAS Limited - 31 March;
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 31 December;
- Bridge Mobile Pte Ltd - 31 March;
- Australia-Japan Cable Holdings Limited - 31 December; and
- Beijing Huaxin Target Information Co Ltd - 31 December.

Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in jointly controlled and associated entities with different reporting dates is the same at that reporting date as at 30 June unless otherwise noted.

#### (f) Share of net profits

Telstra Group		
Year ended 30 June		
	2011	2010
	\$m	\$m
Net profit from jointly controlled and associated entities has been contributed by the following entities:		
<b>Associated entities</b>		
- Keycorp Limited (sold in December 2010)	1	2
	<b>1</b>	<b>2</b>

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

#### (g) Other disclosures for jointly controlled and associated entities

The movements in the consolidated equity accounted amount of our jointly controlled and associated entities are summarised as follows:

	Jointly controlled entities Telstra Group		Associated entities Telstra Group	
	Year ended/As at 30 June		Year ended/As at 30 June	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
<b>Carrying amount of investments at beginning of year</b>	<b>2</b>	<b>3</b>	<b>15</b>	<b>13</b>
Share of net profits for the year	-	-	1	2
Share of foreign currency translation reserve and movements due to exchange rate translations	-	(1)	-	-
Dividends received	-	-	(1)	(1)
Sale, transfers and reductions of investments during the year	-	-	(15)	-
Carrying amount of investments before reduction to recoverable amount	2	2	-	14
Impairment losses reversed during the year	-	-	-	1
<b>Carrying amount of investments at end of year</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>15</b>
Our share of contingent liabilities of jointly controlled and associated entities	9	11	-	-
Our share of capital commitments contracted for by our jointly controlled and associated entities	3	8	-	-

#### Other commitments

Our jointly controlled entity, FOXTEL, has other commitments amounting to approximately \$4,152 million (2010: \$3,835 million). The majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 25 years and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements. In addition to our MSG, FOXTEL has other commitments including obligations for satellite transponder costs and digital set top box units.

Our jointly controlled entity, 3GIS Partnership, has other commitments amounting to \$182 million (2010: \$294 million). The majority of our 50% share of these commitments relate to property leases. These leases are for periods of between 5 and 30 years and are based on future property payments under agreements entered into between the 3GIS Partnership and various other parties.

Under the Telstra Network Access Contract dated 6 December 2004, we are charged a 3G Network Access Charge that includes our 50% share of the partnership's operational expenditure. As we are obligated through this agreement to fund our share of the partnership's operating expenditure we are also responsible for our share of its expenditure commitments.

As announced on 21 October 2010, we have agreed to conclude our 3GIS Partnership with Vodafone Hutchison Australia in 2012. When the agreement concludes, our property lease commitments will continue as both parties will be assigned their share of leases.



## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

(g) Other disclosures for jointly controlled and associated entities  
(continued)

Summarised presentation of all of our jointly controlled and associated entities' assets, liabilities, revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):

	Jointly controlled entities Telstra Group		Associated entities Telstra Group	
	Year ended/As at 30 June		Year ended/As at 30 June	
	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Current assets . . . . .	378	393	49	79
Non current assets . . . . .	1,027	1,204	175	247
<b>Total assets</b> . . . . .	<b>1,405</b>	<b>1,597</b>	<b>224</b>	<b>326</b>
Current liabilities . . . . .	589	675	47	74
Non current liabilities . . . . .	1,207	1,488	334	439
<b>Total liabilities</b> . . . . .	<b>1,796</b>	<b>2,163</b>	<b>381</b>	<b>513</b>
<b>Net liabilities</b> . . . . .	<b>(391)</b>	<b>(566)</b>	<b>(157)</b>	<b>(187)</b>
Total income . . . . .	4,910	4,698	51	89
Total expenses . . . . .	4,633	4,550	36	72
<b>Profit before income tax expense</b> . . . . .	<b>277</b>	<b>148</b>	<b>15</b>	<b>17</b>
Income tax benefit . . . . .	-	-	(2)	-
<b>Profit for the year</b> . . . . .	<b>277</b>	<b>148</b>	<b>17</b>	<b>17</b>
Summarised presentation of our share of all our jointly controlled and associated entities' revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):				
Total income . . . . .	2,974	2,829	24	42
Total expenses . . . . .	2,833	2,756	17	34
<b>Profit before income tax expense</b> . . . . .	<b>141</b>	<b>73</b>	<b>7</b>	<b>8</b>
Income tax benefit . . . . .	-	-	(1)	-
<b>Profit for the year</b> . . . . .	<b>141</b>	<b>73</b>	<b>8</b>	<b>8</b>

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

#### (h) Suspension of equity accounting

Our unrecognised share of (profits)/losses for the period and cumulatively, for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount, is shown below:

Telstra Group				
Year ended 30 June				
	Period 2011 \$m	Cumulative 2011 \$m	Period 2010 \$m	Cumulative 2010 \$m
<b>Jointly controlled entities</b>				
FOXTEL (*) . . . . .	(20)	132	(12)	152
Reach Ltd . . . . .	(37)	559	6	596
<b>Associated entities</b>				
Australia-Japan Cable Holdings Limited . . . . .	(8)	148	(6)	156
	<b>(65)</b>	<b>839</b>	<b>(12)</b>	<b>904</b>

Equity accounting has also been suspended for the following jointly controlled and associated entities:

- TNAS Limited; and
- Telstra Super Pty Ltd.

There are no significant unrecognised profits/losses in these entities.

(\*) FOXTEL includes FOXTEL Partnership, FOXTEL Television Partnership, Customer Services Pty Limited, FOXTEL Management Pty Limited and FOXTEL Cable Television Pty Ltd.

A \$70 million distribution was received from FOXTEL during the year (2010: \$60 million). This has been recorded as revenue in the income statement and has decreased our cumulative share of unrecognised losses in FOXTEL to \$132 million after taking into account Telstra's share of FOXTEL's profit for the year of \$100 million and other adjustments of \$10 million.

## Notes to the Financial Statements (continued)

### 27. Employee share plans

The Company has a number of employee share plans that are available for Directors, executives and employees. These include those conducted through the:

- Telstra Growthshare Trust; and
- Telstra Employee Share Ownership Plan Trusts (TESOP99 and TESOP97).

The nature of each plan, details of plan holdings, movements in holdings, and other relevant information is disclosed below.

#### Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different equity plans, including:

- short term incentive plans;
- long term incentive plans; and
- Directshare and Ownshare plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares on market to underpin the equity instruments issued.

In fiscal 2011, we recorded an expense of \$12 million for our share based payment plans operated by the Telstra Growthshare Trust (2010: \$5 million). As at 30 June 2011, we had an estimated total expense yet to be recognised of \$27 million (2010: \$31 million), which is expected to be recognised over a weighted average of 1.8 years (2010: 1.4 years).

#### (a) Short term incentive (STI) plans

The purpose of the STI is to link key executives' rewards to individual key performance indicators and to Telstra's financial performance. The STI is delivered in cash and incentive shares and the executive is paid an annual STI only when the threshold targets are met or exceeded.

In fiscal 2010 and 2009, all STI payments were provided to Senior Executives as cash due to the changes of tax law governing employee share schemes.

#### (i) Description of equity instruments

##### Deferred Incentive shares (fiscal 2011)

For fiscal 2011, the Board approved 25% of executives' short term incentive to be allocated as deferred incentive shares. The effective allocation date will be 19 August 2011. These shares vest in equal parts over one and two years on the anniversary of their allocation date, subject to the executives' continued employment with any entity that forms part of the Telstra Group. However, the executives may retain the shares if they cease employment because of death, total and permanent disablement or redundancy (subject to applicable law relating to the provision of benefits or a determination by the Board). The executive is able to vote and receive dividends as and from the allocation date. The deferred incentive shares are not subject to any performance hurdles.

##### Incentive shares (fiscal 2008 and 2007):

In relation to fiscal 2008 and 2007 allocations of incentive shares, the incentive shares vested immediately, and the executive is able to use the incentive shares to vote and receive dividends from the vesting date. However, the executive is restricted from dealing with the vested incentive shares until after they are released from the restriction period.

Vested incentive shares are released from trust on the earliest of:

- five years from the date of effective allocation;
- when the minimum level of executive shareholding has been achieved and the Board approves removal of the five year restriction period;
- upon the ceasing of employment by the executive; or
- a date the Board determines (in response to an actual or likely change of control).

Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive.

#### (ii) Summary of movements and other information

Allocations of Telstra's shares have been made in the form of incentive and deferred incentive shares under our STI plans and are detailed in the following table:

	Incentive shares (^)	
	Number	Weighted average fair value (*)
<b>Outstanding as at 30 June 2009</b>	2,870,504	\$4.34
Granted . . . . .	12,602	\$3.23
Forfeited . . . . .	(32,945)	\$4.77
Exercised . . . . .	(1,677,853)	\$4.33
<b>Outstanding as at 30 June 2010</b>	1,172,308	\$4.36
Forfeited . . . . .	(68)	\$4.77
Exercised . . . . .	(191,749)	\$4.42
<b>Outstanding as at 30 June 2011 (#)</b>	<b>980,491</b>	<b>\$4.35</b>
<b>Exercisable as at 30 June 2011 . . . . .</b>	<b>-</b>	<b>-</b>

(^ ) Incentive shares includes both incentive shares and deferred incentive shares. The weighted average share price for incentive shares exercised during the financial year was \$2.84 (2010: \$3.55).

(\*) The fair value of incentive shares granted is based on the market value of Telstra shares on allocation date.

(# ) The number outstanding includes incentives shares that are subject to a restriction period. These amount to 980,491 as at 30 June 2011.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans

The purpose of LTI plans is to align key executives' rewards with shareholders' interests, and reward performance improvement whilst supporting business plans and corporate strategies. The Telstra Growthshare Trust Board administers the plans, and the Remuneration Committee and the Telstra Board determine who is invited to participate in these plans.

