TELSTRA ANNUAL REPORT 2013

IT'S HOW
WE CONNECT

Online Shareholder Services

Telstra's Investor Centre www.telstra.com/investor has all the latest news and information available for shareholders.

Shareholders can also easily manage their shareholding online at www.linkmarketservices.com.au/telstra.

To access your information you will need your SRN/HIN and post code. Follow the prompts to log in and select from the following menu options:

Holdings – transaction history, holding balance and value and latest closing share price.

Payment & Tax – dividend payment history, payment instructions and TFN details. You can update your bank details here.

Communication – become an e-Shareholder and update postal/email addresses and communication elections here.

Annual Report

Telstra's 2013 Annual Report is available to all shareholders on our Investor Website at www.telstra.com.au/annualreports.

To receive a hardcopy of the 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 preferences online to change the way you receive future copies of the Annual Report. Please refer to the Online Shareholder Services section for instructions on how to do this.

Sustainability Reporting

Selected graphs and data presented in this report are included in the Bigger Picture Telstra 2013 Sustainability Reporting Series, which is available online at www.telstra.com.au/sustainability/report. This series provides more detailed information and analysis for our stakeholders on Telstra's sustainability performance.

Global Reporting Initiative

We develop our sustainability reporting with reference to industry and sustainability standards including the United Nations Global Compact Communication on Progress, and the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines and Telecommunications Sector Supplement (pilot). This financial year we have applied the GRI framework to application level B+. The full GRI Index can be found online at www.telstra.com.au/sustainability/report.

All amounts are expressing Australian Dollars ($A) unless otherwise stated.

Telstra Corporation Limited ABN 33 051 775 556

CONTENTS

We have changed the format of our Annual Report this year to provide shareholders with key information (including who we are, our business strategies and goals, our governance structures and our results for the current financial year) in a way we hope shareholders will find more helpful and easy to use. The sections of our Annual Report Our Business, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review comprise our operating and financial review (OFR) and form part of the Directors' Report.

KEY HIGHLIGHTS

$25.5B	SALES REVENUE
$3.9B	NET PROFIT
$3.5B	IN DIVIDENDS
1.3M	NEW DOMESTIC RETAIL MOBILE CUSTOMERS
173K	NEW RETAIL FIXED BROADBAND CUSTOMERS
$1.2B	INVESTED IN THE WIRELESS NETWORK (EX SPECTRUM)
$0.8B	INVESTED IN SPECTRUM LICENCE RENEWALS
$1.3B	COMMITTED TO ACQUIRE NEW MOBILE SPECTRUM LICENCES
40%	ONLINE CUSTOMER TRANSACTIONS, UP 10 PERCENTAGE POINTS
79%	EMPLOYEE ENGAGEMENT SCORE, FOUR PERCENTAGE POINTS ABOVE THE AUSTRALIAN NATIONAL NORM
$231M	TOTAL VALUE OF SOCIAL AND COMMUNITY CONTRIBUTIONS
33%	REDUCED CARBON EMISSIONS INTENSITY

OUR BUSINESS

WHO WE ARE

EVERY DAY WE HELP MILLIONS OF CUSTOMERS CONNECT TO THE PEOPLE AND THINGS THAT MATTER MOST TO THEM

Telstra is Australia's leading telecommunications and information services company, offering a full range of communications services and competing in all telecommunications markets. In Australia we provide 15.1 million mobile services, 7.8 million fixed voice services and 2.8 million retail fixed broadband services. Telstra's international businesses include Hong Kong mobile operator CSL New World, Telstra Global's networks and managed services business and Telstra's China-based search and advertising businesses.

We understand our customers want technology and content solutions that are simple and easy to use – that's why we've built networks like Australia's largest fully integrated IP network and Australia's largest and most reliable national mobile network.

INDUSTRY CONTEXT

OUR INDUSTRY IS EXPERIENCING RAPID CHANGE

The way people communicate, share their lives and consume entertainment is changing.

The digitisation of information, entertainment, videos and photos means we are increasingly accessing content and services previously delivered over one network to one device, on multiple devices over a range of networks.

Technology has evolved. Devices and networks can adapt to their users' needs, rather than the other way around. Improvements in mobility and the growth of cloud computing mean users' content and services can seamlessly follow people wherever they go and customer expectations have changed accordingly.

OUR VISION

TO IMPROVE THE WAY PEOPLE LIVE AND WORK

We aim to help our customers change the way they live and work through improved and more convenient connection. The way people are connecting with each other, and with the content and services they use, is becoming more individualised and more sophisticated every day.

Our vision is to take advantage of this connectivity evolution by providing our customers the products and services they want, where and when they want them in a simple and convenient way.

MISSION

WE STRIVE TO SERVE OUR CUSTOMERS BETTER THAN ANYONE ELSE

Our mission is to build technology and content solutions that are simple and easy to use. We understand the connectivity evolution and we are working to stay ahead of the curve. We have to put the customer at the centre of everything that we do.

We are building a culture based on customer service, collaboration and innovation, and leading in the market. We are building this new company culture around the most powerful person in the new digital economy – the customer.

CHAIRMAN AND CEO MESSAGE

Dear Shareholders,

We are pleased to present you with this review of our operations for financial year 2013.

This year we made good progress on our journey to change our company and put the customer at the centre of everything we do.

We have been able to deliver the third consecutive year of significant customer growth as a result of our focus on improving customer service as well as continued investment in the network.

Our strategy around improving customer service as well as focusing on our growth businesses is working. We are pleased we have once again delivered on our commitments and met our guidance at the same time as continuing to simplify our business. We also confirmed a 14 cent fully franked dividend bringing the total dividend to 28 cents per share for financial year 2013, a return of $3.5 billion to shareholders.

KEY OUTCOMES

We delivered revenue and profit growth as well as adding 1.3 million new domestic retail mobile customers during financial year 2013. The reported financial results for the 12 months to 30 June 2013 are:

- Total income increased by 1.9 per cent or $477 million to $25,980 million;
- EBITDA increased by 3.9 per cent or $395 million to $10,629 million;
- Net profit after tax increased by 12.9 per cent or $441 million to $3,865 million;
- Earnings per share increased by 11.6 per cent to 30.7 cents, bringing the dividend payout ratio to 91 per cent;
- Capex to sales ratio of 14.9 per cent, with capital expenditure of $3,792 million; and
- Free cashflow decreased by 3.3 per cent or $173 million to $5,024 million.

We continued to lead in mobile growth with total domestic retail mobile customers increasing to 15.1 million and mobile revenue rising by six per cent to $9.2 billion.

We invested $1.2 billion in our mobile network during the year. This investment included expanding the reach of our 4G network, which now covers 66 per cent of the population and is on target to reach 85 per cent by the end of the year.

We also continued to build momentum in our Network Applications and Services (NAS) portfolio. NAS revenue increased by 17.7 per cent for the year and included the commencement of a $1.1 billion six year contract with the Department of Defence as well as international agreements with Jetstar and Fitness First.

IMPROVING CUSTOMER SATISFACTION

Telstra remains committed to improving customer service as our number one strategic priority.

Complaints to the Telecommunications Industry Ombudsman have fallen for a third consecutive year and we are focused on implementing key customer service initiatives.

Customers are telling us we are improving, but that we have a long way to go before more of them become advocates.

GROWTH IN CUSTOMER NUMBERS

Telstra's products and ongoing investment in the network continue to attract new customers. In addition to the 1.3 million domestic retail mobile customers added during the year, we added:

- 173,000 fixed retail broadband customers, to a total of 2.8 million;
- 238,000 bundled customers, to a total of 1.6 million; and
- 425,000 Hong Kong mobile customers, to a total of 3.9 million.

Telstra's 4G network build accelerated during the year, and since launch we have activated more than 2.8 million 4G devices.

PSTN customers decreased by 287,000 or 3.6 per cent to 7.8 million and PSTN revenue declined by 9.5 per cent.

SIMPLIFYING THE BUSINESS

Simplification initiatives delivered $1 billion of productivity benefits, which were reinvested into the business to support growth in our customer base, customer satisfaction initiatives and development of new growth businesses. Aided by cost control and productivity improvements, operating expense grew by only 0.5 per cent.

Productivity benefits were delivered by continued process improvement, including supply-chain efficiencies, improving online sales and service capability and effective credit management. Productivity benefits continue to flow from customers transacting online, with more than one million active users on the 24x7™ smartphone and tablet app.

We are continuing to make it easier and quicker for people to interact with us, with 40 per cent of our customers now doing business with us online.

BUILDING NEW GROWTH BUSINESSES

As stated above, the NAS portfolio continued to grow, with revenue increasing by 17.7 per cent to $1,487 million. Double digit growth was reported across all major NAS product categories.

International businesses grew revenue by 16.2 per cent or $243 million to $1,739 million. This portfolio comprises the Hong Kong mobile services (CSL New World) business, the Telstra global connectivity and NAS business and the China digital media businesses, which provide digital media services in automotive, IT and consumer electronics.

We continue to restructure the Sensis business as it transitions from print to digital. Australian media revenue, which includes Sensis, declined by 7.8 per cent. Sensis performed as projected, with digital media revenue growth of 11.3 per cent offset by a print revenue decline of 19.9 per cent resulting in an overall revenue fall of 11.4 per cent.

We have also established two new business units to focus on growth opportunities, e-Health and global applications.

NBN

Telstra continues to progress implementation of its National Broadband Network Agreements with NBN Co and the Commonwealth, and will continue to work constructively in the best interests of shareholders and seek to maximise the value of those agreements as the project progresses.

SUSTAINABILITY

We are pleased with the progress we have made on our sustainability agenda. Our aim in financial year 2013 was to build performance momentum in three key areas – employee involvement, digital inclusion and environmental leadership.

Our people contributed more than 4,200 employee volunteer days, a 200 per cent increase on the previous year. In December 2012, we launched the Telstra Alumni program – which had more than 8,600 members by the end of financial year 2013.

We developed a new operating model and strategy for the Telstra Foundation to align key community investments with core customer digital inclusion programs. Now squarely focussed on Everyone Connected, the Foundation announced two flagship multi-year partnerships-with the Alannah and Madeline Foundation and the National Centre of Indigenous Excellence to help more Australians enjoy the benefits of being connected to new communication technologies. The value of the partnerships is $13 million over six years.

We completed significant research to inform a more proactive and strategic approach to the environment. In the coming year, we will focus our efforts on three key areas – improving the energy efficiency of our operations, reducing environmental impact in our supply chain and developing greener products and services.

We place the highest priority on the safety of our employees and the wider community. We were very disappointed there were issues with our asbestos management activities. As a result, we stopped pit remediation work and conducted a review of our contractor management which identified a number of areas where improvements could be made. We recently announced remediation works will recommence with additional safeguards in place. This includes requiring relevant employees and contractors involved in this work to undergo additional training in the safe handling and removal of asbestos and the requirement for contractors to hold appropriate licences.

Sustainability remains a key focus for the Board and management at Telstra.

FINANCIAL OUTLOOK

Telstra expects growth to continue in financial year 2014 and forecasts low single digit total income and EBITDA growth, with free cashflow between $4.6 billion and $5.1 billion. Telstra expects capital expenditure to be around 15 per cent of sales as it continues to build out its 4G mobile network.

This guidance assumes wholesale product price stability, no impairments to investments, and excludes any proceeds on the sale of businesses, the cost of acquisitions and spectrum purchases.

As stated above, Telstra has confirmed a fully franked dividend of 14 cents per share bringing total dividends per share for financial year 2013 to 28 cents per share. In financial year 2014, as previously announced, the company will return to its previous practice of considering dividends on a half yearly basis, as part of the regular Board process.

Additional information can be found in Future outlook on page 10.

C B Livingstone

Catherine B Livingstone AO
Chairman

David I Thodey

David I Thodey
Chief Executive Officer

STRATEGY AND PERFORMANCE
IMPROVING CUSTOMER SATISFACTION

OUR STRATEGIC PRIORITIES

Improving Customer Satisfaction

WE ARE LISTENING TO OUR CUSTOMERS AND PUTTING THEM AT THE CENTRE OF EVERYTHING WE DO

Improving customer satisfaction is core to our strategy. Our aim is to change the way our customers talk about Telstra by building a culture of customer advocacy across Telstra. This is both a cultural and commercial imperative as we know that advocates buy more of our services, cost less to serve, and are more likely to recommend Telstra to family and friends. We have been working hard over the last 12 months and we are seeing results.

CUSTOMER ADVOCACY

Turning customers into advocates is underpinned by a significant cultural change within our company. More than 7,500 of our people leaders have been given the tools, training and skills needed to create a culture of customer advocacy in all areas of our business.

We now ask our customers for their feedback after every interaction with Telstra, which provides us with rich information on the quality of their Telstra experience. We are then able to use these insights to improve our level of service and to challenge our business processes. To date, more than 10 million customer surveys have been completed, and we are starting to see improvement in customer advocacy.

CUSTOMER SERVICE INITIATIVES

We've made further progress in keeping our customers informed about their mobile usage by increasing the number of usage alerts we send them. These alerts help our customers better manage their mobile spend and avoid 'bill shock' – a major cause of mobile related complaints.

Many of our customers have expressed concern when they return from an overseas trip to find a larger than expected mobile telephone bill. As a result, we now inform our customers by SMS of every 20 megabytes of data used when travelling overseas so they can manage their data usage and avoid bill shock when they return home.

Telstra customers are also able to access 4G mobile services while travelling in Hong Kong with the launch of 4G international roaming between Telstra and CSL New World, and we are working on similar agreements with operators in other countries with compatible 4G wireless broadband networks.

NETWORK INVESTMENTS

Our customers value Telstra's superior mobile network and we invested $1.2 billion this financial year to maintain our mobile network advantage. Telstra's networks are supported by ongoing innovation and investment and, as a result of our investments, high speed 4G services on the Telstra network are now available to 66 per cent of the population. We recently announced a further network expansion to make 4G coverage available to 85 per cent of the population by the end of calendar year 2013.

We have also broadened the scope of our 4G network by adding a second wireless frequency, 900MHz, to better cater for increasing mobile use in regional areas. The lower frequency improves signal range and depth, making it ideal for use in areas where improved range or signal reliability is required.

An important decision for the company this year was to commit $1.3 billion to acquire mobile spectrum licences in the 700MHz and 2.5GHz bands. The 2.5GHz spectrum will become available from 1 October 2014 and the 700MHz spectrum on 1 January 2015, and be paid for in September 2014. This represents a major investment in the future of telecommunications in Australia and means we can continue to deliver a superior mobile experience for our customers. The spectrum will be used to support the extraordinary growth in demand for mobile content and data.

Our ADSL fixed broadband network is now available to over 9 million households and businesses and approximately 92 per cent of the population. We recently completed an upgrade of over 1,800 sites providing ADSL 2+ broadband coverage to another 400,000 premises.

'THANKS' ™

Telstra launched the 'Thanks' loyalty program during the year to thank our customers for choosing Telstra, and reward our people for being a part of Telstra. Our aim is to deliver an exciting loyalty program which focuses on offering things that are valued highly by our customers and employees. The nation-wide program shows our customers we appreciate them and our employees that their work is valued and respected.

Research told us customers love going to the movies, and enjoy attending live music and sporting events. Our loyalty program is designed to offer those experiences in a new and exciting way. 'Thanks' offers customers and employees a range of money can't buy experiences, such as red carpet premieres and behind the scenes access to great events. Exclusive access to music concerts and sporting events are also included in the program. These opportunities will be another way Telstra can say 'Thanks'.

STRATEGY AND PERFORMANCE

RETAINING AND GROWING CUSTOMER NUMBERS

OUR STRATEGIC PRIORITIES

Retaining and Growing Customer Numbers

WE WANT TO BE THE TELECOMMUNICATIONS PROVIDER OF CHOICE

We have continued to see good momentum in the business as our customers respond positively to the initiatives we have put in place over the past year, including new competitive mobile and fixed bundle plans.

MOBILES

Our mobiles business continues to provide growth for the company with 1.3 million domestic retail mobile customers added in the past year. Since refreshing our mobile plans in 2010, we have added over 4.5 million mobile customers in Australia. Our leadership in mobiles is based on the breadth and quality of our network coverage. We have Australia's largest and most reliable mobile network, covering more than 99.3 per cent of the population, 2.3 million square kilometres of landmass and more than 1 million square kilometres out to sea.

Growth on our 4G network continues and since launch in September 2011, we have sold 2.8 million 4G devices. This includes 1.9 million handsets, 200,000 tablets, 400,000 dongles and 300,000 Wi-Fi hotspots. We continue to expand our device range and we now offer 27 4G devices. This includes a 4G dongle and Wi-Fi device, Australia's first 4G device combining a USB dongle and Wi-Fi hotspot technology, providing an ultra-fast internet connection that up to five Wi-Fi enabled devices can share simultaneously.

We continue to refresh our mobile offerings and during the year we announced our new No Lock In plans that come with great value inclusions and do not require a long-term contract or commitment. Customer benefits include better budget control, the option of using existing mobile phones and not having to purchase a new one, and the freedom that comes from not being tied to a long term contract.

In the wholesale space we launched a 3G prepaid mobile offering allowing our customers to market and custom brand their own prepaid mobile and wireless broadband offerings using Telstra's 3G service across parts of our mobile network.

FIXED

We regularly ask our customers what new features and options they would most value on their fixed plans. Our customers told us that included entertainment and mobility were important, so this year we introduced a new range of Entertainer bundles. In addition to high speed broadband, unlimited local and STD calls, and mobile phone benefits, a selection of the new bundles now include 11 popular Foxtel on T-Box® channels and 500 megabytes of mobile broadband data. We grew the number of our fixed broadband customers taking a bundle by 238,000 this year to 1.6 million, or 59 per cent of our fixed broadband base.

Across our Telstra Business and Enterprise and Government segments, we have increased cloud customer numbers by 68 per cent. These customers are benefitting from Telstra's world-class Next IP™ network which provides superior reach, speed and coverage. Network performance is monitored and maintained from dedicated centres by an Australia-wide team of technicians, allowing our customers to place greater reliance on network applications and do business in more places.

RETAIL PRODUCT CUSTOMER GROWTH IN FY13

MOBILES DOMESTIC	↑ 9%
FIXED BROADBAND	↑ 7%
HK MOBILES (CSL)	↑ 12%
CLOUD	↑ 68%

STRATEGY AND PERFORMANCE
SIMPLIFYING THE BUSINESS

OUR STRATEGIC PRIORITIES

Simplifying the Business

THE SIMPLIFICATION OF OUR BUSINESS CONTINUES TO DELIVER BENEFITS FOR OUR CUSTOMERS, EMPLOYEES AND SHAREHOLDERS

Simplifying the business remains a critical part of our strategy. This year simplification initiatives delivered $1 billion of productivity benefits. These productivity benefits are reinvested into the business to support growth in our customer base, customer service initiatives and the development of new growth businesses.

We have introduced a range of initiatives and improved feedback channels between our frontline staff and senior management during the year that helped us improve processes, reduce complexity and improve customer service.

We broadened the skill sets of our contact centre consultants enabling them to handle calls in more situations without having to transfer to a technical expert. Over 3,000 agents have been upskilled, resulting in more effective and efficient customer interactions.

We simplified billing by applying new rates for the full billing period when customers change plans. Previously, we split the bill between old and new plans, which was hard for our customers to understand. We believe this change will result in fewer calls to contact centres, fewer complaints to the Telecommunications Industry Ombudsman and importantly a better customer experience.

We introduced a 14 Day Customer Card which allows our customers to contact the same technician who visited their premises, should they need to. More than 100,000 cards were provided to our customers during the year. Our technicians' performance is no longer only judged on how well they fixed a fault but also on how satisfied the customer was with their visit.

We are also seeing productivity benefits as more customers transact with us on-line. We now have more than one million active users on our 24x7™ app which is available on the Apple iPhone^, Android^, Apple iPad^ and on Facebook. The 24x7™ app enables our customers to monitor their call and data usage, top up their prepaid account and view their bills. In upcoming releases of the 24x7™ app we are planning to release additional functionality allowing customers to purchase new services from us. We will start with simple add-ons such as data packs, and progress to more complex transactions. Since launch in April 2012, over 2.5 million customers have downloaded the app. We are putting the information our customers want, and the opportunity to contact us more readily, at their fingertips.

$1 BILLION OF PRODUCTIVITY BENEFITS RE-INVESTED INTO THE BUSINESS

STRATEGY AND PERFORMANCE

DEVELOPING NEW GROWTH BUSINESSES

OUR STRATEGIC PRIORITIES

Developing New Growth Businesses

DEVELOPING NEW BUSINESSES IS IMPORTANT TO OUR LONG-TERM GROWTH

In addition to driving growth in our core business, we must also develop new businesses to ensure long term growth. Our current strategy includes three key growth opportunities - Network Applications and Services (NAS), International and Media. We also have a corporate venture capital group, Telstra Ventures that invests in high growth technology companies that are strategically important to Telstra.

Telstra has also established two new business units to focus on growth opportunities in e-Health and global applications.

NETWORK APPLICATIONS AND SERVICES

NAS is a strategic growth opportunity for Telstra domestically and internationally with our products and services underpinned by our core Next IP® network. We continue to see strong growth as we invest in this important part of our business. In April 2013 we signed a six year, $1.1 billion contract with the Department of Defence for the provision of services including unified communications, video conferencing as well as tablet and smartphone usage. The agreement is the largest customer contract in Telstra's history and will support military operations at home and abroad. 350 new positions will be created to help serve the contract, including recruiting some of the nation's leading IT, network and security experts.

INTERNATIONAL

Growth into Asia is another of our key strategic ambitions. Our international business encompasses three lines of business – CSL New World, Telstra China and Telstra Global. CSL New World is one of Hong Kong's leading mobile operators, which continues to increase market share in an intensely competitive market. Our Chinese businesses provide digital media services in the IT, consumer electronics and automotive segments in which our Autohome business has delivered significant growth during the year. Telstra Global provides managed network services, international data and voice, and satellite and also manages our submarine cable networks and assets. During the year we signed a business communications contract with Jetstar and the deal is Telstra's largest global contract to date. We continue to expand our capabilities in Asia including the opening of our Singapore data centre. We have also continued to grow outside the Asia region.

MEDIA

We had a successful re-launch of our AFL and NRL mobile apps ahead of the 2013 seasons for both sports. These apps enable our customers to view the games live on a smartphone or tablet. These have been very successful in the market and to date we have had over 1.5 million AFL app downloads and 800,000 NRL app downloads. The apps are available to customers across all mobile providers.

Telstra's media assets also include our 50 per cent stake in the Foxtel business. The key focus for Foxtel continues to be the growth of its customer base which grew by 3.4 per cent to 2.5 million.

The Sensis directories business continues to be challenged by the increased competition from online and mobile search directories and migration from traditional print products. We completed the acquisition of online directory business TrueLocal during the year. A core part of Sensis' digital strategy is to seek investment opportunities that accelerate digital growth, and add value for our customers. TrueLocal is a business that meets those criteria with thousands of information rich business listings and more than 200,000 user reviews that generate millions of searches each month. This acquisition presents additional growth opportunities for our customers because their content can now be found by an even greater number of consumers.

TELSTRA VENTURES

Telstra Ventures' investment strategy focuses on high growth opportunities that offer technology and solutions which leverage Telstra's assets and enable Telstra to offer new products and services to its customers. Based in Australia and Silicon Valley, Telstra Ventures works closely with quality entrepreneurs to build significant companies. Since it was established in 2011, Telstra Ventures has invested in eight companies, and during financial year 2013 acquired stakes in Kony Solutions Inc, HealthEngine, Whispir and IP Health.

STRATEGY AND PERFORMANCE

FUTURE OUTLOOK

Our strategy will continue to evolve as we work hard to improve customer service and simplify and grow the business.

While we are starting to see promising results from our focus on improving customer satisfaction, there is a great deal more to be done. In the year ahead, we will continue to focus on our journey towards building a culture of customer advocacy, implement further customer service initiatives and continue to invest in our networks to deliver a differentiated and quality customer service experience for all of our customers.

We will continue to use our network leadership, product innovation and capabilities to retain and grow our customer base. Our device range will expand and in the coming months we will be launching shared data plans which will enable our customers to pool wireless data allowances across multiple devices on a single bill.

As the NBN rolls out to more communities around Australia, we will be focused on bringing customers the benefits of Telstra services on the NBN. Having local teams working in communities across Australia is a competitive advantage and where we do not have a local presence, we have introduced mobile stores on wheels to help inform and connect our customers.

We will continue to simplify the business to reduce our cost base. This will involve further process and systems improvements, empowering our people to make positive change across the business. We will continue to invest in our online service capabilities to provide customers with a simple and intuitive way to do business with us online.

Like other strong Australian companies we have aspirations to grow into the Asia region. For Telstra this means leveraging our core network capabilities in Asia and building our NAS business in the region. We also need to do this as we support the growth of our enterprise customers in the region and will base additional resources and employees in the region.

While we have a number of important assets in our media portfolio, we are facing challenges at Sensis. Sensis is a changing business and is challenged by the transition from its previous print based business model to the new digital model. It is a completely new business model that requires greater agility and efficiency to compete. As the business continues to change, we will continue to review all aspects of its operations, to make sure we have the right resources in the right areas, so we can meet our customers' needs.

Additional information on our future outlook can be found in the Chairman and CEO Message on page 4.

STRATEGY AND PERFORMANCE

MANAGING OUR RISKS

Identifying and managing risks which may affect the success of our strategy and financial prospects for future years is an essential part of our governance framework. In addition to the risks discussed earlier in our OFR, a summary of our key strategic risks and our approach to managing them is outlined below.

SUMMARY OF STRATEGIC RISKS

Changes to industry structure and competition

Changes to our industry structure and competitive landscape, including the introduction of the NBN, see us operating in an increasingly competitive environment. This competition comes from existing competitors as well as new competitors with lower cost bases, and agile, innovative business models. If we don't adapt to changes in the industry and competitive landscape we may lose market share and revenue. Our strategy to deal with our changing industry and competitive landscape is to retain and grow our customer base through driving customer advocacy, and identifying and executing new growth strategies. We also need to be innovative to keep ahead of our competitors and be able to respond to customer expectations by delivering new and superior services, applications and products to our customers. To address this we are working to develop and deliver new and innovative technologies and products to meet changing consumer needs; and improving our service offerings to align with customer expectations about pricing, scalability, privacy, security, performance and support.

Adapting our operating model

We recognise that we need to adapt our operating model to align with structural changes in the market place and reduce our cost base in order to remain competitive. To meet this challenge we are implementing a number of process improvement initiatives to simplify our internal structure, processes and systems. Information in relation to the challenges we are facing with respect to Sensis' changing business model can be found in the Future outlook on page 10. We also need to ensure we have effective processes to attract talent and further develop the capabilities that we believe will be important to our future performance, so that we are able to maintain momentum and execute on our plans, and adapt to the changing nature of our industry and our business.

Business disruption

Our ability to compete, sustain business operations and deliver customer service may be impeded by a significant business disruption. This can occur due to adverse weather events, a critical process failure, or disruption in our supplier base or supply chain, and may result in a loss of revenue, customer dissatisfaction, compensation claims and failure to meet regulatory obligations. To manage these risks we monitor network performance, execute our business continuity programs, and coordinate incident response when incidents occur. We also have programs in place to manage surety of supply including risk assessments of critical suppliers, and proactively manage vendors to protect our supply chain.

Regulation

We operate in highly regulated industries and changes in government policy and regulation can result in increases to the scope of our obligations and compliance costs. Decisions on the prices of regulated services can also affect the prices we charge our customers and result in a loss of revenue. To manage this risk, we continue to proactively engage and maintain constructive relationships with the government, regulators, interest groups and industry to seek appropriately balanced policy outcomes. Additional information in relation to NBN and a potential change in government policy can be found in the Chairman and CEO Message on page 4.

OUR RISK MANAGEMENT APPROACH

Our risk management approach facilitates the ongoing assessment, monitoring and reporting of risks which can impede our progress in delivering our strategic priorities. This year, we refined and clarified our approach to managing risks through our 'Three Lines of Defence' model, which facilitates clear separation of accountabilities between:

First line:
'Front-line' management and staff in business operations – who are responsible for the day to day management of risks.

Second line:
The Chief Risk Office (managed by the Chief Risk Officer) – who provide the 'front-line' with frameworks, policies, methodologies, tools and assistance to embed risk management in the business.

Third line:
Group Internal Audit – who provide independent and objective assurance on the effectiveness of our governance, risk management and internal control processes.

A critical component of our 'second line' of defence is our risk management framework which aligns with ISO 31000 Risk Management – Principles and Guidelines, the global standard for risk management. The framework is also supported by our Telstra Group Code of Conduct and Business Principles, and our risk management policy. The policy sets out our objectives, principles and accountabilities for risk management at all levels of our business. It also provides a definition of material business risks which we define as any type of risk that could have a material impact on the Telstra Group. Material business risks are regularly reported to the Board along with their controls and treatments.

We remain committed to continuous improvement in our approach to managing risks and ensuring that we maintain a strong, integrated risk and compliance culture.

FULL YEAR RESULTS AND OPERATIONS REVIEW

SUMMARY FINANCIAL RESULTS

	FY13 $m	FY12 $m	Change %
Sales revenue	25,502	25,232	1.1
Total income	25,980	25,503	1.9
Operating expenses	15,350	15,269	0.5
EBITDA	10,629	10,234	3.9
Depreciation and amortisation	4,238	4,412	(3.9)
EBIT	6,391	5,822	9.8
Net finance costs	909	888	2.4
Tax	1,617	1,510	7.1
Net profit after tax	3,865	3,424	12.9
Attributable net profit	3,813	3,405	12.0
Accrued capex[1]	3,792	3,591	5.6
Free cashflow	5,024	5,197	(3.3)
Earnings per share (cents)	30.7	27.5	11.6
Dividend payout ratio (%)	91	102	n/m

(1) Accrued capital expenditure is defined as additions to property, equipment and intangible assets, including capital lease additions, measured on an accrued basis.

RESULTS ON A GUIDANCE BASIS*

	FY13	FY13 guidance
Total income	3.3%	Low single digit growth
EBITDA	4.8%	Low single digit growth
Capex/sales	14.9%	Around 15%
Free cashflow	$5.2 billion	$4.75-$5.25 billion
Dividend	28c fully franked	28c fully franked

GUIDANCE VERSUS REPORTED RESULTS*

	FY13 Reported results $m	FY13 Adjustments $m	FY13 Guidance basis $m	FY12 Guidance basis $m
Total income	25,980	(164)	25,816	25,001
EBITDA	10,629	127	10,756	10,264
Free cashflow	5,024	152	5,176	n/m

*Adjusted for TelstraClear trading results and sale and spectrum payments.

Please refer to the guidance versus reported results reconciliation on page 203. This reconciliation forms part of the Full Year Results and Operations Review, and has been reviewed by our auditors.

REPORTED RESULTS

In financial year 2013 sales revenue increased by 1.1 per cent or $270 million to $25,502 million and total income increased by 1.9 per cent or $477 million to $25,980 million.

Operating expenses (before depreciation and amortisation) increased by 0.5 per cent or $81 million to $15,350 million.

Labour expenses decreased by 3.3 per cent to $4,803 million driven by lower labour substitution and other labour expenses. Excluding TelstraClear from both periods, labour expenses declined by 2.0 per cent.

With our growing customer base and increased handset sales, directly variable costs (DVCs) or goods and services purchased increased by 3.4 per cent to $6,389 million. Network payments expense continued to decline.

Other expenses increased by 0.8 per cent to $4,158 million driven by an increase in service contract expense to support operational initiatives, and the loss recognised on the sale of TelstraClear. This was offset by an overall decrease in impairment expenses.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 3.9 per cent to $10,629 million. EBITDA margins increased by 1.1 percentage points to 41.7 per cent. Earnings before interest and tax (EBIT) increased by 9.8 per cent to $6,391 million.

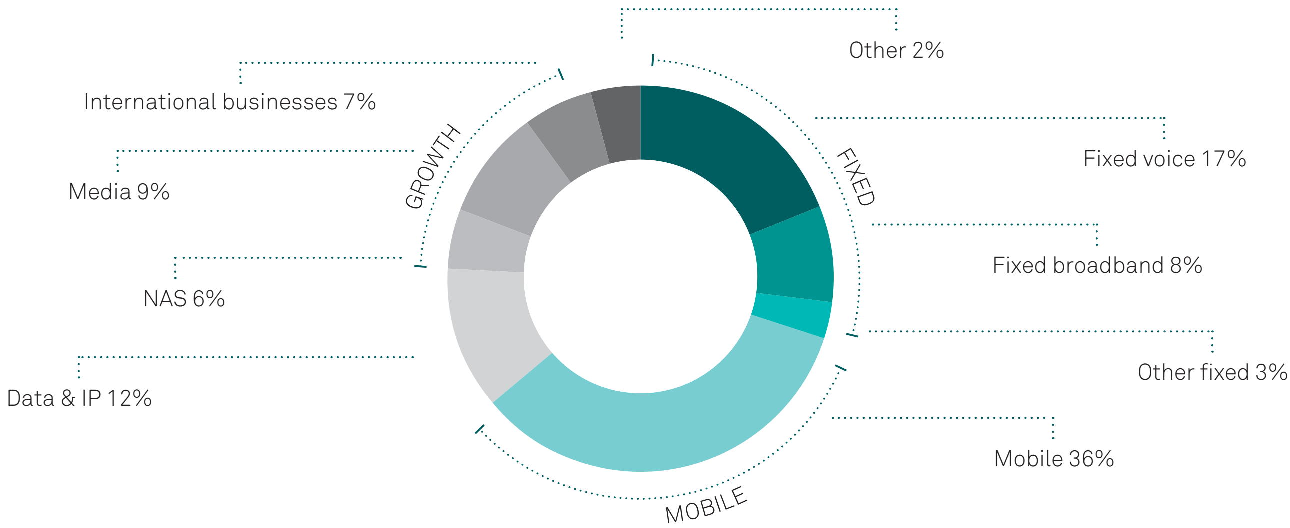
Net finance costs increased by 2.4 per cent to $909 million as a result of revaluation impacts offset to a large extent by net borrowing costs decreasing from lower market interest rates.

Reported profit after tax increased by 12.9 per cent to $3,865 million. Basic earnings per share (EPS) increased by 11.6 per cent from 27.5 cents to 30.7 cents.

Free cashflow of $5,024 million was generated in the year. Accrued capital expenditure was $3,792 million or 14.9 per cent of sales.

On 8 August 2013, the Directors of Telstra resolved to pay a fully franked final dividend of 14 cents per share bringing the total dividend to 28 cents per share for the 2013 financial year. Shares will trade excluding entitlement to the dividend on 19 August 2013 with payment on 20 September 2013.

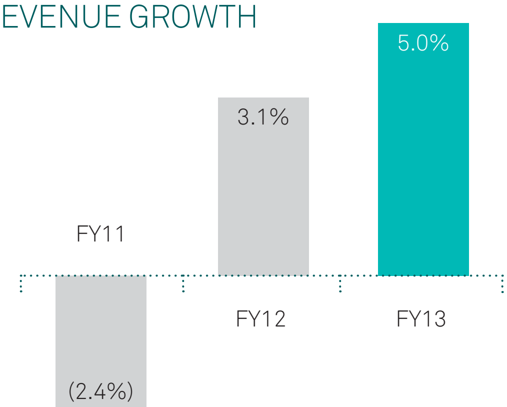
PRODUCT SALES REVENUE BREAKDOWN



KEY PRODUCT REVENUE

	FY13 $m	FY12 $m	Change %
Fixed	**7,303**	7,508	**(2.7)**
Mobile	**9,200**	8,680	**6.0**
Data & IP	**3,041**	3,108	**(2.2)**
NAS	**1,487**	1,263	**17.7**
International businesses	**1,739**	1,496	**16.2**
Media	**2,191**	2,377	**(7.8)**

TOTAL FIXED BROADBAND REVENUE GROWTH



PRODUCT PERFORMANCE

Fixed

Telstra's fixed portfolio comprises fixed voice (PSTN and NBN voice), fixed broadband and other fixed revenue which primarily includes intercarrier services, payphones, customer premises equipment and infrastructure access revenue from the NBN agreements. Our key priorities in the fixed portfolio are to grow our fixed broadband business, manage the decline in our PSTN business and successfully transition customers to the NBN.

There was a continuation of trends in our PSTN and fixed broadband business this financial year. PSTN revenue fell by 9.5 per cent to $4,358 million, however we saw strong growth in retail fixed broadband with revenue increasing by 9.3 per cent to $1,757 million, the strongest growth in four years. Total fixed broadband revenue increased by 5.0 per cent to $2,087 million. The growth in fixed broadband and $71 million of infrastructure access revenue from the NBN agreements slowed the rate of decline in the fixed revenue portfolio, which declined by 2.7 per cent to $7,303 million.

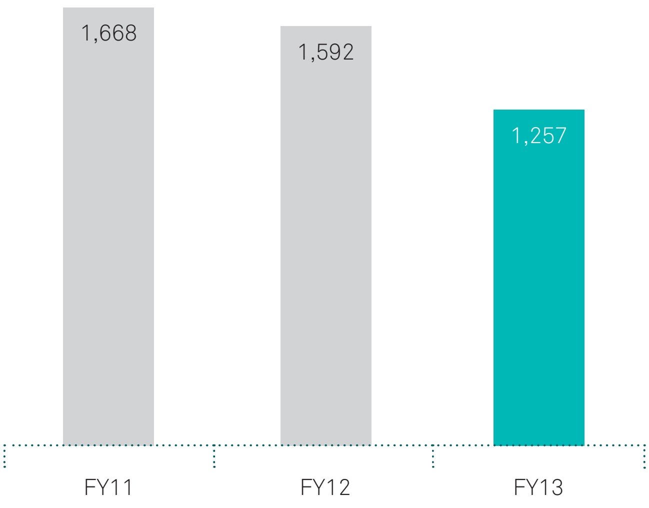
Our PSTN business continued to decline with the loss of 287,000 customers. Retail customer numbers declined by 346,000 and wholesale services increased by 59,000. There are now 7.8 million PSTN customers.

Retail fixed broadband growth in customer numbers remained strong with 173,000 customers added during the year. Customer base growth has been driven by our range of competitive bundled offers. There are now 1.6 million bundled customers compared to 1.4 million customers at the end of FY12. In addition to this growth, retail fixed broadband average revenue per user (ARPU) increased by 1.6 per cent to $54.52.

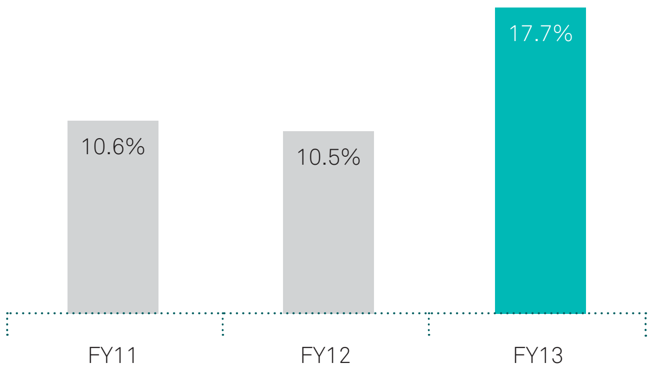
PSTN EBITDA margins increased to 63 per cent while fixed broadband increased by four percentage points to 42 per cent compared to financial year 2012.

FULL YEAR RESULTS AND OPERATIONS REVIEW

RETAIL MOBILE CUSTOMER ADDS ('000s)



NAS REVENUE GROWTH



Mobile
Mobile revenue grew by 6.0 per cent or $520 million to $9,200 million with 1.3 million domestic retail mobile customers added during the year, taking our total mobile customer base to 15.1 million. Customers are using more data on our wireless network; their experience being enhanced by our continued investments in the network, product development and customer service.

To continue to provide our customers with a superior network experience we invested $1.2 billion in our mobile network during the year. This investment included broadening the reach of our 4G network which now covers 66 per cent of the population. As a result of our extended coverage and device range, to date we have sold 2.8 million 4G devices with 27 per cent of our postpaid handheld customers now on 4G.

Postpaid handheld revenue growth accelerated in the second half, growing by 5.4 per cent compared to 0.3 per cent growth in the first half. For the full year, postpaid handheld revenue grew by 2.8 per cent to $4,804 million with the addition of 423,000 customers. Excluding the impact of Mobile Repayment Options (MRO), ARPU increased by 2.7 per cent in the second half to $65.39. For the full year, ARPU excluding MRO was down 0.1 per cent to $65.33.

Growth was also strong in the mobile broadband category with the addition of 452,000 customers. Revenue grew by 17.5 per cent or $178 million to $1,196 million. Much of this growth was driven by the popularity of tablets. As the ARPU on tablet devices is lower, mobile broadband ARPU declined by 4.7 per cent to $29.80. We have now sold 900,000 tablet devices including over 200,000 4G enabled tablet devices.

Prepaid handheld revenue grew by 11.2 per cent to $727 million driven by the ongoing popularity of our Prepaid Cap Encore plans, which contributed approximately 66 per cent of prepaid activations during the year. This led to an increase in prepaid handheld ARPU of 6.3 per cent to $17.94. Prepaid unique handheld users also increased by 8.3 per cent to 2.2 million.

The popularity of smartphones and tablets contributed to mobile hardware revenue growth of 11.9 per cent to $1,497 million while mobiles interconnection revenue decreased marginally by $1 million to $768 million.

Churn continues to be well managed. The annualised postpaid handheld deactivation rate improved by 1.4 percentage points to 10.8 per cent.

Effective cost management and increased operating scale has improved the profitability of the mobile portfolio. EBITDA margins increased by 2 percentage points to 38 per cent.

Data and IP
Data and IP revenue declined by 2.2 per cent or $67 million to $3,041 million. IP Access revenue grew by 5.9 per cent to $1,118 million, however this was not enough to offset the decline in legacy data products. Customer growth was strong with IP MAN services increasing by 3,588 to 30,597. Data and IP EBITDA margins were 65 per cent, up 1 percentage point from the prior year.

Network Applications and Services (NAS)
There was continued double digit growth across all major NAS product categories as we start to see the revenue benefits of long-term contracts won in the previous year. The NAS portfolio grew revenue by 17.7 per cent to $1,487 million. Revenue growth in our unified communications portfolio was also 17.7 per cent. Unified communications is an integrated hardware and software offering that combines enterprise communications onto a single platform. Revenue from cloud services, which includes providing storage and computing capacity and software as a service to our customers, grew by 33.0 per cent during the year.

PRODUCT PROFITABILITY
EBITDA MARGINS*

	FY13	FY12	H2 13	H1 13	H2 12
Mobile	**38%**	36%	**39%**	37%	38%
Fixed broadband	**42%**	38%	**43%**	41%	40%
PSTN	**63%**	60%	**63%**	62%	60%
Data & IP	**65%**	64%	**65%**	65%	65%
Sensis	**44%**	50%	**55%**	23%	61%
Telstra Group	**42%**	41%	**44%**	40%	43%

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

International Businesses
Our International businesses grew revenue by 16.2 per cent or $243 million to $1,739 million. This portfolio comprises the Hong Kong mobile services (CSL New World) business, the Telstra Global business and our China digital media businesses providing services in automotive, IT and consumer electronics.

CSL New World revenue grew by 17.6 per cent to $1,011 million with 425,000 new customers added during the year. In Hong Kong dollar terms CSL New World revenue grew by 16.9 per cent to HK$8,052 million and EBITDA grew by 14.9 per cent to HK$2,057 million. Global Connectivity and NAS revenue grew by 11.4 per cent to $566 million, and in our China portfolio, revenue from Autohome increased by 73.8 per cent. Autohome has established a strong digital marketing position in the Chinese automotive market, which is growing rapidly.

Media
Media product portfolio revenue declined by 7.8 per cent or $186 million to $2,191 million. This portfolio includes our domestic media services and the Sensis domestic directories business.

Total revenue for Sensis and advertising declined by 11.7 per cent to $1,336 million as traditional print customers continue to migrate to digital offerings.

Sensis' digital portfolio growth continued to accelerate year on year with revenue increasing by 11.3 per cent to $415 million (prior year growth was 4.5 per cent). Print revenue declined by 19.9 per cent to $778 million comprising a decline of 11.4 per cent in White Pages® and 25.6 per cent in Yellow Pages® print revenue.

TV revenue, which includes Premium Pay TV and IPTV, remained stable at $666 million. The decline in the number of customers on the premium service was offset by growth in IPTV, namely T-Box® sales and Foxtel on T-Box® offerings. Cable revenue, which represents income from the supply of HFC cable services to Foxtel, increased by 1.7 per cent to $120 million due to higher advertising revenue under the revenue sharing agreement with Foxtel.

FULL YEAR RESULTS AND OPERATIONS REVIEW

SEGMENT INCOME

Total external income

	FY13 $m	FY12 $m	Change %
Telstra Consumer	**10,656**	10,313	3.3
Telstra Business	**4,714**	4,665	1.1
Telstra Enterprise and Government	**4,346**	4,289	1.3
Telstra Wholesale	**2,115**	2,091	1.1
Telstra Operations	**156**	74	110.8
Telstra Media Group (i)	**1,615**	1,741	(7.2)
Telstra International Group (i)	**1,883**	1,667	13.0
Other	**495**	663	(25.3)
Total Telstra segments	**25,980**	25,503	1.9

(i) Telstra International Group and Telstra Media Group do not align to the revenue statement for International businesses and Media due to differences in our internal management reporting which eliminates certain items in the Other segment.

SEGMENT EBITDA CONTRIBUTION

	FY13 $m	FY12 $m	Change %
Telstra Consumer	**5,577**	5,444	2.4
Telstra Business	**3,631**	3,566	1.8
Telstra Enterprise and Government	**3,400**	3,433	(1.0)
Telstra Wholesale	**1,942**	1,933	0.5
Telstra Operations	**(3,711)**	(3,744)	0.9
Telstra Media Group	**683**	806	(15.3)
Telstra International Group	**385**	280	37.5
Other	**(1,278)**	(1,484)	13.9
Total Telstra segments	**10,629**	10,234	3.9

SEGMENT PERFORMANCE

We report our segment information on the same basis as our internal management reporting structure at reporting date. Commentary on the performance of our business segments follows.

Telstra Consumer

Telstra Consumer income grew by 3.3 per cent to $10,656 million and EBITDA increased by 2.4 per cent to $5,577 million. Fixed broadband revenue continued to grow at double digit rates, increasing by 10.4 per cent to $1,441 million. The popularity of our bundled plans contributed to this growth. In mobiles, refreshed postpaid offers and an expanded 4G handset and tablet range contributed to an increase in mobile revenue of 9.4 per cent to $5,763 million. 353,000 postpaid mobile handheld customers were added during the year.

Telstra Business

Telstra Business returned to growth for the full year with income increasing by 1.1 per cent to $4,714 million. This included income growth of 2.5 per cent in the second half. Trends in the fixed line business continued with revenue declining by 5.5 per cent to $1,444 million however there was strong double-digit growth in NAS and IP access and data. NAS revenue grew by 26.4 per cent to $278 million and IP access and data revenue grew by 13.2 per cent to $219 million. Mobile services revenue (including interconnection) grew by 2.4 per cent to $2,213 million with 59,000 postpaid mobile handheld customers added in the year. Fixed broadband revenue increased by 7.9 per cent to $326 million with very solid customer growth of 40,000. EBITDA increased by 1.8 per cent to $3,631 million.

Telstra Enterprise and Government

Telstra Enterprise and Government income grew by 1.3 per cent to $4,346 million. IP access and data revenue grew by 1.5 per cent to $1,136 million. NAS revenue grew by 14.7 per cent to $1,169 million as we start to see the revenue benefits of long-term contracts won in the previous year. Mobile services revenue (including interconnection) declined by 1.5 per cent to $973 million driven by ARPU declines outweighing customer growth. EBITDA decreased by 1.0 per cent to $3,400 million due primarily to product mix changes including growth from lower margin NAS business.

Telstra Wholesale

Income generated from our Wholesale business increased by 1.1 per cent to $2,115 million, the first year on year increase in seven years. This was largely driven by NBN Infrastructure revenue which was offset in part by the impact of lower fixed usage and mobile roaming. Continued carrier migration from Line Spectrum Sharing (LSS) to ULL services resulted in LSS services declining by 65,000 while ULL services grew by 162,000. External expenses increased by 8.9 per cent resulting in an EBITDA increase of 0.5 per cent to $1,942 million. The increase in expenses was largely due to doubtful debt provision, customer compensation costs relating to the Warrnambool exchange fire and higher service contract costs.

Telstra Operations

Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of our other segments. The EBITDA contribution improved 0.9 per cent on the prior year with significant reductions in labour expense partially offset by higher accommodation costs (particularly light and power). This result was achieved after increased investment in our strategic growth area of NAS.

Telstra Media Group

The Telstra Media Group (TMG) includes the Sensis domestic directories business of Yellow Pages® and White Pages® print and digital, Whereis® location and navigation services and TrueLocal; the Foxtel reseller products including premium Pay TV, Foxtel on T-Box® and Foxtel on Mobile; the supply of HFC cable services to Foxtel; and Digital Content Services including AFL, NRL, and the MOG music service.

The decline in EBITDA of 15.3 per cent was largely due to the decline in Sensis EBITDA. Further commentary on the performance of products in the TMG is provided in the Media products section on page 15.

OPERATING EXPENSES

	FY13 $m	FY12 $m	Change %
Labour	**4,803**	4,967	**(3.3)**
Goods and services purchased	**6,389**	6,179	**3.4**
Other expenses	**4,158**	4,123	**0.8**
Total operating expenses	**15,350**	15,269	**0.5**

Telstra International Group

Telstra International Group (TIG) segment income grew by 13.0 per cent to $1,883 million and EBITDA contribution grew by 37.5 per cent to $385 million. Further commentary on the performance of the components in the TIG segment is provided in the International businesses section on page 15.

Other

Our Other category consists primarily of our corporate centre functions where we recognise payments received under NBN agreements, impairments, adjustments to our employee provisions for bond rate movements and short term incentives, and redundancy expenses for the parent entity. The results of our New Zealand subsidiary TelstraClear, which was sold in October 2012, is also included in the Other category.

EXPENSE PERFORMANCE

Labour

Total labour expenses decreased by 3.3 per cent or $164 million to $4,803 million during the year.

Labour substitution costs decreased by 15.7 per cent or $142 million to $764 million resulting largely from a change in strategic direction to resourcing project work from specialist external suppliers or our own skilled internal workforce. This resulted in an increase in both our salary and associated costs and our service contracts and agreements expense.

Other labour expenses decreased by 11.9 per cent or $47 million to $347 million as we continue to streamline our contractor and agency activities. This was offset by higher than planned overtime required to rectify service faults associated with inclement weather across the eastern states.

Our salary and associated costs decreased slightly by 0.1 per cent or $2 million to $3,503 million. This included a $136 million reduction due to favourable bond rate movements impacting our long service and workers compensation provisions, and a reduction in our staffing levels resulting from our sale of TelstraClear during the current year. Offsetting this was the impact of salary and wage increases including the new Enterprise Agreement implemented during the first half of this year.

Redundancy expenses increased by 16.7 per cent or $27 million to $189 million as we continue with our restructuring and rationalisation activities aimed at simplifying the business.

Our total workforce numbers decreased from the prior year by 2,251 to 37,721. The decrease was driven by our sale of TelstraClear, which reduced our workforce by around 1,300. There were also reductions due to the consolidation of several support functions and continued restructuring of our call centres and shops, aimed at improving our business productivity.

Goods and services purchased

Goods and services purchased increased by 3.4 per cent or $210 million to $6,389 million. An increase in cost of goods sold and commissions paid was offset by a decrease in network payments.

Cost of goods sold (which includes mobile handsets, tablets, dongles, fixed and digital products) increased by 13.7 per cent or $350 million to $2,901 million. This was led by increased handset volumes to support the recontracting of a growing mobile customer base, and higher average cost of handsets due to the popularity of smartphones in both our domestic and international markets. An increase in hardware sales to support the growth in our NAS business also led to an increase in cost of goods sold.

Other cost of goods sold increased by 8.3 per cent or $140 million to $1,820 million following an increase in mobile sales through our dealers and licensees and fixed product sales to our business customers which have both resulted in higher commissions expense.

Network payments decreased by 14.4 per cent or $280 million to $1,668 million. This reduction was largely the result of lower payments to overseas carriers resulting from a renegotiation of rates, as well as reduced expenditure on the 3GIS network following the termination of our agreement with Vodafone Hutchison Australia and subsequent closure of the network in the

FULL YEAR RESULTS AND OPERATIONS REVIEW

SUMMARY STATEMENT OF CASH FLOWS

	FY13 $m	FY12 $m	Change $m	Change %
Net cash provided by operating activities	**8,359**	9,276	(917)	**(9.9)**
Net cash used in investing activities	**(3,335)**	(4,079)	744	**(18.2)**
Free cashflow	**5,024**	5,197	(173)	**(3.3)**
Net cash used in financing activities	**(6,526)**	(3,906)	(2,620)	**67.1**
Net increase in cash and cash equivalents	**(1,502)**	1,291	(2,793)	**(216.3)**

first half of this financial year. Savings from the reduction in the mobile terminating access (MTA) rate (9.0 cents to 6.0 cents per minute in January 2012, and then from 6.0 cents to 4.8 cents per minute in January 2013) were partially offset by an increase in the volume of SMS/MMS traffic. There was also a reduction in network payments as a result of the sale of TelstraClear.

Other expenses

Total other expenses increased marginally by 0.8 per cent or $35 million to $4,158 million. This increase was driven by service contracts and agreements and our recognition of a loss on the sale of TelstraClear during the first half of this year. This was offset by a decrease in impairment expenses.

Service contracts and agreements increased by 12.4 per cent or $153 million to $1,382 million with the utilisation of additional external expertise to support current programs including our initiatives to drive greater customer advocacy, operational efficiency and ongoing site recovery and maintenance. Expenses were also incurred in relation to our commitments under the NBN and AFL rights agreements.

Other operating expenses increased by 5.0 per cent or $118 million to $2,468 million mainly due to the completion of our sale of TelstraClear on 31 October 2012 which resulted in a loss on sale of $127 million.

Impairment and diminution expenses decreased by 43.4 per cent or $236 million to $308 million. Bad and doubtful debts expense declined by 28.7 per cent or $85 million to $211 million due to lower levels of consumer debt defaults, improved remediation of long outstanding debt and tighter assessment of customers at time of connection. The prior period included impairments in both TelstraClear and the LMobile Group.

Excluding TelstraClear related expenditure and sale adjustments from both periods, other expenses increased by 1.7 per cent.

Finance costs

Net finance costs increased by 2.4 per cent or $21 million to $909 million.

Net borrowing costs decreased by $139 million due to a reduction in the net average interest cost (from 7.0 per cent to 6.4 per cent) and a reduction in the average volume of our net interest bearing liabilities. The rate reduction arises principally from a reduction in market base rates during the year, resulting in lower costs on the floating rate debt component of our debt portfolio.

Other net finance costs increased by $160 million largely due to revaluation impacts relating to our fair value hedges and on transactions not in, or de-designated from, hedge relationships. This was predominantly due to movements in base market interest rates and borrowing margins, as well as net present value calculations as borrowings move closer to maturity.

FINANCIAL POSITION

Capital expenditure and cash flow

Our operating capital expenditure increased by 5.6 per cent to $3,792 million in line with our 15 per cent capex to sales guidance. This investment has enabled us to meet ongoing customer demand, support the accelerated rollout of mobile 4G LTE and meet ongoing delivery of NBN commitments.

Free cashflow generated from operating and investing activities was $5,024 million, representing a decline of 3.3 per cent. This included increased working capital to support business growth, cash proceeds from the sale of TelstraClear of $669 million and spectrum licence payments of $821 million. Excluding the cash proceeds from sale of TelstraClear and spectrum licence payments, on a full year basis, free cashflow declined by 0.4 per cent.

Debt position

Our gross debt position at 30 June 2013 was $15,628 million, a decrease of $1,594 million from 30 June 2012. This included the early repayment in June 2013 of a US$600 million (A$630 million) bank loan due to mature in August 2013.

The decrease reflects net borrowing repayments of $2,065 million partly

FINANCIAL SETTINGS

	FY13 Actual	FY13 Target Zone
Debt servicing(i)	1.2x	1.5 – 1.9x
Gearing (ii)	50.5%	50% to 70%
Interest cover(iii)	12.4x	>7x

(i) Debt servicing ratio equals net debt to EBITDA

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

(iii) Interest cover equals EBITDA to net interest

SUMMARY STATEMENT OF FINANCIAL POSITION

	FY13 $m	FY12 $m	Change $m	Change %
Current assets	7,903	9,950	(2,047)	(20.6)
Non current assets	30,624	29,575	1,049	3.5
Total assets	38,527	39,525	(998)	(2.5)
Current liabilities	7,522	10,684	(3,162)	(29.6)
Non current liabilities	18,130	17,152	978	5.7
Total liabilities	25,652	27,836	(2,184)	(7.8)
Net assets	12,875	11,689	1,186	10.1
Equity	12,875	11,689	1,186	10.1

offset by non-cash revaluation impacts of $234 million and finance lease additions of $237 million. During the year we made repayments of $4,139 million comprising long term debt maturities of $3,600 million, net short term borrowing repayments of $442 million and finance lease repayments of $97 million. The maturities were principally funded by new debt issuances of $2,074 million together with utilisation of liquidity built up during prior financial years. Debt raising during the year was undertaken both in the offshore and domestic markets including $1,268 million from a Euro bond and a domestic bond of $743 million.

Net debt was $13,149 million, a decrease of $128 million from the prior year. This movement reflects a decrease in gross debt of $1,594 million offset by a net reduction in cash and cash equivalents of $1,466 million. Extra liquidity was built up in financial year 2012 ahead of significant debt repayments and anticipated spectrum commitments in financial year 2013. Payment for acquisition of mobile spectrum licences in the 700MHz and 2.5GHz bands was originally expected to be made during the year but is now to be paid for in September 2014.

Our net debt gearing ratio (net debt to capitalisation) at 30 June 2013 of 50.5 per cent was lower than the gearing ratio at 30 June 2012 of 53.2 per cent and is within our target range for net debt gearing.

Statement of Financial Position
Our balance sheet remains in a strong position with net assets of $12,875 million.

Current assets decreased by 20.6 per cent to $7,903 million. Cash and cash equivalents decreased mainly due to net borrowing repayments. Increased customer acquisition activity has impacted trade and other receivables and has also contributed to us holding increased inventory levels to support sales and network expansion. Tax receivables decreased due to tax amendment refunds and assets classified as held for sale decreased due to the sale of TelstraClear.

Non current assets increased by 3.5 per cent to $30,624 million. Property, plant and equipment declined as ongoing depreciation and retirements exceed the level of additions. This was partly offset by an increase in intangible assets largely associated with the renewal of spectrum licences, and an increase in derivative assets mainly due to net foreign currency and other valuation impacts arising from measuring to fair value.

Current liabilities decreased by 29.6 per cent to $7,522 million. The reduction in current borrowings reflects the repayment of borrowing maturities in the year. Derivative liabilities decreased due to net foreign currency and other valuation impacts and current tax payables decreased mainly due to timing differences which reduced taxable income. Trade and other payables increased primarily as a result of higher capital and labour accruals.

Non current liabilities increased by 5.7 per cent to $18,130 million mainly due to debt issuances during the year and fair value revaluation impacts on our borrowings. Derivative liabilities decreased due to foreign currency and other valuation impacts. Defined benefit pension liabilities decreased as a result of an actuarial gain for Telstra Super due to increased return on assets, a higher discount rate and reduced projected salary increases. Our net deferred tax liability increased as a result of the reduction of the defined benefit pension liability, which reflects a decrease in future tax benefits from anticipated deductible superannuation payments.

OUR GOAL IS TO EMBED SOCIAL AND ENVIRONMENTAL CONSIDERATIONS INTO THE HEART OF OUR BUSINESS IN WAYS THAT CREATE VALUE

OUR COMMITMENT

Telstra's commitment is to manage our business well and to deliver an overall positive impact for our customers, employees, shareholders, the wider community and the natural environment.

Our primary corporate responsibilities are to:

- serve the needs of our customers
- increase shareholder value and protect shareholder interests
- make Telstra a great place to work
- provide good stewardship of the environment
- contribute resources - people, technology, products and services, and funds to support the communities in which we operate
- 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.

KEY ISSUES

We undertake a formal and consultative approach to ensure that we identify and respond to key sustainability issues and opportunities that are important to both our business and our stakeholders. Increasingly, we seek to identify the ways in which we can use our core telecommunications capabilities, assets, expertise, workforce and national presence to make a genuine contribution to the communities in which we operate. To do this, we work with our customers and suppliers, engage our employees and develop partnerships with government and non-profit organisations.

GOVERNANCE

Governance of Telstra's sustainability strategy and performance is provided by the Telstra Sustainability Council, which is chaired by the CEO and comprises Telstra's Executive Leadership Team. Reports on sustainability progress are also regularly provided to the CEO and the Telstra Board. Telstra's Chief Sustainability Officer provides strategic leadership for sustainability and is responsible for the implementation of our approach and programs.

SUSTAINABILITY FRAMEWORK AND PRIORITIES

As Australia's largest telecommunications company with a presence across the country, we're in a unique position to make a difference to the lives of all Australians. This increasingly dynamic challenge is a source of innovation for our business.

Our sustainability framework identifies the issues that are of interest to our core stakeholder groups. In the context of our framework, we aim to develop innovative business offerings, reduce ecological impacts and build a reputation that reflects who we are and what we stand for as a company. Our challenge is to bring alignment and focus to our sustainability activities and build performance momentum.

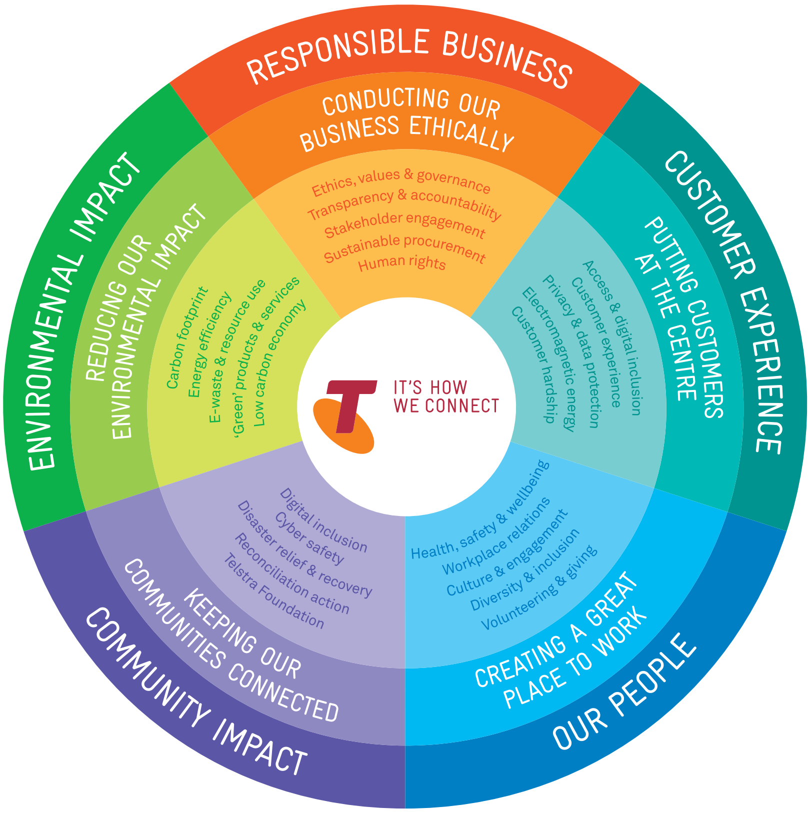
Our three strategic sustainability priorities reflect this ambition:

Employee involvement
We aim to make Telstra a great place to work, enhance our reputation and strengthen the communities in which we operate by providing opportunities for our people to get involved with local communities through volunteering, community campaigns and workplace giving.

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

Environmental leadership
We need to be more proactive and strategic in our approach to the environment. We're doing this by identifying and minimising the material environmental impacts of our operations, working with our suppliers to reduce the impacts of the products and services they provide to us, and considering the environment when we develop our own products and services. We are also examining the environmental impacts and benefits of information and communication technologies.

SUSTAINABILITY FRAMEWORK



WE'RE COMMITTED TO EXCELLENCE IN CORPORATE GOVERNANCE, TRANSPARENCY AND ACCOUNTABILITY

UNITED NATIONS GLOBAL COMPACT

In December 2011, Telstra became a signatory to the United Nations Global Compact, signalling our commitment to responsible business practice in all our markets. We are committed to aligning our operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Our commitment to these principles is reflected in our sustainability reporting. As a member of the Global Compact Network Australia, we participated in leadership groups for environment, business and human rights, and anti-corruption this year.

SUPPLY CHAIN

This year we purchased around $6 billion in goods and services from close to 8,000 suppliers, placing us in a strong position to influence the environmental and social standards of our suppliers.

In January 2013, we introduced a Supplier Code of Conduct which describes the standards required to conduct business with Telstra and ensures that social and environmental considerations are included when choosing suppliers. Refinement of the code will be a focus in the coming year.

In 2010, we made a commitment to increase the diversity of our supply chain by becoming a member of Supply Nation, which links organisations with Indigenous business suppliers. This year, we updated our tendering process with a requirement to consider organisations certified by Supply Nation. This has led to an increase in expenditure with Supply Nation suppliers.

SUPPORTED WORKFORCE

Telstra partners with local non-profit groups to create employment opportunities for people with disability or who are disadvantaged. We work with 14 community groups across Australia, as part of the Supported Workforce Program, to clean and maintain Telstra exchanges. We now have more than 300 people working in the program around the country, which represents a 67 per cent increase over the past year. In December 2012, the program received a Disability Services Australia award for improving employment opportunities.

SUSTAINABILITY
CUSTOMER EXPERIENCE

WE WANT TO ENSURE THAT ALL AUSTRALIANS ENJOY THE EVERYDAY BENEFITS OF BEING CONNECTED TO MODERN COMMUNICATION TECHNOLOGIES

CUSTOMERS EXPERIENCING DISADVANTAGE

We celebrated the 10th anniversary of our Access for Everyone program, which assists people on a low income or facing financial hardship to stay connected. Since 2002, we've provided benefits to the value of $2.2 billion. This year, we introduced a new targeted phone and broadband bundle plan specifically for people on a low income, and launched a new program providing $1 million worth of pre-paid mobile phone recharge cards for customers in crisis to stay in touch. We also revised our Financial Hardship Policy to cover events including sudden illness or loss of employment that may impact customers' ability to pay their bills.

CUSTOMERS WITH DISABILITY

This year, we completed the implementation of our fifth Disability Action Plan (2010-2012). An independent review found that 94 per cent of the actions were completed or ongoing. The Plan recognised the benefits that modern information and communications technologies bring to people with disability, and incorporated actions to provide a better experience for our customers with disability and their carers.

REMOTE INDIGENOUS COMMUNITIES

We announced a $5.76 million joint investment with the Northern Territory (NT) Government to deliver mobile coverage to eight remote communities and fixed broadband services to six remote communities in the NT by the end of 2013. This will reach more than 8,000 people.

PRIVACY PROTECTION

Protecting our customers' privacy is a core priority, and a key factor in driving customer advocacy and trust. Although there have been fewer incidents overall this year, we know we need to do better. Of particular concern was an incident in May 2013, where some of our customers' details were accidentally made available online. Having customer information revealed in such a way is completely unacceptable, under any circumstances. As soon as possible after we were made aware of this, we ensured that access to the information was removed and we quickly notified affected customers. We also informed the Office of the Australian Information Commissioner and have reviewed the incident and are introducing measures to protect against similar incidents occurring again.

ONLINE SAFETY AND SECURITY

We launched a new opt-in tool to protect families online, Smart Controls®, designed to complement regular parental involvement in kids' use of mobile phones by encouraging safe and responsible behaviour. This is in addition to our existing product Telstra Safe Social®, a new social networking protection tool available to BigPond Security customers. We also launched a range of cyber safety brochures and delivered 32 cyber safety seminars to more than 11,000 parents and high school students around Australia.

TELSTRA IS ONE OF THE LARGEST EMPLOYERS IN AUSTRALIA, WITH A TOTAL WORKFORCE OF MORE THAN 37,000 PEOPLE

EMPLOYEE ENGAGEMENT

In April 2013, we conducted an employee engagement survey, with an 84 per cent response rate. We achieved an engagement score of 79 per cent, a two percentage point increase on the previous year, putting us four percentage points above the Australian National Norm.

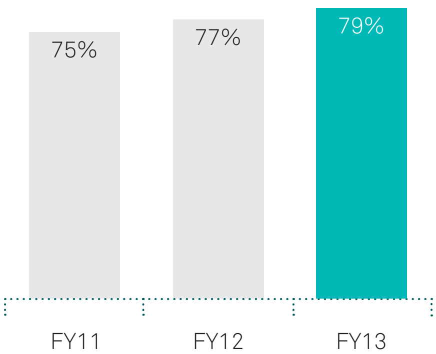
HEALTH, SAFETY AND WELLBEING

Telstra Corporation's lost time injury frequency rate (LTIFR) was 1.36 this year, slightly higher than the previous year. While we continue to implement management programs across Telstra to reduce the severity of workplace injuries or illness, a steadily ageing workforce and increased field work with the NBN have impacted our performance.

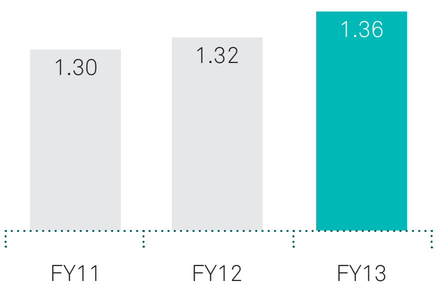
Over the past year we have focused on vehicle safety and musculoskeletal injuries as they make up the majority of our reported health and safety incidents.

We place the highest priority on safety and were disappointed to identify gaps in our contractor management in relation to training on, and compliance with, our asbestos management processes. We are working with Comcare on responding to these issues and improving our oversight of contractor activity. We introduced a range of measures to improve compliance with our safety policies, including the requirement for all employees and contractors who work on the network to undertake additional training and the creation of new roles to supervise and inspect this type of work.

EMPLOYEE ENGAGEMENT



LOST TIME INJURY FREQUENCY RATE (LTIFR)[1]



Notes:

1. LTIFR is the reported number of accepted workers' compensation claims for work-related injury or disease that incur lost time for each million hours worked. This data relates to Telstra Corporation Limited only and does not include subsidiary companies, such as Sensis.

GENDER EQUALITY

Female gender representation among non-executive Directors on our Board was 37.5 per cent at 30 June 2013. This year, we exceeded our objective for 25 per cent representation of women in Executive management, with 9 new women joining this group during FY13. We also saw positive promotion rates for women in Telstra overall, and a rise in the engagement level of women compared to last year. Overall female representation across the Telstra Group remained flat this year at 30.9 per cent, reflecting a challenge around over-representation of women among departures from Telstra, which we will proactively address in the coming year. Women accounted for 40 per cent of this year's graduate intake.

We have made good progress in addressing the gender pay equity gap and continue to focus on a range of initiatives including gender pay audits, closely monitoring female new starter packages, promotion rates and flexible working across Telstra. We will start to report metrics on our progress next year in accordance with the Workplace Gender Equality Act 2012.

Information on diversity, including what diversity means at Telstra, why it's important to us and our Diversity Measurable Objectives can be found in the Corporate Governance Statement section of this Annual Report.

EMPLOYEE VOLUNTEERING AND GIVING

This year Telstra people contributed more than 4,200 days volunteering their time and expertise to a range of community organisations across Australia and beyond. We introduced dollar for dollar matched payroll giving this year, which provided an added incentive to give, resulting in a total contribution of $1.3 million in donations to 285 charities.

REPRESENTATION OF WOMEN IN TELSTRA AS AT 30 JUNE 2013

Role	Number	Percentage
Board[1]	3	37.5%
Executive management*[2]	66	25.4%
CEO	0	0%
CEO-1 (Band A)	5	31.3%
CEO-2 (Band B)	10	16.4%
CEO-3 (Band C)	51	28.0%
Middle management*[3]	2,453	27.0%
Operational*[4]	7,620	31.9%
Telstra Total*	**10,139**	**30.5%**
Telstra Group Total**	**11,374**	**30.9%**

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

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

For a list of the entities in the Telstra Group, please refer to Note 25 to the Financial Statements.

Notes:

1. Number and percentage relate to non-executive Directors.
2. Executive management comprises persons holding roles within Telstra designated as Band A, B or C, or equivalent.
3. Middle management comprises persons holding roles within Telstra designated as Band 1 or 2, or equivalent.
4. Operational comprises persons holding roles within Telstra designated as Bands 3 or 4, or equivalent.

WE USE OUR TECHNOLOGY, EXPERTISE, SCALE AND PRESENCE ACROSS THE NATION TO MAKE A POSITIVE CONTRIBUTION TO THE COMMUNITY

TELSTRA FOUNDATION

Through its social innovation program, the Telstra Foundation works in partnership with community organisations to bring ideas and technology together - unlocking digital potential. This year we committed $1 million in three new social innovation grants, including support for the MJD Foundation to deliver a digital inclusion program for Indigenous people living with Machado-Joseph Disease (MJD) in the Northern Territory. MJD is a hereditary neurodegenerative condition, life limiting and with no known cure. The project will use innovative tablet technology to deliver health services and support to 30 Indigenous MJD clients and their carers across six Arnhem Land communities.

INDIGENOUS COMMUNITIES

We consulted widely this year to explore the digital inclusion potential for Aboriginal and Torres Strait Islander people. We will use the findings and work in partnership with the National Centre of Indigenous Excellence to develop a national strategy for Indigenous Digital Excellence.

We renewed our partnership with One Laptop Per Child Australia (OLPCA) for another two years, committing an additional $200,000 to help deploy 50,000 laptops to disadvantaged schools, including many with a large Indigenous student population. Since 2010, Telstra has provided $900,000 in seed funding to OLPCA.

This year we became one of the first corporations in Australia to formally recognise the traditional owners of land and country, by installing signs of acknowledgement in every branded Telstra store and business centre across Australia.

DIGITAL LITERACY

We established a partnership with the New South Wales Government to deliver the Tech Savvy Seniors program. The 18 month program will deliver digital literacy training to around 15,000 senior Australians through more than 40 community colleges and 100 local libraries, particularly in regional and remote areas of NSW.

We also launched a partnership with Able Australia Services to help deafblind Australians better access technology. Communication difficulties associated with deafblindness can lead to social isolation, unemployment and the frustration of relying on support workers. The partnership will deliver digital literacy training and provide access to equipment such as tablets and Braille devices.

E-SMART LIBRARIES

In August 2012, we launched eSmart Libraries, a multi-year, $8 million partnership between the Telstra Foundation and The Alannah and Madeline Foundation. The initiative will better equip 1,500 public libraries across the country and support library users with the skills they need for smart, safe and responsible use of technology. To date, more than 140 library employees from 100 libraries across Australia have attended training sessions as part of the eSmart Libraries pilot.

DISASTER RELIEF & RECOVERY

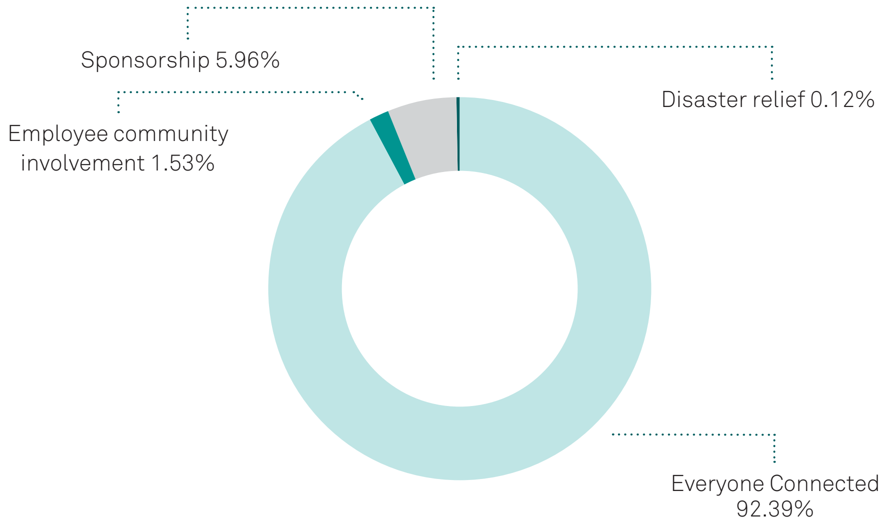
In times of disaster, Telstra provides telecommunications services to evacuation centres, where we establish temporary internet and provide handsets with SIM cards and phone cards. We also provide relief assistance packages to affected residential and small business customers. In FY13, Telstra provided assistance following eight natural disasters across the country.

We further improved the Emergency Alert System (EA), creating a service that accurately sends emergency warning messages to the public based on their geographical location. The EA has the capacity to send potentially lifesaving messages to those at direct risk from natural disaster or emergency situations.

WARRNAMBOOL

Other than the weather events that caused flooding and elevated fault levels, the most significant community impact for the year was caused by the fire in our Warrnambool Exchange. The fire caused significant disruption to our network throughout south-western Victoria and resulted in a loss of telecommunication services across the region. We mobilised quickly and had more than 110 technicians on site working 24 hours a day to restore services. All customer services were up and running by 10 December, 19 days after the fire. An internal review of the incident recommended 22 actions primarily aimed at reducing the risk of future occurrences and restoring services more quickly should a similar incident occur in future.

TOTAL VALUE OF SOCIAL AND COMMUNITY INVESTMENT IN FY13 - $231 MILLION



SUSTAINABILITY

ENVIRONMENTAL IMPACT

AS DIGITAL APPLICATIONS BECOME INCREASINGLY DATA INTENSIVE, OUR CHALLENGE IS TO IMPROVE ENERGY EFFICIENCY AND MINIMISE CARBON EMISSIONS INTENSITY

ENVIRONMENT STRATEGY

This year, we reviewed our environmental capabilities, risks and opportunities. We also commissioned an independent review to assess the environmental issues that matter most to our stakeholders and have the potential for the biggest impact on the company. As a result, we have developed a framework for an enterprise-wide environmental strategy, which will focus on three key areas - improving the energy efficiency of our operations, reducing environmental impact in our supply chain and developing greener products and services. We will finalise the strategy and commence implementation in FY14.

ENERGY EFFICIENCY AND CARBON EMISSIONS

Our largest environmental impact is associated with our networks, which need large amounts of energy to power equipment and keep it at optimum operating temperature. In FY13, network energy use was around 86 per cent of our total energy consumption.

In FY13, carbon emissions intensity was 0.83 tonnes CO_2e per terabyte of data, a 33 per cent decrease on carbon emissions intensity from FY12, surpassing our 15 per cent reduction target.

We expect continued improvements in our carbon emissions efficiency due to better utilisation of network equipment and a continued dedicated investment in energy and carbon efficiency projects. We have set a target for a further 15 per cent reduction in emissions intensity in FY14.

Total energy consumption (stationary and transport) and total carbon emissions (Scope 1, 2 and 3) decreased by 1.7 per cent and 2.6 per cent respectively, since FY12. This reduction was driven by decreases in electricity consumption across several key areas of our business.

PAPER USE - SENSIS PRINT DIRECTORIES

The Yellow Pages® and White Pages® (print and online) have received carbon neutral certification through Low Carbon Australia since February 2010. In 2012, we supported four carbon reduction projects in Cambodia, India and China through purchasing 65,319 tonnes of CO_2e offsets. As part of our ongoing commitment, we will be purchasing carbon offsets in late 2013 to certify our directories for FY13.

We are committed to using paper from environmentally and socially responsible sources and Telstra is a member of the Forest Stewardship Council (FSC). We have taken steps and transitioned to ensure we use FSC certified paper and coverboard and a number of our directories have received formal FSC certification.

Our objective is to maintain a 96 per cent national recycling and reuse rate for our directories – in FY13 it was 98 per cent. We promote household recycling by providing information on recycling options and the associated environmental benefits.