Performance of the LTI plans is measured with respect to the relevant performance period and subject to subsequent verification, ratification and sign off by the Remuneration Committee and approval by the Board.

As part of a review on the market positioning of management positions, Telstra elected to remove management positions that currently participate in LTI plans from any future LTI allocations. This change is effective 1 July 2011. Replacing the LTI plan is a share based deferral plan which requires management roles to defer 25% of the actual STI payment they receive into Telstra shares for a period of three years. If management separates from Telstra, for reasons other than death, total and permanent disability or redundancy, prior to the end of the three year deferral period, they will forfeit their entitlement to the deferred shares.

##### (i) Outstanding equity based instruments

Allocations have been made over a number of years in the form of performance rights, restricted shares and options under our LTI plans. These represent a right to acquire a share in Telstra. Further information regarding each type of LTI plan that was outstanding during the year are detailed in the following table:

	Allocation date	Performance period		Exercise price	Expiry date
		from	to		
Growthshare 2002 - Sept 2001 allocation					
TSR options . . . . .	6 Sept 2001	6 Sept 2004	6 Sept 2006	\$4.90	6 Sept 2011
Growthshare 2006 - Feb 2006 allocation					
TSR, OEG, RG, NT & ITT performance rights	19 Aug 2005	1 Jul 2005	30 Jun 2010	\$1 per parcel exercised	19 Aug 2012
ROI performance rights . . . . .	19 Aug 2005	1 Jul 2005	30 Jun 2008	\$1 per parcel exercised	19 Aug 2012
Growthshare 2007					
TSR, RG, NGN & ITT & SEBITDA options . .	31 Jan 2007	1 Jul 2006	30 Jun 2010	\$3.67	30 Jun 2012
ROI options . . . . .	31 Jan 2007	1 Jul 2008	30 Jun 2010	\$3.67	30 Jun 2012
Growthshare 2008					
ESOP options . . . . .	17 Aug 2007	n/a	n/a	\$4.34	17 Aug 2012
TSR options . . . . .	17 Aug 2007	1 Jul 2007	30 Jun 2011	\$4.34	30 Jun 2013
ROI options . . . . .	17 Aug 2007	1 Jul 2008	30 Jun 2011	\$4.34	30 Jun 2013
Growthshare 2009					
ESOP options . . . . .	21 Aug 2008	n/a	n/a	\$4.36	21 Aug 2013
US ESOP options . . . . .	21 Aug 2008	n/a	n/a	\$4.25	21 Aug 2013
RTSR options . . . . .	21 Aug 2008	1 Jul 2008	30 Jun 2012	\$4.36	30 Jun 2014
ROI restricted shares . . . . .	21 Aug 2008	1 Jul 2009	30 Jun 2012	nil	21 Aug 2014
Growthshare 2010					
ESRP performance rights . . . . .	21 Aug 2009	n/a	n/a	nil	21 Aug 2012
RTSR restricted shares . . . . .	21 Aug 2009	1 Jul 2009	30 Jun 2012	nil	21 Aug 2013
FCF ROI restricted shares . . . . .	21 Aug 2009	1 Jul 2009	30 Jun 2012	nil	21 Aug 2013
Growthshare 2011					
ESRP performance rights . . . . .	20 Aug 2010	n/a	n/a	nil	20 Aug 2013
RTSR restricted shares . . . . .	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014
FCF ROI restricted shares . . . . .	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014

Refer to section (b)(ii) for a description of the above equity instruments.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (i) Outstanding equity based instruments (continued)

In relation to these executive LTI plans, the Board may, in its discretion, reset the hurdles governing the fiscal 2011, fiscal 2010, fiscal 2009 and fiscal 2008 equity instruments to make them consistent with the changed circumstances resulting from the occurrence of factors including:

- a material change in the strategic business plan;
- a regulatory change; or
- a significant out-of-plan business development (this could include a major acquisition outside the current business plan, resulting in a significant change to the business of Telstra or the Telstra Group, that means that (in the reasonable opinion of the Board) the targets for that class of equity instruments are no longer appropriate).

In fiscal 2011, the Board did not reset the hurdles governing the equity instruments issued in fiscal 2011, fiscal 2010, fiscal 2009, or fiscal 2008.

##### (ii) Description of equity instruments

##### Restricted shares

In respect of restricted shares, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the restricted shares vest. In relation to restricted shares issued in fiscal 2011, fiscal 2010 and fiscal 2009, if the performance hurdle is satisfied during the applicable performance period, a specified number of restricted shares, as determined in accordance with the trust deed and terms of issue, will vest and become restricted trust shares.

Although the trustee holds the restricted trust shares in trust, the executive will retain beneficial interest (dividends, voting rights, bonuses and rights issues) in the shares until they are transferred to them or sold on their behalf at expiration of the restriction period (unless forfeited).

A description of each restricted share that existed in fiscal 2011 is set out below:

- return on investment (ROI) restricted shares - the performance hurdle for these shares is based on an increase in the earnings before interest and tax for Telstra divided by the average investment;
- relative total shareholder return (RTSR) restricted shares - the performance hurdle for these shares is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in the peer group; and
- free cashflow return on investment (FCF ROI) restricted shares - the performance hurdle for these shares is based on Telstra's annual free cashflow (less finance costs) over the performance

period divided by the average investment over the performance period.

##### Options

An employee or executive is not entitled to Telstra shares unless the options initially vest (subject to the achievement of the relevant performance hurdles) and then are exercised. This means that the employee or executive cannot use options to vote or receive dividends until they have vested and been exercised. If the performance hurdles are satisfied in the applicable performance period, options must be exercised at any time before the expiry date, otherwise they will lapse. Once the options are exercised and the exercise price paid, Telstra shares will be transferred to the eligible employee or executive.

A description of each type of option that existed in fiscal 2011 is set out below:

##### Employee options:

- ESOP options - the performance hurdle for these options is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions); and
- US ESOP options - the performance hurdle for these options is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions).

##### Executive LTI options:

- relative total shareholder return options (RTSR options) - the performance hurdle for these options is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in the peer group;
- total shareholder return options (TSR options) - the performance hurdle for these options is based on growth in Telstra's total shareholder return; and
- return on investment options (ROI options) - the performance hurdle for these options is based on an increase in the earnings before interest and tax for Telstra relative to the average investment.

##### Performance rights

In respect of performance rights allocated prior to fiscal 2010, an executive or an employee has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the performance rights vest. If the performance hurdle is satisfied during the applicable performance period, a specified number of performance rights, as determined in accordance with the trust deed and terms of issue, will become vested performance rights.

The exercise price for the vested performance rights allocated to executives prior to fiscal 2010 is \$1 in total for all of the performance rights exercised on a particular day.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (ii) Description of equity instruments (continued)

For employee share rights plan (ESRP) performance rights allocated in fiscal 2011 and fiscal 2010, there is no exercise price payable. Once the performance rights have vested, the rights will be automatically exercised and Telstra shares will be transferred to the employee. Until this time, the employee cannot use the performance rights (or vested performance rights) to vote or receive dividends.

A description of each type of performance right that existed in fiscal 2011 is set out below:

Employee performance rights:

- employee share rights plan (ESRP) performance rights - the performance hurdle for these rights is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions).

Executive LTI performance rights:

- revenue growth (RG) performance rights - the performance hurdle for these rights is based on increases in Telstra's revenue; and
- network transformation (NT) performance rights - the performance hurdle for these rights is based on completion of certain elements in Telstra's network transformation program.

##### (iii) Performance hurdles

##### Restricted Shares

Details of the relevant performance hurdles in relation to restricted shares, are set out below:

##### Relative Total Shareholder Return (RTSR) restricted shares (fiscal 2011 and fiscal 2010)

For fiscal 2011 and fiscal 2010 RTSR restricted shares, the single performance period is the three year period ending on 30 June 2013 and 30 June 2012 respectively.

If Telstra achieves a result placing it in at least the 50th percentile for the performance period, then:

- the number of RTSR restricted shares that vest for that performance period is scaled proportionately from the 50th percentile (at which 25% of the allocation vests) to the 75th percentile (at which 100% of the allocation vests); and
- any restricted shares that do not vest will lapse.

If Telstra does not reach the 50th percentile, all of these RTSR restricted shares will lapse.

Any RTSR restricted shares that vest become restricted trust shares and are held by the Trustee until the restriction period ends (4 years after the effective allocation date of the restricted shares).

##### Free Cashflow Return on Investment (FCF ROI) restricted shares (fiscal 2011 and fiscal 2010)

For fiscal 2011 and fiscal 2010 FCF ROI restricted shares, the single performance period is the three year period ending on 30 June 2013 and 30 June 2012 respectively.

The number of FCF ROI restricted shares that will vest is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of FCF ROI restricted shares will vest;
- if the result achieved is between the threshold and stretch targets, then the number of FCF ROI restricted shares that will vest is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved or exceeded, then 100% of the FCF ROI restricted shares will vest.

If the threshold target is not achieved, all of these FCF ROI restricted shares will lapse.

Any FCF ROI restricted shares that vest become restricted trust shares and are held by the Trustee until the end of the restriction period.

##### Return on Investment (ROI) restricted shares (fiscal 2009)

For ROI restricted shares, there are three performance periods as follows:

- First performance period - 1 July 2009 to 30 June 2010;
- Second performance period - 1 July 2010 to 30 June 2011; and
- Third performance period - 1 July 2011 to 30 June 2012.

For each of the performance periods, the number of restricted shares that will vest is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of restricted shares for that period will vest;
- if the result achieved is between the threshold and stretch target, then the number of restricted shares for that period that will vest is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved or exceeded, then 100% of the restricted shares for that period will vest.

Any restricted shares that vest become restricted trust shares. Any restricted shares which do not vest in their respective performance periods will lapse.



## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (iii) Performance hurdles (continued)

##### Options

Details of the relevant performance hurdles in relation to options are set out below:

##### ESOP options and US ESOP options (fiscal 2009 (ESOP and US ESOP) and 2008 (ESOP only))

As part of the employee share option plan, certain eligible employees were provided options that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the options (and in certain other circumstances), the options will vest. These options are not subject to any additional performance hurdles.

##### Relative Total Shareholder Return (RTSR) options (fiscal 2009)

For RTSR options, the applicable performance hurdle is based on comparing the TSR growth of Telstra against other companies in the peer group. Telstra is then given a score to determine its rank in comparison to the peer group. The RTSR options vest only if Telstra achieves a rank of at least the 50th percentile.

The Board has the discretion to amend the members in the peer group, as well as make necessary adjustments to the calculation of the TSR amount, TSR growth or rank.

For RTSR options, there are three performance periods as follows:

- First performance period - 1 July 2008 to 30 June 2010;
- Second performance period - 1 July 2008 to 30 June 2011; and
- Third performance period - 1 July 2008 to 30 June 2012.

The result for each performance period is separately measured. If Telstra achieves a rank greater than or equal to the 50th percentile for the performance period, then:

- the number of TSR options that will vest for that performance period is scaled proportionately from the 50th percentile (at which 25% of the allocation becomes exercisable) to the 75th percentile (at which 100% of the allocation becomes exercisable); and
- 25% of any unvested options for that performance period will lapse.

If Telstra achieves a rank of less than the 50th percentile for the performance period, then none of the options allocated for that performance period will vest and 25% of the options will lapse.

In addition, for the third performance period, if Telstra's rank meets or exceeds:

- both the 50th percentile and the rank achieved in the first performance period, the remaining unvested options from the first performance period will vest; and/or
- both the 50th percentile and the rank achieved in the second performance period, the remaining unvested options from the second performance period will vest.

The number of additional unvested options which may vest is also determined by using a linear scale.

If Telstra achieves a rank of less than the 50th percentile for the third performance period, then no options will vest for the third performance period. Furthermore, any remaining unvested options which do not vest or lapse following the third performance period will lapse following the end of the third performance period.

##### Total Shareholder Return (TSR) options (fiscal 2008)

For TSR options allocated to each performance period, the applicable performance hurdle is based on the market value of Telstra shares and the value of any other benefits paid or made available to Telstra shareholders, including dividends. This performance hurdle is set by the Board.

The TSR hurdle has been measured over the following three performance periods:

	Performance Period		
	1st	2nd	3rd
Growthshare 2008 (TSR)	1 July 2007 to 30 June 2009	1 July 2007 to 30 June 2010	1 July 2007 to 30 June 2011

The result for each performance period is separately measured. These TSR options vest if the growth in Telstra's total shareholder return meets or exceeds certain targets over the relevant performance period. The performance period result is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of options for that period will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved, then 100% of the options will vest.

For the third performance period the number of options that will vest is based on the performance period result. Further, if the threshold target in the third performance period is met, then:

- if the stretch target is achieved in the third performance period, 100% of options that did not vest in the first and second performance periods will also vest (provided they have not lapsed); or
- if the threshold target is not achieved in the first and/or second performance period respectively, and the result achieved in the third performance period is less than the stretch target (but more than the threshold target), 50% of the options that did not vest in the first and/or second performance period respectively will also vest (provided they have not lapsed).

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (iii) Performance hurdles (continued)

##### Return on Investment (ROI) options (fiscal 2008)

The ROI hurdle has been measured over the following three performance periods:

	Performance Period		
	1st	2nd	3rd
Growthshare 2008 (ROI) . . . . .	1 July 2008 to 30 June 2009	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011

For each of the performance periods, the number of options that will vest is calculated as follows:

- if the threshold target is achieved in the applicable performance period, then 50% of the allocation of options will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved, then 100% of the options will vest.

The maximum number of options that can vest in a performance period is limited to the initial number allocated, less any options that may have lapsed.

##### Performance rights

Details of the relevant performance hurdles in relation to performance rights are set out below:

##### Employee Share Rights Plan (ESRP) performance rights (fiscal 2011 and fiscal 2010)

As part of the employee share rights plan, certain eligible employees were provided performance rights that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the performance rights (and in certain other circumstances), the performance rights will vest. These performance rights are not subject to any performance hurdles.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (iv) Summary of movements and other information

	Outstanding at 30 June 2010	Number of equity instruments				Outstanding at 30 June 2011	Exercisable at 30 June 2011
		Granted	Forfeited (*)	Exercised	Expired (^)		
<b>Growthshare 2002 - Sept 2001 allocation</b>							
TSR options . . . . .	8,939,000	-	(602,000)	-	-	8,337,000	8,337,000
<b>Growthshare 2006 - Feb 2006 allocation</b>							
RG performance rights (#) . . . . .	370,319	-	-	(312,857)	-	57,462	57,462
NT performance rights (#) . . . . .	58,751	-	-	(35,928)	-	22,823	22,823
<b>Growthshare 2008</b>							
ESOP options . . . . .	12,326,078	-	(1,051,107)	(250)	-	11,274,721	11,274,721
TSR options . . . . .	14,113,671	-	(2,018,861)	-	(12,094,810)	-	-
ROI options . . . . .	10,357,760	-	(1,027,940)	-	(4,837,906)	4,491,914	4,491,914
<b>Growthshare 2009</b>							
ESOP options . . . . .	14,051,102	-	(1,474,325)	(159)	-	12,576,618	-
US ESOP options. . . . .	69,500	-	(24,500)	-	-	45,000	-
RTSR options . . . . .	14,925,718	-	(2,867,044)	-	(977,731)	11,080,943	-
ROI restricted shares. . . . .	3,580,248	-	(662,898)	-	(1,253,641)	1,663,709	-
<b>Growthshare 2010</b>							
ESRP performance rights . . . . .	1,944,862	-	(218,619)	(30,223)	-	1,696,020	-
RTSR restricted shares . . . . .	7,403,997	-	(1,742,516)	-	-	5,661,481	-
FCF ROI restricted shares . . . . .	7,403,997	-	(1,742,516)	-	-	5,661,481	-
<b>Growthshare 2011</b>							
ESRP performance rights . . . . .	-	1,168,590	(9,689)	-	-	1,158,901	-
RTSR restricted shares . . . . .	-	7,147,682	(289,092)	-	-	6,858,590	-
FCF ROI restricted shares . . . . .	-	7,147,682	(289,092)	-	-	6,858,590	-

(\*) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(^ ) Expired refers to the performance hurdle not being met.

(#) The performance rights outstanding and exercisable at 30 June 2011 are those performance rights that satisfied the RG and NT performance hurdles for the final performance period. The Growthshare 2006 plan reached its final testing point as at 30 June 2010.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (iv) Summary of movements and other information (continued)

	Number of equity instruments					Outstanding	Exercisable
	Outstanding at 30 June 2009	Granted	Forfeited (*)	Exercised	Expired (^)	at 30 June 2010	at 30 June 2010
<b>Growthshare 2002 - Sept 2001 allocation</b>							
TSR options . . . . .	10,278,000	-	(1,339,000)	-	-	8,939,000	8,939,000
<b>Growthshare 2005 - Aug 2004 allocation</b>							
TSR performance rights . . . . .	94,844	-	(39,963)	(54,881)	-	-	-
<b>Growthshare 2006 - Feb 2006 allocation</b>							
TSR performance rights . . . . .	1,116,343	-	(99,797)	-	(1,016,546)	-	-
OEG performance rights . . . . .	827,354	-	(72,063)	-	(755,291)	-	-
RG performance rights (#) . . . . .	617,632	-	(41,131)	(88,080)	(118,102)	370,319	370,319
NT performance rights (#) . . . . .	377,501	-	(20,327)	(88,080)	(210,343)	58,751	58,751
ITT performance rights . . . . .	587,220	-	(51,257)	-	(535,963)	-	-
ROI performance rights . . . . .	91,527	-	-	-	(91,527)	-	-
<b>Growthshare 2007</b>							
TSR options . . . . .	18,922,845	-	(2,614,093)	-	(16,308,752)	-	-
RG options . . . . .	17,543,844	-	(3,654,413)	-	(13,889,431)	-	-
NGN options . . . . .	17,802,575	-	(4,295,623)	-	(13,506,952)	-	-
ITT options . . . . .	11,982,397	-	(1,738,885)	-	(10,243,512)	-	-
ROI options . . . . .	14,709,380	-	(1,486,033)	-	(13,223,347)	-	-
SEBITDA options . . . . .	31,304,615	-	(4,574,649)	-	(26,729,966)	-	-
<b>Growthshare 2008</b>							
ESOP options . . . . .	13,938,188	-	(1,611,791)	(319)	-	12,326,078	-
TSR options . . . . .	15,993,398	-	(1,879,727)	-	-	14,113,671	-
ROI options . . . . .	15,993,395	-	(1,401,520)	-	(4,234,115)	10,357,760	-
<b>Growthshare 2009</b>							
ESOP options . . . . .	15,677,479	-	(1,626,058)	(319)	-	14,051,102	-
US ESOP options . . . . .	69,500	-	-	-	-	69,500	-
RTSR options . . . . .	18,355,596	-	(2,219,662)	-	(1,210,216)	14,925,718	-
ROI restricted shares . . . . .	5,818,222	-	(703,580)	-	(1,534,394)	3,580,248	-
<b>Growthshare 2010</b>							
ESRP performance rights . . . . .	-	2,047,583	(102,499)	(222)	-	1,944,862	-
RTSR restricted shares . . . . .	-	7,413,228	(9,231)	-	-	7,403,997	-
FCF ROI restricted shares . . . . .	-	7,413,228	(9,231)	-	-	7,403,997	-

(\*) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(^ ) Expired refers to the performance hurdle not being met.