OFFICE, BILLING AND PRINTING PAPER

Paper usage fell by 24 per cent this year. Billing paper continues a downward trend as more customers opt for online billing. Use of printing paper also decreases with the move to online advertising reducing our need to print information flyers. A printing initiative introduced in our corporate headquarters in December resulted in a 14 per cent decrease in office paper use. We expect these trends to continue.

E-WASTE

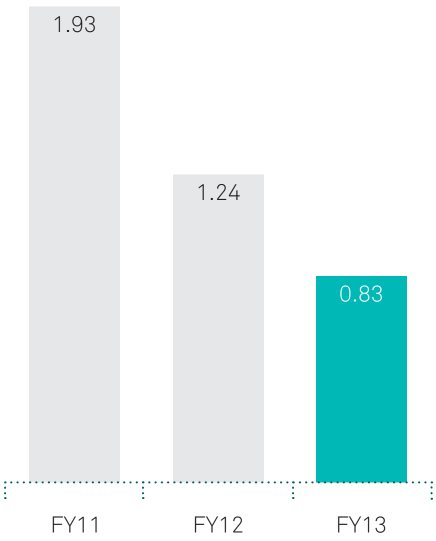
In FY13, we reused or sent to recycling facilities around 99 per cent of our own e-waste, which is mostly end-of-life network equipment and batteries. There was a significant increase in the amount of e-waste collected due to the number of batteries replaced at Telstra's exchanges. We also assist our customers to deal more effectively with e-waste. In FY13 we collected 14 tonnes of mobile phones and accessories from Telstra retail stores, offices and repair centres for recycling through the MobileMuster program.

TOTAL CARBON EMISSIONS (SCOPE 1, 2 & 3)

Tonnes of carbon dioxide equivalent (tCO_2e)

CARBON EMISSIONS INTENSITY

Tonnes of carbon dioxide equivalent per terabyte (tCO_2e/TB)



WE REDUCED CARBON EMISSIONS INTENSITY BY 33%

BOARD OF DIRECTORS

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

Ms Livingstone has been a non-executive Director since November 2000, was appointed as Chairman in May 2009 and last re-elected in 2011. She is the Chairman of the Nomination Committee, a member of the Audit and Remuneration Committees and served on the Technology Committee[#].

Ms Livingstone is a Chartered Accountant and has held several finance and general management roles primarily in the medical devices sector. Ms Livingstone was the Chief Executive of Cochlear Limited from 1994 to 2000. She was Chairman of CSIRO from 2001 to 2006 and has also served on the boards of Goodman Fielder Limited and Rural Press Limited. In 2008, Ms Livingstone was appointed an Officer of the Order of Australia for service to the development of Australian science, technology and innovation policies to the business sector.

Other listed companies - past three years
Director, WorleyParsons Limited (from 2007), Macquarie Bank Limited (2003 - 2013) and Macquarie Group Limited (2007 - 2013).

Other directorships/appointments
Member, Advisory Board for the John Grill Centre for Project Leadership at University of Sydney (from 2013) and New South Wales Innovation and Productivity Council (from 2007); President, Australian Museum Trust (from 2012), Director, The George Institute (from 2012) and Saluda Medical Pty Ltd (from 2013).

DAVID I THODEY
BA, FAICD

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

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

Mr Thodey holds a Bachelor of Arts in Anthropology and English from Victoria University in New Zealand and attended the Kellogg Post-Graduate School General Management Program at Northwestern University in Chicago.

In January 2013, Mr Thodey joined the Board of the GSM Association, the global body made up of carriers and related companies that supports the standardisation and deployment of mobile technology around the world. Mr Thodey was previously Chairman of TelstraClear New Zealand and Basketball Australia.

GEOFFREY A COUSINS

Mr Cousins has been a non-executive Director since November 2006. He is a member of the Nomination and Remuneration Committees and was last re-elected in 2012.

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.

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

Other directorships/appointments
Chairman of the St James Ethics Foundation (from 2010).

RUSSELL A HIGGINS AO
BEc, FAICD

Mr Higgins has been a non-executive Director since September 2009. He is a member of the Audit Committee and was last re-elected in 2012.

Mr Higgins is an experienced company director who has worked at very senior levels of both government and private sectors. He has served on the boards of a wide range of listed companies, private companies, government business enterprises and international organisations, including as Chairman of the Snowy Mountains Hydro Electric Scheme and the Global Carbon Capture and Storage Institute. From 2003 to 2004, he was Chairman of the then Prime Minister's Energy Task Force and prior to that he was Secretary of the Department of Industry, Science and Resources.

Other listed companies - past three years
Director, APA Group (from 2004), Argo Investments Limited (from 2011), Leighton Holdings Limited (from 2013) and Ricegrowers Limited (SunRice) (2005 - 2012).

Other directorships/appointments
Director, St. James Ethics Foundation (from 2010).

JOHN P MULLEN

Mr Mullen has been a non-executive Director since July 2008. He is the Chairman of the Remuneration Committee, a member of the Nomination Committee and was last re-elected in 2011.

Mr Mullen is the Managing Director and Chief Executive Officer of Asciano Ltd and has served in that role since 2011. He has worked for over two decades in a multitude of senior positions with different multinationals including 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. 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. Mr Mullen was Global Chief Executive Officer, DHL Express from 2006 to 2009.

Other listed companies - past three years
Director, Asciano Ltd (from 2011), Brambles Limited (2009 - 2011), Embarq Corporation USA (2006 - 2009) and MAp Airports Limited (2010 - 2011).

Other directorships/appointments
Member, Australian Graduate School of Management (from 2005).

NORA L SCHEINKESTEL
LLB(Hons), PhD, FAICD

Dr Scheinkestel was appointed as a non-executive Director in August 2010 and elected in October 2010. She is Chairman of the Audit Committee.

Dr Scheinkestel is an experienced company director with a background as a senior banking executive in international and project financing. She currently consults to government, corporate and institutional clients in areas such as corporate governance, strategy and finance. She is also an Associate Professor at the Melbourne Business School at Melbourne University and is a member of the Takeovers Panel. Dr Scheinkestel held a number of roles in the utility sector including Chairman of South East Water Limited from 2002 to 2005 and the Energy 21 and Stratus Gas Group from 1997 to 1999. She has also served on a range of public and private sector boards including, more recently, AMP Limited and its funds management and banking subsidiaries, Mayne Group Limited and Mayne Pharma Limited, Medical Benefits Fund of Australia Ltd, Newcrest Mining Limited and North Limited. In 2003, Dr Scheinkestel was awarded a centenary medal for services to Australian society in business leadership.

Other listed companies - past three years
Director, Insurance Australia Group Limited (from 2013), Orica Limited (from 2006), Pacific Brands Limited (2009 - 2013) and AMP Limited (2003 - 2013).

MARGARET L SEALE
BA, FAICD

Ms Seale was appointed as a non-executive Director in May 2012 and subsequently elected in October 2012. She is a member of the Audit Committee.

Ms Seale has over 20 years experience in senior executive roles in Australia and overseas, including in global publishing and the transition of traditional business models to adapt and thrive in a digital environment as well as sales and marketing. Most recently she was the Managing Director of Random House, Australia (with managerial responsibility for Random House New Zealand) and President, Asia Development for Random House Inc, the global company. Previously, she was Chief Executive Officer for The Macquarie Dictionary and Lansdowne Publishing from 1997 to 1999. Ms Seale was the Chief Executive Officer for the Juvenile Diabetes Research Foundation from 1994 to 1997. She also served on the boards of the Australian Publishers Association and the Powerhouse Museum, and on the Council of Chief Executive Women, chairing its Scholarship Committee from 2011 to 2012.

Other directorships/appointments
Director, Random House Australia, New Zealand (from 2001) and Sydney Writers Festival (from 2011).

STEVEN M VAMOS
BEng (Hons)

Mr Vamos joined the Telstra Board as a non-executive Director in September 2009 and was last re-elected in 2012. He is a member of the Nomination and Remuneration Committees and served on the Technology Committee#.

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.

Other listed companies - past three years
Director, David Jones (from 2012).

Other directorships/appointments
President, Society for Knowledge Economics (from 2005); Director, Medibank Private Limited (from 2011), BDB Soti Pty Ltd (from 2012) and eGeneration Investments Pty Limited (from 1999).

JOHN D ZEGLIS
BSc Finance, JD Law

Mr Zeglis has been a non-executive Director since May 2006. He served as Chairman of the Technology Committee from 2009 to 2013# and was last re-elected in 2012.

Mr Zeglis has had a long and distinguished career in the US telecommunications sector. He joined AT&T in 1984, and was elected 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. He has also served on the boards of Georgia Pacific Corporation, Illinois Power Company and Sara Lee Corporation. Mr Zeglis has a legal background, and became partner with the law firm Sidley & Austin in 1978. He was General Counsel of AT&T from 1986 to 1998. His qualifications include a BSc in Finance from the University of Illinois, and a JD in Law from Harvard.

Other listed companies - past three years
Director, Helmerich & Payne Corporation (from 1989).

Other directorships/appointments
Director, The Duchossois Group (including AMX) (from 2011) and State Farm Automobile Insurance (from 2004).

The Technology Committee ceased operation effective 14 June 2013.

SENIOR MANAGEMENT TEAM

DAVID I THODEY
CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

GORDON BALLANTYNE
CHIEF CUSTOMER OFFICER, TELSTRA CUSTOMER SALES & SERVICE

Telstra Customer Sales & Service is responsible for providing sales and service to all of Telstra's customer segments (Consumer, Business, and Enterprise and Government) through a range of channels, including call centres, Telstra Shops and Dealers, Business Centres, account managers and online through telstra.com.

TIMOTHY CHEN
PRESIDENT AND GROUP MANAGING DIRECTOR, TELSTRA INTERNATIONAL GROUP

Telstra International Group is responsible for Telstra's international assets and connectivity, including Hong Kong's leading mobile operator CSL, Telstra Global's networks and managed services business and Telstra's China-based search and advertising businesses.

RICK ELLIS
GROUP MANAGING DIRECTOR, TELSTRA MEDIA GROUP

The Telstra Media Group is responsible for Telstra's end-to-end media capabilities, including Sensis, BigPond, Trading Post, IPTV, Foxtel and content agreements.

TRACEY GAVEGAN
GROUP MANAGING DIRECTOR, HUMAN RESOURCES

Human Resources is responsible for organisational design and change; implementation of people and culture initiatives; leadership development, talent and succession management; health, safety and wellbeing; workplace relations and all employment and remuneration policies.

STUART LEE
GROUP MANAGING DIRECTOR, TELSTRA WHOLESALE

Telstra Wholesale is responsible for the provision of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers as well as NBN Co Limited.

KATE MCKENZIE
GROUP MANAGING DIRECTOR, TELSTRA INNOVATION, PRODUCTS AND MARKETING

Telstra Innovation, Products and Marketing is responsible for innovation, product and pricing across Telstra, as well as the Telstra brand, sponsorship, promotion and advertising direction.

CARMEL MULHERN
GROUP GENERAL COUNSEL, TELSTRA LEGAL SERVICES

Telstra Legal Services provides operational and strategic legal support and advice across the company.

ROBERT NASON
GROUP MANAGING DIRECTOR, BUSINESS SUPPORT AND IMPROVEMENT

Business Support and Improvement is responsible for credit management, billing and procurement, as well as driving change that improves the customer experience and delivering Telstra-wide productivity improvements.

ANDREW PENN
CHIEF FINANCIAL OFFICER, FINANCE AND STRATEGY

Finance and Strategy is responsible for corporate planning and strategy, accounting and administration, treasury, risk management and assurance, corporate security, investor relations and mergers and acquisitions.

BRENDON RILEY
CHIEF OPERATIONS OFFICER, TELSTRA OPERATIONS

Telstra Operations is responsible for the overall planning, design, engineering, construction, maintenance and restoration of Telstra's fixed and mobile networks, technology and information technology.

TONY WARREN
GROUP MANAGING DIRECTOR, CORPORATE AFFAIRS

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

CORPORATE GOVERNANCE STATEMENT

We are committed to excellence in corporate governance, transparency and accountability. This is essential for the long term performance and sustainability of our Company, and to protect and enhance the interests of our shareholders and other stakeholders. We regularly review our governance arrangements as well as developments in market practice, expectations and regulation.

Throughout FY13, we have complied with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASX Recommendations'). A checklist cross-referencing the ASX Recommendations to the relevant disclosures in this section or other parts of our Annual Report is provided in the corporate governance section of our website at www.telstra.com.au/abouttelstra/company-overview/governance/. Supplementary detail on our governance arrangements, including copies of the Board and Board Committee Charters and key policies, can also be found in the corporate governance section of our website.

THE BOARD OF DIRECTORS

The Board

The Board is responsible, and is accountable to shareholders, for managing Telstra's business. In addition to the matters required by law to be approved by the Board, the key responsibilities of the Board include:

- approving our strategy and corporate plan and monitoring the implementation of our strategy and performance against the corporate plan
- appointing, assessing the performance of and determining the remuneration of the CEO, as well as approving the appointment and remuneration of and overseeing the performance of the CEO's Leadership Team
- overseeing our financial position and approving decisions concerning our capital management policy, including share buy backs, dividend policy and the payment of dividends
- overseeing our external and internal audit activities, internal control framework and reporting systems and strategic and operational risk management systems
- monitoring and influencing our culture, reputation, ethical standards and legal and regulatory compliance, and overseeing our corporate governance framework
- monitoring our work health and safety performance
- approving our overall remuneration framework, and
- approving certain matters relating to diversity.

The Board has adopted a Board Charter that details its role and responsibilities (a copy of which can be found in the corporate governance section of our website).

The CEO, together with the senior management team, is responsible to the Board for the development and implementation of our strategy and overall management and performance of our Company. The Board has delegated responsibility for day-to-day management of Telstra 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. This is complemented by a formal delegations structure from the CEO to our employees.

Our Chairman

The role of our Chairman and CEO cannot be fulfilled by the same person and our Chairman must be an independent Director appointed by the Board. Our 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 overarching responsibilities are to provide appropriate leadership to the Board and Telstra and to ensure the Board fulfils its obligations under its Charter. The Chairman's responsibilities are set out in more detail in the Board Charter.

Board Composition and Director Appointment

There are currently nine Directors on the Board, comprising eight non-executive Directors and the CEO. Details of the Directors, including their qualifications and experience, together with details of the year of initial appointment and re-election (where applicable), can be found in the Board of Directors section of this Annual Report. John Stocker retired as a non-executive Director at the conclusion of our 2012 Annual General Meeting (held on 16 October 2012). Tim Chen retired as a non-executive Director with effect from 5 October 2012. There were no new Directors appointed to the Board during FY13.

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

CORPORATE GOVERNANCE STATEMENT

Matters relating to Board (and Board Committee) composition are considered by the Board and Nomination Committee in accordance with the framework set out in the Nomination Committee Charter and through processes implemented by the Board. To assist in identifying areas of focus and maintaining an appropriate experience mix, the Board developed a skills matrix which is reviewed by the Board on a regular basis. It is an important, but not the only, basis of criteria applying to director appointments.

The skills, experience and expertise areas which the Board currently considers to be particularly relevant include those in telecommunications, information technology, multimedia, marketing, retail and sales, infrastructure, government relations, Australian and international business, finance and legal. Information regarding Board diversity can be found in the "Diversity and Inclusion at Telstra" section below.

Our process for the selection, nomination and appointment of Directors involves a formal selection process undertaken by the Board, and an executive search firm is generally engaged to assist in the process. As part of this process, the Board establishes criteria regarding the general qualifications and experience, as well as the specific qualifications, a candidate should possess.

Formal letters are provided to all new Directors setting out the key terms and conditions of their appointment. Any new Director appointed by the Board during the year is required to stand for election at the next Annual General Meeting (AGM).

Director Induction Training and Continuing Education

All new Directors participate in a formal induction process co-ordinated by the Company Secretary. This induction process includes briefings on our financial, strategic, operational and risk management policies and processes, our governance framework (including key policies), culture and values and key developments in our Company and the sectors and environments in which we operate.

We also have in place a continuing education program for Directors which is part of the annual Board cycle, with specific sessions scheduled around Board meeting dates.

Board Tenure

In accordance with the ASX Listing Rules, we hold an election of Directors at our AGM each year. The Directors stand for re-election in accordance with the process set out in our Constitution, which provides that no non-executive Director may hold office for more than three years, or beyond the third AGM following their appointment, whichever is the later, without re-election. If no Director would otherwise be required by our Constitution to submit for election or re-election then, in accordance with the procedure in our Constitution, any non-executive Director who wishes to retire and offer himself or herself for re-election may stand, otherwise the non-executive Director who has been longest in office since their last election or appointment is required to retire and stand for re-election. The tenure of the CEO as a Director is linked to his or her executive office and therefore the CEO is not required to stand for re-election through this process.

A recommendation to re-elect a Director at the end of his/her term is not automatic. Prior to each AGM, the Board determines if it will recommend to shareholders that they vote in favour of the re-election of the Directors standing for re-election. This decision is made by the Board, having regard to the outcome of the annual Board performance review and any other matters it considers relevant.

In recognition of the importance of Board renewal and succession planning, the Board has adopted the following principles in relation to Board and Board Committee tenure:

- Director Positions - where a non-executive Director is approaching the end of his/her third 3-year term, a more formal review of his or her continuing directorship should take place, taking into account broader Board renewal and Board composition considerations and the requirements of the Telstra Corporation Act
- Board Committee Chair Positions - the maximum term for a non-executive Director to hold the position of Chairman of a Board Committee is generally 5 years, and
- Board Committee Membership - Committee membership should rotate every 3-5 years, subject to considerations of Committee succession planning and the overall composition/ skills/experience of the Committee.

Director Independence

The 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 Telstra and to exercise unfettered and independent judgment. The Board intends that the CEO be the only executive Director and that all non-executive Directors should also be independent Directors.

The Board assesses, at least annually, the independence of each Director. We consider that an independent Director is a non-executive Director who is free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of his or her unfettered and independent judgement and ability to act in Telstra's best interests. 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.

When assessing the independence of a Director, the Board considers the relationships potentially affecting the independent status of a director as described in Box 2.1 of the ASX Recommendations. The Board may determine that a Director is independent notwithstanding the existence of a relationship of the kind referred to above. However, in such a case, the Board will disclose the reasons for making its determination.

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, we will make an announcement to the market.

With the exception of the CEO, all Directors are non-executive Directors and have been determined by the Board to be independent. During FY13, 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 Telstra's best interests.

Conflicts of Interests

In accordance with the requirements of the Corporations Act and our Constitution, Directors must declare any conflict of interest they may have, and follow the procedures set out in our Directors' Interests Policy including, in certain circumstances, to abstain from participating in any discussion or voting on matters in which they have a material personal interest.

Review of Board and Director Performance

The Board reviews its performance annually (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.

These performance reviews are conducted both internally and, on a periodic basis, externally with the assistance of a facilitator. In line with this approach and on the basis that the FY12 review was undertaken with the assistance of an external facilitator, the FY13 review of Board, Committee and Director performance was conducted internally, led by the Chairman. The process comprised:

(a) a whole of Board discussion in relation to what currently works well and areas for improvement
(b) one-on-one review meetings between our Chairman and each Director, and
(c) a review of the Chairman's performance which was facilitated by the Chairman of the Audit Committee.

The review included consideration of matters relating to strategic settings, the Board's agenda, papers and presentations, Board meeting processes and protocols and the relationship with management.

A review was also undertaken by each Board Committee in respect of its performance during FY13.

The findings and recommendations of the reviews were provided to the Board.

The Board annually reviews the performance of the CEO against agreed performance measures and other relevant factors. The CEO undertakes a similar exercise in relation to the senior executives. The results of the CEO's annual performance and review of the senior executives are then approved by the Board. Details regarding performance evaluations for the CEO and senior executives are set out in our Remuneration Report (which forms part of our Directors' Report).

Board Access to Management and Independent Professional Advice

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

The 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 this basis. In certain circumstances, each Director has the right to seek independent professional advice at Telstra's expense within specified limits.

Company Secretary

The Company Secretary reports directly to the Board through the Chairman, and all Directors have access to the Company Secretary. The Board is supported in governance and administration by the Company Secretary whose responsibilities include coordinating all Board business (including meetings, agendas, board papers and minutes, and monitoring the completion of actions arising from Board meetings), retaining independent professional advisors at the request of the Board, Board Committee or as permitted under the Board Charter, and attending to certain statutory requirements relating to Telstra.

BOARD COMMITTEES

As at August 2013, the following three standing Committees assist the Board in carrying out its responsibilities:

- Audit Committee
- Nomination Committee, and
- Remuneration Committee.

Each Committee operates in accordance with a written Charter approved by the Board, copies of which can be found in the corporate governance section of our website. The role, Charter, performance and membership of each Committee are reviewed each year.

Only independent, non-executive Directors can serve on Board Committees. The Board appoints the members and the Chairman of each Committee. In addition to the membership requirements applying to each Committee as set out in its Charter, each Committee member must have the capacity to devote the required time and attention to prepare for, and attend, Committee meetings. Following each Committee meeting, the Board receives a report from that Committee on its deliberations, conclusions and recommendations.

An overview of the roles and responsibilities, composition, and membership as at 30 June 2013, of our three standing Committees is provided overleaf.

CORPORATE GOVERNANCE STATEMENT

	Audit Committee	Nomination Committee	Remuneration Committee
Roles and Responsibilities	The Audit Committee: • assists the Board in discharging its responsibilities by monitoring and advising on matters relating to financial reporting, risk management, compliance, external audit, internal control, internal audit, corporate governance and matters that may significantly impact the financial condition or affairs of the business • is responsible for overseeing Telstra's compliance with its Structural Separation Undertaking (SSU) and the activities of the Director of Equivalence • provides a forum for communication between the Board, management and both the internal and external auditors, and • provides a conduit to the Board for external advice on audit, risk management and compliance matters.	The Nomination Committee monitors and advises on: • composition and performance of the Board, including Board diversity • Director independence • appointment of the CEO and CEO succession planning • CEO and Company Secretary performance, and • outside directorship requests from executives in relation to publicly listed companies or managers of listed managed investment schemes.	The Remuneration Committee monitors and advises on: • remuneration of the Board, CEO and Company Secretary • performance and remuneration of senior management • remuneration strategies, practices and disclosures generally • work health and safety • diversity (excluding Board diversity) • employee equity plans, and • management succession, capability and talent development. The Committee also exercises the administrative powers delegated to it by the Board under our equity plans.
Composition	Composition requirements include: • there must be at least three independent Directors on the Committee • each member must be financially literate (i.e. 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 • at least one member must be a qualified accountant or other finance professional with experience of financial and accounting matters, and • the Chairman must be an independent Director who is not Chairman of the Board. Our Audit Committee structure complies with the ASX Listing Rules.	Composition requirements include there must be at least three independent Directors on the Committee, including the Chairman of the Board.	Composition requirements include: • there must be at least three independent Directors on the Committee, including the Chairman of the Board, and • each member is expected to be familiar with the legal and regulatory disclosure requirements in relation to remuneration and have adequate knowledge of executive remuneration issues, including executive retention and termination policies, and short term and long term incentive arrangements. Our Remuneration Committee structure complies with the ASX Listing Rules.
Membership as at 30 June 2013	Nora Scheinkestel (Chairman) Catherine Livingstone Russell Higgins Margaret Seale	Catherine Livingstone (Chairman) Geoffrey Cousins John Mullen Steven Vamos	John Mullen (Chairman) Catherine Livingstone Geoffrey Cousins Steven Vamos
Consultation	• Other members of the Board may attend Audit Committee meetings and the Audit Committee may ask management, the external auditor and others to attend meetings and provide any required advice. • The Audit Committee regularly meets with the internal auditor and the external auditor in the absence of management.	Other members of the Board may attend Nomination Committee meetings, which are scheduled to co-incide with Board meetings to enable all Board members to attend. The Nomination Committee can also invite other people, including any Telstra employees, to attend all or part of its meetings provided that the person is not present for consideration of any item in which they have a material personal interest.	• Other members of the Board may attend Remuneration Committee meetings. The Remuneration Committee may also invite other people, including any Telstra employees, to attend all or part of its meetings provided that the person is not present for consideration of any item in which they have a material personal interest. This ensures that no senior executive is directly involved in deciding their own remuneration. • The Remuneration Committee obtains external advice from independent remuneration consultants in determining Telstra's remuneration practices where considered appropriate.

During FY13, the Technology Committee also assisted the Board. The purpose of the Committee was primarily educative and its role was to review technology developments which may be relevant to our business. All Directors were encouraged to attend Committee meetings, which were scheduled to coincide with Board meetings. In light of the fact that all Board members generally attended Technology Committee meetings, it was decided that from June 2013 the matters that were previously considered by the Committee will now be considered by the Board at dedicated sessions to be held during scheduled Board meetings. The Committee formally ceased operation effective 14 June 2013 and, at its date of cessation, membership comprised John Zeglis (Chairman), Catherine Livingstone and Steven Vamos.

BOARD AND COMMITTEE MEETING ATTENDANCE

Details regarding the number of meetings held by the Board and its Committees during FY13, and attendance by Board members, are set out below:

	Board		Committees (1)							
			Audit		Nomination		Remuneration		Technology(6)	
	a	b	a	b	a	b	a	b	a	b
C B Livingstone.	13	13	6	6	6	6	5	5	3	3
D I Thodey	13	13	-	(6)	-	-	-	(5)	-	(3)
T Y Chen(2).	5	3	1	1	-	(1)	-	-	-	-
G A Cousins.	13	13	-	(1)	6	6	5	5	-	(3)
R A Higgins	13	13	6	6	-	(6)	-	-	-	(3)
J P Mullen	13	13	-	-	6	5	5	5	-	(2)
N L Scheinkestel	13	13	6	6	-	(6)	-	-	-	(3)
M L Seale(3).	13	13	5	5 + (1)	-	(6)	-	-	-	(3)
J W Stocker(4)	5	5	2	2	-	(1)	-	-	-	-
S M Vamos(5).	13	13	-	(1)	6	6	5	5	3	3
J D Zeglis	13	13	-	(1)	-	(6)	-	-	3	3

Column a: number of meetings held while a member.

Column b: number of meetings attended.

(1) Committee meetings are open to all Directors to attend. Where a Director has attended a meeting of a Committee of which he or she was not a member, this is indicated by ( ).

(2) Retired effective 5 October 2012.

(3) Joined the Audit Committee effective 15 October 2012.

(4) Retired effective 16 October 2012.

(5) Joined the Technology Committee effective 6 December 2012.

(6) As noted above, the Technology Committee ceased operation effective 14 June 2013.

CORPORATE GOVERNANCE STATEMENT

EXTERNAL AUDITOR

Our external auditor, Ernst & Young (E&Y), was appointed by shareholders at the 2007 AGM. During FY13, the Board, on the recommendation of the Audit Committee, extended E&Y's appointment as auditor for a further two year period until the end of FY15.

In accordance with the Corporations Act 2001, the lead E&Y partner on the audit is required to rotate at the completion of a five year term. A rotation occurred after our FY11 half year accounts were signed as the lead partner retired from E&Y. The Board undertook a process with E&Y and agreed upon the new lead partner.

The Audit Committee oversees our relationship with E&Y, including:

- reviewing and assessing the performance, independence and objectivity of E&Y
- monitoring management's adherence to our policy on audit and non-audit services provided by E&Y
- reviewing and agreeing on the terms of engagement and fees for E&Y, and
- reviewing E&Y's proposed annual audit scope and audit approach, including materiality levels.

During FY13, the Audit Committee was provided with regular formal, written reports detailing the nature and amount of any non-audit services rendered by E&Y and an explanation of how the provision of those non-audit services are compatible with auditor independence. Details of amounts paid or payable to E&Y for non-audit services provided during the year are disclosed in Note 8 to our Financial Statements.

The E&Y engagement partner for the Telstra audit attends our AGM and is available to answer shareholder questions about the conduct of our audit and the preparation and content of the auditor's report.

INTERNAL AUDIT

Our internal audit activities are undertaken by Group Internal Audit, Telstra's dedicated internal audit function. The role of Group Internal Audit is to provide the Board and management with independent and objective assurance on the effectiveness of our governance, risk management and internal control processes. Group Internal Audit has no direct operational responsibility or authority over any of our business or risk management activities, to maintain the necessary independence it needs to carry out its role.

Functional responsibility for Group Internal Audit resides with the Director Group Internal Audit, whose appointment is approved by the Board. The Director Group Internal Audit reports to the Audit Committee and the CFO. Group Internal Audit has full and unrestricted access to all of our information systems, records, physical properties and employees in order to carry out its activities. The work of Group Internal Audit is guided by The International Professional Practices Framework provided by the Institute of Internal Auditors. The Audit Committee monitors Group Internal Audit's activities and performance, including its independence.

MANAGEMENT REPORTING ON RISK

A summary of our key strategic risks and how we manage them is provided in the Strategy and Performance (Managing our risks) section of this Annual Report.

In connection with our financial statements for the financial year ended 30 June 2013, our CEO and CFO have provided the Board with the certifications required by the Corporations Act and the ASX Recommendations. Specifically, the Board has received:

- reports from management as to the effectiveness of our management of our material business risks
- the declaration from our CEO and CFO required in accordance with section 295A of the Corporations Act, and
- assurance from our 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.

PROMOTING RESPONSIBLE AND ETHICAL BEHAVIOUR

Our Telstra Values, Telstra Group Code of Conduct & Business Principles (Code of Conduct) and company policies provide guidance on responsible and ethical decision making and behaviour, and take into account our legal obligations and the reasonable expectations of our stakeholders.

Our Code of Conduct underpins our Telstra Values. It sets out the behaviours we expect of our Directors, employees and contractors, and articulates our commitment to good corporate governance, responsible business practice, our customers, our workforce, the communities in which we operate and the environment. Our company policies give effect to the principles embodied in our Code of Conduct and there is mandatory training for all employees on these policies. All persons governed by our Code of Conduct are responsible for complying with the principles embodied in our Code of Conduct.

Our governance framework includes polices in the following key areas:

Health and Safety – which recognises our commitment to the health, safety and wellbeing of our staff, contractors and community. The policy highlights the importance of workplace health and safety and sets out the priority, accountability, measurement and our commitment to compliance for health and safety at Telstra.

Diversity – which sets out our strategy and principles in relation to diversity and provides the framework for the establishment of our diversity measurable objectives, and monitoring and reporting on diversity matters across Telstra. We discuss diversity at Telstra, including our measurable objectives and our progress in achieving them, in further detail below and in the Sustainability (Our people) section of this Annual Report.

Discrimination and Bullying – which aims to ensure we have a workplace free of all forms of unlawful discrimination, harassment, bullying and victimisation.

Privacy - which sets out our commitment to the protection of our customers' personal information. Our policy and privacy principles outline the ways we protect customer personal information, how and why we collect it, how we may use and disclose it, how we keep it secure and accurate, as well as how customers may access it. Further information on Privacy at Telstra is provided in the Sustainability (Customer experience) section of this Annual Report and on our website at www.telstra.com.au/privacy/privacy-at-telstra/index.htm (including copies of Telstra's Privacy Policy, Privacy Principles and Privacy Statement).

Telstra's 3Rs of Social Media Engagement (Representation, Responsibility and Respect) – which provides guidance to employees and contractors who use social media, either as part of their job or in a personal capacity, regarding our expectations when they talk online about us, our products and services, our people, our competitors and/or other business related individuals or organisations.

Sustainability – which seeks to ensure we 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. Information regarding our approach to sustainability can be found in the Sustainability section of this Annual Report. We make donations and contribute funds to community and non-profit organisations as part of our approach to community investment and sustainability. We do 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.

Anti Bribery & Anti Corruption – which aims to ensure we comply with applicable anti-bribery and anti-corruption laws and regulations. Our Gifts, Prizes and Hospitality Policy also seeks to ensure that gifts, prizes and hospitality are not accepted in inappropriate circumstances, including where acceptance may (or may be perceived to) compromise independence or be construed as a bribe.

Conflicts of Interest and Outside Activities - which provides a process to manage conflicts of interest, and assist our employees, contractors and managers to understand what we consider to be a conflict of interest and how to deal with any actual or potential conflicts.

Securities Trading – which sets out the rules and restrictions relating to buying, selling and otherwise dealing in Telstra securities by our Directors, CEO, senior management and certain other designated employees (Designated Persons), through a trading windows approach. Designated Persons are also prohibited from using Telstra shares as collateral in financial transactions (including margin loan arrangements), and engaging in stock lending arrangements, short term trading and certain hedging arrangements in respect of our securities.

Market Disclosure - which outlines responsibilities and sets out the process for the approval of our ASX announcements, including where Board approval is required in respect of announcements that relate to certain significant matters. The policy also outlines the role of our CEO, CFO and our Continuous Disclosure Committee in relation to disclosure matters. Our continuous disclosure policy is reviewed and updated on a regular basis. Our Investor Relations Communication Policy aims to ensure that we provide investors and the financial community with appropriate and timely information whilst ensuring that we fulfil our statutory reporting obligations under the Corporations Act and the ASX Listing Rules. We provide advance notification of significant group briefings, such as our results announcements, and make them widely accessible through the use of webcasting and placing all announcements made to the market on our website.

Structural Separation Undertaking – which reflects our commitment to compliance with the Structural Separation Undertaking (SSU). The SSU includes our undertaking to structurally separate over time through migrating voice and broadband customers from Telstra's copper and HFC networks to the National Broadband Network, and to delivering increased transparency as well as equivalence in the supply of regulated fixed network services to our wholesale customers. Our commitments under the SSU include the requirement to self-report potential breaches of the SSU to the ACCC each month, and to report annually to the ACCC on our compliance, including details of any new or additional measures that have been undertaken by us to ensure compliance. The ACCC reports annually to the Minister of Broadband, Communications and the Digital Economy on our compliance with the SSU.

Whistleblowing - provides an avenue for anyone to report suspected unethical, illegal or improper behaviour. Our whistleblowing process is supported by an independent service provider and all disclosures are treated as confidential and can be made anonymously. Our Ethics Committee monitors all disclosures, investigations, recommendations and the implementation of actions, and our Audit Committee oversees the whistleblowing process.

Additional information regarding our governance framework (including copies of our Code of Conduct, Securities Trading Policy and Diversity Policies) can be found in the corporate governance section of our website.

OUR REMUNERATION FRAMEWORK

Information relating to our remuneration framework and policies can be found in our Remuneration Report (which forms part of our Directors' Report).

CORPORATE GOVERNANCE STATEMENT

DIVERSITY AND INCLUSION AT TELSTRA

We know that diversity and inclusion helps us to improve business results, enhance our reputation, and attract, recruit, engage and retain a team of talented people.

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

Our programs target inclusion for all at Telstra, with some specific focus also on gender equality, Indigenous Australians, other culturally and linguistically diverse (CALD) employees, people with disability, and gay, lesbian, bisexual, transgender and intersex (GLBTI) employees. Diversity and inclusion is led by our Diversity Council, which is chaired by the CEO and comprises the full CEO Leadership Team. We know we have work to do to improve diversity and be more inclusive at all levels of the Company.

Being a diverse and inclusive employer is important to our employees because it means they can bring individuality and a rich variety of experiences to do their best work. Our people value working in an organisation where differences are respected. We also seek to make positive contributions to the communities in which we operate. Two such initiatives involve celebrating Indigenous culture and supporting campaigns to stop violence against women.

We also believe the benefits of our activities and initiatives around diversity and inclusion accrue in many ways in our business. Having a diverse range of employees better enables us to provide the best in service to our customers. It also enables us to foster greater innovation, stronger problem solving capability, increased morale, motivation and engagement, and greater customer and community connection.

In accordance with the ASX Recommendations, our policies provide the framework for measurable objectives to be set by the Board. Our measurable objectives for achieving diversity as set by the Board, and our progress towards achieving them, are as follows.

Measure	Objective and Progress/Result in respect of FY13	Objective in respect of FY14 (or as otherwise stated)
Women on the Board	**Objective** - There will be 3 women on the Board, representing a female gender representation among non-executive Directors of at least 30% **Progress** - As at 30 June 2013, there were 3 female Directors on the Board (including the Chairman of the Board), representing a female gender representation among non-executive Directors of 37.5%	There will be 3 women on the Board, representing a female gender representation among non-executive Directors of at least 30%
Female representation in graduate intake	**Objective** - 35% female representation in 2014 graduate intake, with an aspiration of 50% female representation by 2020 **Result** - 40% female representation in 2014 graduate intake	FY14 - 45% female representation in graduate intake selected in 2015, with an aspiration of 50% female representation by 2020
Promotion rates for women	**Objective** - To exceed their representation at Business Unit level **Result** - Promotion rates for women exceeded representation in Telstra overall and in 5 out of 10 Business Units, including the three largest Business Units	FY14 - To exceed their representation at Business Unit level
Engagement of identified groups*	**Objective** - Equal to or greater than Telstra-wide engagement score, with any negative differences not statistically significant **Result** - Engagement of Identified Groups exceeded Telstra-wide engagement score, except for Indigenous employees and employees with a disability. These negative differences were not statistically significant	FY14 - Equal to or greater than Telstra-wide engagement score, with any negative differences not statistically significant
Female representation at 30 June**	**Objective** - 32% (Telstra Total) and 25% (Executive Management) **Result** - 30.5% (Telstra Total) and 25.4% (Executive Management)	FY15 - 32% (Telstra Total) and 30% (Executive Management) FY20 - 35% (Telstra Total) and 40% (Executive Management)

* Identified Groups are female employees, Indigenous employees, CALD employees, employees with a disability, and GLBTI employees. FY13 result does not include staff in Telstra International Philippines, Inc (which was incorporated in April 2013) and Chief Entertainment Pty Ltd as they did not participate in our 2013 Employee Engagement Survey.

** Full time and part time staff in Telstra Corporation Limited and its wholly owned subsidiaries, excluding casual and agency staff.

As noted earlier, overall female representation across the Telstra Group remained flat this year, reflecting a challenge around over-representation of women among departures from Telstra, an aspect which we will proactively address next year.

We have changed our approach to our measurable objective in relation to female representation, moving from having a one year horizon to establishing the objective with horizons to the end of FY15 and FY20. We have made this change to introduce a longer-term focus in this area and it will be supported internally with regular monthly monitoring of progress towards achievement of our representation objectives.

Information on the representation of women at various levels within Telstra at 30 June 2013 can be found in the Sustainability (Our people) section of this Annual Report. A table setting out Telstra's workforce gender profile as at 31 March 2013, as required by the *Workplace Gender Equality Act* 2012 and lodged with the Workplace Gender Equality Agency on 27 May 2013, is provided in the corporate governance section of our website at www.telstra.com.au/abouttelstra/company-overview/governance/diversity-and-inclusion/index.htm.

Board Diversity

The Board has a number of initiatives in place to meet its strategic imperative of ensuring the Company has a diverse Board and to achieve its Board diversity measurable objective. These include ensuring a diverse range of qualified candidates is considered for Board appointments, developing a pipeline of potential Board candidates, and 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.

Employee Diversity and Inclusion

Our 2013 employee engagement survey showed that the engagement of all of our identified groups has improved since last year. The most significant improvement was seen in the engagement of our Indigenous employees.

During FY13, our initiatives to enhance diversity and inclusion at Telstra included the following:

- **Gender Equality:** our CEO continued his involvement in the "Male Champions of Change" group, convened by Australia's Sex Discrimination Commissioner, Elizabeth Broderick. This group models effective leadership by male executives in relation to gender equality in some of Australia's largest corporate and government organisations.
- **Indigenous**: we established a team of Indigenous Employment Ambassadors and an Indigenous employee network, along with an online employee Indigenous cultural appreciation program (Connecting our Cultures) and signed a three-year memorandum of understanding with Jawun Indigenous Corporate Partnerships to place Telstra secondees in Indigenous communities.
- **Flexibility**: we began a series of pilot projects on job sharing, employee connection during and after long term leave such as maternity leave, job design, proactive advertising of flexible work options, and a more systematic approach to change work practices to enable better balance between work and life outside work.
- **Overall Inclusion**: we reinforced expectations of all of our leaders, through performance planning and development processes, that they lead in an inclusive way and value differences within their teams.

SHAREHOLDER COMMUNICATIONS

We are committed to open, clear, accurate and timely communications with our shareholders about matters affecting the value of their investment in Telstra, and ensuring all communications are consistent with our continuous disclosure and other applicable legal obligations. We also value a direct, two-way dialogue with shareholders and believe it is important not only to provide relevant information as quickly and efficiently as possible, but also to listen and understand our shareholders' perspectives and respond to their feedback.

Some of the specific initiatives we have put in place to encourage effective communication with our shareholders include:

- making appropriate use of technology to inform and engage our shareholders, including webcasting important events such as our financial results briefings and our AGM
- hosting a series of retail shareholder information briefings in a number of cities around Australia with the CEO and/or CFO in relation to our full year results, prior to our AGM
- writing directly to our shareholders on significant issues that affect their investment and using electronic communications to advise those shareholders who have provided us with their email address, and
- maintaining our investor relations website and placing all announcements made to the market, including transcripts of investor briefings and related information, on our website after this information has been released to the ASX.

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 2013. Financial comparisons used in this report are of results for the year ended 30 June 2013 compared with the year ended 30 June 2012.

The historical financial information included in this Directors' Report has been extracted from the audited Financial Report on pages 69 to 198 of the Annual Report accompanying this Directors' Report.

Principal activity

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

Review and results of operations

Information on the operations and financial position for the Telstra Group is set out in our Operating and Financial Review (OFR) consisting of Our Business, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review on pages 3 to 19 of the Annual Report accompanying this Directors' Report.

Dividends, investor returns and other key ratios

Our basic earnings per share increased 11.6 per cent from 27.5 cents per share to 30.7 cents per share in financial year 2013. Other relevant measures of return include the following:

- return on average assets 18.1 per cent (2012: 16.7 per cent); and
- return on average equity 31.7 per cent (2012: 28.9 per cent).

Return on average assets and return on average equity are higher in financial year 2013 primarily due to the increase in profit. The return on average equity has been partly offset by a favourable movement in actuarial gains/(losses), with the gain recorded directly in equity.

On 8 August 2013, the Directors resolved to pay a final fully franked dividend of 14 cents per ordinary share ($1,738 million), bringing dividends per share for financial year 2013 to 28 cents per share. The record date for the final dividend will be 23 August 2013 with payment being made on 20 September 2013. Shares will trade excluding entitlement to the dividend on 19 August 2013.

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 2012	9 Aug 2012	21 Sep 2012	14 cents	1,739
Interim dividend for the year ended 30 June 2013	7 Feb 2013	22 March 2013	14 cents	1,741

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 2013.

Business strategies, prospects and likely developments

The OFR sets out information on the business strategies and prospects for future financial years, and refers to likely developments in Telstra's operations and the expected results of those operations in future financial years (see Our Business, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review on pages 3 to 19 of the Annual Report accompanying this Directors' Report). Information in the OFR is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Telstra Group. Detail that could give rise to likely material detriment to Telstra, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included. Other than the information set out in the OFR, information about other likely developments in Telstra's operations and the expected results of these operations in future financial years has not been included.

Events occurring after the end of the financial year

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year, apart from the final dividend for financial year 2013, that, in their opinion, has significantly affected or may significantly affect in future years, Telstra's operations, the results of those operations or the state of Telstra's affairs.

Details of Directors and executives

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

- Timothy Y Chen, resigned as non-executive Director effective 5 October 2012. Mr Chen joined the Board as a non-executive Director in April 2012. He was a member of the Audit Committee; and
- John W Stocker, retired as non-executive Director effective 16 October 2012. Dr Stocker joined the Board as a non-executive Director in October 1996. He was a member of the Audit and Technology Committees.

With effect from 9 August 2013 Chin Hu Lim will be appointed as a non-executive Director. Mr Lim will stand for election at Telstra's Annual General Meeting in Sydney on 15 October 2013.

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

- names of our current Directors and details of their qualifications, experience, special responsibilities and directorships of other listed companies are given in Board of Directors on pages 30 to 31of the Annual Report accompanying this report;
- the number of Board and Committee meetings and attendance by Directors at these meetings is provided in the Corporate Governance Statement on page 37 of the Annual Report accompanying this report; and
- details of Director and senior executive remuneration are set out in the Remuneration Report on pages 46 to 67 and forms part of this report.

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

Directors' Shareholdings in Telstra

As at 8 August 2013:

Director	Number of shares held [1]
Catherine B Livingstone	150,000
David I Thodey	1,009,652
Timothy Chen [2]	-
Geoffrey A Cousins	81,765
Russell A Higgins	88,404
John P Mullen	26,159
Nora L Scheinkestel	66,815
Margaret L Seale	30,000
John Stocker [2]	181,728
Steven M Vamos	40,000
John D Zeglis	103,993

(1) The number of shares held refers to shares held either directly or indirectly by Directors as at 8 August 2013. Shares in which the Director does not have a relevant interest, including shares held by the Directors' related parties (including relatives), are excluded. Refer to the Remuneration Report (Table 5.8) and note 28 of the financial statements for total shares held by Directors, representing those shares held directly, indirectly and beneficially as at 30 June 2013.
(2) The number of shares disclosed is the number held as at the date of cessation as a Director.

Company Secretary

Damien Coleman B. Ec, LLB (Hons), FCIS

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

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

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 and legal costs incurred as an officer of Telstra or a related body corporate.

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

Deeds of indemnity in favour of directors, officers and employees

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

- Directors of Telstra (including past Directors);
- secretaries and executive officers of Telstra (other than Telstra Directors) and directors, secretaries and executive officers of Telstra's wholly owned controlled entities;
- directors, secretaries and executive officers of a related body corporate of Telstra (other than a wholly owned controlled entity) while the director, secretary or executive officer was also an employee of Telstra or a director or employee of a wholly owned controlled entity of Telstra (other than Telstra Directors); and
- the officers listed above (other than Telstra Directors) and certain employees of Telstra or a related body corporate of Telstra who are appointed as directors of a company which is not a related body corporate of Telstra, at the request of Telstra.

Each of these deeds provides an indemnity as permitted under Telstra's constitution and the Corporations Act 2001. The term "executive officer" is defined in the relevant deed of indemnity. The deeds in favour of Directors of Telstra also give Directors certain rights of access to Telstra's books and require it to maintain insurance cover for the Directors.

Additionally, Telstra has executed an indemnity in favour of employees (including 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 (Cth)). This indemnity is provided as permitted under Telstra's constitution and the Corporations Act 2001. 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.

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

Directors' and officers' insurance

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

Environmental regulation and performance

Telstra'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;
- mandatory 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 (Cth), requiring robust systems for the identification and evaluation of cost-effective energy saving opportunities. Telstra registered on 31 March 2007 and has submitted annual public and bi-annual government reports to the Department of Resources Energy and Tourism, meeting all legislative requirements. Telstra completed its first five year cycle in 2011 and has transitioned into the second five year cycle with the Assessment and Reporting Schedule approved in June 2013.

Telstra is subject to the National Greenhouse and Energy Reporting Act 2007 (Cth), requiring annual reporting of greenhouse gas emissions, energy consumption and energy production for activities under Telstra's control. Telstra registered prior to 31 August 2009, and has reported to the Department of Climate Change and Energy Efficiency/Clean Energy Regulator on an annual basis. The next report is due on 31 October 2013, and will be supported with an independent assurance audit to a reasonable assurance standard.

Telstra has well established systems and procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force. Telstra keeps its systems and procedures under review and works with regulators and other relevant stakeholders to respond appropriately to environmental issues that arise across its operations, as it has done during the year in relation to the management of remediation of telecommunications pits, some of which contain asbestos fibre cement. Telstra has not been prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.

Non-audit services

During financial year 2013, Telstra's auditor Ernst & Young (EY) has been employed on assignments additional to its statutory audit duties. Details of the amounts paid or payable to EY for audit and non-audit services provided during the year are detailed in note 8 to the financial statements.

The Directors are satisfied that the provision of non-audit services during financial year 2013 is consistent with the general standard of independence for auditors imposed by the Corporations Act 2001 (the Act), and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all 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;
- additional audit and non-audit services between $100,000 and $250,000 require approval from the Chairman of the Audit Committee and services greater than $250,000 require approval from the Audit Committee;
- where the nature or scope of an external engagement changes such that the prior approval obtained is insufficient, subsequent approval from the Chief Financial Officer must be obtained for the revised engagement as shown in the table below. Where the change is not covered in the following table, approval of the revised engagement must be obtained in accordance with the approval levels described above;

Type of Service	Type of Change
Additional audit work related to the half year review and full year audit	Scope and / or fee variations
Other audit services	Scope increases of up to 10 per cent in total of the pre approved fee
Other assurance services	Scope increases of up to 10 per cent in total of the pre approved fee

- all additional engagements approved as per the above points are reported to the Audit Committee at the next meeting;
- fees earned from non-audit work undertaken by EY are capped at 1.0 times the total audit and audit related fees; and
- the provision of non-audit services by EY is monitored by the Audit Committee via periodic reporting to the Audit Committee.

EY is specifically prohibited from performing any of the following services:

- bookkeeping services and other services related to preparing our accounting records or financial statements;
- financial information system design and implementation services;
- operation or supervision of IT systems;
- appraisal or valuation services, fairness opinions, or contribution in kind reports;
- actuarial services;
- internal audit services;
- management or human resources functions including the provision of advice and benchmarking services in relation to executive remuneration;
- temporary staff assignments;
- broker or dealer, investment advisor, or investment banking services;
- legal services or expert services unrelated to the audit;
- tax planning and strategy services; and
- receiver/liquidation services.

A copy of the auditors' independence declaration is set out in the "Auditor's Independence Declaration to the Directors of Telstra Corporation Limited" on page 68 and forms part of this report.

REMUNERATION REPORT

This report sets out the remuneration arrangements for Directors and other Key Management Personnel (KMP) of the Telstra Group for the year ended 30 June 2013 (FY13), and is prepared in accordance with section 300A of the Corporations Act 2001 (Corporations Act). The information in this report has been audited as required by section 308(3C) of the Corporations Act.

The report is presented in five sections:

1. REMUNERATION SNAPSHOT

1.1 Key Points

Telstra performed strongly in FY13, delivering growth in financial results and achieving a second successive year of Total Shareholder Return (TSR) of approximately 37 per cent. These results were underpinned by progress against our key strategic objectives, including continued strong growth in customer numbers and improvements in customer service and productivity, and serve to reinforce Telstra's position as a leading telecommunications and information services company.

Remuneration outcomes in FY13 were consistent with the company's positive performance against financial and customer objectives. The governance of these outcomes remains a key focus of the Board and Remuneration Committee, and we regularly review our policies to ensure that remuneration outcomes for our executives continue to be aligned with company performance.

The structure and layout of this year's report is similar to the FY12 report.

Total Shareholder Return of 36.9%	Telstra's share price continued to rise in FY13, and with a full year dividend payment of 28c delivered a total shareholder return of 36.9% over the financial year.
Chief Executive Officer (CEO) Remuneration	The CEO's Fixed Remuneration (FR) increased by 8.7% effective 1 October 2012 to $2,650,000. This increase positioned his FR close to the median of the ASX 20 CEO positions and was an acknowledgement of David Thodey's performance for the preceding year. Total Remuneration for the CEO increased from $7.2m to $8.8m, primarily due to higher STI and LTI outcomes based on stronger financial and customer outcomes.
Short Term Incentive Outcomes	The STI outcome for Senior Executives was an average of 66.0% of the maximum opportunity based on the achievement of financial, customer and individual performance measures. This outcome is consistent with Telstra's strong financial performance and progress in creating customer advocacy.
Long Term Incentive Outcomes	100% of the FY11 LTI Plan vested in the form of Restricted Shares as a result of top quartile performance in TSR relative to a peer group of global competitors, and the achievement of the Free Cashflow Return On Investment (FCF ROI) stretch target over the three year performance period. These shares are subject to a further Restriction Period ending August 2014.
Non-executive Director Remuneration	Effective 1 July 2012, Board fees for the Chairman and non-executive Directors were increased by 3.7%. There was no increase in Committee fees. At the 2012 Annual General Meeting (AGM), shareholders approved an increase in the annual fee pool of $500,000 to a maximum of $3,500,000 per annum.

1.2 Changes During FY13

The overall structure and philosophy of Telstra's approach to remuneration remained consistent throughout FY13. We have made some adjustments to aspects of our remuneration framework and practices to further align our remuneration structures with company strategy and enhance remuneration governance. The two principal changes were:

- we replaced the Customer Satisfaction measure with a Net Promoter Score (NPS) measure in the FY13 STI Plan during FY13. Improving customer service remains a key pillar of our strategy. By connecting people to the things they love, we aspire to make Telstra customers advocates of our company. The NPS measure was introduced in the STI plan to increase alignment to this strategy. Our results against this measure were encouraging and we are committed to ensuring that Telstra continues to make advancements in this area going forward. All other key terms of the FY13 STI Plan remained unchanged from the previous year; and
- we sought and obtained shareholder approval for David Thodey's FY13 LTI allocation at our 2012 AGM, as foreshadowed in our 2012 Remuneration Report. This was in response to shareholder feedback and in line with common market practice and we intend to continue this practice at our 2013 AGM.

REMUNERATION REPORT

1.3 Key Management Personnel (KMP)

KMP comprise the Directors of the company and Senior Executives. The term "Senior Executives" refers to the CEO and those executives with authority and responsibility for planning, directing and controlling the activities of the company and the Group, directly or indirectly.

For FY13, the role of the GMD Business Support and Improvement (held by Robert Nason) has been included as part of our KMP (Senior Executive) group. This change is a result of the expansion of the authority and responsibilities of this role from 1 July 2012, in particular his responsibility with respect to NPS which is critical to supporting Telstra's strategy regarding customer service and advocacy. There were no other changes to the Senior Executive group during FY13.

The Senior Executives disclosed in this report are:

Name	Most Recent KMP Position Title
David Thodey	Chief Executive Officer
Gordon Ballantyne	Chief Customer Officer
Rick Ellis	GMD Telstra Media
Stuart Lee	GMD Telstra Wholesale
Kate McKenzie	GMD Telstra Innovation, Products and Marketing
Robert Nason	GMD Business Support and Improvement
Andrew Penn	Chief Financial Officer
Brendon Riley	Chief Operations Officer

1.4 Actual Pay and Benefits Crystallised in FY13 for Senior Executives Employed at 30 June 2013

The following Table 1.4 details actual pay and benefits for Senior Executives which crystallised in FY13. This is a voluntary disclosure and we have included this table in our Remuneration Report as we believe it is helpful to assist shareholders in forming an understanding of the cash and other benefits actually received by Senior Executives from the various components of their remuneration during the 2013 financial year.

As a general principle, the accounting standards require the value of share based payments to be calculated at the time of grant and accrued over the performance and Restriction Period and this may not reflect what Senior Executives actually receive or become entitled to at the end of the performance and Restriction Period.

The figures in this table, which has not been prepared in accordance with Australian Accounting Standards, provide additional and different disclosures to the table included in section 5 (which provides a breakdown of Senior Executive remuneration in accordance with statutory obligations and was prepared in accordance with Australian Accounting Standards).

Name	Fixed Remuneration ($) (1)	Non-monetary Benefits ($) (2)	Short Term Incentive payable as Cash ($) (3)	Value of STI Deferred Shares that became Unrestricted ($) (4)	Value of LTI that became Unrestricted ($) (5)	FY13 Total Crystallised Pay and Benefits ($)
David Thodey	2,596,564	9,568	2,637,413	935,702	3,459,557	9,638,804
Gordon Ballantyne	1,250,000	80,585	1,197,188	468,791	-	2,996,564
Rick Ellis	912,397	21,265	729,825	82,535	-	1,746,022
Stuart Lee	1,018,245	14,090	956,250	252,724	605,423	2,846,732
Kate McKenzie	987,397	14,297	957,750	318,588	908,136	3,186,168
Robert Nason	1,037,397	19,747	1,045,013	338,141	441,096	2,881,394
Andrew Penn	1,400,000	4,357	1,393,350	123,362	-	2,921,069
Brendon Riley	1,287,397	9,882	1,245,075	328,348	-	2,870,702

(1) The sum of Salary and Fees and Superannuation as detailed in table 5.1.

(2) Includes 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 (as per the contractual arrangements for Gordon Ballantyne). These are not paid as cash.

(3) Amount relates to the cash component (75 per cent) of STI earned for FY13, which will be paid in September 2013. The remaining 25 per cent will be provided as Deferred Shares in October 2013.

(4) Amount relates to the value of STI earned in prior financial years which has been deferred as shares and will be released in August 2013 i.e. 50 per cent of the deferred amounts relating to the FY11 and FY12 performance periods respectively. Equity has been valued based on the Telstra closing share price on 30 June 2013 of $4.77.

(5) Amount relates to Performance Rights which vested as Restricted Shares under the FY10 LTI Plan with a final test date of 30 June 2012 and which will be released from trading restrictions in August 2013. Equity has been valued based on the Telstra closing share price on 30 June 2013 of $4.77.

The amounts shown in Table 1.4 include Fixed Remuneration, STI payable as cash for the FY13 STI plan, as well as any deferred STI or LTI that has been earned as a result of performance in previous financial years but was subject to a restriction during FY13 that ends August 2013.

We believe that including amounts even though they may not be paid (or the relevant Restriction Period for equity may not end) until early FY14 in Table 1.4 is an effective way of showing the link between executive remuneration outcomes and the relevant performance year. It is also consistent with changes we propose to make to the structure of future STI Deferral and LTI plans to remove timing issues, as outlined in section 1.5 below.

1.5 Looking Forward

Looking forward, some of the key aspects of our approach to Senior Executive remuneration in FY14 are:

- **CEO Remuneration:** the CEO's FR was increased last year to position him at the median of the ASX 20, and will not be increased in FY14 to maintain that position.
- **STI and LTI Opportunities:** there will be no change to the STI and LTI opportunities as a percentage of Fixed Remuneration for the CEO and Senior Executives.
- **Wholesale STI Plan:** an NPS measure will replace the Customer Satisfaction measure in the FY14 Wholesale STI Plan, consistent with the approach taken for the FY13 and FY14 STI Plans for the other Senior Executives.
- **Clawback:** clawback mechanisms will apply to future LTI grants, giving the Board discretion to clawback Restricted Shares if a clawback event occurs. These mechanisms will be consistent with mechanisms under the STI Deferral Plan. We will also broaden the scenarios in which the Board could consider applying a clawback to include significant reputational damage to Telstra as a result of a Senior Executive's act or failure to act.
- **Chief Customer Officer:** Gordon Ballantyne was employed under a fixed term contract that was due to expire on 30 June 2014. However from 1 July 2013 he will move to an ongoing employment contract and will participate in the LTI Plan for FY14.
- **LTI and STI Deferred Shares:** future grants will be structured so that the end of Restriction Periods are on 30 June to better align disclosure of executive remuneration outcomes with the relevant performance periods. Any dealings in these shares will be subject to Telstra's Securities Trading Policy.

2. SETTING SENIOR EXECUTIVE REMUNERATION

2.1 Remuneration Policy, Strategy and Governance

Our remuneration policy and strategy is to:

- provide market competitive remuneration to attract, motivate and retain highly skilled people;
- reinforce Telstra's values and cultural priorities;
- implement best practice programs to help drive the achievement of our strategic and financial objectives (including the use of deferral and clawback mechanisms); and
- link a significant component of at risk remuneration to annual performance results and the creation of long term shareholder value.

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

The Remuneration Committee

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

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

Annual Remuneration Review

The Remuneration Committee reviews CEO and Senior Executive remuneration packages annually to ensure there is a balance between fixed and at risk pay, and that they reflect both short and long-term performance objectives aligned to Telstra's strategy.

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

Incentive Design and Performance Assessment

The Remuneration Committee oversees the process of setting robust performance measures and targets that encourage strong Senior Executive performance and ethical behaviour. STI and LTI performance measures are set at the beginning of each year. At the end of each financial year, the Board reviews the company's audited financial results and the results of the other non-financial measures. The Board then assesses performance against each measure to determine the percentage outcome of the STI and LTI plans. The Board considers that it is best positioned to assess whether the applicable measures have been met.

Each performance measure in the STI and LTI plans has been selected in the context of achieving our business strategy over the longer term and increasing shareholder value.

Engagement With Consultants

External consultants are required to engage directly with the Remuneration Committee Chairman as the first point of contact whenever market data for Senior Executive positions is scoped or supplied to Telstra. To assess market competitiveness in FY13, the Committee engaged Guerdon Associates for the provision of ASX 20 market data but did not require a remuneration recommendation. As a result, no disclosures are required under the Corporations Act.

2.2 Remuneration Components

Our remuneration structure (detailed below) is designed to support our remuneration strategy and is consistent between the CEO and other Senior Executives in the KMP group. Some tailoring may occur to take into account unique circumstances of an individual role. Where this has occurred, we have specifically disclosed it in this Report.

Attract, motivate and retain highly skilled people	Reinforce values and cultural priorities	Reward achievement of financial and strategic objectives	Align to long term shareholder value creation
FIXED	**AT RISK**		
Fixed Remuneration	Short Term Incentive		Long Term Incentive
CASH		**EQUITY**	
• Base salary and superannuation. • Set based on market and internal relativities, performance, qualifications and experience.	• 75% of STI outcome paid in September after the financial year end. • STI outcome based on Telstra's financial, NPS and individual performance measures.	• 25% of the STI outcome is deferred into Telstra shares. • Half of the shares are deferred for 1 year and the other half for 2 years. • The shares are subject to clawback at the discretion of the Board. The shares are forfeited if employment ends unless departure is for a Permitted Reason.	• Performance Rights subject to performance conditions and Restriction Period over 4 years. • 50% subject to Relative Total Shareholder Return. • 50% subject to Free Cash-flow Return on Investment. • Performance is measured over 3 years with an additional restriction period of approximately 1 year before full ownership.
Base level of reward competitive with the market	**Encourages sustainable performance in the medium to longer term and provides a retention element**		

Section 2.2 provides a summary of the STI and LTI plan structures including clawback provisions and Section 2.3 summarises the percentage mix of fixed and at-risk components.

2.2.1 FY13 STI Plan

For FY13, all of our Senior Executives participated in the same STI Plan with the exception of the GMD Telstra Wholesale (as explained below). The performance measures of this Plan were Free Cashflow, EBITDA, Total Income, NPS and individual performance measures. The Board selected these performance measures as it believes they are a critical link between achieving the outcomes of Telstra's business strategy and increasing shareholder value. In relation to these performance measures:

- the financial measures were set in accordance with our FY13 financial plan and strategy;
- we replaced Customer Satisfaction with NPS as the customer metric during FY13. The weighting of this metric remained the same and the move to NPS supports the shift in Telstra's strategy from the goal of delivering outstanding customer satisfaction to creating customer advocates. The Net Promoter system was rolled out across Telstra during FY13 and an explanation of the way in which NPS is calculated is included in section 3.2.2; and
- the individual performance measures were set at the beginning of FY13 and were based on each Senior Executive's expected individual contribution to the achievement of our strategy.

The performance measures of the STI plan operate independently of each other. Each measure has a threshold, target and stretch level of performance. Where threshold performance is not achieved, there is no payment for that component of the incentive. 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.

The FY13 STI Plan for the GMD Telstra Wholesale must comply with the Structural Separation Undertaking (SSU) given by Telstra as part of the NBN Transaction. This provides that the GMD Telstra Wholesale may participate in incentive plans that reflect solely the objectives and performance of the Wholesale Business Unit. As a result, the performance measures applicable to his FY13 STI Plan were different. The performance measures for the FY13 STI Plan applicable to the GMD Telstra Wholesale were Wholesale Total Income, Wholesale EBITDA, Wholesale Customer Satisfaction and individual performance.

The process of transitioning between Customer Satisfaction and NPS within Telstra Wholesale was not completed until the end of FY13. As a result, NPS will be included in the Wholesale STI Plan (in place of Customer Satisfaction) from FY14 onwards.

Details of the STI outcomes for Senior Executives for FY13 are provided in section 3.2.

2.2.2 STI Deferral

Twenty five per cent of Senior Executives' actual STI payment is deferred into Telstra shares. Half of the shares are deferred for one year and the other half are deferred for two years.

During the Restriction Period, Senior Executives are entitled to earn dividends on their Deferred Shares as all performance hurdles of the STI Plan have been met. They are, however, restricted from dealing with the shares during this period.

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

Deferred Shares may also be forfeited if a clawback event occurs. A clawback event includes circumstances where a Senior Executive has engaged in fraud or gross misconduct, or where the financial results that led to the STI being earned or awarded are subsequently shown to be materially misstated. From FY14 the Board could also consider applying a clawback in situations where there is significant reputational damage to Telstra as a result of a Senior Executive's act or failure to act.

2.2.3 FY13 LTI Plan

Participation

All of our Senior Executives participated in the same FY13 LTI Plan, with the exception of the Chief Customer Officer and the GMD Telstra Wholesale (as explained below).

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

The LTI plan has two separate performance measures, being Relative Total Shareholder Return (RTSR) and Free Cashflow Return On Investment (FCF ROI).

Details of the Performance Rights granted on 22 October 2012 to Senior Executives in relation to the FY13 LTI Plan are provided in section 5.

Plan Structure

Plan Component	Detail
Performance Measure Weighting	50% to RTSR 50% to FCF ROI
Performance Period	1 July 2012 to 30 June 2015
Restriction Period End Date	4 years after 17 August 2012 (17 August 2016)
Minimum Threshold for RTSR Vesting	50th percentile of peer group
RTSR Vesting Schedule	25% vests at 50th percentile, straight line vesting to 75th percentile where 100% vests
Minimum Threshold for FCF ROI Vesting	19.3%
FCF ROI Vesting Schedule	50% vests at target of 19.3%, straight line vesting to stretch of 21.3% where 100% vests
Retesting	No

Relative Total Shareholder Return

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

The Board believes that RTSR is an appropriate performance hurdle because it links executive reward to Telstra's share price performance relative to its global peers.

The comparator group for the FY13 LTI Plan included the following large market capitalisation telecommunication firms: AT&T Inc; Belgacom Group; Bell Canada Enterprises Inc; BT Group plc; Deutsche Telekom AG; Orange SA; Koninklijke KPN N.V.; KT Corporation; Nippon Telegraph & Telephone Corp; NTT DoCoMo Inc; Portugal Telecom SGPS SA; Singapore Telecommunications Ltd; SK Telecom Co Ltd; 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.

During the performance period France Telecom SA changed its name to Orange SA.

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

No amendments were made to the comparator group in FY13.

Free Cashflow Return On Investment

FCF ROI as determined by the Board is calculated by dividing the average annual Free Cashflow (less finance costs) over the three year performance period by Telstra's average investment over the same period.

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

Vesting of Performance Rights as Restricted Shares

At the end of FY15, the Board will review Telstra's audited financial results for FCF ROI and RTSR to determine the percentage of Performance Rights that vest as Restricted Shares under the FY13 LTI Plan.

Until the Performance Rights vest as Restricted Shares, a Senior Executive has no legal or beneficial interest, no entitlement to receive dividends and no voting rights in relation to any securities granted under the FY13 LTI Plan.

If a Senior Executive leaves Telstra for any reason other than a Permitted Reason (LTI), any Performance Rights lapse. If they leave Telstra for a Permitted Reason (LTI) a pro rata number of Performance Rights will lapse based on the proportion of time remaining until 30 June 2016. The pro rata portion relating to the Senior Executive's completed service may still vest as Restricted Shares subject to achieving the performance measures of the FY13 LTI Plan at the end of the applicable performance period.

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 vest Performance Rights that have not lapsed as Restricted Shares.

Any Restricted Shares that are allocated based on the vesting of Performance Rights are subject to a further Restriction Period expiring in August 2016 which prevents a Senior Executive from dealing with their Restricted Shares. If a Senior Executive leaves Telstra for any reason other than a Permitted Reason (LTI) before the end of the Restriction Period, the Restricted Shares are forfeited.

Chief Customer Officer

An LTI Plan was put in place for the Chief Customer Officer in FY11, as described in section 3.3.2 and Table 5.1. The Chief Customer Officer does not participate in the FY13 LTI Plan, however will participate in the LTI Plan for FY14 coinciding with his move to a permanent contract from 1 July 2013.

GMD Telstra Wholesale

As disclosed in the 2012 Remuneration Report, due to SSU requirements the GMD Telstra Wholesale participated in a separate equity plan in lieu of the FY12 LTI Plan for other Senior Executives.

In FY13, the GMD Telstra Wholesale was allocated 116,371 Restricted Shares based on performance against the FY12 STI measures. Dividends are available on the Restricted Shares and they are subject to a Restriction Period that will end in August 2015, which is aligned with the conclusion of the FY12 LTI Plan for other Senior Executives.

If the GMD Telstra Wholesale leaves Telstra before the end of the three year Restriction Period for any reason, other than a Permitted Reason (STI), the Restricted Shares will be forfeited. If he leaves for a Permitted Reason (STI) he will retain the Restricted Shares.

The Restricted 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, or where the financial results that led to the shares being awarded are subsequently shown to be materially misstated.

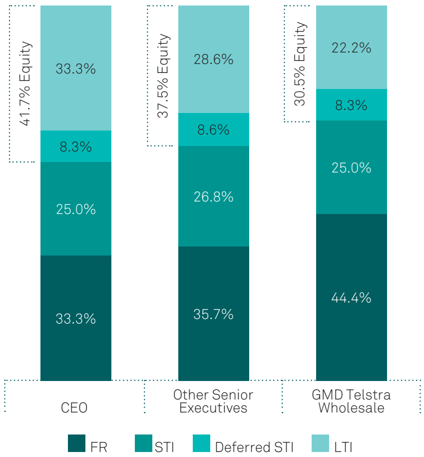
In lieu of participation in the Senior Executive FY13 LTI Plan the GMD Telstra Wholesale will be allocated Restricted Shares based on his performance against his FY13 plan measures, namely Wholesale Total Income, Wholesale EBITDA, Wholesale Customer Satisfaction and individual performance. Clawback provisions relating to these Restricted Shares will be aligned with the STI Deferral Plan for other Senior Executives.

2.3 Putting Policy Into Practice

2.3.1 Remuneration Mix of Senior Executives

The graph below shows the FY13 remuneration mix for Senior Executives as at 30 June 2013. The variable components of STI (including any potential deferred amounts) and LTI are expressed at target, which is 50 per cent of the maximum opportunities.

The STI and LTI plans will only provide a reward to a Senior Executive if the performance measures of the relevant plans are met.



Note that the Chief Customer Officer currently participates in a cash LTI related to his fixed term contract, however will align to this structure from FY14 onwards as noted in section 1.5.

2.3.2 Plan Variation Guidelines

The Board may, in its absolute discretion, amend the terms of the LTI Plan or the targets of the STI Plan where an event occurs that means the targets of the relevant plan are no longer appropriate. Situations where this discretion can be applied include:

- Material change of the strategic business plan;
- Material regulatory or legislative change; and
- Significant out of plan business development such as acquisitions and divestments.

Adjustments made in relation to the plans are outlined in sections 2.2.1 and 3.2.2.

2.3.3 Executive Share Ownership Policy

The intent of Telstra's Executive Share Ownership Policy is to align a significant portion of executive remuneration to the creation of longer term shareholder value. Under the policy, Senior Executives are required to hold Telstra shares to the value of 100 per cent of their Fixed Remuneration by the later of 30 June 2015, or within five years of first appointment to Senior Executive level.

Any Deferred Shares and Restricted Shares held by Senior Executives are included in calculating their shareholding for the purposes of this policy. Senior Executives must obtain Board approval before they sell shares if they have not yet met their share ownership requirements under the policy.

Progress is monitored by the Board on an ongoing basis and Senior Executives are tracking well against this requirement. Details of Senior Executives' interests in Telstra shares as at 30 June 2013 are set out in Table 5.8 of this report, but do not include Restricted Shares from the FY10 and FY11 LTI plans.

2.3.4 Restrictions and Governance

All KMP must comply with Telstra's Securities Trading Policy and shares can only be traded during approved trading windows.

KMP are prohibited from using Telstra shares as collateral in any financial transaction (including margin loan arrangements) or any stock lending arrangement.

They are also prohibited from entering into arrangements which effectively operate to limit the economic risk of their security holdings allocated under Telstra's equity plans during the period the securities are held on their behalf by the Trustee or prior to the date of exercise or lifting of the Restriction Period of the relevant securities. This ensures that KMP are not permitted to hedge against participation in Telstra's equity plans.

KMP are also required to confirm on an annual basis that they comply with these policy restrictions, which enables Telstra to monitor and enforce our policy.

2.3.5 NBN and Remuneration

From FY13 the NBN Transaction was incorporated into Telstra's established corporate planning processes and Senior Executives continue to be accountable for achieving planned outcomes, including NBN cashflows. The value of the NBN Transaction to be received over the next 30 years is subject to a range of dependencies and assumptions.

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

The Board may use its discretion to amend STI and LTI plans based on Telstra's Plan Variation Guidelines or how it determines the FCF ROI calculation to ensure the NBN Transaction impact is appropriately reflected.

This may include prior LTI plans that have not fully incorporated the NBN Transaction. LTI and STI plans may also be adjusted if, due to external factors, the NBN roll-out does not proceed according to NBN Co's published business plan at the time the measures are developed to avoid windfall gains and losses.

The Board excluded the impact of the NBN in the FCF ROI calculation for the FY11 LTI Plan, as explained in section 3.3.

NBN adjustments made to the STI for FY13 are outlined in section 3.2.2.

3. EXECUTIVE REMUNERATION OUTCOMES

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

3.1 Financial Performance

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

Performance Measures	FY13 $m	FY12 $m	FY11 $m	FY10 $m	FY09 $m
Earnings					
Total Income	25,980	25,503	25,304	25,029	25,614
EBITDA	10,629	10,234	10,151	10,847	10,948
Net profit (1)	3,813	3,405	3,231	3,883	4,073
Shareholder Value					
Share price ($) (2)	4.77	3.69	2.89	3.25	3.39
Total dividends paid per share (cents)	28	28	28	28	28

(1) Net profit attributable to equity holders of the Telstra entity.

(2) Share prices are as at 30 June for the respective year. The closing share price for FY08 was $4.24.

3.2 Short Term Incentive Outcomes

3.2.1 Average STI Payment as a Percentage of Maximum STI Opportunity

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

Performance Year	FY13	FY12	FY11	FY10	FY09
STI received	66.0%	65.6%	48.4%	22.7%	50.9%

3.2.2 Overall FY13 STI Plan Outcomes

At the end of FY13, the Board reviewed Telstra's audited financial results and the results of other performance measures. On 7 August 2013 the Board then assessed performance against each measure and determined the percentage of STI that was payable, of which 25 per cent will be provided through Deferred Shares.

In respect of the calculation of the NPS measure, NPS is based on asking Telstra's customers to rate their likelihood of recommending Telstra, out of a score of 10. The overall NPS result for Telstra is the weighted average of the surveys from Telstra's Consumer (50 per cent), Business (25 per cent), and Enterprise and Government (25 per cent) customers. The surveys are undertaken by third party research companies. The measurement period for the FY13 results is based on the three month average across 1 April 2013 to 30 June 2013 for Consumer and Business, and the six month consolidated result from 1 January 2013 to 30 June 2013 for Enterprise and Government. The final result was audited by Telstra's Group Internal Audit team.

In respect of determining the Wholesale Customer Satisfaction measure that applies to the GMD Telstra Wholesale, its calculation is based on a survey of Wholesale customers only, undertaken by a third party research company during February to April 2013.

The Board believes the methods of calculating the financial and NPS outcomes, as well as the Wholesale Customer Satisfaction, are appropriate and provided a rigorous assessment of Telstra's performance.

The Board exercised its discretion to amend the FY13 STI targets in accordance with the Variation Guidelines (as outlined in section 2.3.2) during the final assessment of the results in August 2013. The amendments pertained to the sale of TelstraClear, spectrum purchases and the NBN rollout. Overall the adjustments had a net positive impact on the FY13 STI outcome.

Senior Executive STI (excluding GMD Telstra Wholesale)

Measure	Outcome (% of maximum)
Total Income	90.5%
EBITDA	77.3%
Free Cashflow	43.5%
NPS	62.5%

GMD Telstra Wholesale STI

Measure	Outcome (% of maximum)
Wholesale Total Income	100.0%
Wholesale EBITDA	100.0%
Wholesale Customer Satisfaction	100.0%

Section 3.2.3 provides a summary of STI payments as a percentage of maximum for each Senior Executive.

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

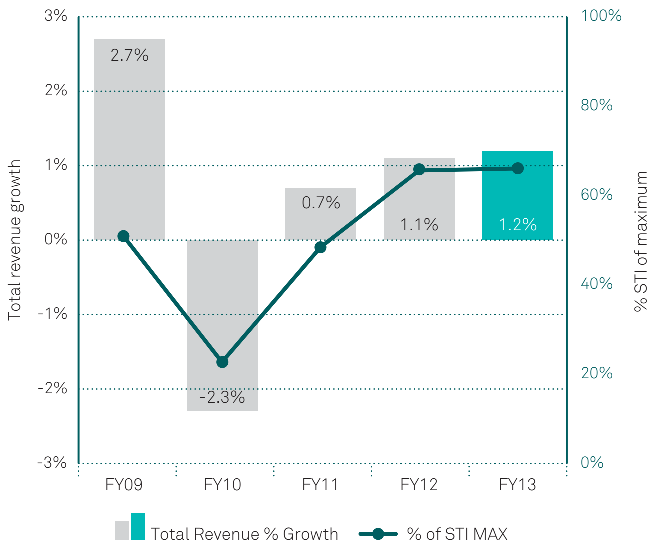
3.2.3 FY13 STI Plan Payment Results

STI payments for FY13, compared to FY12, as a percentage of the maximum STI opportunity were as follows:

Name	FY13	FY12 (1)
David Thodey	66.4%	66.1%
Gordon Ballantyne	63.9%	69.1%
Rick Ellis	52.6%	66.1%
Stuart Lee	85.0%	58.1%
Kate McKenzie	63.9%	67.1%
Robert Nason	66.4%	n/a
Andrew Penn	66.4%	66.1%
Brendon Riley	63.9%	67.1%
KMP Average:	**66.0%**	**65.6%**

(1) The FY12 average of 65.6 per cent reflects the total disclosed in the 2012 Remuneration Report. Not all Senior Executives in FY13 qualified as KMP in FY12.

The graph below shows STI payments as a percentage of the maximum STI opportunity have tracked closely to Total Revenue growth over the past five years. While this correlation is positive, Telstra's incentive plans measure performance against a range of financial and non-financial metrics with varied weightings. Accordingly, the pay for performance relationship is based on the performance against these metrics as a whole and may not always align with revenue growth.



Note that in our 2012 Remuneration Report the total revenue growth percentage for FY11 was stated at a lower amount than the actual figure. This has been corrected in the graph above.

3.3 Long Term Incentive Outcomes

The performance periods for the FY11 LTI Plan and the Chief Customer Officer FY11 LTI Plan concluded on 30 June 2013. The plans included the same performance measures, being RTSR and FCF ROI.

The results of Telstra's RTSR was calculated by an external provider and audited by Telstra's Group Internal Audit team.

The FY11 LTI plan FCF ROI target included only preliminary projections for NBN. In accordance with the Board's intent to ensure there are no unintended windfall gains or losses for Senior Executives, the final FCF ROI calculation took into account the impact of the NBN. This had a positive effect and the stretch level of 16.4 per cent was achieved resulting in 100 per cent of this component vesting as Restricted Shares. The result was reviewed by Telstra's Group Internal Audit team and our external auditor Ernst & Young.

The Board has determined that the vesting outcomes are in accordance with the results and the Plan rules.

3.3.1 FY11 LTI Plan Testing as at 30 June 2013

The vesting table for the FY11 LTI Plan is detailed below, reflecting performance up to 30 June 2013 against the two performance measures of RTSR and FCF ROI.

The RTSR vesting result was based on Telstra ranking at the 86th percentile of the global peer group.

Test Date	Measure	% of plan vested
30 June 2013	RTSR	50.0%
	FCF ROI	50.0%
Total		**100.0%**

Upon vesting, each participant was granted Restricted Shares which are subject to a Restriction Period (concluding August 2014), during which Senior Executives are not permitted to trade or sell those shares.

3.3.2 FY11 Chief Customer Officer LTI Plan Testing as at 30 June 2013

As disclosed in our 2011 Remuneration Report and noted earlier, the Chief Customer Officer participated in a cash based LTI in March 2011 to cover the period of his fixed term contract, in lieu of participation in the annual Telstra equity-based LTI plans. This plan was subject to the same terms and performance criteria as Telstra's FY11 LTI Plan that applied to all other Senior Executives.