(# ) The performance rights outstanding and exercisable at 30 June 2010 include those performance rights that satisfied the RG and NT performance hurdles for the final performance period.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### (b) Long term incentive (LTI) plans (continued)

##### (iv) Summary of movements and other information (continued)

	Options (*)		Performance rights (^)		Restricted Shares (#)	
	Number	Weighted average fair value (**)	Number	Weighted average fair value (**)	Number	Weighted average fair value (**)
<b>Outstanding</b>						
<b>as at 30 June 2009</b>	202,571,212	\$0.63	3,712,421	\$2.87	5,818,222	\$2.83
Granted	-	-	2,047,583	\$2.88	14,826,456	\$1.81
Forfeited	(28,441,454)	\$0.64	(427,037)	\$2.47	(722,042)	\$2.80
Exercised (^ ^)	(638)	\$0.33	(231,263)	\$3.05	-	-
Expired	(99,346,291)	\$0.76	(2,727,772)	\$2.25	(1,534,394)	\$2.83
<b>Outstanding</b>						
<b>as at 30 June 2010</b>	74,782,829	\$0.45	2,373,932	\$2.91	18,388,242	\$2.01
Granted	-	-	1,168,590	\$2.37	14,295,364	\$1.75
Forfeited	(9,065,777)	\$0.39	(228,308)	\$2.86	(4,726,114)	\$1.95
Exercised (##)	(409)	\$0.35	(379,008)	\$3.16	-	-
Expired	(17,910,447)	\$0.50	-	-	(1,253,641)	\$2.83
<b>Outstanding</b>						
<b>as at 30 June 2011</b>	47,806,196	\$0.45	2,935,206	\$2.69	26,703,851	\$1.84
<b>Exercisable</b>						
<b>as at 30 June 2011</b>	24,103,635	\$0.70	80,285	\$3.18	-	-

(\*) Options include RTSR, TSR, ROI, ESOP and US ESOP options. The options "exercised" includes those participants that have been made redundant and are then consequently entitled to the Telstra shares.

(^ ) Performance rights include TSR, RG, NT and ESRP performance rights.

(#) Restricted shares relate to RTSR, FCFROI and ROI restricted shares.

(\*\*) The fair value of these instruments is calculated using an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk-free rate for the expected life of the instrument, and the expected average volatility of Telstra's peer group companies.

(^ ^) The weighted average share price for instruments exercised during fiscal 2010 was \$3.36 for fiscal 2008 and fiscal 2009 ESOP allocation of options, and \$3.38 for fiscal 2005, fiscal 2006 and fiscal 2010 allocation of performance rights respectively. These share prices were based on the closing market price on the exercise dates.

(##) The weighted average share price for instruments exercised during fiscal 2011 was \$2.58 for fiscal 2008 and fiscal 2009 ESOP allocation of options, and \$2.76 for fiscal 2005 and fiscal 2010 allocation of performance rights respectively. These share prices were based on the closing market price on the exercise dates.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

##### (v) Fair value of equity instruments granted

The fair value of LTI instruments granted during the financial year was calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The following weighted average assumptions were used in determining the valuation:

	Growthshare LTI FCF ROI restricted shares	Growthshare LTI RTSR restricted shares	Growthshare ESRP performance rights	Growthshare LTI FCF ROI restricted shares	Growthshare LTI RTSR restricted shares	Growthshare ESRP performance rights
	Feb 2011	Feb 2011	Feb 2011	Feb 2010	Feb 2010	Dec 2009
Share price . . . . .	\$2.98	\$2.98	\$2.94	\$3.01	\$3.01	\$3.42
Risk free rate . . . . .	5.27%	5.27%	5.28%	4.75%	4.75%	4.95%
Dividend yield . . . . .	9.0%	9.0%	9.0%	6.5%	6.5%	6.5%
Expected stock volatility . .	25%	25%	25%	26%	26%	26%
Expected life . . . . .	(*)	(*)	(*)	(*)	(*)	(*)
Expected rate of achievement of TSR performance hurdles	n/a	33%	n/a	n/a	33.2%	n/a

(\*) The date the instruments become exercisable.

For fiscal 2011 LTI FCF ROI and RTSR restricted shares, the fair value has been measured at a grant date of 17 February 2011 and has been allocated over the period for which the service is received which commenced 1 July 2010.

For fiscal 2011 ESRP performance rights, the fair value has been measured at a grant date of 16 February 2011 and has been allocated over the period for which the service is received which commenced on 1 July 2010.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.



## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (c) Telstra Directshare and Ownshare

##### (i) Nature of Telstra Directshare and Ownshare

##### Telstra Directshare

As a result of the changes to tax laws governing employee share schemes, the Board has determined that, from 1 July 2009, non-executive directors are no longer required to receive a minimum of 20% of their total remuneration as restricted Telstra shares, known as Directshare. Instead, the Board has decided to implement a policy to encourage non-executive directors to hold a total value equivalent to at least 50% of their total remuneration as Telstra shares.

Participation by Telstra's non-executive directors in Directshare is therefore optional. If the non-executive director chooses not to participate, they can receive their total remuneration in cash. If the non-executive director chooses to participate, the trustee may determine to allocate shares to the participating directors on a six monthly basis, on dates determined by the trustee at its discretion. Shares are acquired by the trustee from time to time. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period on Directshares already allocated continues until the earliest of:

- 10 years (2010: 10 years) from the date of allocation of the shares;
- the participating director is no longer a director of, or is no longer employed by, a company in the Telstra Group; and
- the Trustee determines that an 'event' under the terms of Directshare has occurred.

##### Telstra Ownshare

Certain eligible employees may, at their election, be provided part of their remuneration in Telstra shares. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues until the earliest of:

- three years from the date of allocation (depending on the elections available to the participant at the time of allocation);
- the participant ceases employment with the Telstra Group; and
- the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the Ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

##### (ii) Instruments granted during the financial year

The fair value of the instruments granted under the Directshare and Ownshare plans is determined by the remuneration foregone by the participant. On the grant of Directshares and Ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. The 5 November 2010 grant of Ownshares relates to shares acquired through salary sacrifice by employees.

There were no shares granted during fiscal 2011 under the Directshare plan. For the Ownshare plan, the weighted average fair value of fully paid shares granted to executives as at 30 June 2011 was \$2.68 (2010: \$3.41) and the total fair value of shares granted was \$464,776 (2010: \$451,116).

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (c) Telstra Directshare and Ownshare (continued)

##### (iii) Summary of movements

The table below provides information about our Directshare and Ownshare plans:

	Number of equity instruments						
	Outstanding at 30 June 2009	Granted (*)	Distributed (^)	Outstanding at 30 June 2010	Granted (*)	Distributed (^)	Outstanding at 30 June 2011
<b>Directshares</b>							
5 September 2003 allocation . . . . .	14,366	-	(4,841)	9,525	-	-	9,525
20 February 2004 allocation . . . . .	15,435	-	(5,202)	10,233	-	-	10,233
20 August 2004 allocation . . . . .	4,622	-	(1,867)	2,755	-	-	2,755
19 February 2005 allocation . . . . .	15,704	-	(7,793)	7,911	-	-	7,911
19 August 2005 allocation . . . . .	14,223	-	(8,975)	5,248	-	-	5,248
17 February 2006 allocation . . . . .	22,022	-	(13,792)	8,230	-	-	8,230
18 August 2006 allocation . . . . .	31,871	-	(19,528)	12,343	-	-	12,343
23 February 2007 allocation . . . . .	34,114	-	(19,592)	14,522	-	-	14,522
17 August 2007 allocation . . . . .	34,048	-	(18,705)	15,343	-	-	15,343
29 February 2008 allocation . . . . .	51,433	-	(26,465)	24,968	-	-	24,968
21 August 2008 allocation . . . . .	61,113	-	(24,755)	36,358	-	-	36,358
6 March 2009 allocation . . . . .	97,797	-	(34,616)	63,181	-	-	63,181
21 August 2009 allocation . . . . .	-	14,712	(8,399)	6,313	-	-	6,313
19 February 2010 allocation . . . . .	-	6,809	-	6,809	-	-	6,809
	<b>396,748</b>	<b>21,521</b>	<b>(194,530)</b>	<b>223,739</b>	<b>-</b>	<b>-</b>	<b>223,739</b>
<b>Ownshares</b>							
18 August 2006 allocation . . . . .	302,067	-	(302,067)	-	-	-	-
27 October 2006 allocation . . . . .	143,971	-	(143,971)	-	-	-	-
27 September 2007 allocation . . . . .	356,631	-	(36,203)	320,428	-	(320,428)	-
26 October 2007 allocation . . . . .	142,189	-	(18,836)	123,353	-	(123,353)	-
15 September 2008 allocation . . . . .	417,280	-	(63,963)	353,317	-	(37,576)	315,741
24 October 2008 allocation . . . . .	202,796	-	(9,831)	192,965	-	(3,119)	189,846
24 December 2009 allocation . . . . .	-	132,292	(2,642)	129,650	-	(5,432)	124,218
5 November 2010 allocation . . . . .	-	-	-	-	173,424	(2,760)	170,664
	<b>1,564,934</b>	<b>132,292</b>	<b>(577,513)</b>	<b>1,119,713</b>	<b>173,424</b>	<b>(492,668)</b>	<b>800,469</b>

(\*) The number of Directshares granted is based on the monthly volume weighted average price of a Telstra share in the six months prior to allocation, in conjunction with the remuneration foregone. The number of Ownshares granted is based on the weighted average price of a Telstra share in the week ending on the day before the allocation date, in conjunction with the remuneration foregone.

(^ ) Directshares and Ownshares are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are transferred to the participants at the completion of the restriction period.

## Notes to the Financial Statements (continued)

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### 27. Employee share plans (continued)

#### TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in fiscal 2000 and fiscal 1998, we offered eligible employees the opportunity to buy ordinary shares of Telstra. These share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

Although the Telstra ESOP Trustee Pty Ltd (wholly owned subsidiary of Telstra) is the trustee for TESOP99 and TESOP97 and holds the shares in the trust, the participating employee retains the beneficial interest in the shares (dividends and voting rights).