In accordance with the vesting table above for the FY11 Plan, the Chief Customer Officer's LTI vested at 100 per cent. Amounts payable under the plan are subject to further restriction and will not be paid to Gordon Ballantyne until 30 June 2014.

REMUNERATION REPORT

3.4 Senior Executive Contract Details

The key terms and conditions of service contracts for current Senior Executives are summarised in the table below.

Upon notice being given, Telstra can require a Senior Executive to work through the notice period or may terminate employment immediately by providing payment in lieu of notice. Any termination payment is calculated based on the Senior Executive's Fixed Remuneration as at the date of termination.

There will be no payment if termination is a result of serious misconduct, or redundancy in those cases where Telstra's redundancy policy overrides the termination provisions of a Senior Executive's service contract.

Name	Fixed Remuneration at end of FY13	Notice Period	Termination Payment
David Thodey	2,650,000	6 months	12 months (1)
Gordon Ballantyne	1,250,000	6 months	6 months (2)
Rick Ellis	925,000	6 months	6 months
Stuart Lee	1,000,000	6 months	12 months
Kate McKenzie	1,000,000	6 months	6 months
Robert Nason	1,050,000	6 months	6 months
Andrew Penn	1,400,000	6 months	6 months
Brendon Riley	1,300,000	6 months	12 months

(1) 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.

(2) Gordon Ballantyne was on a fixed term contract with an end date of June 2014. These terms reflect Gordon Ballantyne's new ongoing contract of employment which took effect on 1 July 2013, as noted in section 1.5.

4. NON-EXECUTIVE DIRECTOR REMUNERATION

4.1 Remuneration Structure

The Telstra Board and Committee fee structure (inclusive of superannuation) during FY13 was:

Board Fees	Chairman	Non-executive Director
Board	705,000	235,000
Committee Fees	**Committee Chair**	**Committee Member**
Audit Committee	70,000	35,000
Remuneration Committee	50,000	25,000
Nomination Committee	-	7,000
Technology Committee (1)	7,000	7,000

(1) The Technology Committee ceased operation on 14 June 2013.

The Chairman of the Board does not receive Committee fees in respect of her role as a Chair or a member of any Board Committee. As disclosed in our 2012 Remuneration Report, effective 1 July 2012 the annual Board fee for non-executive Directors was increased to $235,000, and to $705,000 for the Chairman (representing an increase of 3.7 per cent). There was no increase in Committee fees. No increase in Board or Committee fees is contemplated for FY14.

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

The total of Board and Committee fees, including superannuation, paid to non-executive Directors in FY13 remained within the approved fee pool.

4.2 Remuneration Policy and Strategy

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

To align the non-executive Directors' interests with the interests of our shareholders, the Board has established 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.

Progress is monitored on an ongoing basis and non-executive Directors are tracking well against the guidelines. Details of non-executive Directors' interests in Telstra shares as at 30 June 2013 are set out in Table 5.8 of this report.

4.3 Remuneration Components

Superannuation contributions, in accordance with legislation and Telstra policy, are included within 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 5.7 provides full details of non-executive Director remuneration for FY13.

Section 2.3.4 of this Report provides details on the Telstra securities trading restrictions which apply to all KMP, including non-executive Directors.

5. REMUNERATION TABLES AND GLOSSARY

5.1 Senior Executives Remuneration (Main Table)

The table below has been prepared in accordance with the requirements of the Corporations Act and the relevant Australian Accounting Standards. The figures provided under the Equity Settled Share-based Payments columns are based on accounting values and do not reflect actual payments received by KMP in FY13.

		Short Term Employee Benefits				Post-Employment Benefits	Termination Benefits	Other Long Term Benefits	Equity Settled Share-based Payments		
									Accounting Value (at risk) (6)		
Name and Title of KMP in FY13	Year	Salary and Fees ($) (1)	Short Term Incentives (Cash) ($) (2)	Non-monetary Benefits ($) (3)	Other ($) (4)	Superannuation ($) (5)	Termination Benefits ($)	Accrued Long Service Leave ($)	Short Term Incentive Shares ($) (7)	Other Equity ($) (8)	Total Remuneration ($)
David Thodey	**2013**	**2,580,094**	**2,637,413**	**9,568**	**-**	**16,470**	**-**	**64,914**	**701,786**	**2,793,368**	**8,803,613**
Chief Executive Officer	2012	2,387,536	2,415,449	6,582	-	15,775	-	60,083	335,479	2,006,135	7,227,039
Gordon Ballantyne (9)	**2013**	**1,213,562**	**1,197,188**	**80,585**	**-**	**36,438**	**-**	**31,250**	**346,094**	**-**	**2,905,117**
Chief Customer Officer	2012	1,196,520	1,294,688	12,918	-	15,775	-	30,307	179,818	-	2,730,026
Rick Ellis	**2013**	**889,644**	**729,825**	**21,265**	**-**	**22,753**	**-**	**22,810**	**156,303**	**398,224**	**2,240,824**
GMD Telstra Media	2012	392,051	395,556	4,641	-	7,198	-	9,981	54,938	61,620	925,985
Stuart Lee	**2013**	**971,603**	**956,250**	**14,090**	**-**	**46,642**	**-**	**24,715**	**219,409**	**339,704**	**2,572,413**
GMD Telstra Wholesale	2012	926,118	623,492	19,070	-	43,809	-	23,542	86,596	207,954	1,930,581
Kate McKenzie	**2013**	**925,427**	**957,750**	**14,297**	**-**	**61,970**	**-**	**24,685**	**265,724**	**793,401**	**3,043,254**
GMD Telstra Innovation, Products & Marketing	2012	874,271	955,463	12,199	-	61,275	-	23,389	132,703	525,549	2,584,849
Robert Nason (10)	**2013**	**1,020,927**	**1,045,013**	**19,747**	**-**	**16,470**	**-**	**25,935**	**284,828**	**735,634**	**3,148,554**
GMD Business Support and Improvement	2012	-	-	-	-	-	-	-	-	-	-
Andrew Penn	**2013**	**1,383,530**	**1,393,350**	**4,357**	**-**	**16,470**	**-**	**35,000**	**275,633**	**506,078**	**3,614,418**
Chief Financial Officer	2012	461,408	591,202	3,823	-	5,258	-	11,667	82,112	53,879	1,209,349
Brendon Riley	**2013**	**1,270,927**	**1,245,075**	**9,882**	**-**	**16,470**	**-**	**32,185**	**347,537**	**755,721**	**3,677,797**
Chief Operations Officer	2012	1,196,520	1,257,188	18,984	1,000,000	15,775	-	30,307	174,610	385,324	4,078,708
Total Current KMP	**2013**	**10,255,714**	**10,161,864**	**173,791**	**-**	**233,683**	**-**	**261,494**	**2,597,314**	**6,322,130**	**30,005,990**
	2012	7,434,424	7,533,038	78,217	1,000,000	164,865	-	189,276	1,046,256	3,240,461	20,686,537

The total of the KMP remuneration in FY12 (as per the 2012 Remuneration Report) was $24,988,922. This amount included two former KMP that are not disclosed in this report (Bruce Akhurst and John Stanhope) and two incumbents that served partial years (Rick Ellis and Andrew Penn). The FY13 total includes a full year's service for both Rick Ellis and Andrew Penn, as well as a new KMP in Robert Nason.

The table below provides a year on year comparison of remuneration for only those that served full years in both FY12 and FY13 (being David Thodey, Gordon Ballantyne, Stuart Lee, Kate McKenzie and Brendon Riley).

Comparison of Total of FY13	**2013**	**6,961,613**	**6,993,676**	**128,422**	**-**	**177,990**	**-**	**177,749**	**1,880,550**	**4,682,194**	**21,002,194**
to FY12 Remuneration Report	2012	6,580,965	6,546,280	69,753	1,000,000	152,409	-	167,628	909,206	3,124,962	18,551,203

Footnotes to Table 5.1:

(1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.

(2) Short term incentives (cash) relates to performance in FY12 and FY13 respectively and is based on actual performance for Telstra and the individual.

(3) Includes the benefit of non recourse loans under 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 (as per the contractual arrangements for Gordon Ballantyne).

(4) Includes the second and final tranche of 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) In accordance with AASB 2, the accounting value represents a portion of the fair value of Options, Performance Rights, Restricted Shares, Deferred Shares and Performance Shares that had not yet fully vested as at the commencement of the financial year. This value includes an assumption that Options, Performance Rights, Restricted Shares, Deferred Shares and Performance Shares will vest at the end of the vesting period. The amount included as remuneration is not related to, nor indicative of the benefit (if any) that may ultimately be realised by each Senior Executive should the Options become exercisable or the Performance Rights, Restricted Shares, Deferred Shares and Performance Shares be released from restriction. The accounting value includes the negative amount for Options and Performance Rights lapsed during the year that failed to satisfy non-market (i.e. non-RTSR) performance targets. Refer to footnote (8) and Table 5.4 for further information.

(7) This includes the value of Deferred Shares allocated under the FY12 and FY13 STI plans whereby 25 per cent of the STI payment was provided as Deferred Shares to be distributed evenly over one and two years on the anniversary of their allocation date, subject to the Senior Executive's continued employment. The prior year amounts have been restated to incorporate amortisation over the Restriction Period.

(8) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in FY12. For FY12, this occurred for the FY09 LTI plan that failed to satisfy non-market (i.e. non-RTSR) performance targets at 30 June 2012, resulting in equity instruments lapsing. For market based hurdles (i.e. RTSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed in FY12. There was no accounting expense that was reversed in FY13. Refer to the section 3.3 on LTI outcomes for FY13 for further information.

(9) Gordon Ballantyne did not participate in any LTI for FY13 due to the fixed term nature (four years) of his initial employment contract. He participated in a cash based LTI beginning 7 March 2011 (details of which are included in Telstra's 2011 Remuneration Report). The stretch levels of FCF ROI and RTSR were achieved in FY13 and provided his service conditions are met an amount of $4,579,548 will be paid to Gordon Ballantyne on 30 June 2014.

(10) Effective 1 July 2012, Robert Nason's role was expanded to take on additional accountabilities and he now qualifies as a KMP.

5.2 STI Payments (Cash and Shares)

Name	Year	Maximum Potential STI ($) (1)	Current Year Grant of STI ($) (2)		% of the Maximum Potential	% Forfeited	Total Grant of STI ($)
			75% Cash Component	25% Deferred Shares Component (3)(4)			
David Thodey	**2013**	**5,300,000**	**2,637,413**	**879,137**	**66.4%**	**33.6%**	**3,516,550**
	2012	4,876,000	2,415,449	805,150	66.1%	33.9%	3,220,599
Gordon Ballantyne	**2013**	**2,500,000**	**1,197,188**	**399,062**	**63.9%**	**36.1%**	**1,596,250**
	2012	2,500,000	1,294,688	431,563	69.1%	30.9%	1,726,251
Rick Ellis	**2013**	**1,850,000**	**729,825**	**243,275**	**52.6%**	**47.4%**	**973,100**
	2012	798,497	395,556	131,852	66.1%	33.9%	527,408
Stuart Lee	**2013**	**1,500,000**	**956,250**	**318,750**	**85.0%**	**15.0%**	**1,275,000**
	2012	1,432,080	623,492	207,831	58.1%	41.9%	831,323
Kate McKenzie	**2013**	**2,000,000**	**957,750**	**319,250**	**63.9%**	**36.1%**	**1,277,000**
	2012	1,900,000	955,463	318,488	67.1%	32.9%	1,273,951
Robert Nason	**2013**	**2,100,000**	**1,045,013**	**348,337**	**66.4%**	**33.6%**	**1,393,350**
	2012	-	-	-	-	-	-
Andrew Penn	**2013**	**2,800,000**	**1,393,350**	**464,450**	**66.4%**	**33.6%**	**1,857,800**
	2012	1,193,443	591,202	197,067	66.1%	33.9%	788,269
Brendon Riley	**2013**	**2,600,000**	**1,245,075**	**415,025**	**63.9%**	**36.1%**	**1,660,100**
	2012	2,500,000	1,257,188	419,063	67.1%	32.9%	1,676,251

(1) Represents the maximum potential STI specific to FY13 and FY12 respectively, where the Senior Executive was a KMP, adjusted for any variation in Fixed Remuneration throughout FY13 and FY12 that impacts the maximum potential STI available. If the minimum threshold performance is not met, the minimum possible STI payment is nil.

(2) The STI for FY13 and FY12 was approved by the Board on 7 August 2013 and 8 August 2012 respectively.

(3) The grant date for the equity component of the FY13 STI will be subsequent to the date of this Remuneration Report.

(4) The Deferred Shares are released from restriction 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.

5.3 Summary of LTI Plans and Other Equity Plans as at 30 June 2013

Name	Plan	Type of Instrument Granted	Performance Period	End Date (1)	% of Total Plan Tested at 30/06/13	% of Grant Forfeited/ Expired in Current Year (2)	Future Financial Dates in which Grants may Vest	Accounting Value Yet to Vest (3)	
								Min ($)	Max ($)
David Thodey	FY11	Performance Rights	1/07/2010 - 30/06/2013	20/08/2014	100	-	30/06/2014	nil	591,525
	FY12	Performance Rights	1/07/2011 - 30/06/2014	19/08/2015	n/a	n/a	30/06/2015	nil	1,881,415
	FY13	Performance Rights	1/07/2012 - 30/06/2015	17/08/2016	n/a	n/a	30/06/2016	nil	2,827,362
Gordon Ballantyne (4)	-	-	-	-	-	-	-	-	-
Rick Ellis	FY12	Performance Rights	1/07/2011 - 30/06/2014	19/08/2015	n/a	n/a	30/06/2015	nil	270,096
	FY13	Performance Rights	1/07/2012 - 30/06/2015	17/08/2016	n/a	n/a	30/06/2016	nil	789,529
Stuart Lee (5)	FY11	Performance Rights	1/07/2010 - 30/06/2013	20/08/2014	100	-	30/06/2014	nil	135,756
	FY13	Restricted Shares	n/a	17/08/2015	n/a	n/a	17/08/2015	nil	296,358
Kate McKenzie	FY11	Performance Rights	1/07/2010 - 30/06/2013	20/08/2014	100	-	30/06/2014	nil	131,985
	FY12	Performance Rights	1/07/2011 - 30/06/2014	19/08/2015	n/a	n/a	30/06/2015	nil	586,495
	FY13	Performance Rights	1/07/2012 - 30/06/2015	17/08/2016	n/a	n/a	30/06/2016	nil	853,544
Robert Nason	FY11	Performance Rights	1/07/2010 - 30/06/2013	20/08/2014	100	-	30/06/2014	nil	128,214
	FY12	Performance Rights	1/07/2011 - 30/06/2014	19/08/2015	n/a	n/a	30/06/2015	nil	617,362
	FY13	Performance Rights	1/07/2012 - 30/06/2015	17/08/2016	n/a	n/a	30/06/2016	nil	896,219
Andrew Penn	FY12	Performance Shares	14/12/2011 - 14/12/2014	14/12/2014	n/a	n/a	31/12/2014	nil	94,570
	FY13	Performance Rights	1/07/2012 - 30/06/2015	17/08/2016	n/a	n/a	30/06/2016	nil	1,194,960
Brendon Riley	FY12	Performance Rights	1/07/2011 - 30/06/2014	19/08/2015	n/a	n/a	30/06/2015	nil	771,703
	FY13	Performance Rights	1/07/2012 - 30/06/2015	17/08/2016	n/a	n/a	30/06/2016	nil	1,109,607
Total								nil	**13,176,700**

(1) End Date refers to end of the Restriction Period for Performance Rights or Restricted Shares to vest.

(2) Represents the percentage of the grant that expired or was forfeited by the person, as service or performance criteria were not satisfied in the financial year. Not applicable (n/a) relates to LTI and other equity plans that either will be performance tested in future financial years or have met the relevant performance hurdles but are subject to a Restriction Period.

(3) The values included in the table above have been calculated by applying option valuation methodologies as described in note 27 of the financial statements.

(4) Gordon Ballantyne did not participate in any LTI for FY13 due to the fixed term nature (four years) of his initial employment contract. He participated in a cash based LTI beginning 7 March 2011 (details of which are included in Telstra's 2011 Remuneration Report). The stretch levels of FCF ROI and RTSR were achieved in FY13 and provided his service conditions are met an amount of $4,579,548 will be paid to Gordon Ballantyne on 30 June 2014.

(5) The FY13 Restricted Shares grant to Stuart Lee was made in lieu of participation in the FY12 LTI Plan. See section 2.2.3 for more information.

5.4 Accounting Value of all LTI Instruments

		Accounting Value of LTI Equity Allocations (1) (2) (3)				Total	Accounting Value as a % of Total Remuneration (4)
Name	**Year**	Options ($)	Performance Rights ($)	Performance Shares ($)	Restricted Shares ($)	($)	(%)
David Thodey	**2013**	**-**	**2,793,368**	**-**	**-**	**2,793,368**	**31.7%**
	2012	35,253	1,970,882	-	-	2,006,135	27.8%
Gordon Ballantyne	**2013**	**-**	**-**	**-**	**-**	**-**	**-**
	2012	-	-	-	-	-	-
Rick Ellis	**2013**	**-**	**398,224**	**-**	**-**	**398,224**	**17.8%**
	2012	-	61,620	-	-	61,620	6.7%
Stuart Lee	**2013**	**-**	**191,525**	**-**	**148,179**	**339,704**	**13.2%**
	2012	7,280	200,674	-	-	207,954	10.8%
Kate McKenzie	**2013**	**-**	**793,401**	**-**	**-**	**793,401**	**26.1%**
	2012	13,459	512,090	-	-	525,549	20.3%
Robert Nason	**2013**	**-**	**735,634**	**-**	**-**	**735,634**	**23.4%**
	2012	-	-	-	-	-	-
Andrew Penn	**2013**	**-**	**398,320**	**107,758**	**-**	**506,078**	**14.0%**
	2012	-	-	53,879	-	53,879	4.5%
Brendon Riley	**2013**	**-**	**755,721**	**-**	**-**	**755,721**	**20.5%**
	2012	-	385,852	-	-	385,852	9.5%

(1) The value of each equity 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 5.1. 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 FY12. For FY12, this occurred for the FY09 LTI plan that failed to satisfy non-market (i.e. non-RTSR) performance targets at 30 June 2012, resulting in equity instruments lapsing. For market based hurdles (i.e. RTSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed in FY12. There was no accounting expense that was reversed in FY13. Refer to the section 3.3 on LTI outcomes for FY13 for further information.

(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 5.1 of this Report.

5.5 Number of Equity Instruments Granted, Vested and Exercised During FY13 (*)

Name	Total held at 30 June 2012 (^)	Granted during FY13 (1)	Exercised during FY13 (2)	Total held at 30 June 2013 (^)	Achieved Performance Target during FY13 (3)	Vested during FY13 (4)	Achieved Performance Target as at 30 June 2013	Vested as at 30 June 2013 (5)	Vested and Exercisable at 30 June 2013 (6)
David Thodey									
Options	641,721	-	(252,174)	389,547	-	-	389,547	389,547	389,547
Performance Rights	3,649,052	1,391,076	-	5,040,128	1,355,932	-	2,081,206	-	-
Gordon Ballantyne (7)									
Rick Ellis									
Performance Rights	225,080	388,452	-	613,532	-	-	-	-	-
Stuart Lee									
Options	130,468	-	(48,913)	81,555	-	-	81,555	81,555	81,555
Performance Rights	438,111	-	-	438,111	311,188	-	438,111	-	-
Restricted Shares	-	116,371	-	116,371	-	-	-	-	-
TESOP99	400	-	-	400	-	-	400	400	400
Kate McKenzie									
Options	240,024	-	(91,304)	148,720	-	-	148,720	148,720	148,720
Performance Rights	981,675	419,948	-	1,401,623	302,544	-	492,929	-	-
Robert Nason									
Performance Rights	900,841	440,944	-	1,341,785	293,900	-	386,373	-	-
Andrew Penn									
Performance Rights	-	587,926	-	587,926	-	-	-	-	-
Performance Shares (8)	96,500	-		96,500	-	-	-	-	-
Brendon Riley									
Performance Rights	643,086	545,932	-	1,189,018	-	-	-	-	-

(1) Performance Rights granted on 22 October 2012 relate to the FY13 LTI plan. The FY13 Restricted Shares grant to Stuart Lee on 17 August 2012, was made in lieu of participation in the FY12 LTI Plan. See section 2.2.3 for more information.

(2) Relates to Options exercised during the year or Performance Rights, Performance Shares and Restricted Shares coming out of restriction. Options exercised during FY13 relate to the FY08 LTI plan.

(3) Relates to instruments that have been performance tested on 30 June 2013 and met specified performance hurdles. Performance Rights in this column relate to the FY11 LTI Plan.

(4) Relates to instruments that have met both the specified performance hurdles and the Restriction Period and have vested during FY13.

(5) Relates to equity instruments that have met both the specified performance hurdles and the Restriction Period and are vested as at 30 June 2013. Relates only to Options that are vested at 30 June 2013.

(6) Relates only to Options that are vested and are exercisable at 30 June 2013.

(7) Gordon Ballantyne did not participate in any LTI for FY13 due to the fixed term nature (four years) of his initial employment contract. He participated in a cash based LTI beginning 7 March 2011 (details of which are included in Telstra's 2011 Remuneration report). The stretch levels of FCF ROI and RTSR were achieved in FY13 and provided his service conditions are met an amount of $4,579,548 will be paid to Gordon Ballantyne on 30 June 2014.

(8) As part of his Service Agreement negotiated upon appointment, the Chief Financial Officer was allocated 96,500 Performance Shares in FY12. Refer to note 27 to the financial statements for further details.

(*) Table contains equity instruments awarded as part of LTI plans and TESOP99.

(^) There are no Performance Rights or Options held indirectly or beneficially by our KMP or their related parties.

5.6 Value of Equity Instruments Granted, Exercised and Lapsed/Forfeited in FY13

Name	Granted during Period ($) (1) (2)		Exercised ($) (3)	Expired/Forfeited Value Foregone ($) (4)
	Performance Rights	Restricted Shares	Options	Equity Instruments
David Thodey	3,769,816	-	55,478	-
Gordon Ballantyne	-	-	-	-
Rick Ellis	1,052,705	-	-	-
Stuart Lee	-	444,537	13,696	-
Kate McKenzie	1,138,059	-	27,391	-
Robert Nason	1,194,958	-	-	-
Andrew Penn	1,593,279	-	-	-
Brendon Riley	1,479,476	-	-	-

(1) The grant date of the FY13 LTI plan was 22 October 2012. The fair value of the RTSR and FCF ROI Performance Rights granted in FY13 at the grant date is $2.14 and $3.28 respectively. The fair value reflects the valuation approach required by AASB 2 using an option pricing model, as explained in note 27 to the financial statements.

(2) The FY13 Restricted Shares grant to Stuart Lee was made in lieu of participation in the FY12 LTI Plan. See section 2.2.3 for more information. The fair value of Restricted Shares granted on 17 August 2012 was $3.82 and is based on the market value of Telstra shares on allocation.

(3) The value of the equity instruments exercised reflects the market value at the date of exercise after deducting any exercise price paid. The exercise price for Options exercised was $4.34.

(4) 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. No equity instruments lapsed during FY13.

5.7 Non-executive Director Remuneration

		Short Term Employee Benefits		Post-Employment Benefits	
Name	Year	Salary and Fees ($) (1)	Non-monetary benefits ($) (2)	Superannuation ($)	Total Remuneration ($)
Catherine B Livingstone Chairman	**2013**	**688,530**	**5,952**	**16,470**	**710,952**
	2012	664,025	4,641	15,775	684,441
Timothy Y Chen (3) Director	**2013**	**67,376**	-	**4,377**	**71,753**
	2012	61,120	-	3,922	65,042
Geoffrey A Cousins Director	**2013**	**250,530**	**-**	**16,470**	**267,000**
	2012	242,825	-	15,775	258,600
Russell A Higgins Director	**2013**	**253,530**	**388**	**16,470**	**270,388**
	2012	265,400	333	15,775	281,508
John P Mullen Director	**2013**	**275,530**	**1,013**	**16,470**	**293,013**
	2012	272,911	1,153	10,689	284,753
Nora L Scheinkestel Director	**2013**	**288,530**	**-**	**16,470**	**305,000**
	2012	301,400	-	15,775	317,175
Margaret L Seale Director	**2013**	**243,366**	-	**16,470**	**259,836**
	2012	31,681	-	2,371	34,052
John W Stocker (4) Director	**2013**	**77,088**	**-**	**4,873**	**81,961**
	2012	310,100	164	15,775	326,039
Steven M Vamos Director	**2013**	**243,255**	**1,902**	**27,389**	**272,546**
	2012	231,906	1,692	26,694	260,292
John D Zeglis Director	**2013**	**225,204**	**1,590**	**16,470**	**243,264**
	2012	232,566	-	1,034	233,600
Total	**2013**	**2,612,939**	**10,845**	**151,929**	**2,775,713**
	2012	2,613,934	7,983	123,585	2,745,502

(1) Includes fees for membership on Board Committees. In FY12, the fees also included additional fees for services provided in relation to the NBN Due Diligence Committee. This amount includes $22,275 for John Stocker, $19,575 for Russell Higgins and $55,575 for Nora Scheinkestel.

(2) These payments refer to the value of car parking, as well as 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) Timothy Chen qualifies as a KMP for the period 1 July 2012 to 5 October 2012.

(4) John Stocker qualifies as a KMP for the period 1 July 2012 to 16 October 2012.

5.8 KMP Interests in Shares of the Telstra Entity

During FY13, our KMP and their related parties held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2012 (1)	Equity instruments exercised	Deferred shares granted (3)	Net shares acquired or disposed of by other means	Total shares held at 30 June 2013 (1)	Shares held nominally at 30 June 2013 (2)
Non-Executive Directors						
Catherine B Livingstone	165,816	-	-	10,000	175,816	175,816
Timothy Y Chen (4)	-	-	-	-	-	-
Geoffrey A Cousins	31,765	-	-	50,000	81,765	21,765
Russell A Higgins	88,404	-	-	-	88,404	83,084
John P Mullen	26,159	-	-	-	26,159	26,159
Nora L Scheinkestel	59,450	-	-	27,847	87,297	87,297
Margaret L Seale	224,141	-	-	11,614	235,755	235,755
John W Stocker (4)	212,238	-	-	-	212,238	108,652
Steven M Vamos	40,000	-	-	-	40,000	40,000
John D Zeglis	103,993	-	-	-	103,993	37,493
Total	**951,966**	-	-	**99,461**	**1,051,427**	**816,021**
Senior Executives						
David Thodey	786,117	252,174	211,325	(239,564)	1,010,052	997,442
Gordon Ballantyne	86,568	-	109,990	-	196,558	153,274
Rick Ellis	10,000	-	34,607	12,000	56,607	42,607
Stuart Lee	265,503	48,913	54,549	(47,863)	321,102	176,044
Kate McKenzie	167,698	91,304	83,593	(91,304)	251,291	141,725
Robert Nason (5)	78,786	-	87,992	-	166,778	139,885
Andrew Penn	74,232	-	51,724	12,953	138,909	110,524
Brendon Riley	183,417	-	109,990	-	293,407	275,536
Total	**1,652,321**	**392,391**	**743,770**	**(353,778)**	**2,434,704**	**2,037,037**
	2,604,287	**392,391**	**743,770**	**(254,317)**	**3,486,131**	**2,853,058**

(1) Total shareholdings include shares held by our KMP and their related parties. Unless related to our employee share plans, shares acquired or disposed by our KMP during FY13 were on an arm's length basis at market price.

(2) Nominally refers to shares held either indirectly or beneficially, including (for non-executive Directors) those acquired under Directshare, as well as (for Senior Executives) certain Incentive Shares and Deferred Shares. These shares are subject to a Restriction Period, such that the non-executive Director or Senior Executive is restricted from dealing with the shares until after they are released from the Restriction Period. Refer to note 27 for further details.

(3) Deferred Shares granted during FY13 relate to the FY12 STI Plan which were allocated on 17 August 2012. However, the allocation of Deferred Shares under the FY13 STI Plan will be made subsequent to the reporting date of 30 June 2013, therefore they have not been included in the table above.

(4) For these non-executive Directors and Senior Executives who left Telstra/the Board during the year, represents shares held as at the date of cessation as a non-executive Director or no longer qualified as KMP.

(5) Robert Nason qualified as a KMP on 1 July 2012 and the balances above represent shares held as at the date he became KMP.

Glossary and Abbreviations used in Report

Average Investment for LTI	Average investment over the period is the average of the sum of net debt and shareholders' funds over the entire three year performance period
Customer Satisfaction	A non financial measure in Telstra's FY12 STI Plan. Refer to section 2.2.1 for further information
Deferred Share	A Telstra share that is granted under an STI Deferral Plan and cannot be traded until the end of the Restriction Period
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBITDA for STI	Earnings Before Interest, Tax, Depreciation and Amortisation (excluding profit/loss on Land & Building disposals)
FCF for LTI	FCF for these purposes is annual Free Cashflow less interest paid and adjusting for non-recurring factors such as spectrum purchases, acquisitions and gains on the sale of assets
FCF ROI for LTI	A ratio of the average annual Free Cashflow over the entire three year performance period by Telstra's average investment over the same period
FCF for STI	Free Cashflow (excluding CAPEX for Investment and Spectrum; and proceeds from Land & Building disposals)
Fixed Remuneration	Base salary plus company and private salary sacrificed superannuation contributions. Specifically defined as Total Fixed Remuneration in the CEO's contract
Free Cashflow (FCF)	Cashflow from operating and investing activities
GMD	Group Managing Director
KMP	Key Management Personnel
LTI	Long Term Incentive
NBN	National Broadband Network
NBN Transaction	Agreements with NBN Co and the Government in relation to Telstra's participation in the rollout of the NBN
NPS	Net Promoter Score. A non financial measure in Telstra's FY13 STI Plan. Refer to section 2.2.1 for further information
Performance Right	A right to a Restricted Share at the end of a performance period, subject to the satisfaction of certain performance measures
Permitted Reason (LTI)	Death, total and permanent disablement, redundancy or separation by mutual agreement
Permitted Reason (STI)	Death, total and permanent disablement, redundancy or retirement where that notice of retirement is given more than six months after the actual allocation date
Restricted Share	A Telstra share that cannot be traded until the end of the Restriction Period
Restriction Period	A period during which a Telstra share cannot be traded and is subject to a service condition
RTSR	Relative Total Shareholder Return
Senior Executive	Refers to the Chief Executive Officer and those executives with authority and responsibility for planning, directing and controlling the activities of the company and Group, directly or indirectly
Service Agreement	A Senior Executive's contract of employment
SSU	Structural Separation Undertaking
STI	Short Term Incentive
STI Deferral Plan	A plan under which Senior Executives are provided with a percentage of their actual STI payment in the form of Deferred Shares
Straightline Vesting	Describes the vesting calculation between target and stretch of an LTI plan, where the payout between two levels is based on equal increments determined by performance
Total Income	Total Telstra Income excluding profit/loss on Land & Building disposals
Total Remuneration	The sum of all the fixed and variable components of remuneration as detailed in Table 5.1 for Senior Executives, and all the remuneration components as detailed in Table 5.7 for non-executive Directors

DIRECTORS' REPORT

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Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998 and issued pursuant to section 341(1) of the Corporations Act 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 8 August 2013 in accordance with a resolution of the Directors.

C B Livingstone

Catherine B Livingstone AO
Chairman
8 August 2013

David Thodey

David I Thodey
Chief Executive Officer and Executive Director
8 August 2013

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 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

SJ Ferguson
Partner
Sydney, Australia
8 August 2013

TELSTRA CORPORATION LIMITED AND CONTROLLED ENTITIES

Australian Business Number (ABN): 33 051 775 556

FINANCIAL REPORT

as at 30 June 2013

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Telstra Group Year ended 30 June 2013 $m	2012 $m
Income			
Revenue (excluding finance income)	6	**25,678**	25,368
Other income	6	**302**	135
		25,980	25,503
Expenses			
Labour		**4,803**	4,967
Goods and services purchased		**6,389**	6,179
Other expenses	7	**4,158**	4,123
		15,350	15,269
Share of net loss from jointly controlled and associated entities	26	**1**	-
		15,351	15,269
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**10,629**	10,234
Depreciation and amortisation	7	**4,238**	4,412
Earnings before interest and income tax expense (EBIT)		**6,391**	5,822
Finance income	6	**219**	134
Finance costs	7	**1,128**	1,022
Net finance costs		**909**	888
Profit before income tax expense		**5,482**	4,934
Income tax expense	9	**1,617**	1,510
Profit for the year		**3,865**	3,424
Attributable to			
Equity holders of Telstra Entity		**3,813**	3,405
Non-controlling interests		**52**	19
		3,865	3,424
Earnings per share (cents per share)		**cents**	cents
Basic	3	**30.7**	27.5
Diluted	3	**30.6**	27.4

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

		Telstra Group	
		Year ended 30 June	
		2013	2012
	Note	**$m**	$m
Profit for the year			
Attributable to equity holders of Telstra Entity		**3,813**	3,405
Attributable to non-controlling interests		**52**	19
		3,865	3,424
Items that will not be reclassified subsequently to the income statement			
Retained profits:			
- actuarial gain/(loss) on defined benefit plans attributable to equity holders of Telstra Entity	24	**676**	(752)
- income tax on actuarial gain/(loss) on defined benefit plans		**(202)**	222
- actuarial gain/(loss) on defined benefit plans attributable to non-controlling interests	24	**2**	(3)
Foreign currency translation reserve:			
- translation differences of foreign operations attributable to non-controlling interests		**23**	11
		499	(522)
Items that may be reclassified subsequently to the income statement			
Foreign currency translation reserve:			
- translation differences of foreign operations attributable to equity holders of Telstra Entity		**101**	68
- income tax on movements in the foreign currency translation reserve		**21**	9
- translation differences transferred to income statement on disposal of controlled entities		**112**	9
- income tax on translation differences transferred to income statement on disposal of controlled entities		**18**	-
Cash flow hedging reserve:			
- changes in fair value of cash flow hedges		**365**	(587)
- changes in fair value transferred to other expenses		**(617)**	204
- changes in fair value transferred to goods and services purchased		**12**	7
- changes in fair value transferred to finance costs		**236**	263
- changes in fair value transferred to property, plant and equipment		**-**	9
- income tax on movements in the cash flow hedging reserve		**(1)**	31
		247	13
Total other comprehensive income		**746**	(509)
Total comprehensive income for the year		**4,611**	2,915
Total comprehensive income attributable to equity holders of Telstra Entity		**4,534**	2,888
Total comprehensive income attributable to non-controlling interests		**77**	27

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	Telstra Group As at 30 June 2013 $m	2012 $m
Current assets			
Cash and cash equivalents	20	**2,479**	3,945
Trade and other receivables	10	**4,557**	4,346
Inventories	11	**431**	260
Derivative financial assets	17(f)	**43**	32
Current tax receivables		**79**	363
Prepayments		**314**	250
Assets classified as held for sale	12	**-**	754
Total current assets		**7,903**	9,950
Non current assets			
Trade and other receivables	10	**943**	851
Inventories	11	**27**	24
Investments - accounted for using the equity method	26	**18**	12
Investments - other		**38**	19
Property, plant and equipment	13	**20,326**	20,504
Intangible assets	14	**8,202**	7,421
Derivative financial assets	17(f)	**1,062**	658
Non current tax receivables		**-**	80
Deferred tax assets	9	**5**	6
Defined benefit assets	24	**3**	-
Total non current assets		**30,624**	29,575
Total assets		**38,527**	39,525
Current liabilities			
Trade and other payables	15	**4,241**	4,131
Provisions	16	**918**	942
Borrowings	17(a)	**751**	3,306
Derivative financial liabilities	17(f)	**44**	299
Current tax payables		**444**	731
Revenue received in advance		**1,124**	1,170
Liabilities classified as held for sale	12	**-**	105
Total current liabilities		**7,522**	10,684
Non current liabilities			
Other payables	15	**163**	174
Provisions	16	**276**	264
Borrowings	17(a)	**14,313**	11,958
Derivative financial liabilities	17(f)	**1,625**	2,349
Deferred tax liabilities	9	**1,330**	1,107
Defined benefit liability	24	**42**	831
Revenue received in advance		**381**	469
Total non current liabilities		**18,130**	17,152
Total liabilities		**25,652**	27,836
Net assets		**12,875**	11,689
Equity			
Share capital	19	**5,711**	5,635
Reserves		**(619)**	(867)
Retained profits		**7,519**	6,712
Equity available to Telstra Entity shareholders		**12,611**	11,480
Non-controlling interests		**264**	209
Total equity		**12,875**	11,689

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Telstra Group Year ended 30 June 2013 $m	2012 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**28,585**	28,188
Payments to suppliers and to employees (inclusive of GST)		**(18,803)**	(17,491)
Government grants received		**77**	176
Net cash generated by operations		**9,859**	10,873
Income taxes paid		**(1,500)**	(1,597)
Net cash provided by operating activities	20	**8,359**	9,276
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(2,818)**	(3,006)
- intangible assets		**(1,691)**	(942)
Capital expenditure (before investments)		**(4,509)**	(3,948)
- shares in controlled entities (net of cash acquired)	20	**(9)**	-
- payments for jointly controlled and associated entities	26	**(8)**	(9)
- payments for other investments	17	**(19)**	(18)
Total capital expenditure		**(4,545)**	(3,975)
Proceeds from:			
- sale of property, plant and equipment		**57**	17
- sale of intangible assets		**12**	2
- sale of shares in controlled entities (net of cash disposed)	20	**693**	(9)
- sale of businesses (net of cash disposed)		**4**	(2)
Proceeds from finance lease principal amounts		**64**	54
Repayment of loans to jointly controlled and associated entities		**-**	3
Loans to jointly controlled and associated entities		**(1)**	(443)
Interest received		**236**	117
Settlement of hedges in net investments		**(11)**	49
Dividends received		**1**	-
Distributions received from FOXTEL Partnership	6	**155**	108
Net cash used in investing activities		**(3,335)**	(4,079)
Operating cash flows less investing cash flows		**5,024**	5,197
Cash flows from financing activities			
Proceeds from borrowings		**2,074**	3,049
Repayment of borrowings		**(4,042)**	(2,224)
Repayment of finance lease principal amounts		**(97)**	(52)
Proceeds from sale and finance lease back transactions		**52**	-
Staff repayments of share loans		**4**	3
Proceeds received from exercise of equity instruments		**29**	-
Finance costs paid		**(1,037)**	(1,154)
Acquisition of non-controlling interests	20	**(1)**	(37)
Dividends paid to equity holders of Telstra Entity	4	**(3,480)**	(3,475)
Dividends paid to non-controlling interests		**(28)**	(16)
Net cash used in financing activities		**(6,526)**	(3,906)
Net (decrease)/increase in cash and cash equivalents		**(1,502)**	1,291
Cash and cash equivalents at the beginning of the year		**3,945**	2,637
Effects of exchange rate changes on cash and cash equivalents		**36**	17
Cash and cash equivalents at the end of the year	20	**2,479**	3,945

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

Telstra Group

		Reserves							
	Share capital $m	Foreign currency translation (a) $m	Cash flow hedging (b) $m	Consolidation fair value (c) $m	General reserve (d) $m	Retained profits $m	Total $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2011	5,610	(837)	(14)	4	4	7,307	12,074	218	12,292
Profit for the year	-	-	-	-	-	3,405	3,405	19	3,424
Other comprehensive income	-	86	(73)	-	-	(530)	(517)	8	(509)
Total comprehensive income for the year	-	86	(73)	-	-	2,875	2,888	27	2,915
Dividends	-	-	-	-	-	(3,475)	(3,475)	(16)	(3,491)
Transactions with non-controlling interests	-	-	-	-	(32)	-	(32)	(5)	(37)
Non-controlling interests on disposals	-	-	-	-	-	-	-	(24)	(24)
Transfers to retained profits	-	-	-	(4)	(1)	5	-	-	-
Amounts repaid on share loans provided to employees	3	-	-	-	-	-	3	-	3
Share based payments	22	-	-	-	-	-	22	9	31
Balance at 30 June 2012	5,635	(751)	(87)	-	(29)	6,712	11,480	209	11,689
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,813**	**3,813**	**52**	**3,865**
Other comprehensive income	**-**	**252**	**(5)**	**-**	**-**	**474**	**721**	**25**	**746**
Total comprehensive income for the year	**-**	**252**	**(5)**	**-**	**-**	**4,287**	**4,534**	**77**	**4,611**
Dividends	**-**	**-**	**-**	**-**	**-**	**(3,480)**	**(3,480)**	**(28)**	**(3,508)**
Transactions with non-controlling interests	**-**	**-**	**-**	**-**	**1**	**-**	**1**	**-**	**1**
Amounts repaid on share loans provided to employees	**47**	**-**	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Additional shares purchased	**(42)**	**-**	**-**	**-**	**-**	**-**	**(42)**	**-**	**(42)**
Exercise of employee share options	**29**	**-**	**-**	**-**	**-**	**-**	**29**	**-**	**29**
Share based payments	**42**	**-**	**-**	**-**	**-**	**-**	**42**	**6**	**48**
Balance at 30 June 2013	**5,711**	**(499)**	**(92)**	**-**	**(28)**	**7,519**	**12,611**	**264**	**12,875**

(a) The foreign currency translation reserve is used to record exchange differences arising from the conversion of the non-Australian controlled entities' financial statements into Australian dollars. This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in jointly controlled and associated entities.

(b) The cash flow hedging reserve represents the effective portion of gains or losses on remeasuring the fair value of the hedge instrument, where a hedge qualifies for hedge accounting. 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.

(c) The consolidation fair value reserve represented our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest, which was amortised over the useful life of the underlying revalued assets. The reserve balance was amortised in full in financial year 2012.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

- year or financial year means the year ended 30 June;
- reporting date means the date 30 June; and
- 2013 means financial year 2013 and similarly for other financial years.

The financial report of the Telstra Group for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 8 August 2013. The Directors have the power to amend and reissue the financial report.

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

1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report, prepared by a for-profit entity, in accordance with the requirements of the Australian Corporations Act 2001, Accounting Standards applicable in Australia and other authoritative pronouncements of the Australian Accounting Standards Board. 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 into Australian dollars for presentation in the Telstra Group financial report.

This financial report is prepared in accordance with historical cost, except for some categories of 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 affect:

- 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. Depreciation and amortisation are calculated in accordance with AASB 116: “Property, Plant and Equipment“ and AASB 138: “Intangible Assets“ respectively. We believe that EBITDA is a relevant and useful financial measure used by management to measure the company’s operating performance.

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

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

1.3 Rounding

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

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 change occurred during the year ended 30 June 2013:

(a) Presentation of labour substitution costs

Labour substitution costs were reclassified from other expenses to labour costs in the income statement in order to align with the presentation of total labour expenses in our "Full Year Results and Operations Review". We believe this provides more relevant information to the users of the financial statements. The reclassification has no impact on profit, equity or earnings per share calculations. Comparatives have been adjusted accordingly as illustrated in the below table to present a like-for-like view:

Expenses line item	Telstra Group		
	30 June 2012		
	Reported	Adjustment	Restated
	$m	$m	$m
Labour	4,061	906	4,967
Other expenses	5,029	(906)	4,123

We have had no other changes in accounting policy during the year ended 30 June 2013. However, we note the following new accounting standard, applicable in the current year:

(b) Deferred Tax: Recovery of Underlying Assets

AASB 2010-8: "Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets" provides clarification regarding the measurement of deferred tax for investment property, where the fair value model is applied, and for property, plant and equipment and intangibles, where the revaluation model is applied. It provides that measurement of deferred tax should be determined under the assumption that the underlying asset will be recovered through sale (as opposed to use) unless otherwise rebutted.

This new accounting standard does not have an impact on Telstra as we do not adopt a revaluation model for any of our property, plant and equipment or intangibles and we have no investment properties.

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.

We account for the acquisition of our controlled entities using the acquisition method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the fair value of consideration over our interest in the fair value of the acquiree's 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 into Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at reporting date;
- equity at the date of investment is translated into Australian dollars at the exchange rate current at 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.3 Foreign currency translation (continued)

(b) Financial reports of foreign operations that have a functional currency that is not Australian dollars (continued)

Refer to note 2.22(c) 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 that is not in Australian dollars.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits, negotiable certificates of deposit and bills of exchange 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. Negotiable certificates of deposit and bills of exchange 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.

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 that 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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 that 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 to our cumulative losses.

(ii) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20 per cent and 50 per cent, and are able to significantly influence the decisions of the entity, that entity is an associated entity. 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.

(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 arm's 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 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal. We recognise any reduction in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.9 Impairment (continued)

(a) Non-financial assets (continued)

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. In addition, when goodwill is allocated to a CGU, the unit cannot be larger than an operating segment. Our CGUs are determined according to the lowest level of aggregation for which an active market exists and the assets involved generate largely independent cash inflows.

We apply management judgement to establish our CGUs. We have determined that assets forming part of our ubiquitous telecommunications network work together to generate net cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, we have determined that the ubiquitous telecommunications network is a single CGU. 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.

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.

We review our property, plant and equipment assets and property, plant and equipment under construction on a regular basis to ensure that the assets are still in use and that the projects are still expected to be completed. Refer to note 7 for details of impairment losses recognised on our property, plant and equipment.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The unwinding of this discount is recorded within finance costs.

We account for our assets individually where this is practical, feasible and in line with commercial practice. Where it is not practical and feasible to do so, we account for assets in groups. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained. This is the case for certain communication assets as we assess our technologies to be replaced by a certain date.

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

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	
	2013	2012
Property, plant and equipment	**Service life (years)**	Service life (years)
Buildings		
Buildings	**52**	52 - 53
Fitouts	**10 - 20**	10 - 20
Leasehold improvements	**4 - 40**	4 - 40
Communication assets		
Network land and buildings	**10 - 58**	10 - 58
Network support infrastructure	**3 - 53**	3 - 52
Access fixed	**4 - 30**	4 - 30
Access mobile	**4 - 16**	3 - 16
Content/IP products - core	**4 - 8**	4 - 10
Core network - data	**3 - 10**	3 - 10
Core network - switch	**3 - 26**	2 - 26
Core network - transport	**5 - 30**	5 - 30
Specialised premise equipment	**3 - 8**	3 - 8
International connect	**9 - 21**	11 - 21
Managed service	**4 - 13**	4 - 13
Network control layer	**2 - 13**	2 - 13
Network product	**3 - 7**	2 - 9
Other plant and equipment		
IT equipment	**3 - 7**	3 - 5
Motor vehicles/trailer/caravan/huts	**5 - 15**	5 - 15
Other plant and equipment	**3 - 20**	3 - 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. As part of our annual service lives review, we have noted no changes to asset service lives resulting from the National Broadband Network (NBN) transaction for the year ended 30 June 2013. Our assessment continues to show that the weighted average remaining service life (WARSL) for the existing network assets impacted by the disconnection obligations that will apply under the NBN Definitive Agreements falls within the anticipated rollout period.

Hence, we have concluded that no further adjustments for financial year 2013 are required in addition to our normal service life reassessment, the results of which are noted below. Refer to note 21 for further discussion on the NBN.

The net effect of the reassessment of service lives for financial year 2013 was a decrease in our depreciation expense of $224 million (2012: $248 million) for the Telstra Group.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network. We charge to operating expenses the cost of repairs and maintenance, including the cost of replacing minor items that are not substantial improvements.

2.11 Leased plant and equipment

We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, and operating leases under which the lessor effectively retains substantially all such risks and benefits. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(a) Telstra as a lessee

Where we acquire non current assets via a finance lease, the lower of the fair value of the asset and the present value of future minimum lease payments is capitalised as equipment under finance leases at the beginning of the lease term. Capitalised lease assets are depreciated on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

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

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

(b) Telstra as a lessor

Where we lease non current assets via a finance lease, a lease receivable equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term is recognised at the beginning of the lease term. Finance lease receipts are allocated between finance income and a reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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(a) on an annual basis, or when an indication of impairment exists.

(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.

(i) Software assets

We record direct costs associated with the development of business software for internal use as software assets if the development costs satisfy the criteria for capitalisation described above.

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed; 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.

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(a) 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 are 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	
	2013	2012
Identifiable intangible assets	**Expected benefit (years)**	Expected benefit (years)
Software assets	**9**	9
Patents and trademarks	**5**	6
Mastheads	**5**	5
Licences	**15**	14
Brand names	**17**	18
Customer bases (#)	**6**	13
Deferred expenditure	**3**	4

(#) Decrease due to the disposal of TelstraClear.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.12 Intangible assets (continued)

(e) Amortisation (continued)

The net effect of the reassessment for financial year 2013 was a decrease in our amortisation expense of $34 million (2012: $32 million) for the Telstra Group.

In relation to acquired intangible assets, we apply management judgement to determine the amortisation period based on the expected useful lives of the respective assets. In some cases, the useful lives of certain acquired intangible assets are supported by external valuation advice on acquisition. In addition, we apply management judgement to assess annually the indefinite useful life assumption applied to certain acquired intangible assets.

2.13 Trade and other payables

Trade and other payables, including accruals, are recorded when we are required to make future payments as a result of purchases of assets or services. Trade and other payables are carried at amortised cost.

2.14 Provisions

Provisions are recognised when the group has:

- a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events;
- it is probable that a future sacrifice of economic benefits will arise; 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 relating to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement and include related 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 (determined by reference to a State and Commonwealth blended 10-year Australian government bond 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 (determined by reference to a State and Commonwealth blended 10-year Australian government bond rate) 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. Refer to note 16 for further details.

(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 it will be carried out.

2.15 Borrowings

Borrowings are included as non current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognised as an expense in our income statement when incurred.

We recognise borrowings initially on the trade date, which is the date on which we become a party to the contractual provisions of the instrument. We derecognise borrowings when our contractual obligations are discharged or cancelled or expire.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.15 Borrowings (continued)

Our borrowings fall into two categories: borrowings in a designated hedging relationship and borrowings not in a designated hedging relationship.

(a) Borrowings in a designated hedging relationship

Our offshore borrowings that are designated as hedged items are either in fair value or cash flow hedges. The method by which they are hedged determines their accounting treatment.

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges is adjusted for fair value movements attributable to the hedged risk (being changes in value due to interest rate and currency movements).

Fair value is calculated using valuation techniques 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.

Borrowings in cash flow hedges 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 Telstra Entity.

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

Where we undertake a share buy-back, contributed equity is reduced in accordance with the structure of the buy-back arrangement. Costs associated with the buy-back, net of tax, are also deducted from contributed equity. We also record the purchase of Telstra Entity shares by our employee share plan trusts as a reduction in share capital.

Share based remuneration associated with our employee share plans is recognised as additional share capital. Non-recourse loans provided to employees to participate in these employee share plans are recorded as a reduction in share capital.

Refer to note 2.21 for further details 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 (2012: 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.

(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 divided by planned costs) multiplied by planned revenue, including profit; and
- for short duration projects (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 when 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.

A separate unit of accounting exists where the deliverable has value to the customer on a stand-alone basis and any undelivered items cannot be terminated by the customer without incurring penalties if the delivered item was returned.

We allocate the consideration from the revenue arrangement to its separate units based on the relative selling prices of each unit. If 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. When allocating revenue to the separate units within an arrangement, the amount allocated to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (non-contingent amount). The non-contingent revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above.

(i) Principal versus agency relationship (gross versus net revenue recognition)

Generally we record the full gross amount of sales proceeds as revenue. However, if we are acting as an agent, revenue is recorded on a net basis (being the gross amount billed less the amount paid to the supplier acting as a principal in the arrangement). We review the facts and circumstances of each sales arrangement to determine if we are acting as an agent or principal. Indicators which support that we are the principal include:

- Telstra is primarily responsible for the fulfilment of the customer order;
- Telstra has risks of ownership of the product or delivery of the services;
- Telstra is involved in price setting;
- Telstra is involved in determining the product or service specifications; and
- Telstra bears the credit risk.

(j) Sales incentives

Sales incentives are provided by Telstra to customers either in the form of cash consideration or non-cash consideration and are accrued for up to the point where it is probable that the customer will earn the incentives.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.17 Revenue recognition (continued)

(j) Sales incentives (continued)

Cash consideration (for example, cash payments, credits and rebates) provided to a customer is generally recorded as a reduction in revenue.

A sales incentive provided to a customer in the form of non-cash consideration (for example, in the form of a free product or service or a gift voucher) is considered to be a separate deliverable in a multiple deliverable arrangement, regardless of whether it is provided to customers at the commencement of a contract or is an amount that can be used to purchase future products and services. A portion of the total revenue under the arrangement is allocated to the non-cash consideration in accordance with note 2.17(h) above. The sales revenue allocated to the incentive is recognised when the customer redeems or utilises the award (i.e. when Telstra provides the product or service).

Cash sales incentives are generally paid to customers where Telstra provides a number of different products and services to the customer under a single arrangement. If this is the case then the reduction in revenue must be allocated to each product/service that contributed towards the customer earning the incentive. The allocation should be based on the relative amounts of revenue earned for each product and service, unless a more appropriate methodology is available.

(k) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and Telstra will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan is measured at amortised cost. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan, which is measured at amortised cost, and the actual proceeds received. The benefit is accounted for in accordance with our accounting policy for government grants described above.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.18 Taxation (continued)

(a) Income taxes (continued)

The Telstra Entity and its Australian resident wholly owned entities have formed a tax consolidated group. The Telstra Entity is the head entity and recognises, in addition to its transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. The Telstra Entity and the entities in the tax consolidated group account for their own current tax expense and deferred tax amounts arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a separate taxpayer.

We offset deferred tax assets and deferred tax liabilities in the statement of financial position where they relate to income taxes levied by the same taxation authority and to the extent that we intend to settle our current tax assets and liabilities on a net basis. Our deferred tax assets and deferred tax liabilities are netted within the tax consolidated group, as these deferred tax balances relate to the same taxation authority. We do not net deferred tax balances between controlled entities, 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, they 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.

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)

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 (determined by reference to a State and Commonwealth blended 10-year Australian government bond rate);
- salary inflation rate; and
- expected return on plan assets.

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 per cent of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

The Telstra Growthshare Trust (Growthshare) was established to allocate equity based instruments as required. Current equity based instruments include options, performance rights, restricted shares, deferred shares, incentive shares, and Ownshares. Restricted shares, deferred shares and incentive shares are subject to a specified period of service. Options and performance rights can be subject to performance hurdles or a specified period of service.

We own 100 per cent of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also 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 recognised in the income statement over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

2.22 Derivative financial instruments

We use derivative financial instruments such as forward exchange contracts, cross currency swaps and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations.

The use of hedging instruments is governed by the guidelines set by our Board of Directors.

Derivative financial instruments are included as non current assets or liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current assets or liabilities.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Refer to note 17 for details on the basis used to estimate fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as "held for trading" financial instruments. All 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 financial instruments that are held to hedge exposures can be classified into three different types, according to the reason we are holding them: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Hedge accounting can only be utilised where effectiveness tests are met on 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 will create volatility in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.22 Derivative financial instruments (continued)

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions, together with the methods that will be used to assess the effectiveness of the hedge relationship. We also document 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 financial instruments are recognised on the date on which we commit to purchase or sell an asset or liability.

(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 associated with our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies. We also use cash flow hedges to hedge variability in cash flows due to interest rate movements associated with some of our domestic borrowings.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument 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 volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in other comprehensive income at that time remain in other comprehensive income and are recognised when the hedged item is ultimately recognised in the income statement.

If a forecast hedged transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that were reported in other comprehensive income are transferred immediately to the income statement.

(c) Hedges of a net investment in a foreign operation

Our investments in foreign operations are exposed to foreign currency risk, which arises when we translate the net assets of our foreign investments from their functional currency to Australian dollars. We hedge our net investments to mitigate exposure to this risk by using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

Gains and losses on remeasurement of our derivative instruments designated as hedges of foreign investments are recognised in the foreign currency translation reserve in equity to the extent that they are considered to be effective.

The cumulative amount of the recognised gains or losses included in equity is transferred to the income statement when the foreign operation is sold.

(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 remeasurement of these borrowings as at the date of de-designation are unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs.

For borrowings not in designated hedge relationships for hedge accounting purposes, the derivatives are recognised at fair value and the borrowings are accounted for on an amortised cost basis. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.22 Derivative financial instruments (continued)

(d) Derivatives and borrowings that are de-designated from fair value hedge relationships or not in a designated hedging relationship (continued)

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.

2.23 Contingent liabilities

A contingent liability is a liability of sufficient uncertainty that it does not qualify for recognition as a liability, or a liability whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Telstra. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

We first determine whether an obligation should be recorded as a liability or a contingent liability. This requires management to assess the probability that Telstra will be required to make payment as well as an estimate of that payment. This assessment is made based on the facts and circumstances, factoring in past experience and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Refer to note 23, note 26 and note 30 for further details on Telstra's contingent liabilities.

2.24 New accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the year ended 30 June 2013 but will be applicable to the Telstra Group in future reporting periods are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future periods but which are considered insignificant to Telstra.

(a) 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 the income statement.

The amendments to AASB 9 are applicable to annual reporting periods beginning on or after 1 January 2015, with early adoption permitted (the previous effective date of 1 January 2013 was amended via the issue of AASB 2012-6: "Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures").

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.

(b) Consolidated Financial Statements

AASB 10: "Consolidated Financial Statements" was released in August 2011 by the AASB and replaces both the existing AASB 127: "Consolidated and Separate Financial Statements" and AASB Interpretation 112: "Consolidation - Special Purpose Entities". AASB 2011-7: "Amendments to Australian Standards Arising from the Consolidation and Joint Arrangement Standards" was also released by the AASB to update the requirements in other accounting standards as a result of the amendments to the entire suite of consolidation and related standards.

AASB 10 revises the definition of control and related application guidance so that a single control model can be applied to all entities.

These standards will apply to Telstra from 1 July 2013 on a retrospective basis, with early adoption permitted provided that the entire suite of consolidation and related standards is adopted at the same time.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.24 New accounting standards to be applied in future reporting periods (continued)

(b) Consolidated Financial Statements (continued)

Based on our assessments, it is anticipated that the revised definition of control will have no significant impact to Telstra's current accounting for investments held. Investments currently accounted for as subsidiaries would continue to meet the revised definition of control and therefore continue to be consolidated in the group's financial statements. Investments currently accounted for as associates have been assessed against the revised control definition and there would be no changes in the accounting treatment for these investments. Therefore, Telstra will continue to equity account for them.

(c) Joint Arrangements

AASB 11: "Joint Arrangements" was also released by the AASB in August 2011 and replaces the existing AASB 131: "Interests in Joint Ventures". This new standard has revised the definition types of joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form. The definition types have been consolidated into two joint ventures (currently referred to as jointly controlled entities) and joint operations (currently referred to as jointly controlled assets and jointly controlled operations). Furthermore, the accounting treatment options for joint venture arrangements have been removed to eliminate inconsistent treatments, where equity accounting is mandatory for joint ventures and proportionate consolidation can no longer be used.

This standard is applicable to Telstra from 1 July 2013 on a retrospective basis, with early adoption permitted provided that the entire suite of consolidation and related standards is adopted at the same time.

Based on management's current assessments, the revised definition types of joint arrangements will have no impact on Telstra's current joint arrangement classifications. The assessment of Telstra's material jointly controlled entities shows there are no jointly controlled entities that give Telstra direct rights over assets or obligations to settle liabilities, such that they should be classified as joint operations. Therefore, all of these jointly controlled entities would be classified as joint ventures and given that Telstra's current accounting policy for jointly controlled entities is to use the equity accounting method, these joint ventures will remain equity accounted for under AASB 11. Overall, we expect no impact on the measurement of any of Telstra's existing joint arrangements.

(d) Disclosures of Interests in Other Entities

AASB 12: "Disclosure of Interests in Other Entities" was issued by the AASB in August 2011 and is a new standard on disclosure requirements for all forms of interests in investments, including subsidiaries, associates, joint arrangements and consolidated and unconsolidated structured entities.

This standard is applicable to Telstra from 1 July 2013 on a retrospective basis, with early adoption permitted provided that the entire suite of consolidation and related standards is adopted at the same time.

Based on our current assessments, we expect additional disclosures will be required by Telstra as a result of AASB 12, in the following areas:

- controlled entities with non-controlling interests that are material to Telstra;
- interests in consolidated structured entities; and
- unconsolidated structured entities.

(e) Separate Financial Statements

AASB 127: "Separate Financial Statements" has been released by the AASB in August 2011 to replace the current AASB 127 standard, now only containing the accounting requirements for preparation of separate financial statements of the parent.

This standard is applicable from 1 July 2013, with early adoption permitted provided that the entire suite of consolidation and related standards is adopted at the same time. There is no impact to Telstra's financial statements as we already comply with the requirements in the standard.

(f) Investments in Associates and Joint Ventures

AASB 128: "Investments in Associates and Joint Ventures" was issued by the AASB in August 2011 and replaces the current AASB 128 standard. Limited amendments have been made to AASB 128, including the application of AASB 5: "Non current assets held for sale and discontinued operations" to interests in associates and joint ventures and how to account for changes in interests in joint ventures and associates.

This standard is applicable from 1 July 2013, with early adoption permitted provided that the entire suite of consolidation and related standards is adopted at the same time.

We have assessed that there will be no impact to Telstra's financial statements as a result of this standard.

(g) Fair Value Measurement

AASB 13: "Fair Value Measurement" was released by the AASB in August 2011 and is a new standard providing a single source of guidance for all fair value measurements and a precise definition of fair value. It replaces all fair value measurement guidance in Australian Accounting Standards and Interpretations but does not replace existing standards requirements on when fair values should be used. A related omnibus standard AASB 2011-8: "Amendments to Australian Accounting Standards Arising from AASB 13" makes a number of definition and guidance amendments to other accounting standards as a result of the amendments in AASB 13 and must be adopted at the same time.

This standard is applicable to Telstra from 1 July 2013, with early adoption permitted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.24 New accounting standards to be applied in future reporting periods (continued)

(g) Fair Value Measurement (continued)

Based on our assessment of this new standard, the predominant impact will be additional disclosures required by Telstra, specifically in the following areas:

- investments or assets held for sale, where the fair value less costs to sell is lower than the carrying amount;
- as part of a business combination, any assets and liabilities measured at fair value in the statement of financial position after initial recognition; and
- financial instruments, where the carrying amount differs from the fair value.

(h) Employee Benefits

AASB 119: "Employee Benefits" was released by the AASB in September 2011 and replaces the existing employee benefits standard. A related omnibus standard AASB 2011-10: "Amendments to Australian Accounting Standards Arising from AASB 119" makes a number of amendments to other accounting standards and an interpretation as a result of the amendments in AASB 119.

Both standards are applicable from 1 July 2013 on a retrospective basis, with early adoption permitted.

Based on management's assessment, AASB 119 will have an impact on Telstra's financial statements, specifically in the following areas:

- the defined benefit expense will no longer contain the expected return on planned assets; instead this will be replaced by net interest income or expense, calculated using a discount rate (based on government bonds) applied to the net defined benefit asset or liability. Had we adopted the new rules in the current reporting period, profit before income tax for the current period would have been approximately $106 million lower and other comprehensive income would have been approximately $106 million higher than reported. There would be no impact to both total comprehensive income for the current period and the statement of financial position as at 30 June 2013;
- presentation of the defined benefit cost will be disaggregated into three components; service cost to be presented in the income statement, net interest on the net defined benefit asset or liability in the income statement as part of finance costs and remeasurements to be presented in other comprehensive income; and
- additional disclosures about the characteristics and risks arising from our defined benefit plans.

(i) Investment Entities

Investment Entities (Amendments to IFRS 10: "Consolidated Financial Statements", IFRS 12: "Disclosure of Interests in Other Entities" and IAS 27: "Separate Financial Statements"), issued by the International Accounting Standards Board (IASB) in October 2012, introduces an exception to consolidating particular subsidiaries that meet the definition of "investment entities". Investment entities are those whose business purpose is to invest funds solely for returns from capital appreciation, investment income, or both. A subsidiary classified as an investment entity will be measured at fair value through profit or loss in accordance with IFRS 9: "Financial Instruments" in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

This standard is applicable to Telstra from 1 July 2014, with earlier adoption permitted. This change is expected to have a minimal impact, as Telstra currently does not have any subsidiaries that meet the definition of investment entities.

(j) Transition Guidance and Other Amendments

AASB 2012-10: "Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments" was issued by the Australian Accounting Standards Board in December 2012.

This standard amends 25 standards and one interpretation and is applicable to Telstra from 1 July 2013, in line with the effective dates of AASB 10: "Consolidated Financial Statements", AASB 11: "Joint Arrangements" and AASB 12: "Disclosure of Interests in Other Entities."

AASB 2012-10 amends the retrospective application that was required in AASB 10 when it was issued in May 2011. It also provides additional transitional relief in AASB 10, AASB 11 and AASB 12, limiting the requirement to provide adjusted comparative information to the preceding comparative period. The proposal removes the requirement to present comparative information for periods before AASB 12 is first applied.

Based on our current assessments, we do not expect this standard to affect our financial results, as there will be no material impact on Telstra from the adoption of AASB 10 and AASB 11.

(k) Other

In addition to the above accounting standards which are applicable in future years, we note the following new accounting standards and interpretations also applicable in future years:

- AASB 1053: "The Application of Tiers of Australian Accounting Standards";
- AASB 2011-4: "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements";
- AASB 2012-2: "Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities";

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.24 New accounting standards to be applied in future reporting periods (continued)

(k) Other (continued)

- AASB 2012-3: “Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities”;
- AASB 2012-5: “Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle”;
- AASB 2012-9: “Amendments to AASB 1048 arising from the withdrawal of Australian Interpretation 1039”;
- AASB Interpretation 21: “Levies”;
- AASB 2013-3: “Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets”; and
- AASB 2013-4: “Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting”.

We do not expect these accounting standards and interpretations to materially affect our financial results upon adoption.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. EARNINGS PER SHARE

	Telstra Group Year ended 30 June	
	2013 cents	2012 cents
Basic earnings per share	**30.7**	27.5
Diluted earnings per share	**30.6**	27.4
	$m	$m
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the year attributable to equity holders of Telstra Entity	**3,813**	3,405
	Number of shares millions	
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue	**12,443**	12,443
Effect of shares held by employee share plan trusts (a)(b)	**(37)**	(45)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**12,406**	12,398
Effect of dilutive employee share instruments (c)	**38**	8
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**12,444**	12,406

(a) In order to underpin the equity instruments issued under the Growthshare plan, the Telstra Growthshare Trust purchases Telstra shares already on issue. These shares are not considered to be outstanding for the purposes of calculating basic and diluted earnings per share.

(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 calculating basic and diluted earnings per share.

(c) The following equity instruments are considered dilutive to earnings per share:

- incentive shares granted under the Growthshare short term incentive scheme;
- certain performance rights and restricted shares granted under the Growthshare long term incentive (LTI) scheme;
- share options issued under TESOP99 (for financial year 2013 only); and
- share options issued under TESOP97 (for financial year 2012 only).

The following equity instruments are not considered dilutive to earnings per share:

- certain performance rights, restricted shares and options issued under the Growthshare LTI scheme; and
- share options issued under TESOP99 (for financial year 2012 only).

Refer to note 27 for details regarding equity instruments issued under the Growthshare and TESOP share plans.

4. DIVIDENDS

	Telstra Entity Year ended 30 June 2013 $m	2012 $m
Dividends paid		
Previous year final dividend paid	**1,739**	1,738
Interim dividend paid	**1,741**	1,737
Total dividends paid	**3,480**	3,475
Dividends paid per ordinary share	**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 financial year are detailed below.

	Telstra Entity Year ended 30 June 2013 cents	2012 cents
Dividends per ordinary share		
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 2013 $m	2012 $m
Franking credits available for use in subsequent reporting periods		
Franking account balance	**(85)**	(54)
Franking credits that will arise from the payment of income tax payable as at 30 June (b)	**368**	674
	283	620

(a) As the final dividend for financial year 2013 was not determined or publicly recommended by the Board as at 30 June 2013, no provision for dividend has been raised in the statement of financial position. The final dividend has been reported as an event subsequent to reporting date. Refer to note 31 for further details.

(b) Franking credits that will arise from the payment of income tax are expressed at the 30% tax rate on a tax paid basis.

We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our final 2013 dividend.

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 determines how our Company is organised and managed.

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparatives are restated to reflect organisational changes that have occurred since the prior reporting period to present a like-for-like view.

During the year ended 30 June 2013, the following changes were made to our operating segments:

- TelstraClear, previously disclosed as a separate reportable segment, is now included in the “All Other” category, up to the date of disposal on 31 October 2012. Refer to notes 12 and 20 for further details;
- a new business unit, Telstra Health was created in April 2013 reporting to the Chief Customer Officer;
- Telstra Consumer and Country Wide changed its name to Telstra Consumer (TC); and
- Telstra Applications and Ventures Group changed its name to Telstra Ventures Group.

The Telstra Group for financial year 2013 is organised into the following reportable segments for internal management reporting purposes:

Telstra Consumer (TC) reports to the Chief Customer Officer and is responsible for providing the full range of telecommunication products, services and solutions (across Mobiles, Fixed and Mobile 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. 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) reports to the Chief Customer Officer and is responsible for providing Australia's small to medium enterprises with a full range of communication based products and solutions.

Telstra Enterprise and Government (TE&G) reports to the Chief Customer Officer and is responsible for the provision of network applications and services and integrated voice, data and mobile solutions via Telstra Next Generation Services® to Australia’s enterprise and government customers.

Telstra Operations (TOps) is responsible for:

- overall planning, design, engineering and architecture of Telstra networks, technology and information technology (IT);
- 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 Media Group (TMG) 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 and Quotify®; and
- the management of our investment in Digital Media content, services and applications, including Trading Post, Telstra Advertising Network, BigPond® content including music, movies, sport and games, IPTV, online portals and the FOXTEL Partnership.

The majority of TMG non-advertising revenue is reported in the domestic retail segments, i.e. TC, TB and TE&G.

Telstra International Group (TIG) is responsible for managing Telstra's assets outside Australia, including:

- CSL New World Mobility Limited, our 76.4 per cent owned subsidiary in Hong Kong, responsible for providing full mobile services including handset and device sales, mobile voice, and mobile data products to the Hong Kong market;
- Telstra China, our mainland China business providing digital media services in auto, IT and consumer electronics (this includes the Autohome and Sequel Media businesses); and
- Telstra Global, our managed services and international connectivity business, providing managed network services, international data and voice, and satellite across the Asia Pacific, China, India, EMEA, and the US. Telstra Global also manages our submarine cable networks and other assets.

5. SEGMENT INFORMATION (CONTINUED)

Operating segments (continued)

In our segment results, the “All Other” category consists of various business units that do not qualify as reportable segments in their own right. These include:

- Telstra Innovation, Products and Marketing (TIPM);
- Telstra Customer Sales and Services head office function, reporting to the Chief Customer Officer (excluding the domestic retail business units of TC, TB and TE&G);
- Telstra Health;
- Telstra Ventures Group;
- TelstraClear; and
- our corporate areas.

Finance and Strategy in our corporate areas is the main contributor to the result for the “All Other” category, which is primarily depreciation and amortisation charges, as well as impairment of property, plant and equipment and software.

Segment results

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The result of each segment is now measured based on its “earnings before interest, income tax expense, depreciation and amortisation (EBITDA) contribution”. EBITDA contribution excludes the effects of all inter-segment balances and transactions (with the exception of transactions referred to in footnote (ii) below). Therefore, only transactions external to the Telstra Group are reported.

Historically, certain items of income and expense were excluded from the segment results to show a measure of “underlying” performance. Such items included gains/losses on disposal of non-current assets, controlled entities, associated entities, and businesses, the impairment of goodwill and intangibles, and revenue for the build of NBN related infrastructure. In prior periods, these were separately disclosed in the reconciliation of segment results to Telstra Group reported EBITDA, earnings before interest and income tax expense (EBIT) and profit before income tax expense in the financial statements.

During financial year 2013, in accordance with the information presented to management for internal management reporting purposes, we have included these items in the measurement of segment results. Therefore, we no longer have any reconciling items between segment results and Telstra Group’s reported EBITDA. The reconciliation of segment results to Telstra Group’s reported EBIT and profit before income tax expense in the financial statements now includes only depreciation and amortisation expenses and net finance costs. Segment comparatives have been updated accordingly to reflect these changes in the measurement of segment results to present a like-for-like view.

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 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 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, TB and TE&G are mainly allocated to the TC 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, 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 cable network;
- domestic promotion and advertising expense for the Telstra Entity is recorded centrally in TIPM; and
- call centre costs associated with TB and TE&G are included in the TC segment.

5. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

The following tables detail our segment results based on the reporting structure as at 30 June 2013:

Telstra Group

Year ended 30 June 2013	TC $m	TB $m	TE&G $m	TOps $m	TW $m	TMG $m	TIG $m	All Other (i) $m	Total $m
Revenue from external customers (ii)	10,595	4,710	4,344	92	2,097	1,615	1,871	354	25,678
Other income	61	4	2	64	18	-	12	141	302
Total income	10,656	4,714	4,346	156	2,115	1,615	1,883	495	25,980
Labour expenses	798	122	252	1,915	70	433	299	914	4,803
Goods and services purchased (ii)	3,678	880	654	160	72	183	886	(124)	6,389
Other expenses	603	81	40	1,792	31	316	313	982	4,158
Share of equity accounted profits	-	-	-	-	-	-	-	1	1
EBITDA contribution	5,577	3,631	3,400	(3,711)	1,942	683	385	(1,278)	10,629

Telstra Group

Year ended 30 June 2012	TC $m	TB $m	TE&G $m	TOps $m	TW $m	TMG $m	TIG $m	All Other (i) $m	Total $m
Revenue from external customers (ii)	10,257	4,660	4,296	62	2,091	1,741	1,645	616	25,368
Other income	56	5	(7)	12	-	-	22	47	135
Total income	10,313	4,665	4,289	74	2,091	1,741	1,667	663	25,503
Labour expenses	800	124	232	1,995	68	450	270	1,028	4,967
Goods and services purchased (ii)	3,373	917	592	202	74	174	790	57	6,179
Other expenses	696	58	32	1,621	16	311	327	1,062	4,123
EBITDA contribution	5,444	3,566	3,433	(3,744)	1,933	806	280	(1,484)	10,234

(i) Following the sale of TelstraClear on 31 October 2012, the current period only includes four months of TelstraClear results, compared with 12 months in the comparative period. The current period segment results also include a $127 million loss on sale of TelstraClear, which is recorded in Other expenses. Refer to note 20 for further details.

(ii) Revenue from external customers in TIG includes $130 million (2012: $136 million) of inter-segment revenue treated as external expenses in TC, TB, TE&G and TW which is eliminated in the "All Other" category.

External expenses in TIG also include $32 million (2012: $33 million) of inter-segment expenses treated as external revenue in TW and eliminated in the "All Other" category.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

A reconciliation of EBITDA contribution for reportable segments to Telstra Group's EBITDA, EBIT and profit before income tax expense is provided below:

		Telstra Group	
		Year ended 30 June	
	Note	2013 $m	2012 $m
EBITDA contribution		**11,907**	11,718
All other		**(1,278)**	(1,484)
Telstra Group EBITDA		**10,629**	10,234
Depreciation and amortisation	7	**(4,238)**	(4,412)
Telstra Group EBIT		**6,391**	5,822
Net finance costs		**(909)**	(888)
Telstra Group profit before income tax expense		**5,482**	4,934

	Telstra Group	
	Year ended 30 June	
	2013 $m	2012 $m
Information about our geographic operations (iii)		
Revenue from external customers		
Australian customers	**23,774**	23,231
Offshore customers	**1,904**	2,137
	25,678	25,368
Carrying amount of non current assets (iv)		
Located in Australia	**27,896**	26,875
Located offshore	**1,658**	2,036
	29,554	28,911

(iii) Our geographical operations are split between our Australian and offshore operations. Our offshore operations include CSL New World (Hong Kong), Autohome, Sequel Media and SharpPoint (China) and our international business, including Telstra Europe (UK), which are all part of the TIG segment, and TelstraClear (New Zealand) up to the date of disposal. No individual geographical area forms a significant part of our operations, apart from our Australian operations.

(iv) The carrying amount of our segment non current assets excludes derivative assets, defined benefit assets and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

	Note	Telstra Group Year ended 30 June 2013 $m	2012 $m
Income from our products and services			
Fixed		**7,303**	7,508
Mobile		**9,200**	8,680
Data and IP		**3,041**	3,108
Network applications and services		**1,487**	1,263
Media		**2,191**	2,377
International businesses		**1,739**	1,496
TelstraClear		**164**	501
Other sales revenue (v)		**377**	299
Other revenue (vi)	6	**176**	136
Other income (vii)	6	**302**	135
Total income (excluding finance income)	6	**25,980**	25,503

(v) Other sales revenue includes revenue for the build of National Broadband Network (NBN) related infrastructure of $168 million (2012: $67 million) and late payment and miscellaneous fee revenue.

(vi) Other revenue primarily consists of distributions from our FOXTEL Partnership and rental income.

(vii) Other income includes amounts received under the NBN Definitive Agreements, including Telecommunications Universal Services and Management Agency (TUSMA) receipts (which replaced the Universal Services Obligation (USO)) and grants received under the Retraining Fund Deed. Also included are USO receipts, net gains on asset and investment sales and other miscellaneous items.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INCOME

	Note	Telstra Group Year ended 30 June 2013 $m	2012 $m
Sales revenue			
Rendering of services		**10,850**	11,410
Sale of goods		**2,197**	1,854
Rent of network facilities and access		**10,709**	10,120
Construction contracts		**249**	229
Advertising and directory services		**1,497**	1,619
		25,502	25,232
Other revenue (excluding finance income)			
Distribution from FOXTEL Partnership	29	**155**	108
Rent from property		**21**	28
		176	136
Total revenue (excluding finance income)		**25,678**	25,368
Other income			
Net gain on disposal of non current assets (a)		**66**	5
Net gain on de-recognition of finance leases	20	**8**	-
Net foreign currency translation gains		**7**	-
Government grants (b)		**152**	66
Gain from de-recognition of contingent consideration	20	**-**	33
Other miscellaneous income		**69**	31
		302	135
Total income (excluding finance income)		**25,980**	25,503
Finance income			
Interest on cash and cash equivalents	17(e)	**94**	111
Interest on finance lease receivables	17(e)	**11**	11
Interest on loans to jointly controlled and associated entities	17(e)	**53**	12
Interest on other receivables		**61**	-
		219	134
Total income		**26,199**	25,637

(a) Non current assets includes property, plant and equipment, intangibles and investments.

(b) The following government grants have been recognised as other income during the financial year:

- $124 million (2012: nil) under the Telecommunications Universal Services and Management Agency (TUSMA) National Broadband Network (NBN) Definitive Agreement, which replaced the Universal Services Obligation (USO);
- $6 million (2012: $58 million) related to the Australian Communications and Media Authority's (ACMA) USO;
- $11 million (2012: $2 million) under the Retraining Fund Deed NBN Definitive Agreement. The grant, received last year, is being used to retrain certain employees over a period of eight to ten years; and
- $11 million (2012: $6 million) related to other contracts accounted for as government grants.

There are no unfulfilled conditions or other contingencies attaching to these grants.