Generally, employees were offered interest free loans by the Telstra Entity to acquire certain shares, and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. The loan may, however, be repaid in full at any time by the employee using his or her own funds.

The loan shares, extra shares and in the case of TESOP99, the loyalty shares, were subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceased. This restriction period has now been fulfilled under each plan.

If a participant ceases to be employed by the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, the employee must repay their loan within two months of leaving to acquire the relevant shares. This is the case except where the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required, the trustee can sell the shares. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### TESOP99 and TESOP97 (continued)

The Telstra ESOP Trustee continues to hold the loan shares where the employee has ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs. The Trustee will then sell the shares. As at 30 June 2011, there were 8,999,600 shares held for this purpose (2010: 8,831,000).

The following table provides information about our TESOP99 and TESOP97 share plans:

	TESOP97			TESOP99		
	Number	Weighted average fair value (*)	Total fair value \$m	Number	Weighted average fair value (*)	Total fair value \$m
<b>Equity instruments outstanding and exercisable as at 30 June 2009</b>	25,672,500	\$3.39	87	13,899,000	\$3.39	47
Exercised (#)	(2,290,375)	\$3.16	(7)	(56,400)	\$3.16	-
<b>Equity instruments outstanding and exercisable as at 30 June 2010</b>	23,382,125	\$3.25	76	13,842,600	\$3.25	45
Exercised (#)	(23,367,125)	\$2.68	(63)	(53,600)	\$2.68	-
<b>Equity instruments outstanding and exercisable as at 30 June 2011</b>	<u>15,000</u>	<u>\$2.89</u>	<u>-</u>	<u>13,789,000</u>	<u>\$2.89</u>	<u>40</u>

(\*) The fair value of these shares is based on the market value of Telstra shares at reporting date and exercise date.

(#) The amount exercised relates to the shares released from trust as a result of the interest free loan to employees being fully repaid during the year.

The employee share loan balance as at 30 June 2011 is \$70 million (2010: \$77 million). The weighted average loan still to be repaid for TESOP97 is \$0.10 per instrument (2010: \$0.19) and for TESOP99 is \$5.06 per instrument (2010: \$5.28).

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation

In accordance with AASB 124: "Related Party Disclosures", key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. As such, KMP are deemed to include the following:

- the non-executive Directors of the Telstra Entity; and
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, including the CEO, referred to as a 'senior executive' in this note.

#### Directors

During fiscal 2011 and fiscal 2010, the Directors of the Telstra Entity were:

Name	Position
<b>Current Directors</b>	
Catherine B Livingstone	Chairman, Non-Executive Director
David I Thodey	Executive Director and Chief Executive Officer
John V Stanhope	Executive Director, Chief Financial Officer and Group Managing Director, Finance and Administration
Geoffrey A Cousins	Non-Executive Director
Russell A Higgins	Non-Executive Director
John P Mullen	Non-Executive Director
Nora L Scheinkestel	Non-Executive Director (appointed on 12 August 2010)
John M Stewart	Non-Executive Director
John W Stocker	Non-Executive Director
Steven M Vamos	Non-Executive Director
John D Zeglis	Non-Executive Director

#### Senior executives

The senior executives that qualified as KMP for fiscal 2011 and fiscal 2010 were:

Name	Position
<b>Current Senior Executives</b>	
David I Thodey	Executive Director and Chief Executive Officer
John V Stanhope	Executive Director, Chief Financial Officer and Group Managing Director, Finance and Administration
Bruce Akhurst	Chief Executive Officer, Sensis
Gordon Ballantyne	Group Managing Director, Telstra Consumer and Country Wide (KMP effective from 1 July 2010)
Paul Geason	Group Managing Director, Telstra Enterprise and Government (from 22 January 2011) and Group Managing Director, Telstra Wholesale (up to 21 January 2011)
Kate McKenzie	Group Managing Director, Telstra Innovation Products and Marketing
Brendon Riley	Chief Operations Officer, Telstra Operations (KMP effective from 28 February 2011)
Deena Shiff	Group Managing Director, Telstra Business

#### Former Senior Executives

Nerida Caesar, resigned as Group Managing Director, Telstra Enterprise and Government, on 21 January 2011.

Michael Rocca, resigned as Chief Operations Officer, Telstra Operations, on 27 February 2011.

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP aggregate compensation

During fiscal 2011 and fiscal 2010, the aggregate compensation provided to our KMP was:

	Telstra Group	
	As at 30 June	
	2011	2010 (*)
	\$	\$
Short term employee benefits . . . . .	17,673,942	12,106,982
Post employment benefits . . . . .	815,232	782,706
Other long term benefits . . . . .	257,529	214,997
Termination benefits . . . . .	1,700,353	-
Share-based payments (a) . . . . .	4,558,079	1,531,362
	<u>25,005,135</u>	<u>14,636,047</u>

(\*) Prior year comparative information has been restated to reflect the fiscal 2011 KMP.

(a) Mr Ballantyne and Mr Riley do not hold any interests in equity instruments of the Telstra Entity during fiscal 2011. Mr Ballantyne also does not hold any interest in the shares of the Telstra Entity.

In accordance with AASB 124 we have made the detailed remuneration disclosures in the Remuneration Report which is part of the Directors' Report. Please refer to the Remuneration Report for further details.

#### Other transactions with our KMP and their related entities

Our KMP have telecommunications services transactions with the Telstra Group, which are not significant and are both trivial and domestic in nature. The KMP related entities also have telecommunications services with us on normal commercial terms and conditions.

Our KMP are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we also make products and services available to our KMP without charge to enable them to familiarise themselves with our products, services and recent technological developments. To the extent it is considered a benefit to a KMP, it is included in their compensation.



## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in shares of the Telstra Entity

During fiscal 2011, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2010 (a) Number	Directshare allocation Number	Equity instruments exercised Number	Shares acquired or disposed of by other means Number	Total shares held at 30 June 2011 (b) Number	Shares that are held nominally (c) Number
<b>Non-Executive Directors</b>						
Catherine B Livingstone . . . . .	124,635	-	-	26,181	150,816	150,816
Geoffrey A Cousins . . . . .	21,765	-	-	10,000	31,765	21,765
Russell A Higgins . . . . .	22,992	-	-	17,521	40,513	35,193
John P Mullen . . . . .	26,159	-	-	-	26,159	26,159
Nora L Scheinkestel . . . . .	9,100	-	-	20,900	30,000	30,000
John M Stewart . . . . .	9,031	-	-	25,000	34,031	9,031
John W Stocker . . . . .	212,238	-	-	-	212,238	194,124
Steven M Vamos . . . . .	24,021	-	-	15,979	40,000	40,000
John D Zeglis . . . . .	53,993	-	-	50,000	103,993	37,493
	503,934	-	-	165,581	669,515	544,581
<b>Senior Executives</b>						
David I Thodey . . . . .	495,588	-	9,525	100,000	605,113	486,590
John V Stanhope . . . . .	437,067	-	9,078	400	446,545	169,318
Bruce Akhurst . . . . .	166,999	-	10,307	-	177,306	169,526
Nerida Caesar . . . . .	19,340	-	-	-	19,340	9,100
Paul Geason . . . . .	8,960	-	-	35,400	44,360	5,800
Kate McKenzie . . . . .	102,185	-	15,525	-	117,710	72,021
Brendon Riley . . . . .	5,735	-	-	-	5,735	1,705
Michael Rocca . . . . .	444,102	-	9,095	-	453,197	171,198
Deena Shiff . . . . .	303,776	-	7,029	-	310,805	143,129
	1,983,752	-	60,559	135,800	2,180,111	1,228,387
	2,487,686	-	60,559	301,381	2,849,626	1,772,968

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2011 were on an arm's length basis at market price.

(a) For those non-executive Directors and senior executives who qualified as KMP during the year, represents shares held as at the date they became KMP.

(b) For those non-executive Directors and senior executives who left Telstra during the year, represents shares held as at the date they resigned.

(c) Nominally refers to shares held either indirectly or beneficially. This includes those acquired under Directshare as well as certain incentive shares issued to our KMP that vest immediately. These shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with the shares until after they are released from the restriction period. Refer to note 27 for further details.

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in shares of the Telstra Entity (continued)

During fiscal 2010 our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2009 (a)	Directshare allocation Number	Equity instruments exercised Number	Shares acquired or disposed of by other means Number	Total shares held at 30 June 2010 (b)	Shares that are held nominally (c) Number
	Number	Number	Number	Number	Number	Number
<b>Non-Executive Directors</b>						
Catherine B Livingstone . . . . .	112,982	-	-	11,653	124,635	124,635
Geoffrey A Cousins . . . . .	21,765	-	-	-	21,765	21,765
Russell A Higgins . . . . .	22,992	-	-	-	22,992	17,672
Charles Macek . . . . .	223,155	8,400	-	-	231,555	225,987
John P Mullen . . . . .	26,159	-	-	-	26,159	26,159
John M Stewart . . . . .	9,031	-	-	-	9,031	9,031
John W Stocker . . . . .	212,238	-	-	-	212,238	194,124
Steven M Vamos . . . . .	24,021	-	-	-	24,021	24,021
Peter J Willcox . . . . .	91,334	-	-	-	91,334	91,334
John D Zeglis . . . . .	40,871	13,122	-	-	53,993	37,493
	784,548	21,522	-	11,653	817,723	772,221
<b>Senior Executives</b>						
David I Thodey . . . . .	495,588	-	-	-	495,588	386,590
John V Stanhope . . . . .	437,067	-	-	-	437,067	168,918
Bruce Akhurst . . . . .	166,999	-	-	-	166,999	159,219
Nerida Caesar . . . . .	32,340	-	-	(13,000)	19,340	9,100
Paul Geason . . . . .	6,260	-	-	2,700	8,960	5,800
Kate McKenzie . . . . .	102,185	-	-	-	102,185	72,021
Justin Milne . . . . .	199,886	-	-	-	199,886	80,851
David Moffatt . . . . .	724,634	-	-	(299,500)	425,134	190,547
Michael Rocca . . . . .	444,102	-	-	-	444,102	171,198
Deena Shiff . . . . .	303,776	-	-	-	303,776	143,129
	2,912,837	-	-	(309,800)	2,603,037	1,387,373
	3,697,385	21,522	-	(298,147)	3,420,760	2,159,594

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2010 were on an arm's length basis at market price.