7. EXPENSES

		Telstra Group	
		Year ended 30 June	
	Note	2013 $m	2012 $m
Labour			
Included in our labour expenses are the following			
Employee redundancy		**189**	162
Share based payments		**47**	31
Defined benefit plan expense	24	**223**	223
Cost of goods sold		**2,901**	2,551
Other expenses			
Impairment losses			
- impairment in value of inventories		**29**	37
- impairment in value of trade and other receivables		**251**	346
- impairment in value of property, plant and equipment	13	**15**	21
- impairment in value of intangibles (a)	14	**5**	8
- impairment in value of goodwill (a)	14	**3**	182
- impairment in value of TelstraClear net assets (b)	12	**28**	-
- impairment in value of amounts owed by joint ventures		**16**	-
		347	594
Reversal of impairment losses			
- reversal of impairment in value of trade and other receivables	10	**(39)**	(50)
		(39)	(50)
Net loss on disposal of TelstraClear (c)	20	**127**	-
Rental expense on operating leases		**618**	583
Net foreign currency translation losses		**-**	5
Service contracts and other agreements		**1,382**	1,229
Promotion and advertising		**309**	327
General and administration		**1,009**	985
Other operating expenses		**405**	450
		4,158	4,123
Depreciation of property, plant and equipment	13	**3,073**	3,305
Amortisation of intangible assets		**1,165**	1,107
		4,238	4,412
Finance costs			
Interest on borrowings	17(e)	**1,017**	1,132
Unwinding of discount on liabilities recognised at present value		**18**	18
Loss on fair value hedges - effective (d)		**95**	9
Gain on cash flow hedges - ineffective		**-**	(2)
Loss/(gain) on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (e)		**89**	(14)
Other		**5**	7
		1,224	1,150
Less: interest on borrowings capitalised (f)		**(96)**	(128)
		1,128	1,022
Research and development expenses		**2**	5

7. EXPENSES (CONTINUED)

(a) We have recognised an impairment loss of $8 million (2012: $190 million) relating to impairment of goodwill ($3 million) and other intangible assets ($5 million). Refer to note 14 for further details.

(b) We have recognised an impairment loss of $28 million relating to the impairment of TelstraClear net assets. This was due to the operating results of TelstraClear increasing the net assets at the date of disposal, which were not recoverable through the disposal of TelstraClear. Refer to note 12 for further details.

(c) A $127 million loss on disposal of TelstraClear was recognised during the financial year 2013, which largely comprised foreign exchange losses. Refer to note 20 for further details.

(d) 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 $95 million unrealised loss for the current year (2012: $9 million) reflects the following valuation impacts:

- movement in base market rates and Telstra's borrowing margins between valuation dates;
- reduction in the number of future interest flows as we approach maturity of the financial instruments; 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 for each transaction will progressively unwind to nil at maturity.

Refer to note 18 for further details regarding our hedging strategies.

(e) A combination of the following factors has resulted in a net unrealised loss of $89 million (2012: gain of $14 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 (d) 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 (2012: $21 million) for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

Although 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.

(f) Interest on borrowings has been capitalised using a capitalisation rate of 6.4 per cent (2012: 7.0 per cent).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. REMUNERATION OF AUDITORS

	Telstra Group	
	Year ended 30 June	
	2013	2012
	$m	$m
Audit fees		
EY has charged the following amounts for auditing and reviewing the financial reports	**8.079**	8.632
Other services		
Audit related (a)	**1.374**	0.840
Non-audit services (b)	**0.515**	0.846
Other services provided by EY	**1.889**	1.686

Other services

Other services comprise audit related fees and non-audit services.

(a) Audit related fees charged by EY are for services that are reasonably related to the performance of the audit or review of our financial statements and other assurance engagements. These services include assurance services over debt raising prospectuses, additional control assessments, various accounting advice and additional audit services related to our controlled entities.

(b) Non-audit services comprise the following:

- tax fees charged by EY that mainly relate to income tax return services; 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 risk assessments and IT related projects.

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

The Audit Committee approves the recurring audit and non-audit fees. The provision of additional audit and non-audit services by EY must be approved by either the Chief Financial Officer, the Chairman of the Audit Committee or the Audit Committee, depending upon the fees involved, 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. Our auditor independence guidelines clearly identify prohibited services. All additional EY engagements approved 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 2013 $m	2012 $m
Major components of income tax expense		
Current tax expense	**1,588**	1,826
Deferred tax resulting from the origination and reversal of temporary differences	**28**	(337)
Under provision of tax in prior years	**1**	21
	1,617	1,510
Notional income tax expense on profit differs from actual income tax expense recorded as follows		
Profit before income tax expense	**5,482**	4,934
Notional income tax expense calculated at the Australian tax rate of 30%	**1,645**	1,480
Which is adjusted by the tax effect of:		
Different rates of tax on overseas income	**(24)**	(15)
Non assessable and non deductible items	**(2)**	63
Amended assessments.	**(3)**	(39)
Under provision of tax in prior years	**1**	21
Income tax expense on profit.	**1,617**	1,510
Income tax recognised directly in other comprehensive income or equity during the year	**164**	(262)

	Telstra Group As at 30 June 2013 $m	2012 $m
(Deferred tax liability)/deferred tax asset		
Deferred tax items recognised in the income statement (*)		
Property, plant and equipment	**(1,199)**	(1,241)
Intangible assets	**(883)**	(830)
Borrowings and derivative financial instruments	**(22)**	(59)
Provision for employee entitlements	**297**	292
Revenue received in advance	**139**	194
Provision for workers' compensation	**18**	20
Allowance for doubtful debts	**48**	57
Defined benefit liability/asset (a)	**65**	98
Trade and other payables	**153**	111
Other provisions	**31**	49
Income tax losses (b).	**2**	39
Other	**(11)**	(32)
	(1,362)	(1,302)
Deferred tax items recognised in other comprehensive income or equity (c)		
Defined benefit liability/asset (a)	**(54)**	148
Derivative financial instruments	**91**	53
	37	201
Net deferred tax liability	**(1,325)**	(1,101)
Our net deferred tax liability is split as follows		
Deferred tax assets recognised in the statement of financial position	**5**	6
Deferred tax liabilities recognised in the statement of financial position	**(1,330)**	(1,107)
	(1,325)	(1,101)

(*) 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	
	2013 $m	2012 $m
Deferred tax assets not recognised (d)		
Income tax losses	**98**	46
Capital tax losses.	**202**	161
Deductible temporary differences	**307**	307
	607	514

(a) Our net deferred tax asset on our defined benefit liability for the Telstra Group is $11 million (2012: $246 million).

(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 by the Telstra Entity of $34 million (2012: $11 million) and amounts payable by the Telstra Entity of $247 million (2012: $211 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

	Note	Telstra Group As at 30 June 2013 $m	2012 $m
Current			
Trade receivables (a)		**3,515**	3,377
Allowance for doubtful debts (a)		**(180)**	(210)
		3,335	3,167
Amounts owed by jointly controlled and associated entities - loans	29	**-**	33
Finance lease receivable (b)		**66**	51
Accrued revenue		**1,093**	1,001
Other receivables		**63**	94
		1,222	1,146
		4,557	4,346
Non current			
Trade receivables (a)		**321**	280
Amounts owed by jointly controlled and associated entities	29	**457**	448
Allowance for amounts owed by jointly controlled and associated entities - loans	29	**(6)**	(5)
		451	443
Finance lease receivable (b)		**148**	91
Other receivables		**23**	37
		171	128
		943	851

(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 2013 Gross $m	2013 Allowance $m	2012 Gross $m	2012 Allowance $m
Not past due	**2,817**	**(13)**	2,498	(21)
Past due 0 - 30 days	**598**	**(32)**	647	(20)
Past due 31 - 60 days	**176**	**(16)**	166	(13)
Past due 61 - 90 days	**72**	**(16)**	75	(13)
Past due 91 - 120 days	**49**	**(14)**	56	(15)
Past 120 days	**124**	**(89)**	215	(128)
	3,836	**(180)**	3,657	(210)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	Telstra Group	
	Year ended 30 June	
	2013	2012
	$m	$m
Opening balance	**(210)**	(230)
- additional allowance	**(130)**	(144)
- amount used	**123**	111
- amount reversed	**39**	50
- foreign currency exchange differences.	**(2)**	(1)
- transfer of TelstraClear's balance to assets held for sale	**-**	4
Closing balance	**(180)**	(210)

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 charges 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, letters of credit and deposits. During financial year 2013, the securities we called upon were insignificant.

We have used the following basis to assess the allowance for doubtful debts for trade receivables:

- a statistical approach to apply risk segmentation to the debt, and applying the historical impairment rate to each segment at the end of the reporting period;
- an individual account by account assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

As at 30 June 2013, trade receivables with a carrying amount of $852 million (2012: $970 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 and 5 years (2012: 2 and 5 years).

	Telstra Group	
	As at 30 June	
	2013	2012
	$m	$m
Amounts receivable under finance leases		
Within 1 year.	**77**	59
Within 1 to 5 years.	**152**	96
After 5 years	**8**	5
Total minimum lease receivables	**237**	160
Less unearned finance income	**(23)**	(18)
Present value of minimum lease receivables	**214**	142
Included in the financial statements as		
Current finance lease receivables	**66**	51
Non current finance lease receivables	**148**	91
	214	142

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 7.7 per cent (2012: 7.8 per cent) per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. INVENTORIES

	Telstra Group As at 30 June 2013 $m	Telstra Group As at 30 June 2012 $m
Current		
Finished goods recorded at cost	**276**	144
Finished goods recorded at net realisable value	**64**	60
Total finished goods	**340**	204
Raw materials and stores recorded at cost	**11**	9
Construction contracts (a)	**80**	47
	431	260
Non current		
Finished goods recorded at net realisable value	**27**	24
	27	24
(a) Construction contract disclosures are shown as follows		
Contract costs incurred and recognised profits	**592**	479
Progress billings	**(512)**	(432)
	80	47

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. NON CURRENT ASSETS HELD FOR SALE

On 12 July 2012, we signed an agreement to dispose of our 100 per cent shareholding in TelstraClear Limited and its controlled entity (TelstraClear). The disposal was subsequently completed on 31 October 2012 following regulatory approval. Refer to Note 20 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 TelstraClear, with the exception of cash balances which were excluded from the sale agreement, were classified as held for sale up to the date of sale. On completion of the sale, included in our disposal values was $11 million of cash, which was recovered through additional proceeds on sale.

As at 30 June 2012, a $130 million cumulative loss on foreign currency translation reserve arising from our investment in TelstraClear was recognised in other comprehensive income. This was reclassified to the income statement on disposal of TelstraClear in financial year 2013. Refer to note 20 for further details.

During financial year 2013, we also impaired $28 million of our TelstraClear net assets. This was due to the operating results of TelstraClear increasing the net assets, which were not recoverable through the disposal of TelstraClear. Refer to note 7 for further details.

TelstraClear is included in the "All Other" category in our segment information disclosures in note 5.

		Telstra Group	
		As at 30 June	
		2013	2012
	Note	**$m**	$m
Current assets			
Trade and other receivables		-	73
Inventories		-	2
Prepayments		-	8
Total current assets		-	83
Non current assets			
Property, plant and equipment	13	-	516
Intangible assets	14	-	155
Total non current assets		-	671
Total assets		-	754
Current liabilities			
Trade and other payables		-	70
Provisions		-	6
Revenue received in advance		-	26
Total current liabilities		-	102
Non current liabilities			
Provisions		-	3
Total non current liabilities		-	3
Total liabilities		-	105
Net assets		-	649

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. PROPERTY, PLANT AND EQUIPMENT

	Telstra Group	
	As at 30 June	
	2013	2012
	$m	$m
Land and site improvements		
At cost	**52**	38
Buildings (including leasehold improvements)		
At cost	**1,166**	1,077
Accumulated depreciation and impairment	**(586)**	(536)
	580	541
Communication assets		
At cost	**58,090**	56,619
Accumulated depreciation and impairment	**(38,911)**	(37,178)
	19,179	19,441
Other plant, equipment and motor vehicles		
At cost	**1,676**	1,605
Accumulated depreciation and impairment	**(1,161)**	(1,121)
	515	484
Total property, plant and equipment		
At cost	**60,984**	59,339
Accumulated depreciation and impairment	**(40,658)**	(38,835)
	20,326	20,504

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	Other plant, equipment and motor vehicles $m	Total property, plant, and equipment (c) $m
Written down value at 1 July 2011	40	499	20,643	608	21,790
- additions	-	117	2,293	139	2,549
- disposals	(1)	(3)	(3)	(6)	(13)
- disposals through sale of business combinations	-	-	-	(1)	(1)
- disposals through sale of businesses	-	(1)	-	-	(1)
- impairment losses	-	(2)	(18)	(1)	(21)
- depreciation expenses	-	(64)	(3,049)	(192)	(3,305)
- transfer to assets held for sale	(1)	(7)	(477)	(31)	(516)
- net foreign currency exchange differences	-	3	23	2	28
- other	-	(1)	29	(34)	(6)
Written down value at 30 June 2012	38	541	19,441	484	20,504
- additions	**14**	**119**	**2,625**	**140**	**2,898**
- disposals	**-**	**(52)**	**(24)**	**(3)**	**(79)**
- impairment losses	**-**	**-**	**(11)**	**(4)**	**(15)**
- depreciation expenses	**-**	**(74)**	**(2,892)**	**(107)**	**(3,073)**
- net foreign currency exchange differences	**-**	**6**	**40**	**5**	**51**
- other (d)	**-**	**40**	**-**	**-**	**40**
Written down value at 30 June 2013	**52**	**580**	**19,179**	**515**	**20,326**

(a) Includes leasehold improvements.

(b) Includes certain network land and buildings which are essential to the operation of our communication assets.

(c) Includes $60 million of capitalised borrowing costs (2012: $86 million) directly attributable to qualifying assets.

(d) $40 million is the net result of refinancing a property under a finance lease owned by Telstra Europe Limited, during financial year 2013. Refer to note 22 for further details.

Work in progress

As at 30 June 2013, the Telstra Group has property, plant and equipment under construction amounting to $637 million (2012: $1,076 million). As these assets are not installed and ready for use, there is no depreciation being charged on these amounts.

14. INTANGIBLE ASSETS

	Telstra Group As at 30 June	
	2013 $m	2012 $m
Goodwill		
At cost	**1,650**	1,554
Accumulated impairment	**(268)**	(265)
	1,382	1,289
Internally generated intangible assets		
Software assets developed for internal use (a)	**8,882**	8,201
Accumulated amortisation and impairment	**(4,142)**	(3,388)
	4,740	4,813
Acquired intangible assets		
Mastheads	**447**	447
Accumulated amortisation and impairment	**(380)**	(312)
	67	135
Patents and trademarks	**30**	34
Accumulated amortisation and impairment	**(12)**	(12)
	18	22
Licences	**1,426**	770
Accumulated amortisation and impairment	**(373)**	(491)
	1,053	279
Customer bases	**107**	171
Accumulated amortisation and impairment	**(96)**	(156)
	11	15
Brand names	**179**	161
Accumulated amortisation and impairment	**(103)**	(82)
	76	79
Total acquired intangible assets	**1,225**	530
Deferred expenditure		
Deferred expenditure	**1,450**	1,286
Accumulated amortisation and impairment	**(595)**	(497)
	855	789
Total intangible assets		
At cost	**14,171**	12,624
Accumulated amortisation and impairment	**(5,969)**	(5,203)
	8,202	7,421

14. INTANGIBLE ASSETS (CONTINUED)

Telstra Group

	Goodwill $m	Software assets developed $m	Mastheads $m	Patents and trademarks $m	Licences (b) $m	Customer bases $m	Brand names $m	Deferred expenditure (c) (d) $m	Total intangible assets (e) $m
Written down value at 1 July 2011	1,415	4,656	202	25	351	158	106	714	7,627
- additions	-	1,087	-	-	1	-	-	746	1,834
- disposals through sale of a controlled entity	-	(1)	-	(2)	-	(4)	(1)	-	(8)
- disposals through sale of businesses	-	-	-	-	(1)	-	-	-	(1)
- impairment losses (f)	(182)	(1)	-	-	-	(7)	-	-	(190)
- amortisation expense	-	(896)	(67)	(2)	(62)	(64)	(13)	(667)	(1,771)
- net foreign currency exchange differences	57	2	-	1	8	5	6	-	79
- transfers to non current assets held for sale (g)	(1)	(36)	-	-	(18)	(73)	(19)	(8)	(155)
- other	-	2	-	-	-	-	-	4	6
Written down value at 30 June 2012	1,289	4,813	135	22	279	15	79	789	7,421
- additions	**-**	**941**	**-**	**-**	**822**	**-**	**-**	**796**	**2,559**
- acquisition through business combinations	**1**	**-**	**-**	**-**	**-**	**2**	**1**	**-**	**4**
- impairment losses (f)	**(3)**	**(5)**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**
- amortisation expense	**-**	**(1,016)**	**(68)**	**(3)**	**(60)**	**(7)**	**(11)**	**(730)**	**(1,895)**
- net foreign currency exchange differences	**95**	**7**	**-**	**-**	**12**	**1**	**7**	**-**	**122**
- other	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Written down value at 30 June 2013	**1,382**	**4,740**	**67**	**18**	**1,053**	**11**	**76**	**855**	**8,202**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. INTANGIBLE ASSETS (CONTINUED)

(a) As at June 2013, we had software assets under development amounting to $345 million (2012: $509 million). As these assets were not installed and ready for use, there is no amortisation being charged on the amounts.

(b) During financial year 2013, we renewed our existing 800Mhz and 1800Mhz spectrum licences for $779 million.

(c) During financial year 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 2018.

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.

(d) The majority of the deferred expenditure relates to the deferral of direct incremental costs of establishing a customer contract, which are amortised to goods and services purchased and sold in the income statement. In addition, the deferred expenditure includes basic access installation and connection fees for in place and new services.

(e) Includes $36 million (2012: $42 million) of capitalised borrowing costs directly attributable to qualifying assets.

(f) We have recognised an impairment charge of $3 million against goodwill for the CitySearch CGU which is included in “Other” in note 21. In financial year 2012, we recognised $189 million against goodwill and customer bases of $182 million and $7 million, respectively for the TelstraClear, LMobile Group and CitySearch CGUs.

(g) As at 30 June 2012, assets and liabilities of TelstraClear Limited were classified as held for sale. Refer to note 12 for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. TRADE AND OTHER PAYABLES

	Telstra Group	
	As at 30 June	
	2013	2012
	$m	$m
Current		
Trade creditors (a)	**1,297**	1,228
Accrued expenses	**1,690**	1,656
Accrued capital expenditure	**400**	343
Accrued interest	**365**	347
Deferred consideration for capital expenditure	**30**	31
Other creditors (a)	**459**	526
	4,241	4,131
Non current		
Deferred consideration for capital expenditure	**104**	112
Other creditors	**59**	62
	163	174

(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	
	2013	2012
	$m	$m
Current		
Employee benefits (a)	**853**	856
Workers' compensation (b)	**23**	24
Redundancy (b)	**6**	6
Other (b)	**36**	56
	918	942
Non current		
Employee benefits (a)	**131**	110
Workers' compensation (b)	**126**	131
Other (b)	**19**	23
	276	264

(a) Aggregate employee benefits

	Telstra Group	
	As at 30 June	
	2013	2012
	$m	$m
Current provision for employee benefits	**853**	856
Non current provision for employee benefits	**131**	110
Current provision for redundancy	**6**	6
Accrued labour and on-costs (i)	**555**	456
	1,545	1,428

(i) Accrued labour and related on-costs are included within our current trade and other payables (refer to note 15 for further details).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees.

Employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount (refer to note 2.14 for further details).

	Telstra Group	
	As at 30 June	
	2013	2012
Weighted average projected increase in salaries, wages and associated on-costs	**4.7%**	4.7%
Discount rates	**4.2%**	3.6%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. PROVISIONS (CONTINUED)

(b) Movement in provisions, other than employee benefits

	Telstra Group	
	Year ended 30 June	
	2013	2012
	$m	$m
Workers' compensation (i)		
Opening balance	**155**	152
- additional provisions	**16**	4
- amount used	**(22)**	(23)
- unwinding of discount on liabilities recognised at present value	**5**	7
- effect of any change in the discount rate	**(5)**	16
- reversal of amounts unused	**-**	(1)
Closing balance	**149**	155
Redundancy		
Opening balance	**6**	-
- additional provisions	**6**	6
- amount used	**(6)**	-
Closing balance	**6**	6
Other (ii)		
Opening balance	**79**	97
- additional provisions	**32**	39
- amount used	**(54)**	(53)
- unwinding of discount on liabilities recognised at present value	**1**	-
- effect of any change on discount rate	**-**	1
- reversal of amounts unused	**(4)**	-
- foreign currency exchange differences	**1**	1
- transfer to non current assets held for sale	**-**	(5)
- other	**-**	(1)
Closing balance	**55**	79

(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 8 years (2012: 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 provisions for ACCC customer determinations and disputes, provision for lease incentives, provision for committed capital expenditure, provision for reinstatement costs, 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 financial year 2013, we paid dividends of $3,480 million (2012: $3,475 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 liabilities and derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

Our comfort range for the net debt gearing ratio is currently 50 to 70 per cent (2012: 50 to 70 per cent). The gearing ratios and carrying value of our net debt are shown in Table A below:

Table A		**Telstra Group**	
		As at 30 June	
		2013	2012
	Note	**$m**	$m
Current			
Short term debt			
Promissory notes		**125**	563
		125	563
Long term debt-current portion			
Offshore loans (i)		**55**	1,198
Telstra bonds and domestic loans (ii)		**505**	1,500
Finance leases	22	**66**	45
		626	2,743
		751	3,306
Non current			
Long term debt			
Offshore loans (i)		**11,836**	9,836
Telstra bonds and domestic loans (ii)		**2,263**	2,028
Finance leases	22	**214**	94
		14,313	11,958
		15,064	15,264
Short term debt		**125**	563
Long term debt (including current portion)		**14,939**	14,701
Total debt		**15,064**	15,264
Net derivative financial liability	17(f)	**564**	1,958
Gross debt		**15,628**	17,222
Cash and cash equivalents	20	**(2,479)**	(3,945)
Net debt		**13,149**	13,277
Total equity		**12,875**	11,689
Total capital		**26,024**	24,966
		%	%
Gearing ratio		**50.5**	53.2

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 Table A 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. The carrying amounts of offshore loans are denominated in the currencies in Table B. Our policy is to swap foreign currency borrowings into Australian dollars, except where they are held to hedge translation foreign exchange risk associated with our offshore investments. Refer to Table D for the net contractual face values of our borrowings on a post hedge basis.

Refer to Table E for details on debt issuance and maturities.

Table B	**Telstra Group**	
	As at 30 June	
	2013	2012
	$m	$m
Australian dollar	**190**	190
Euro	**9,054**	7,193
United States dollar	**1,225**	1,701
British pounds sterling	**329**	306
Japanese yen	**566**	595
New Zealand dollar	**214**	198
Swiss francs	**262**	804
Hong Kong dollar	**47**	45
Indian rupee	**4**	2
	11,891	11,034

(ii) Telstra bonds and domestic loans

Telstra bonds currently on issue total $238 million, mature up until the year 2020, and relate to wholesale investors. Domestic borrowings as at 30 June 2013 total $2,530 million, with various maturity dates up until the year 2020. Refer to Table E for details on debt issuance and maturities.

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					
	As at 30 June 2013			As at 30 June 2012		
	Carrying amount	**Fair value**	**Face value**	Carrying amount	Fair value	Face value
	Receivable/(payable)			Receivable/(payable)		
	$m	**$m**	**$m**	$m	$m	$m
Financial instruments included in net debt						
Cash at bank and on hand	**295**	**295**	**295**	362	362	362
Available for sale - at fair value						
Bank deposits, bills of exchange and promissory notes (i)	**2,184**	**2,184**	**2,195**	3,583	3,583	3,634
In designated hedge relationships - at fair value						
Net derivative liability - hedging instrument	**(382)**	**(382)**	**(327)**	(1,381)	(1,381)	(1,349)
Promissory notes - hedged item (ii)	**(125)**	**(126)**	**(126)**	(101)	(101)	(101)
Offshore loans - hedged item (ii)	**(3,950)**	**(3,950)**	**(3,732)**	(3,615)	(3,615)	(3,529)
In designated hedge relationships - at amortised cost						
Offshore loans - hedged item	**(6,504)**	**(6,948)**	**(6,547)**	(4,749)	(5,211)	(4,781)
Telstra bonds and domestic loans - hedged item	**(1,010)**	**(1,006)**	**(1,025)**	(274)	(264)	(275)
Promissory notes - hedging instrument	**-**	**-**	**-**	(275)	(276)	(277)
Offshore loans - hedging instrument	**-**	**-**	**-**	(198)	(217)	(200)
Not in designated hedge relationship - at fair value						
Net derivative liability	**(182)**	**(182)**	**(261)**	(577)	(577)	(703)
De-designated from hedge relationship - at amortised cost						
Offshore loans	**(1,243)**	**(1,365)**	**(1,289)**	(1,663)	(1,810)	(1,731)
Other financial liabilities - at amortised cost						
Finance lease payable	**(280)**	**(280)**	**(392)**	(139)	(139)	(186)
Promissory notes	**-**	**-**	**-**	(187)	(188)	(189)
Offshore loans	**(194)**	**(202)**	**(194)**	(809)	(835)	(810)
Telstra bonds and domestic loans	**(1,758)**	**(1,906)**	**(1,772)**	(3,254)	(3,396)	(3,272)
Telstra Group net debt	**(13,149)**	**(13,868)**	**(13,175)**	(13,277)	(14,065)	(13,407)
Other financial instruments						
Interest bearing financial assets						
Finance lease receivable	**214**	**214**	**237**	142	142	160
Amounts owed by jointly controlled and associated entities	**451**	**451**	**451**	443	443	443
Other receivables	**7**	**7**	**7**	24	24	24
Net interest bearing financial liabilities	**(12,477)**	**(13,196)**	**(12,480)**	(12,668)	(13,456)	(12,780)
Equity investments classified as available-for-sale						
Listed and unlisted securities	**38**	**38**	**38**	19	19	19
Loans and receivables at amortised cost						
Trade/other receivables and accrued revenue (i)	**4,828**	**4,828**	**5,008**	4,555	4,555	4,765
Amounts owed by jointly controlled and associated entities	**-**	**-**	**6**	33	33	38
Financial liabilities at amortised cost						
Trade/other creditors and accrued expenses (i)	**(4,270)**	**(4,270)**	**(4,270)**	(4,162)	(4,162)	(4,162)
Deferred consideration for capital expenditure	**(134)**	**(134)**	**(187)**	(143)	(143)	(205)
Net financial liabilities	**(12,015)**	**(12,734)**	**(11,885)**	(12,366)	(13,154)	(12,325)

(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)

(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.

Table D

			Telstra Group As at 30 June Face value 2013 $m	2012 $m
		Currency		
Interest bearing financial assets included in net debt				
Cash and cash equivalents	Floating	Australian dollar	**2,076**	3,591
Cash and cash equivalents held in foreign currencies	Floating	Various	**336**	338
			2,412	3,929
Interest bearing financial liabilities included in net debt				
Cross currency and interest rate swap liability (i)	Fixed	Australian dollar	**(7,311)**	(5,841)
Borrowings	Fixed	Australian dollar	**(1,653)**	(2,549)
Borrowings (ii)	Fixed	Foreign	**(150)**	(251)
Cross currency and interest rate swap liability (i)	Floating	Australian dollar	**(5,373)**	(6,950)
Borrowings	Floating	Australian dollar	**(505)**	(1,189)
Forward contract liability - net (iii)	Floating	Australian dollar	**(89)**	(113)
Cross currency swap liability - net	Floating	Foreign	**(584)**	(233)
Borrowings (iv)	Floating	Foreign	**-**	(277)
			(15,665)	(17,403)
Net interest bearing debt			**(13,253)**	(13,474)
Non-interest bearing cash included in net debt		Various	**78**	67
Net debt - based on contractual face values			**(13,175)**	(13,407)
Other interest bearing financial assets	Fixed	Australian dollar	**695**	627
Net interest bearing financial liabilities - based on contractual face values			**(12,480)**	(12,780)

(i) These amounts represent the end hedge position as described in our hedge relationships in note 18, Table H.

(ii) Includes offshore loans of nil (2012: $200 million) used to hedge our investment in TelstraClear Limited as described in note 18, Table K. The balance also includes $146 million (2012: $49 million) relating to finance leases and $4 million (2012: $2 million) other loans.

(iii) Includes final pay legs $556 million (2012: $638 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 $467 million (2012: $525 million).

(iv) Comprises promissory notes used to hedge our investment in TelstraClear Limited as described in note 18 Table K. We disposed of TelstraClear on 31 October 2012. Refer to note 20 for further details.

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 financial instruments used to hedge translation foreign exchange risk associated with our offshore investments, and some cash balances and borrowings 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 $128 million for the Telstra Group (30 June 2012: decrease of $318 million) is represented by the movements shown in Table E below.

Table E	Telstra Group Year ended 30 June	
	2013 $m	2012 $m
Debt issuance - offshore and domestic loans	**2,074**	2,801
Net short term borrowings	**(442)**	60
Repayment of offshore and domestic loans	**(3,600)**	(2,036)
Finance lease repayments	**(97)**	(52)
Net cash (outflow)/inflow	**(2,065)**	773
Non-cash movements in gross debt before tax		
Revaluation losses affecting cash flow hedging reserve	**4**	103
Revaluation losses affecting foreign currency translation reserve	**57**	89
Revaluation gains affecting other expenses in the income statement	**(15)**	(9)
Revaluation losses/(gains) affecting finance costs in the income statement (i)	**188**	(18)
Finance lease additions	**237**	52
	471	217
Total (decrease)/increase in gross debt	**(1,594)**	990
Net decrease/(increase) in cash and cash equivalents (including foreign currency exchange differences)	**1,466**	(1,308)
Total decrease in net debt	**(128)**	(318)

(i) The net revaluation loss of $188 million (2012: gain of $18 million) includes:

- loss of $185 million (2012: gain of $6 million) affecting other finance costs, comprising a loss of $95 million (2012: $9 million) from fair value hedges; a loss of $89 million (2012: gain of $14 million) from transactions either not designated or de-designated from fair value hedge relationships; and a loss of $1 million (2012: gain of $1 million) relating to other hedge accounting adjustments; and
- loss of $3 million (2012: gain of $12 million) affecting interest on borrowings, comprising a gain of $15 million (2012: $27 million) relating to cross currency swap proceeds on new borrowings, which will be amortised to interest in the income statement over the life of the borrowing; and a loss of $18 million (2012: $15 million) comprising the amortisation of discounts.

We have issued the following long term debt during the year (Australian dollar equivalent):

- $62 million Japanese yen private placement bond in July 2012, matures 24 July 2024;
- $743 million domestic public bond in November 2012 ($750 million face value), matures 15 November 2017;
- $1,268 million Euro public bond in March 2013, matures 15 September 2023; and
- $1 million under an existing Indian rupee bank loan facility entered into in December 2011, matures 22 December 2016.

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.

We repaid the following long term debt during the period (Australian dollar equivalent):

- $271 million offshore Swiss franc public bond, matured 9 October 2012;
- $1,000 million domestic syndicated bank loan, matured 26 October 2012;
- $12 million offshore Japanese yen public bond, matured 9 November 2012;
- $500 million domestic public bond, matured 15 November 2012;
- $859 million offshore Euro public bond, matured 8 April 2013;
- $328 million offshore Swiss franc public bond, matured 19 April 2013; and
- $630 million United States dollar syndicated bank loan, repaid 11 June 2013 (original maturity 20 August 2013).

Long term debt of $564 million will mature during financial year 2014. This represents the contractual face value amount after hedging. Included in this amount is a Japanese Yen offshore borrowing which was swapped into Australian dollars at inception of the borrowing through to maturity using a cross currency swap, creating a synthetic Australian dollar obligation. This post hedge obligation is reflected in our total contractual Australian dollar liability at maturity of $564 million.

The amount of $564 million is different to the carrying amount of $560 million that is included in current borrowings (along with promissory notes of $125 million and finance leases of $66 million) in the statement of financial position. The carrying amount reflects the amount of our borrowings due to mature within 12 months prior to netting offsetting risk positions of associated derivative financial instruments hedging these borrowings. The carrying amount reflects a mixed measurement basis with part of the borrowing portfolio recorded at fair value and the remaining part at amortised cost which is compliant with the requirements under Australian Accounting Standards.

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	
		2013	2012
	Note	**$m**	$m
Interest on borrowings (i)			
Financial instruments in hedge relationships			
Domestic loans in cash flow and fair value hedges (ii)		**37**	19
Offshore loans in cash flow hedges (ii)		**452**	481
Offshore loans in fair value hedges (ii)		**207**	180
Promissory notes in fair value hedges (ii)		**9**	8
Derivatives and borrowings hedging net foreign investments		**(15)**	3
Other financial instruments			
Promissory notes		**5**	7
Offshore loans not in a hedge relationship or de-designated from fair value hedge relationships (ii)		**150**	191
Telstra bonds and domestic loans		**153**	218
Other		**7**	13
Finance leases		**12**	12
	7	**1,017**	1,132
Finance income on net debt			
Interest on cash and cash equivalents	6	**94**	111
Interest on finance lease receivables	6	**11**	11
Interest on loans to jointly controlled and associated entities	6	**53**	12
Net interest on interest bearing financial liabilities		**859**	998

(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 decrease in net interest is due to a reduction in the average volume of our net interest bearing liabilities and a reduction in the net average interest yield. The net average interest yield during the year was 6.4 per cent (2012: 7.0 per cent) for the Telstra Group. The reduction in yield arises principally from a reduction in short-term market base interest rates in the current year compared with the prior year, resulting in lower costs on the floating rate debt component of our debt portfolio.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(f) Derivative financial instruments

All of 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 2013								
	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
Current									
Fair value hedge	-	(4)	-	-	3	-	3	(4)	(1)
Cash flow hedge (i)	-	-	-	-	18	-	18	-	18
Hedge of net investment in foreign operation	-	(37)	-	-	-	-	-	(37)	(37)
Held for trading (ii)	-	-	-	-	22	(3)	22	(3)	19
	-	(41)	-	-	43	(3)	43	(44)	(1)
Non current									
Fair value hedge	237	(13)	120	(7)	-	-	357	(20)	337
Cash flow hedge (i)	183	(737)	463	(580)	-	-	646	(1,317)	(671)
Hedge of net investment in foreign operation	-	(27)	-	-	-	-	-	(27)	(27)
Held for trading (ii)	-	(261)	59	-	-	-	59	(261)	(202)
	420	(1,038)	642	(587)	-	-	1,062	(1,625)	(563)
	420	(1,079)	642	(587)	43	(3)	1,105	(1,669)	(564)

Table H

	Telstra Group As at 30 June 2012								
	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
Current									
Fair value hedge	1	(14)	2	-	-	(2)	3	(16)	(13)
Cash flow hedge (i)	-	(20)	5	(7)	-	(4)	5	(31)	(26)
Hedge of net investment in foreign operation	2	(5)	-	-	-	-	2	(5)	(3)
Held for trading (ii)	7	(245)	14	-	1	(2)	22	(247)	(225)
	10	(284)	21	(7)	1	(8)	32	(299)	(267)
Non current									
Fair value hedge	10	(192)	75	-	-	-	85	(192)	(107)
Cash flow hedge (i)	12	(1,050)	487	(676)	-	-	499	(1,726)	(1,227)
Hedge of net investment in foreign operation	-	(5)	-	-	-	-	-	(5)	(5)
Held for trading (ii)	-	(426)	74	-	-	-	74	(426)	(352)
	22	(1,673)	636	(676)	-	-	658	(2,349)	(1,691)
	32	(1,957)	657	(683)	1	(8)	690	(2,648)	(1,958)

(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 on which the asset is recognised.

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(f) Derivative financial instruments (continued)

(ii) Derivatives which are classified as held for trading are in economic relationships but are not in designated hedge relationships for hedge accounting purposes. Refer to note 18 for details on our hedging strategies. Although these held for trading derivatives did 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.

(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 per cent change in the overall fair value of the instruments.

The fair value of the financial instruments and the classification within the fair value hierarchy are summarised in Tables I, J and K below, followed by a description of the methods used to estimate the fair value.

Table I

	Telstra Group			
	As at 30 June 2013			
	Level 1 $m	**Level 2 $m**	**Level 3 $m**	**Total $m**
Available for sale investments - other				
Unlisted securities . . .	**-**	**-**	**19**	**19**
Derivative assets				
Cross currency swaps .	**-**	**420**	**-**	**420**
Interest rate swaps . . .	**-**	**642**	**-**	**642**
Forward contracts . . .	**-**	**43**	**-**	**43**
	-	**1,105**	**19**	**1,124**
Derivative liabilities				
Cross currency swaps .	**-**	**(1,079)**	**-**	**(1,079)**
Interest rate swaps . . .	**-**	**(587)**	**-**	**(587)**
Forward contracts . . .	**-**	**(3)**	**-**	**(3)**
	-	**(1,669)**	**-**	**(1,669)**
	-	**(564)**	**19**	**(545)**

Table J

	Telstra Group			
	As at 30 June 2012			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Available for sale investments - other				
Quoted securities . . .	1	-	-	1
Unlisted securities . . .	-	-	18	18
Derivative assets				
Cross currency swaps .	-	32	-	32
Interest rate swaps . .	-	657	-	657
Forward contracts . . .	-	1	-	1
	1	690	18	709
Derivative liabilities				
Cross currency swaps .	-	(1,957)	-	(1,957)
Interest rate swaps . .	-	(683)	-	(683)
Forward contracts . . .	-	(8)	-	(8)
	-	(2,648)	-	(2,648)
	1	(1,958)	18	(1,939)

Available for sale investments - other - unlisted securities

Table K shows the fair value of shares not listed on any stock exchange and where a quoted market price is not available. Accordingly, these unlisted securities have been classified within Level 3 of the fair value hierarchy.

Table K	**Unlisted securities**
	Level 3 $m
Opening balance 1 July 2012	**18**
Purchases (a)	**19**
Transfers out of Level 3 (b)	**(18)**
Closing balance 30 June 2013.	**19**

(a) This relates to our investment in Kony Solutions Inc. which we acquired in June 2013 for a purchase price of $19 million which represents an amount exchanged between knowledgeable and willing parties in an arms' length purchase transaction. During the financial year, no gains or losses were recognised in other comprehensive income as the fair value of this investment as at 30 June 2013 did not differ from the consideration paid.

(b) Transfers out of the Level 3 fair value hierarchy relate to our investment in Ooyala, an unlisted security with no quoted market price in an active market and for which the fair value cannot be reliably measured. As at 30 June 2013, this investment has been measured at its historical cost of $18 million as the range of reasonable fair value estimates for this business was significant and the probabilities of the various estimates could not be reasonably assessed. We do not intend to dispose of this investment in the near future.

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 that 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 transacted 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 as 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;
- negotiable certificates of deposits;
- bank 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 areas, 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 interest 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. “Hedging strategies” and “Hedge relationships” contained in sections (b) and (c) of this note provides further information.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (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. 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 therefore differ from the face value disclosed in note 17 (Tables C and D).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(i) Interest rate risk (continued)

Table A

	Telstra Group			
	As at 30 June 2013		As at 30 June 2012	
	Principal/ notional receivable/ (payable) $m	**Weighted average % (*)**	Principal/ notional receivable/ (payable) $m	Weighted average % (*)
Fixed rate instruments - Australian interest rate				
Cross currency and interest rate swap payable	**(7,311)**	**5.88**	(5,841)	6.17
Finance lease payable	**(226)**	**7.63**	(123)	7.73
Telstra bonds and domestic loans	**(1,253)**	**7.47**	(1,754)	7.20
Offshore loans	**(140)**	**6.10**	(140)	6.10
Fixed rate instruments - foreign interest rates				
Finance lease payable	**(54)**	**9.38**	(16)	22.50
Offshore loans	**(4)**	**12.0**	(201)	7.65
	(8,988)		(8,075)	
Variable rate instruments - Australian interest rates				
Contractual repricing or maturity 3 months or less				
Cash and cash equivalents (^)	**2,065**	**3.22**	3,539	4.31
Cross currency swap receivable (#)	**520**	**2.82**	460	3.54
Cross currency and interest rate swap payable	**(5,893)**	**4.37**	(7,082)	5.50
Telstra bonds and domestic loans	**(5)**	**12.58**	(1,000)	4.55
Promissory notes	**-**	**-**	(187)	4.36
Contractual repricing or maturity 3 to 12 months				
Telstra bonds and domestic loans	**(500)**	**6.48**	(500)	7.44
Forward contract liability - net	**(89)**	**2.08**	(113)	2.78
Cross currency and interest rate swap payable	**-**	**-**	(328)	6.17
Variable rate instruments - foreign interest rates				
Contractual repricing or maturity 6 months or less				
Cash and cash equivalents (^)	**336**	**0.92**	338	0.80
Cross currency swap payable (#)	**(584)**	**0.15**	(468)	0.13
Cross currency swap receivable (**)	**-**	**-**	235	3.65
Promissory notes (#)	**-**	**-**	(275)	2.96
	(4,150)		(5,381)	
Net interest bearing debt	**(13,138)**		(13,456)	
Other interest bearing financial assets				
Fixed rate instruments - Australian interest rates				
Finance lease receivable	**214**	**7.72**	142	7.79
Amounts owed by jointly controlled entities	**451**	**12.00**	443	12.00
Floating rate instruments - Australian interest rate				
Other receivables	**-**		24	6.90
Floating rate instruments - foreign interest rate				
Other receivables	**7**	**3.30**	-	-
Net interest bearing financial liabilities	**(12,466)**		(12,847)	

(*) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate, as at reporting date.