(a) For those non-executive Directors and senior executives who qualified as KMP during fiscal 2010, represents shares held as at the date they became KMP.

(b) For those non-executive Directors and senior executives who retired from office during fiscal 2010 or no longer qualify as KMP as at 30 June 2010 represents shares held as at the date they retired or no longer qualified as KMP.

(c) Nominally refers to shares held either indirectly or beneficially. This includes those acquired under Directshare as well as certain incentive shares issued to our KMP that vest immediately. These shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with the shares until after they are released from the restriction period. Refer to note 27 for further details.

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in rights, options and restricted shares of Telstra Entity

The following details the balances and changes in instruments issued for our KMP during fiscal 2011:

Instrument type (*)	Total held at 30 June 2010 (a)	Granted during the year	Exercised during the year	Other changes (b)	Total held at 30 June 2011 (c)	Vested as at 30 June 2011 (c)	Vested and exercisable at 30 June 2011 (c)
	Number	Number	Number	Number	Number	Number	Number
<b>Senior Executive</b>							
<b>Performance rights</b>							
David I Thodey . . . . .	9,525	-	(9,525)	-	-	-	-
John V Stanhope . . . . .	9,078	-	(9,078)	-	-	-	-
Bruce Akhurst . . . . .	10,307	-	(10,307)	-	-	-	-
Kate McKenzie . . . . .	15,007	-	(15,007)	-	-	-	-
Michael Rocca . . . . .	9,095	-	(9,095)	-	-	-	-
Deena Shiff . . . . .	7,029	-	(7,029)	-	-	-	-
<b>Options</b>							
David I Thodey . . . . .	2,778,217	-	-	(1,242,912)	1,535,305	786,174	786,174
John V Stanhope . . . . .	2,020,885	-	-	(985,748)	1,035,137	440,998	440,998
Bruce Akhurst . . . . .	3,035,004	-	-	(1,339,317)	1,695,687	888,739	888,739
Nerida Caesar . . . . .	335,467	-	-	-	335,467	37,565	37,565
Paul Geason . . . . .	300,580	-	-	(135,234)	165,346	81,392	81,392
Kate McKenzie . . . . .	828,627	-	-	(451,323)	377,304	91,304	91,304
Michael Rocca . . . . .	2,486,864	-	-	-	2,486,864	511,999	262,000
Deena Shiff . . . . .	2,034,343	-	-	(1,019,394)	1,014,949	384,522	384,522
<b>Restricted shares</b>							
David I Thodey . . . . .	1,294,450	1,355,932	-	(83,807)	2,566,575	-	-
John V Stanhope . . . . .	913,334	774,672	-	(66,468)	1,621,538	-	-
Bruce Akhurst . . . . .	931,520	724,068	-	(90,275)	1,565,313	-	-
Nerida Caesar . . . . .	468,967	-	-	-	468,967	-	-
Paul Geason . . . . .	236,201	242,924	-	(9,392)	469,733	-	-
Kate McKenzie . . . . .	363,118	302,544	-	(31,995)	633,667	-	-
Michael Rocca . . . . .	857,327	-	-	-	857,327	-	-
Deena Shiff . . . . .	727,751	575,390	-	(70,528)	1,232,613	-	-

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in rights, options and restricted shares of Telstra Entity (continued)

Instrument type (*)	Total held at 30 June 2010 (a)	Granted during the year	Exercised during the year	Other changes (b)	Total held at 30 June 2011 (c)	Vested as at 30 June 2011 (c)	Vested and exercisable at 30 June 2011 (c)
	Number	Number	Number	Number	Number	Number	Number
<b>Senior Executive</b>							
<b>Incentive shares rights (d)</b>							
Kate McKenzie . . . . .	518	-	(518)	-	-	-	-
<b>TESOP97</b>							
John V Stanhope . . . . .	2,500	-	-	(2,500)	-	-	-
Bruce Akhurst . . . . .	2,500	-	-	(2,500)	-	-	-
Michael Rocca . . . . .	2,500	-	-	(2,500)	-	-	-
<b>TESOP99</b>							
John V Stanhope . . . . .	400	-	-	-	400	400	400
Bruce Akhurst . . . . .	400	-	-	-	400	400	400
Deena Shiff . . . . .	400	-	-	-	400	400	400

(\*) Each vested equity instrument is convertible into one ordinary share.

(a) For those senior executives who qualified as KMP during the year, represents equity instruments held as at the date they became KMP.

(b) During fiscal 2011, other changes for our performance rights, options and restricted shares are a result of instruments expiring due to the specified performance hurdles not being achieved or instruments forfeiting due to KMP retiring during the year. For TESOP97, the shares were released from trust as a result of the interest free loans being fully repaid during fiscal 2011.

(c) For those senior executives who left Telstra during the year, represents equity instruments held as at the date they resigned.

(d) Excludes incentive shares that vest immediately and are beneficially owned by the KMP. "Granted" for incentive shares rights relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentive shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised. Refer to note 27 for further details.

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in rights, options and restricted shares of Telstra Entity (continued)

The following details the balances and changes in instruments issued for our KMP during fiscal 2010:

Instrument type (*)	Total held at 30 June 2009 (a)	Granted during the year	Exercised during the year	Other changes (b)	Total held at 30 June 2010 (c)	Vested as at 30 June 2010 (c)	Vested and exercisable at 30 June 2010 (c)
Senior Executive	Number	Number	Number	Number	Number	Number	Number
<b>Performance rights</b>							
David I Thodey . . . . .	95,246	-	-	(85,721)	9,525	9,525	9,525
John V Stanhope . . . . .	90,765	-	-	(81,687)	9,078	9,078	9,078
Bruce Akhurst . . . . .	103,068	-	-	(92,761)	10,307	10,307	10,307
Kate McKenzie . . . . .	50,017	-	-	(35,010)	15,007	15,007	3,891
Justin Milne . . . . .	46,129	-	-	-	46,129	-	-
David Moffatt . . . . .	104,824	-	-	-	104,824	-	-
Michael Rocca . . . . .	90,942	-	-	(81,847)	9,095	9,095	9,095
Deena Shiff . . . . .	70,293	-	-	(63,264)	7,029	7,029	7,029
<b>Options</b>							
David I Thodey . . . . .	8,671,491	-	-	(5,893,274)	2,778,217	786,174	534,000
John V Stanhope . . . . .	6,502,618	-	-	(4,481,733)	2,020,885	440,998	241,000
Bruce Akhurst . . . . .	9,385,487	-	-	(6,350,483)	3,035,004	888,739	617,000
Nerida Caesar . . . . .	1,060,624	-	-	(725,157)	335,467	37,565	-
Paul Geason . . . . .	829,500	-	-	(528,920)	300,580	81,392	54,000
Glenice Maclellan . . . . .	881,685	-	-	(633,748)	247,937	30,718	-
Kate McKenzie . . . . .	2,661,761	-	-	(1,918,803)	742,958	91,304	-
Justin Milne . . . . .	3,033,715	-	-	(94,578)	2,939,137	101,085	-
David Moffatt . . . . .	9,724,691	-	-	(288,988)	9,435,703	285,867	-
Michael Rocca . . . . .	8,185,152	-	-	(5,698,288)	2,486,864	511,999	262,000
Deena Shiff . . . . .	6,621,922	-	-	(4,587,579)	2,034,343	384,522	178,000
<b>Restricted shares</b>							
David I Thodey . . . . .	279,357	1,098,900	-	(83,807)	1,294,450	-	-
John V Stanhope . . . . .	221,560	758,242	-	(66,468)	913,334	-	-
Bruce Akhurst . . . . .	300,917	720,878	-	(90,275)	931,520	-	-
Nerida Caesar . . . . .	42,010	439,560	-	(12,603)	468,967	-	-
Paul Geason . . . . .	31,307	214,286	-	(9,392)	236,201	-	-
Glenice Maclellan . . . . .	35,000	83,850	-	(10,500)	108,350	-	-
Kate McKenzie . . . . .	395,113	-	-	(31,995)	363,118	-	-
Justin Milne . . . . .	117,317	281,044	-	-	398,361	-	-
David Moffatt . . . . .	316,743	-	-	-	316,743	-	-
Michael Rocca . . . . .	276,950	663,462	-	(83,085)	857,327	-	-
Deena Shiff . . . . .	235,093	563,186	-	(70,528)	727,751	-	-

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in rights, options and restricted shares of Telstra Entity (continued)

Instrument type (*)	Total held at 30 June 2009 (a)	Granted during the year	Exercised during the year	Other changes (b)	Total held at 30 June 2010 (c)	Vested as at 30 June 2010 (c)	Vested and exercisable at 30 June 2010 (c)
Senior Executive	Number	Number	Number	Number	Number	Number	Number
<b>Incentive shares rights (d)</b>							
Kate McKenzie . . . . .	518	-	-	-	518	518	-
David Moffatt . . . . .	22,587	1,982	-	-	24,569	24,569	-
<b>TESOP97</b>							
John V Stanhope. . . . .	2,500	-	-	-	2,500	2,500	-
Bruce Akhurst . . . . .	2,500	-	-	-	2,500	2,500	-
Michael Rocca . . . . .	2,500	-	-	-	2,500	2,500	-
<b>TESOP99</b>							
John V Stanhope. . . . .	400	-	-	-	400	400	-
Bruce Akhurst . . . . .	400	-	-	-	400	400	-
Deena Shiff . . . . .	400	-	-	-	400	400	-

(\*) Each vested equity instrument is convertible into one ordinary share.

(a) For those senior executives who qualified as KMP during the year, represents equity instruments held as at the date they became KMP.

(b) During fiscal 2010, other changes for our performance rights and options are a result of instruments expiring due to the specified performance hurdles not being achieved or instruments forfeiting due to KMP retiring during the year.

(c) For those senior executives who retired from office during the year or no longer qualify as KMP at 30 June 2010, represents equity instruments held as at the date they retired or no longer qualified as KMP.

(d) Excludes incentive shares that vest immediately and are beneficially owned by the KMP. "Granted" for incentive shares rights relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentive shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised. Refer to note 27 for further details.



## Notes to the Financial Statements (continued)

### 29. Related party disclosures

#### Transactions involving our controlled entities

Interests in controlled entities are set out in note 25. Our transactions with our controlled entities recorded in the income statement and statement of financial position are as follows:

	Telstra Entity	
	Year ended/As at 30 June	
	2011 \$m	2010 \$m
<b>Income from controlled entities:</b>		
Sale of goods and services (a) . . . . .	991	1,124
Dividend revenue (b). . . . .	164	105
<b>Expenses to controlled entities:</b>		
Purchase of goods and services (a) . . . . .	433	402
Finance costs . . . . .	24	6
<b>Total amounts receivable at 30 June from:</b>		
<b>Current</b>		
Controlled entities - receivables (a)(d) . . . . .	788	615
Controlled entities - loans (e)(f) . . . . .	3,147	2,984
Allowance for amounts owed by controlled entities . . . . .	(2,773)	(2,665)
	1,162	934
<b>Non current</b>		
Controlled entities - loans (f) . . . . .	-	176
<b>Movement in allowance for amounts owed by controlled entities:</b>		
Opening balance . . . . .	(2,665)	(2,487)
Impairment loss (c) . . . . .	(108)	(178)
Closing balance . . . . .	(2,773)	(2,665)
<b>Total amounts payable at 30 June to:</b>		
<b>Current</b>		
Controlled entities - payables (a)(d). . . . .	217	238
Controlled entities - loans (e). . . . .	1,832	1,305
	2,049	1,543

(a) The Telstra Entity sold and purchased goods and services and received and paid interest to its controlled entities. These transactions are in the ordinary course of business and are on normal commercial terms and conditions.

Details of our individual significant transactions involving our controlled entities during fiscal 2011 are detailed as follows:

- the Telstra Entity received procurement fees from its controlled entity Sensis Pty Ltd for the use of Yellow Pages® and White Pages® trademarks amounting to \$522 million (2010: \$622 million). As at 30 June 2011, the Telstra Entity recorded revenue received in advance amounting to \$170 million (2010: \$225 million) for the use of these trademarks;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to \$338 million (2010: \$311 million) for undertaking agency and contract management services for the national directory service; and
- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to \$347 million (2010: \$339 million) for access to ducts that store the hybrid fibre coaxial (HFC) cable network.

(b) During fiscal 2011 the Telstra Entity recorded dividend revenue mainly from the following entities:

- \$70 million (2010: \$60 million) from Telstra Media Pty Limited;
- \$43 million (2010: \$16 million) from Telstra Business Systems Pty Ltd; and
- \$41 million (2010: \$29 million) from Telstra Holdings Pty Ltd.

(c) The profit before income tax expense of the Telstra Entity includes an impairment loss of \$108 million (2010: \$178 million) relating to a movement in allowance for amounts owed by a controlled entity.

(d) The Telstra Entity and its Australian controlled entities have formed a tax consolidated group, with a tax funding arrangement currently in place. The amounts receivable or amounts payable to the Telstra Entity under this arrangement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. Refer to note 9 for further details.

## Notes to the Financial Statements (continued)

### 29. Related party disclosures (continued)

#### Transactions involving our controlled entities (continued)

(e) The Telstra Entity operates a current account with some of its Australian controlled entities, being an internal group bank account used to settle transactions with its controlled entities or between two controlled entities. Cash deposit balances in the current account owed to our controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. As at 30 June 2011, \$2,978 million (2010: \$2,984 million) related to loans owed by, and \$1,832 million (2010: 1,305 million) related to, loans payable to controlled entities. We also have an allowance for amounts owed by controlled entities of \$2,773 million (2010: \$2,665 million) as at 30 June 2011.

(f) At 30 June 2011, a \$169 million (2010: \$176 million) loan provided to Telstra OnAir Holdings Pty Ltd was reclassified to current following the market announcement that Telstra and Vodafone Hutchison Australia will conclude their joint venture agreement for the 3GIS network in 2012. Refer to note 26 for further details. This loan has been provided to ensure committed deferred consideration payments and funding calls from the 3GIS Partnership can be met. The loan is an interest free loan.

#### Transactions involving our jointly controlled and associated entities

Interests in our jointly controlled and associated entities are set out in note 26. Our transactions with our jointly controlled and associated entities recorded in the income statement and statement of financial position are as follows:

	<b>Telstra Group</b>	
	<b>Year ended/As at</b>	
	<b>30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$m</b>	<b>\$m</b>
<b>Income from jointly controlled and associated entities:</b>		
Sale of goods and services (a) . . . . .	197	200
Distribution from FOXTEL Partnership (b) . . . . .	70	60
<b>Expenses to jointly controlled and associated entities:</b>		
Purchase of goods and services (a) . . . . .	884	918
<b>Total amounts receivable at 30 June from:</b>		
<b>Current</b>		
Jointly controlled and associated entities - trade receivables (a) . . . . .	4	10
Jointly controlled and associated entities - loans (c) . . . . .	35	-
	39	10
<b>Non current</b>		
Jointly controlled and associated entities - loans (c) . . . . .	5	219
Allowance for amounts owed by jointly controlled and associated entities (c) . . . . .	(5)	(182)
	-	37
<b>Movement in allowance for amounts owed by jointly controlled and associated entities:</b>		
Opening balance . . . . .	(182)	(191)
Amounts reversed . . . . .	147	-
Foreign currency exchange differences . . . . .	30	9
Closing balance . . . . .	(5)	(182)
<b>Total amounts payable at 30 June to:</b>		
<b>Current</b>		
Jointly controlled and associated entities - payables (a) . . . . .	13	6

(a) We sold and purchased goods and services, and received interest from our jointly controlled and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of our individual significant transactions involving our jointly controlled and associated entities during fiscal 2011 are detailed as follows:

- we purchased pay television services amounting to \$640 million (2010: \$539 million) from our jointly controlled entity FOXTEL. The purchases were to enable the resale of FOXTEL services, including pay television content, to our existing customers as part of our ongoing product bundling initiatives. In addition, we

made sales to FOXTEL for our cost recoveries of \$102 million (2010: \$84 million);

- purchases were made by the Telstra Group of \$233 million (2010: \$270 million) from our jointly controlled entity Reach Ltd (Reach) in line with market prices. These were for the purchase of, and entitlement to, capacity and connectivity services; and
- sales to Reach were made for international inbound call termination services, construction and consultancy by the Telstra Group of \$54 million (2010: \$59 million).

(b) A \$70 million (2010: \$60 million) distribution was received from our jointly controlled entity FOXTEL during the year.

## Notes to the Financial Statements (continued)

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### 29. Related party disclosures (continued)

#### Transactions involving our jointly controlled and associated entities (continued)

(c) Loans provided to jointly controlled and associated entities relate mainly to loans provided to Reach of \$5 million (2010: \$182 million) and the 3GIS Partnership (3GIS) of \$35 million (2010: \$37 million).

The loan provided to Reach is an interest free loan and repayable upon the giving of twelve months notice by both PCCW Limited and us. We have provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term. Refer to note 20 for details on the restructure of Reach network assets that occurred during fiscal 2011.

The loan provided to 3GIS represents interest free funding for operational expenditure purposes. In accordance with the partnership agreement, the loan is repayable on dissolution of the partnership. At 30 June 2011 the loan was reclassified to current following the market announcement that Telstra and Vodafone Hutchison Australia will conclude their joint venture agreement for the 3GIS network in 2012. Refer to note 26 for further details.

#### Transactions involving other related entities

##### Post-employment benefits

As at 30 June 2011, the Telstra Superannuation Scheme (Telstra Super) owned 42,589,721 shares in Telstra Corporation Limited (2010: 34,455,614) at a cost of \$130 million (2010: \$118 million) and a market value of \$123 million (2010: \$112 million). All of these shares were fully paid at 30 June 2011. In fiscal 2011, we paid dividends to Telstra Super of \$10 million (2010: \$8 million). We own 100% of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also held bonds issued by Telstra Corporation Limited. These bonds had a cost of \$4 million (2010: \$5 million) and a market value of \$10 million (2010: \$5 million) at 30 June 2011.

All purchases and sales of Telstra shares and bonds by Telstra Super are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

##### Key management personnel (KMP)

For details regarding our KMP's remuneration and interests in Telstra, as well as other related party transactions, refer to note 28.

## Notes to the Financial Statements (continued)

### 30. Parent entity information

	Telstra Entity As at 30 June	
	2011 \$m	2010 \$m
<b>Statement of Financial Position</b>		
Total current assets . . . . .	7,430	6,363
Total non current assets (a) . . . . .	31,679	32,946
<b>Total assets</b> . . . . .	<b>39,109</b>	<b>39,309</b>
Total current liabilities . . . . .	9,726	9,321
Total non current liabilities . . . . .	16,871	17,342
<b>Total liabilities</b> . . . . .	<b>26,597</b>	<b>26,663</b>
Share capital . . . . .	5,610	5,590
Cashflow hedging reserve . . . . .	(14)	157
General reserve . . . . .	194	194
Retained profits . . . . .	6,722	6,705
<b>Total Equity</b> . . . . .	<b>12,512</b>	<b>12,646</b>
	Telstra Entity Year ended 30 June	
	2011 \$m	2010 \$m
<b>Statement of Comprehensive Income</b>		
Profit for the year (a) . . . . .	3,367	3,811
Total comprehensive income . . . . .	3,319	3,767

(a) Includes \$283 million (2010: \$404 million) of impairment losses relating to the value of our investments in and amounts owed by our controlled entities. The impairment losses have been eliminated on consolidation of the Telstra Group.

Except for those noted below, our accounting policies for the Telstra Entity are consistent with those for the Telstra Group:

- Under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed from our wholly owned entities are booked as current assets or liabilities.
- Investments in controlled entities, included within non current assets above, are recorded at cost less impairment of the investment value. Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 2.22. Refer to note 25 for details on our investments in controlled entities.
- Our interests in associated and jointly controlled entities, including partnerships, are accounted for using the cost method of accounting and are included within non current assets in the table above.

#### Property, plant and equipment commitments

	Telstra Entity As at 30 June	
	2011 \$m	2010 \$m
Total property, plant and equipment expenditure commitments contracted for at balance date but not recorded in the financial statements . . . . .	415	578

#### Contingent liabilities and guarantees

##### Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2011, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reasonably estimated.

Included in our common law claims is the following litigation case:

##### Optus Confidential Information

Optus commenced proceedings in the Federal Court of Australia in December 1997 alleging that Telstra breached the Trade Practices Act and misused Optus' confidential information. All the claims were subsequently settled or withdrawn other than a confidential information claim (relating to the preparation and use of STD and IDD market share reports). It relates to historical events in the period from 1993-2003.

In April 2009, the Federal Court held that Telstra breached the terms of its Access Agreement with Optus by preparing STD and IDD market share reports, but that Telstra had not also breached an equitable duty of confidence. Optus successfully appealed the equity finding to the Full Federal Court in early 2010. Telstra filed a special leave application on this issue to the High Court. On 30 July 2010, the High Court dismissed Telstra's application as premature but made it clear that Telstra's right to seek leave to appeal on this issue was preserved until after the final judgment in these proceedings. Optus has not yet quantified its claim and no trial date has been set. Hence, it is not yet possible to estimate Telstra's actual liability to Optus, if any.

## Notes to the Financial Statements (continued)

### 30. Parent entity information (continued)

#### Contingent liabilities and guarantees (continued)

##### National Broadband Network

On 23 June 2011, Telstra entered into Definitive Agreements (DAs) with NBN Co Limited (NBN Co) and the Commonwealth Government for its participation in the rollout of the National Broadband Network (NBN). The DAs remain subject to a number of conditions precedent that must be satisfied or waived for the DAs to come into full force and effect.

One of the DAs (the Implementation and Interpretation Deed), unlike the other DAs, became operative immediately on signing on 23 June 2011 as it contains the mechanics needed for the proposed transaction to be fully implemented and specifies the conditions precedent. The conditions precedent include Telstra shareholder approval, and ACCC acceptance of Telstra's structural separation undertaking and approval of Telstra's draft migration plan. It also contains various interim arrangements to enable NBN Co to obtain immediate access to Telstra's facilities and infrastructure for its early phase rollout. Telstra will provide information and infrastructure services for NBN Co to continue its rollout prior to all the conditions precedent being satisfied or waived. This may require Telstra to commence various remediation activities on the different types of infrastructure it will be making available to NBN Co under these interim arrangements as well as recognising the associated revenue from the interim arrangements.

The activities which may be required under the interim arrangements involve provision of planning information to NBN Co and, potentially, remediation to repair and augment Telstra's infrastructure, if required, during the interim access arrangements. The DAs require Telstra to provide and remediate relevant infrastructure up to agreed fitness standards. Telstra will not be in a position to know the actual state of the existing infrastructure, and, therefore, precisely what remediation is necessary, until after each location and details of the infrastructure required by NBN Co is confirmed via an agreed initial rollout plan and ordering processes.

If the conditions precedent in the DAs are not satisfied or waived, the proposed transaction for Telstra's participation in the rollout of the NBN will not proceed. In this event, NBN Co will continue to obtain certain operations and maintenance services from Telstra for a period of 10 years in relation to any infrastructure that is in use or has been ordered by NBN Co up to that time under the interim arrangements. Telstra will at that point cease any further remediation activities, under the DAs, for that infrastructure not yet in use or ordered by NBN Co.

As at 30 June 2011, no remediation provision in relation to the interim arrangements can be recognised as a number of conditions precedent have to be satisfied or waived before the proposed transaction can proceed. Refer to note 2.10(b) and note 21 for further discussion on the NBN.

#### 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 \$294 million (2010: \$291 million) in respect of the performance of contracts;
- indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was \$189 million (2010: \$286 million);
- financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling \$60 million (2010: \$73 million) and a requirement that the entity remains our controlled entity;
- guarantees of the performance of jointly controlled entities under contractual agreements to a maximum amount of \$10 million (2010: \$12 million);
- guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by the third parties over the remaining terms of the finance leases. The lease payments over the remaining expected term of the leases amount to \$106 million (US\$114 million) (2010: \$319 million (US\$272 million)). In fiscal 2011, we exercised our early buyout option to terminate a portion of the leases that commenced in 1999. We still hold an early buyout option for the remaining leases; and
- during fiscal 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. We issued a guarantee of \$68 million on behalf of IBMGSA during fiscal 2000. During fiscal 2004, we sold our shareholding in this entity. The \$68 million guarantee is provided to support service contracts entered into by IBMGSA and third parties, and was made with IBMGSA bankers, or directly to IBMGSA customers. As at 30 June 2011, this guarantee has still been provided and \$142 million (2010: \$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.

## Notes to the Financial Statements (continued)

### 31. Events after reporting date

We are not aware of any matter or circumstance that has occurred since 30 June 2011 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

#### Final Dividend

On 11 August 2011, the directors of Telstra Corporation Limited resolved to pay a fully franked final dividend of 14 cents per ordinary share. The record date for the final dividend will be 26 August 2011 with payment being made on 23 September 2011. Shares will trade excluding the entitlement to the dividend on 22 August 2011.

A provision for dividend payable has been raised as at the date of resolution, amounting to \$1,738 million. The final dividend will be fully franked at a tax rate of 30%. The financial effect of the dividend resolution was not brought to account as at 30 June 2011.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the final ordinary dividend, except for \$745 million franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Dividend Reinvestment Plan (DRP) continues to be suspended.

#### FOXTEL takeover of AUSTAR

Our 50% jointly controlled entity, FOXTEL, announced on 11 July 2011 that it had entered into definitive agreements with AUSTAR and Liberty Global to acquire all of the issued shares in AUSTAR. The transaction remains subject to a number of approvals including from the Foreign Investment Review Board, ACCC, AUSTAR minority shareholders and the court. The transaction will be funded by a combination of FOXTEL bank debt and shareholder debt contributions in the form of subordinated shareholder notes. Our contribution will be up to \$450 million. The final amount will be determined following the satisfaction of the conditions precedent.

#### Disposal of Adstream Australia

On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of \$24 million. Payment is deferred for a period of up to two years and is subject to commercial rates of interest. The disposal of our share of net assets of \$24 million will have a minimal profit or loss impact.

In accordance with AASB 5: "Non-current Assets Held for Sale and Discontinued Operations" the carrying value of assets and liabilities of Adstream Australia have been classified as held for sale as at 30 June 2011. Refer to note 12 for further details.

#### New organisational structure

On 6 July 2011, Telstra announced changes to its organisational structure.

Effective 1 August 2011, the entire sales and retail customer service workforce, was unified in a single business unit, Telstra Customer Sales and Service, responsible for sales and services to all segments including consumer, business, enterprise and government customers.

A new business unit, Applications and Ventures Group, was also created to invest and partner with other companies and government agencies to provide a new range of digital services for business and consumers, including health and education sectors.



## Directors' Declaration

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*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) the financial statements and notes of the Telstra Group set out on pages 84 to 213:
  - (i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations, and Corporations Regulations;
  - (ii) give a true and fair view of the financial position as at 30 June 2011 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2011; and
  - (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 in Australia; and
- (d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 25(a) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 25(a).

For and on behalf of the board



Catherine B Livingstone AO  
**Chairman**



David I Thodey  
**Chief Executive Officer and  
Executive Director**

Date: 11 August 2011  
Melbourne, Australia

## Independent Auditor's Report to the Members of Telstra Corporation Limited

### Report on the Financial Report

We have audited the accompanying financial report of Telstra Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

### *Auditor's Opinion*

In our opinion:

- a. the financial report of Telstra Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 69 to 83 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



SJ Ferguson  
Partner  
Melbourne, Australia  
11 August 2011

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### TELSTRA CORPORATION LIMITED

ABN 33 051 775 556  
Incorporated in the Australian Capital Territory  
Telstra is listed on Stock Exchanges in Australia  
and in New Zealand (Wellington)

### WEBSITE

Telstra's investor relations home page:  
[www.telstra.com.au/investor](http://www.telstra.com.au/investor)

## INDICATIVE FINANCIAL CALENDAR\*

Final dividend paid	Friday 23 September 2011
Annual General Meeting	Tuesday 18 October 2011
Half Year Results announcement	Thursday 9 February 2012
Ex-dividend share trading commences	Monday 20 February 2012
Record date for interim dividend	Friday 24 February 2012
Interim dividend paid	Friday 23 March 2012
Annual Results announcement	Thursday 9 August 2012
Ex-dividend share trading commences	Monday 20 August 2012
Record date for final dividend	Friday 24 August 2012
Final dividend paid	Friday 21 September 2012
Annual General Meeting	Tuesday 16 October 2012

\* Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).