(^) Rates on cash and cash equivalents represent average rates earned on net positive cash balances after taking into account bank set-off arrangements.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(i) Interest rate risk (continued)

(#) Relates to financial instruments used to hedge our net foreign investments.

(**) Financial instruments used to hedge a loan from wholly owned controlled entity.

(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 2013 from 2.75 per cent (2012: 3.50 per cent) to 3.03 per cent (2012: 3.85 per cent) representing a 28 (2012: 35) basis point shift. This basis point 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. 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 affected 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 our borrowings that 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 borrowing margin and parallel shifts in interest rates across all currencies.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(ii) Sensitivity analysis - interest rate risk (continued)

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 Gain/(loss)		As at 30 June Gain/(loss)		Year ended 30 June Gain/(loss)		As at 30 June Gain/(loss)	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Revaluation of derivatives and borrowings - fair value hedges of offshore loans	**42**	39	**-**	-	**(44)**	(41)	**-**	-
Revaluation of derivatives - borrowings de-designated from fair value hedges or not in a hedge relationship	**(1)**	(1)	**-**	-	**2**	1	**-**	-
Revaluation of derivatives - cash flow hedges of offshore loans	**-**	-	**63**	65	**-**	-	**(66)**	(69)
Floating rate Australian dollar instruments	**(33)**	(39)	**-**	-	**33**	39	**-**	-
	8	(1)	**63**	65	**(9)**	(1)	**(66)**	(69)

(*) 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:

- Euros;
- 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)

Market risk (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. 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 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 property, plant and equipment 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 investment in Hong Kong CSL Limited in the range of 40 per cent to 50 per cent (2012: 40 per cent to 50 per cent).

In addition, our controlled entities 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 doing so, 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 on market expectations for future movements. For example, comparing the Australian dollar exchange rate against the Euro, the year end rate of 0.7096 (2012: 0.8089) would generate a 10 per cent favourable position of 0.7806 (2012: 0.8898) and an adverse position of 0.6386 (2012: 0.7280). This range is considered reasonable given the volatility that has been observed.

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 forecast transactions denominated in a foreign currency.

We are exposed to equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. 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. Our foreign currency exposure associated with cash flow hedge derivatives is predominantly in Euros and our offshore investments mainly in Hong Kong dollars, British pounds sterling and Chinese renminbi (relating to our investments in Hong Kong CSL Limited, Telstra Limited, Autohome Inc. and Sequel Media Inc.).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Risk and mitigation (continued)

Market risk (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 moved against all applicable currencies as illustrated in Table C, with all other variables held constant and taking into account identified underlying exposures and related hedges, net profit or loss and equity after tax would have been affected as follows.

Table C

	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)	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Revaluation of derivatives and borrowings - de-designated from fair value hedges or not in a hedge relationship (*)	**(8)**	(10)	**-**	-	**-**	-	**10**	12	**-**	-	**-**	-
Revaluation of derivatives and underlying exposure - cash flow hedges of forecast transactions (^)	**(19)**	(19)	**-**	-	**-**	-	**15**	18	**-**	-	**-**	-
Revaluation of derivatives - cash flow hedges of offshore loans	**-**	-	**-**	-	**(33)**	(32)	**-**	-	**-**	-	**41**	40
Net foreign investments (**)	**-**	-	**(72)**	(106)	**-**	-	**-**	-	**88**	130	**-**	-
	(27)	(29)	**(72)**	(106)	**(33)**	(32)	**25**	30	**88**	130	**41**	40

(*) 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 that 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.

(^) Represents the impact relating to the unhedged portion of forecast transactions that would affect profit or loss. In financial year 2012, adverse and favourable impacts included $1 million relating to purchases of property, plant and equipment, which would affect the cost of the asset and profit or loss as the assets are depreciated over their useful lives.

(**) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Risk and mitigation (continued)

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and will 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, loan 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 proactive 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, this set-off has been recognised in the financial statements on a net basis. We may also be subject to credit risk for transactions not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 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 are performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debts is raised. In addition, receivable balances are monitored on an ongoing basis so that our exposure to bad debts is not significant. 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. VaR 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 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 (2012: 90 per cent) confidence levels to determine the applicable potential credit limit factors.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Credit risk (continued)

Table D	Telstra Group			
	Credit risk concentrations (VaR based)			
	As at 30 June			
	2013		2012	
	%	**$m**	%	$m
Australia	**23.4**	**2,521**	25.8	3,188
United States	**22.8**	**2,454**	21.1	2,616
Japan	**0.5**	**54**	0.5	63
Europe	**21.6**	**2,329**	20.5	2,530
United Kingdom	**13.2**	**1,417**	15.3	1,889
Canada	**-**	**-**	0.1	11
Switzerland	**0.6**	**67**	0.6	70
China/Hong Kong	**17.3**	**1,864**	15.3	1,892
Singapore	**0.6**	**68**	0.6	71
New Zealand	**-**	**-**	0.2	27
Other	**-**	**4**	-	2
	100.0	**10,778**	100.0	12,359

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 that 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 to highly liquid and liquid instruments.

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 2013, based on contractual face values, 4 per cent (2012: 18 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.

The contractual maturity of our fixed and floating rate financial liabilities and derivatives and the corresponding carrying values are shown in 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 interest and 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.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Liquidity risk (continued)

Table E — **Telstra Group**

	As at 30 June 2013						As at 30 June 2012					
		Contractual maturity (nominal cash flows)						Contractual maturity (nominal cash flows)				
	Carrying amount $m	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m	Carrying amount $m	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m
Derivative financial instruments												
Net interest rate swaps payable (i)	(586)	(192)	(172)	(280)	(95)	(739)	(683)	(172)	(173)	(364)	(176)	(885)
Cross currency swaps payable (ii)	(12,818)	(900)	(2,481)	(4,696)	(8,995)	(17,072)	(13,243)	(2,666)	(1,319)	(6,043)	(7,435)	(17,463)
Forward foreign currency contracts payable (ii)	(645)	(645)	-	-	-	(645)	(691)	(691)	-	-	-	(691)
Net interest rate swaps receivable (i)	641	236	228	299	78	841	657	203	199	376	59	837
Cross currency receivable (ii)	12,159	519	1,739	3,369	8,600	14,227	11,318	1,992	941	3,948	6,308	13,189
Forward foreign currency contracts receivable (ii)	685	682	-	-	-	682	684	678	-	-	-	678
Non-derivative financial liabilities												
Telstra bonds and domestic loans	(2,768)	(650)	(630)	(1,415)	(748)	(3,443)	(3,528)	(1,672)	(621)	(1,119)	(822)	(4,234)
Trade/other creditors and accrued expenses	(4,270)	(4,213)	-	(18)	(39)	(4,270)	(4,162)	(4,105)	(1)	(15)	(41)	(4,162)
Offshore loans	(11,891)	(507)	(1,738)	(3,703)	(8,869)	(14,817)	(11,034)	(1,628)	(1,042)	(4,504)	(6,715)	(13,889)
Finance leases	(280)	(76)	(69)	(112)	(135)	(392)	(139)	(56)	(48)	(51)	(31)	(186)
Promissory notes	(125)	(125)	-	-	-	(125)	(563)	(567)	-	-	-	(567)
Deferred consideration for capital expenditure	(134)	(30)	(31)	(79)	(47)	(187)	(143)	(34)	(27)	(89)	(55)	(205)

(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) Risk and mitigation (continued)

Liquidity risk (continued)

Financing arrangements

Table F	Telstra Group As at 30 June 2013 $m	Telstra Group As at 30 June 2012 $m
We have access to the following lines of credit:		
Credit standby arrangements		
Unsecured committed cash standby facilities which are subject to annual review.	**662**	759
Amount of credit unused	**662**	759

We have limited promissory note facilities in place in the United States (limit US$4 billion) and unlimited facilities in Europe, Australia and New Zealand. Under these facilities, in current market conditions, we would expect to be able to nominally issue between $4 billion to $5 billion (2012: $4 billion to $5 billion). As at 30 June 2013, we had on issue $125 million (2012: $563 million) under these facilities. As at 30 June 2013, our subsidiary CSL Limited had a bank bill acceptance facility of $155 million (2012: $111 million) of which $84 million was issued (2012: $84 million). These facilities are not committed or underwritten and we have no guaranteed access to the funds. Generally, given that 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.

Financial instruments de-designated from fair value hedge relationships or not in a designated hedge relationship

Our financial instruments de-designated from fair value hedge relationships or not in designated hedge relationships comprise:

- a number of offshore borrowings denominated in United States dollars, Euros 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;
- an Australian dollar interest rate swap which is not in a designated hedge relationship for hedge accounting purposes used to economically hedge changes in fair value attributable to changes in market interest rates relating to an Australian dollar private placement bond; 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.

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.

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 remeasurement of the hedged items resulted in a loss before tax of $599 million (2012: loss of $208 million) and the changes in the fair value of the hedging instruments resulted in a gain before tax of $504 million (2012: gain of $199 million). This results in a net loss before tax of $95 million and a net loss after tax of $67 million (2012: net loss before tax of $9 million and net loss after tax of $6 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 a 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, 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 hedging 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Hedging strategies (continued)

Cash flow hedges (continued)

Table G shows the maturities of the payments in our cash flow hedges (i.e when the cash flows are expected to occur). These amounts represent the undiscounted cash flows reported in Australian dollars based on the applicable exchange rate as at 30 June and represent the identified foreign currency exposures at reporting date in relation to our cash flow hedges.

Table G	Telstra Group	
	Nominal cash outflows	
	As at 30 June	
	2013 $m	2012 $m
Highly probable forecast transactions		
Non-capital items (i)		
Within 1 year	**(431)**	(541)
Capital items (ii)		
Within 1 year	**-**	(11)
	(431)	(552)
Borrowings (iii)		
Within 1 year	**(264)**	(527)
Within 1 to 5 years	**(3,768)**	(3,235)
After 5 years	**(4,465)**	(2,653)
	(8,497)	(6,415)

(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 assets 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 statement of comprehensive income, net losses before tax of $69 million and after tax of $48 million (2012: losses before tax of $31 million and after tax of $22 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 describe 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 tables will not be equal to the carrying values.

Table H and Table I describe each of our hedge relationships which use cross currency and interest rate swaps as the hedging instruments. These 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 offshore borrowings that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to hedge our offshore 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.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Hedge relationships (continued)

Table H

Telstra Group - 30 June 2013	Face value	Derivative hedging instruments - cross currency and interest rate swaps: Notional/face value							Final currency and interest positions: Notional/face value	
	Pre hedge underlying exposure	Interest rate swap receive fixed/(pay) float	Cross currency swap receive/(pay) float	Cross currency swap receive fixed	Cross currency swap receive/(pay) float	Cross currency swap (pay) fixed	Interest rate swap receive float/(pay) fixed	Interest rate swap (pay) float/receive fixed	(Pay)/receive float	(Pay) fixed
	Local currency	Local currency			Final leg - Australian dollar				Australian dollar	
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
In hedge relationships										
Offshore borrowings - fixed										
Swiss francs	(225)	(225)	225	-	(251)	-	-	-	(251)	-
Euros	(6,325)	(5,250)	5,250	1,075	(9,145)	-	(4,947)	-	(4,198)	(4,947)
British pounds sterling	(200)	(200)	200	-	(584)	-	(360)	-	(224)	(360)
Hong Kong dollar	(330)	-	-	330	(50)	-	-	-	(50)	-
Japanese yen	(47,000)	-	-	47,000	(517)	(163)	(409)	-	(108)	(572)
United States dollar	(1,150)	(1,000)	1,000	150	(1,158)	-	(955)	-	(203)	(955)
New Zealand dollar	(255)	-	-	255	-	(202)	-	-	-	(202)
Australian dollar	(50)	-	-	-	-	-	-	(50)	(50)	-
Offshore borrowings - floating										
United States dollar	(5,000)	-	5,000	-	(59)	-	-	-	(59)	-
Domestic loans - fixed										
Australian dollar	(750)	-	-	-	-	-	-	(750)	(750)	-
Domestic loans - floating										
Australian dollar	(275)	-	-	-	-	-	(275)	-	-	(275)
Net foreign investments										
Hong Kong dollar	8,752	-	(4,200)	-	520	-	-	-	520	-
					(11,244)	(365)	(6,946)	(800)	(5,373)	(7,311)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Hedge relationships (continued)

Table I — Telstra Group - 30 June 2012

	Face value	Derivative hedging instruments - cross currency and interest rate swaps							Final currency and interest positions	
		Notional/face value							Notional/face value	
	Pre hedge underlying exposure	Interest rate swap receive fixed/(pay) float	Cross currency swap receive/ (pay) float	Cross currency swap receive fixed	Cross currency swap receive/ (pay) float	Cross currency swap (pay) fixed	Interest rate swap receive float/(pay) fixed	Interest rate swap (pay) float/receive fixed	(Pay)/receive float	(Pay) fixed
	Local currency	Local currency			Final leg - Australian dollar				Australian dollar	
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
In hedge relationships										
Offshore borrowings - fixed										
Swiss francs	(225)	(225)	225	-	(252)	-	-	-	(252)	-
Euros	(5,325)	(5,250)	5,250	75	(7,877)	-	(3,679)	-	(4,198)	(3,679)
British pounds sterling	(200)	(200)	200	-	(584)	-	(360)	-	(224)	(360)
Hong Kong dollar	(330)	-	-	330	(50)	-	-	-	(50)	-
Japanese yen	(47,000)	-	-	47,000	(514)	(163)	(409)	-	(105)	(572)
United States dollar	(1,150)	(1,000)	1,000	150	(1,158)	-	(955)	-	(203)	(955)
Australian dollar	(50)	-	-	-	-	-	-	(50)	(50)	-
Offshore borrowings - floating										
Swiss francs	(550)	(550)	550	-	(599)	-	-	-	(599)	-
Euros	(500)	(500)	500	-	(859)	-	-	-	(859)	-
Japanese yen	(1,000)	-	1,000	-	(12)	-	-	-	(12)	-
United States dollar	(600)	-	600	-	(630)	-	-	-	(630)	-
Domestic loans - floating										
Australian dollar	(275)	-	-	-	-	-	(275)	-	-	(275)
Net foreign investments										
Hong Kong dollar	8,332	-	(3,700)	-	460	-	-	-	460	-
Loans from wholly owned controlled entities										
New Zealand dollar	(300)	-	300	-	(228)	-	-	-	(228)	-
					(12,303)	(163)	(5,678)	(50)	(6,950)	(5,841)

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)/ receive		Forward contract receive/(pay)		Forward contract (pay)/receive - final leg			
	Local currency		Local currency		Australian dollars			
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013**	2012
Forward contracts hedging interest bearing debt								
Promissory notes								
United States dollars - contractual maturity nil (2012: 0-3 months)	**-**	(103)	**-**	103	**-**	(104)	**-**	0.9904
New Zealand dollars - contractual maturity 0-3 months (2012: 0-3 months)	**(150)**	-	**150**	-	**(124)**	-	**1.2143**	-
Loans from wholly owned controlled entities								
British pounds sterling - contractual maturity 0-3 months (2012: 0-3 months)	**(56)**	(10)	**56**	10	**(81)**	(15)	**0.6839**	0.6446
New Zealand dollars - contractual maturity 0-3 months (2012: 0-3 months)	**(1)**	(155)	**1**	155	**(1)**	(122)	**1.1981**	1.2702
United States dollars - contractual maturity 0-3 months (2012: 0-3 months)	**(64)**	(54)	**64**	54	**(62)**	(53)	**1.0323**	1.0260
Hong Kong dollars - contractual maturity 0-3 months (2012: 0-3 months)	**13**	(19)	**(13)**	19	**1**	(2)	**8.8780**	7.9610
Japanese yen - contractual maturity 0-3 months (2012: nil)	**(125)**	-	**125**	-	**(1)**	-	**97.85**	-
Forward contracts hedging forecast payments and other liabilities								
Forecast transactions								
United States dollars - contractual maturity 0-12 months (2012: 0-12 months)	**(400)**	(540)	**177**	254	**(175)**	(257)	**1.0114**	0.9891
Euro - contractual maturity nil (2012: 0-12 months)	**-**	(5)	**-**	2	**-**	(3)	**-**	0.7922
Swedish krona - contractual maturity nil (2012: 0-6 months)	**-**	(8)	**-**	4	**-**	(1)	**-**	7.0442
New Zealand dollars - contractual maturity nil (2012: 0-12 months)	**-**	(19)	**-**	19	**-**	(15)	**-**	1.2710
Trade and other liabilities - non interest bearing								
Japanese yen - contractual maturity 1 month (2012: nil)	**(542)**	-	**542**	-	**(6)**	-	**90.08**	-
United states dollars - contractual maturity 0-12 months (2012: 0-12 months)	**(102)**	(65)	**102**	65	**(107)**	(66)	**0.9441**	0.9945
					(556)	(638)		

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. Outlined in the following table is the pre hedge underlying exposure, the face value of the hedging instruments 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		New Zealand dollars (payable)		Australian dollars (payable)	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Net foreign investments						
TelstraClear Limited (New Zealand dollars)	**-**	609	**-**	(609)	**-**	(477)

(i) Amount hedged represents portion of carrying value of net assets.

(ii) At 30 June 2013 the face value in Australian dollars of offshore loans hedging net foreign investments was nil (2012: $200 million) and the face value in Australian dollars of promissory notes hedging net foreign investments was nil (2012: $277 million). We disposed of our investment in TelstraClear on 31 October 2012. Refer to note 20 for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. SHARE CAPITAL

	Telstra Group As at 30 June	
	2013	2012
	$m	$m
Contributed equity	**5,793**	5,793
Share loan to employees (a)	**(20)**	(67)
Shares held by employee share plans (a)	**(129)**	(145)
Net services received under employee share plans	**67**	54
	5,711	5,635

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 (2012: 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 (TESOP) Trusts (TESOP97 and TESOP99). 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 2013, the number of shares totalled 26,774,268 (2012: 29,324,833). 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, Directshare and Ownshare issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account.

(a) During the financial year, 9,258,700 (2012: nil) loan shares, held by the TESOP Trust Trustee on behalf of former employees, who elected not to repay the loan until the share price is sufficient to recover the loan amount and associated sale costs, were sold as required under the terms of the TESOP99 Trust deed. The sale was effected in an off market transaction at market price to the Growthshare Trust. This resulted in a decrease in our share loan to employees account of $42 million and a corresponding increase in shares held by employee share plans. There was no cash flow impact on the Telstra Group. Refer to note 27(d) for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. NOTES TO THE STATEMENT OF CASH FLOWS

	Note	Telstra Group Year ended 30 June 2013 $m	2012 $m
Reconciliation of profit to net cash provided by operating activities			
Profit for the year		**3,865**	3,424
Add/(subtract) the following transactions			
Depreciation and amortisation		**4,238**	4,412
Finance income		**(219)**	(134)
Finance costs		**1,128**	1,022
Distribution from FOXTEL Partnership		**(155)**	(108)
Share based payments		**47**	31
Defined benefit plan expense		**223**	223
Net gain on disposal of property, plant and equipment		**(54)**	(13)
Net gain on disposal of intangibles		**(12)**	(9)
Net gain on de-recognition of finance leases	22	**(8)**	-
Net loss on disposal of controlled entities		**127**	17
Net loss on sale of businesses		**-**	1
Share of net loss from jointly controlled and associated entities		**1**	-
Impairment losses (excluding inventories and trade and other receivables)		**68**	211
Foreign exchange (gain)/loss		**(7)**	5
Cash movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)			
Increase in trade and other receivables		**(249)**	(255)
(Increase)/decrease in inventories		**(173)**	15
Increase in prepayments and other assets		**(162)**	(103)
(Decrease)/increase in trade and other payables		**(301)**	168
(Decrease)/increase in revenue received in advance		**(99)**	334
Increase/(decrease) in net taxes payable		**116**	(87)
(Decrease)/increase in provisions		**(15)**	122
Net cash provided by operating activities		**8,359**	9,276
Cash and cash equivalents			
Cash at bank and on hand		**295**	362
Bank deposits, negotiable certificates of deposits and bills of exchange		**2,184**	3,583
Cash and cash equivalents in the statement of cash flows		**2,479**	3,945

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(a) Acquisitions

Current Year

iVision

iVision Pty Ltd (iVision) was acquired on 31 March 2011 for total consideration of $41 million, with $5 million of this contingent upon the entity achieving pre-determined integration targets by 31 December 2012.

On 7 September 2012, Telstra Corporation Ltd paid the $5 million contingent consideration for the successful integration of iVision.

Truelocal

We acquired Australian Local Search Pty Ltd (TrueLocal) for net consideration of $4 million. Refer to note 25 for further details.

Telstra Technology Services

Telstra Holdings Pty Ltd acquired an additional 25 per cent in Telstra Technology Services (Hong Kong) Limited for a purchase consideration of $1 million, increasing its ownership from 75 per cent to 100 per cent. Refer to note 25 for further details.

Prior Year

Autohome

On 17 May 2012, Telstra Holdings Pty Ltd acquired an additional 11 per cent interest in Autohome Inc for a purchase consideration of $37 million, increasing its ownership from 55 per cent to 66 per cent.

(b) Disposals

Current Year

On 31 October 2012, our controlled entity Telstra New Zealand Holdings Limited sold its 100 per cent shareholding in TelstraClear Limited and its controlled entity (TelstraClear). The effect of the disposal is detailed below:

	TelstraClear
	Year ended 30 June
	2013 $m
Consideration on disposal - net of cash disposed	
Cash consideration on disposal	680
Cash and cash equivalents disposed	(11)
Total proceeds and inflow of cash on disposal	**669**
Assets/(liabilities) at disposal date	
Assets classified as held for sale	772
Liabilities classified as held for sale	(98)
Net assets classified as held for sale	674
Foreign currency translation reserve disposed (net of income tax)	130
Other adjustments	3
Loss on disposal	(127)

Prior Year

LMobile (formerly Dotad Group)

On 27 March 2012, our controlled entity Telstra Robin Holdings Limited sold its 67 per cent shareholding in Dotad Media Holdings Limited (LMobile). After cash disposed, this resulted in an outflow of cash of $3 million.

In financial year 2010, Dotad Media Holding Ltd was acquired with $67 million of the consideration contingent upon the entity achieving certain pre-determined revenue and EBITDA targets over the next three financial years. In financial year 2011, the contingent consideration was reduced by $30 million with a corresponding gain recognised in the income statement. We also recognised a $4 million foreign exchange gain on the re-translation of the contingent consideration. In financial year 2012, the balance of the contingent consideration of $33 million was reduced as the pre-determined targets were not met.

Adstream

On 21 July 2011, we sold our 64.4 per cent shareholding in Adstream (Aust) Pty Ltd for a total deferred consideration of $24 million. Payment of this amount was received in financial year 2013. Cash disposed was $6 million.

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 is detailed below:

	Goodwill	
	As at 30 June	
	2013 $m	2012 $m
CGUs		
CSL New World Group*	**860**	784
Telstra UK Group*	**60**	55
Sensis Group (a)	**216**	215
Location Navigation	**14**	14
1300 Australia Group	**16**	16
Autohome*	**108**	96
Sequel Media*	**13**	11
LMobile Group* (b)	**-**	-
TelstraClear Group* (c)	**-**	-
Other	**95**	98
	1,382	1,289

* These CGUs operate in overseas locations, therefore the goodwill allocated to these CGUs will fluctuate in line with movements in applicable foreign exchange rates during the period.

(a) During financial year 2013, Sensis Group acquired Australian Local Search Pty Ltd (TrueLocal) which resulted in additional goodwill allocated to Sensis Group CGU. Refer to note 20 for further details.

(b) During financial year 2012, the carrying value of our assets in the LMobile Group CGU (included in the Telstra International Group reportable segment) was tested for impairment based on value in use. This resulted in an impairment charge of $56 million against goodwill ($49 million) and other intangible assets ($7 million) being recognised in the Telstra Group financial statements. The impairment arose as a result of competitive market pressure, which contributed to significant uncertainty around future cash flows from the LMobile Group. Subsequent to the impairment on 27 March 2012, our controlled entity Telstra Robin Holdings Ltd disposed of its entire ownership interest in the LMobile Group. Refer to note 20 for further details.

(c) As at 30 June 2012, assets and liabilities of TelstraClear Limited were classified as assets and liabilities held for sale and measured at the lower of carrying amount and fair value less costs to sell. This resulted in an impairment charge of $130 million against goodwill being recognised in the Telstra Group financial statements. Goodwill allocated to the TelstraClear Group CGU (included in the "All Other" category in our segment information disclosures in note 5) related to TelstraClear Limited. Refer to note 12 for further details.

Ubiquitous Telecommunications Network and Hybrid Fibre Coaxial (HFC) Cable Network

In addition to the aforementioned CGUs, we have two further significant CGUs that are reviewed for impairment. These are:

- the Telstra Entity CGU, excluding the HFC cable network; and
- the CGU comprising the HFC cable network.

The Telstra Entity CGU consists of our ubiquitous telecommunications network in Australia, excluding the HFC cable network as we consider it not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network, comprising the customer access network and the core network, are considered to be working together to generate our cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

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 a maximum five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

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 (d)		Terminal value growth rate (e)	
	As at 30 June		As at 30 June	
	2013 %	2012 %	**2013 %**	2012 %
CSL New World Group	**11.6**	10.9	**2.0**	2.0
Telstra UK Group	**8.0**	7.5	**3.0**	3.0
Sensis Group	**15.9**	12.1	**3.0**	3.0
Location Navigation	**12.3**	10.7	**3.0**	3.0
1300 Australia Group	**12.6**	11.3	**3.0**	3.0
Autohome	**19.8**	19.4	**5.0**	5.0
Sequel Media	**20.0**	18.8	**5.0**	5.0

(d) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate which is adjusted for specific risks relating to the CGU and the countries in which it operates.

21. IMPAIRMENT (CONTINUED)

Impairment testing (continued)

(e) 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 discount rate would need to increase by 480 basis points (30 June 2012: 350 basis points) or the terminal value growth rate would need to be negative growth of 3.5 per cent (30 June 2012: negative 2.2 per cent) before the recoverable amount of any of the CGUs would be equal to the carrying value. Accordingly, management has determined there are no reasonably possible changes that could occur in these two key assumptions that would cause the carrying amount of these CGUs to exceed their recoverable amount.

Ubiquitous telecommunications network and Hybrid Fibre Coaxial (HFC) cable network ("the networks")

Our discounted expected future cash flows more than support the carrying amount of the networks. This is based on:

- forecast cash flows from continuing to:
  - use the core network; and
  - provide Pay TV services via the HFC cable network into the future; and
- the consideration we expect to receive under the National Broadband Network (NBN) Definitive Agreements (DAs) for:
  - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (excluding Pay TV services on the HFC cable network) provided to premises in the NBN fibre footprint;
  - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts; and
  - the sale of lead-in-conduits.

Given this, the results of our impairment testing for the networks show that the carrying amounts are recoverable at 30 June 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. EXPENDITURE COMMITMENTS

	Telstra Group	
	As at 30 June	
	2013	2012
	$m	$m
Capital expenditure commitments		
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:		
Property, plant and equipment commitments (a)	**1,272**	611
Intangible assets commitments (b)	**1,524**	130
Operating lease commitments		
Future lease payments for non-cancellable operating leases not recorded in the financial statements:		
Within 1 year	**502**	460
Within 1 to 5 years	**1,301**	1,200
After 5 years	**1,175**	935
	2,978	2,595

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 $15 million (2012: $16 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3 per cent and 5 per cent, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

(a) This includes the Telstra Entity capital expenditure commitments of $1,222 million (2012: $572 million). Refer to note 30 for further details.

(b) This includes commitments of $1,302 million for the 700MHz and 2.5GHz spectrum licences won at auction, with the payments due in financial year 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. EXPENDITURE COMMITMENTS (CONTINUED)

		Telstra Group	
		As at 30 June	
	Note	2013 $m	2012 $m
Finance lease commitments			
Within 1 year		**76**	56
Within 1 to 5 years		**181**	99
After 5 years		**135**	31
Total minimum lease payments		**392**	186
Future finance charges on finance leases		**(112)**	(47)
Present value of net future minimum lease payments		**280**	139
The present value of finance lease liabilities is as follows			
Within 1 year	17	**66**	45
Within 1 to 5 years		**147**	79
After 5 years		**67**	15
Total finance lease liabilities	17	**280**	139

Description of our finance leases

We have finance leases for the following types of assets:
- property lease in our controlled entity, Telstra Europe Limited; and
- computer mainframes, computer processing equipment and other related equipment.

The weighted average lease term is:
- 25 years for the property lease with a remaining average life of 24 years; and
- 5 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:
- property lease interest rate of 9.5 per cent; and
- computer mainframes, computer processing equipment and associated equipment weighted average interest rate of 7.6 per cent.

We sublease computer mainframes, computer processing equipment and other related equipment as part of the solutions management and outsourcing services that we provide to our customers. Refer to note 10 for further details regarding these finance subleases.

During financial year 2013, we acquired the head leases associated with a property in Telstra Europe Limited and extinguished these finance leases. This resulted in a net gain of $8 million being recognised in the income statement. We then sold the property and entered into a lease back transaction, whereby a finance lease asset and finance lease liability of $52 million was recognised. The lease term is 25 years, with two 10 year options to extend. There is no purchase option. Rent is based on market prices, reviewed on an annual basis and subject to a cap and collar of 5 per cent and 2 per cent respectively.

Information regarding our share of our jointly controlled and associated entities' commitments is included in note 26.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

We have no significant contingent assets as at 30 June 2013. 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:

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 details.

3GIS Dissolution

Upon dissolution of our 3GIS Partnership with Vodafone Hutchison Australia on 31 August 2012, we are no longer subject to contingent liabilities in relation to agreements entered into as part of the partnership where we were liable if our partner in this relationship failed to meet any of its obligations (2012: $96 million).

24. POST EMPLOYMENT BENEFITS

We participate in or sponsor defined benefit and defined contribution schemes. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans 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 and employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

CSL Retirement Scheme

Our controlled entity, CSL Limited (CSL), participates in a superannuation scheme known as the CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section. Actuarial assessments 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 value the defined obligations as at that date. Details of assets, benefit payments and other cash flows as at 31 May were also used in relation to Telstra Super. These April and May figures were then rolled forward to 30 June to allow for changes in the membership and actual asset return. Contributions as at 30 June were used in relation to the defined benefit and defined contribution divisions.

Asset values as at 30 June were used to measure the defined benefit liability as at that date for the CSL Retirement Scheme. Details of membership data, contributions, benefit payments and other cash flows as at 30 June were also used in relation to the 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 actuaries. The details of the defined benefit divisions are set out in the following pages.

Other defined contribution schemes

A number of our controlled entities 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 $24 million for 2013 (2012: $19 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 recognised in the statement of financial position for the current and previous periods is determined as follows:

	Telstra Group As at 30 June				
	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m
Fair value of defined benefit plan assets (b)	**2,944**	2,559	2,599	2,546	2,503
Present value of the defined benefit obligation (c)	**2,977**	3,266	2,762	2,934	2,847
Net defined benefit liability before adjustment for contributions tax	**(33)**	(707)	(163)	(388)	(344)
Adjustment for contributions tax	**(6)**	(124)	(31)	(69)	(62)
Net defined benefit liability at 30 June	**(39)**	(831)	(194)	(457)	(406)
Comprised of:					
Defined benefit asset	**3**	-	11	7	8
Defined benefit liability	**(42)**	(831)	(205)	(464)	(414)
	(39)	(831)	(194)	(457)	(406)
Experience adjustments					
Experience adjustments arising on defined benefit plan assets - gain/(loss)	**263**	(207)	89	(56)	(593)
Experience adjustments arising on defined benefit obligations - gain	**33**	26	48	64	72

(b) Reconciliation of changes in fair value of defined benefit plan assets

	Telstra Group As at 30 June	
	2013 $m	2012 $m
Fair value of defined benefit plan assets at beginning of year	**2,559**	2,599
Expected return on plan assets	**194**	200
Employer contributions	**145**	157
Contributions tax	**(22)**	(24)
Member contributions	**66**	47
Benefits paid (i)	**(244)**	(202)
Actuarial gain/(loss)	**263**	(207)
Plan expenses after tax	**(23)**	(13)
Foreign currency exchange differences	**6**	2
Fair value of defined benefit plan assets at end of year	**2,944**	2,559

The actual return on defined benefit plan assets was 15.5 per cent (2012: nil) for Telstra Super and 10.2 per cent (2012: (5.1 per cent) loss) for the CSL Retirement Scheme.

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 2013 $m	2012 $m
Present value of defined benefit obligation at beginning of year	**3,266**	2,762
Current service cost	**125**	107
Interest cost	**125**	146
Member contributions	**36**	15
Benefits paid (i)	**(244)**	(202)
Actuarial (gain)/loss	**(321)**	429
Curtailment loss	**(17)**	7
Foreign currency exchange differences	**7**	2
Present value of wholly funded defined benefit obligation at end of year	**2,977**	3,266

(i) Benefits paid include $230 million (2012: $180 million) of entitlements to exiting defined benefit members which have been retained in Telstra Super and transferred to the defined contribution scheme.

For financial year 2014, we expect to pay total benefit payments of $243 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 2013 $m	2012 $m
Components of the defined benefit plan expense recognised in the income statement within labour expenses			
Current service cost		**125**	107
Interest cost		**125**	146
Expected return on plan assets		**(194)**	(200)
Member contributions		**(30)**	(32)
Curtailment loss		**(17)**	7
Plan expenses after tax		**23**	13
Adjustment for contributions tax		**7**	8
		39	49
Employer contributions - defined contribution plan		**184**	174
Total expense recognised in the income statement	7	**223**	223
Actuarial gain/(loss) recognised directly in other comprehensive income		**678**	(755)
Cumulative actuarial losses recognised directly in other comprehensive income		**(144)**	(822)

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 for defined benefit divisions as at 30 June are as follows:

	Telstra Super		CSL Retirement Scheme	
	As at 30 June		As at 30 June	
	2013	2012	**2013**	2012
	%	%	**%**	%
Asset allocations				
Equity instruments	**46**	48	**53**	46
Debt instruments	**2**	2	**43**	44
Property	**7**	19	**-**	-
Cash	**28**	3	**3**	8
Private equity	**7**	14	**-**	-
Infrastructure	**1**	2	**-**	-
International hedge funds	**6**	8	**-**	-
Opportunities	**3**	4	**1**	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 annual assumptions to determine our defined benefit plan expense for the year ended 30 June:

	Telstra Super		CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2013	2012	**2013**	2012
	%	%	**%**	%
Discount rate	**4.0**	5.6	**1.0**	2.5
Expected rate of return on plan assets (i)	**8.0**	8.0	**5.9**	6.6
Expected rate of increase in future salaries	**4.0**	4.0	**4.0 - 5.0**	4.2 - 4.5

We used the following major annual assumptions to determine our defined benefit obligations at 30 June:

	Telstra Super		CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2013	2012	**2013**	2012
	%	%	**%**	%
Discount rate (ii)	**4.2**	3.6	**2.1**	1.0
Expected rate of increase in future salaries (iii)	**3.5**	4.0	**4.0 - 6.0**	4.0 - 5.0

(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.

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 a blended 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 CSL Retirement Scheme we have extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange Fund Notes to 11 years to match the term of the defined benefit obligations.

(iii) Our assumption for the salary inflation rate for Telstra Super is 3.5 per cent, which is reflective of our long term expectation for salary increases. The salary inflation rate for the CSL Retirement Scheme is 5.0 per cent in 2013 to 2015, and 4.0 per cent 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 per cent or below. For the quarter ended 30 June 2013, the VBI was 103 per cent (30 June 2012: 91 per cent). We have paid contributions totalling $435 million during the year (2012: $467 million). This includes employer contributions to the accumulation divisions, payroll tax 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 2013, is 16 per cent of defined benefit member's salaries (June 2012: 27 per cent).

The VBI, 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 $385 million in financial year 2014, which includes contributions to the defined benefit divisions at a contribution rate of 16 per cent for financial year 2014. This contribution rate could change depending on market conditions during financial year 2014. This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions.

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.

There were no employer contributions made to the CSL Retirement Scheme for financial year 2013 (2012: nil). We do not expect to make any contributions to our CSL Retirement Scheme in financial year 2014.

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	
		2013	2012	**2013**	2012
		$m	$m	**%**	%
Parent entity					
Telstra Corporation Limited (a)	Australia				
Controlled entities					
Telstra Finance Limited (a)	Australia	**-**	-	**100.0**	100.0
Telstra ESOP Trustee Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Growthshare Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Media Pty Ltd	Australia	**393**	393	**100.0**	100.0
Telstra Multimedia Pty Ltd (a)	Australia	**2,678**	2,678	**100.0**	100.0
Telstra International (Aus) Ltd (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	**50**	50	**100.0**	100.0
Telstra Plus Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Ventures Pty Ltd (formerly Applications and Ventures Group Pty Ltd) (a)(j)	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
Telstra iVision Pty Ltd (a)	Australia	**41**	41	**100.0**	100.0
• Integrated Vision Pty Ltd	Australia	**-**	-	**100.0**	100.0
• iVision (QLD) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• iVision Investments Pty Ltd	Australia	**-**	-	**100.0**	100.0
• iVision (Unify) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Unify Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Communications Limited (a)	Australia	**29**	29	**100.0**	100.0
• Telecom Australia (Saudi) Company Limited (b)	Saudi Arabia	**-**	-	**-**	50.0
Telstra Holdings Pty Ltd (a)	Australia	**7,474**	7,474	**100.0**	100.0
• Telstra International Holdings Limited	Bermuda	**-**	-	**100.0**	100.0
• Telstra Technology Services (Hong Kong) Limited (g)	Hong Kong	**-**	-	**100.0**	75.0
• Autohome Inc. (c)(d)	Cayman Islands	**-**	-	**66.0**	66.0
• Cheerbright International Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Cheerbright Technologies Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• Autohome (Hong Kong) Limited (c)	Hong Kong	**-**	-	**100.0**	100.0
• Sequel Media Inc. (c)(d)	Cayman Islands	**-**	-	**55.0**	55.0
• China Topside Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Topside Technologies Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• Norstar Advertising Media Holdings Limited (c)	Cayman Islands	**-**	-	**100.0**	100.0
• Shengtuo Shidai (Beijing) Information Technology Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• Union Tough Advertisement Limited (c)	Hong Kong	**-**	-	**100.0**	100.0
• Haocheng Shidai (Beijing) Advertisement Co. Ltd (c)(d)	China	**-**	-	**30.0**	30.0

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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	
		2013	2012	2013	2012
Controlled entities (continued)		$m	$m	%	%
• Willoughby (602) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra International Philippines, Inc. (f)	Philippines	**-**	-	**100.0**	-
• 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
• 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
• Telstra Asia Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Telstra SE Asia Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• PT Reach Network Services Indonesia	Indonesia	**-**	-	**90.0**	90.0
• Telstra Asia Regional Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Telstra Malaysia Sdn. Bhd.	Malaysia	**-**	-	**51.0**	51.0
• Telstra (Thailand) Ltd (d)	Thailand	**-**	-	**49.0**	49.0
• Telstra Network (Thailand) Ltd	Thailand	**-**	-	**68.0**	68.0
• Telstra Network (Thailand) Ltd	Thailand	**-**	-	**32.0**	32.0
• Telstra Philippines Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Incomgen Holdings Inc. (c)(d)(e)	Philippines	**-**	-	**40.0**	40.0
• Telstra Web Holdings Inc. (formerly Reach Web Holdings Inc.) (c)(j)	Philippines	**-**	-	**60.0**	60.0
• Telstra Philippines Inc. (c)	Philippines	**-**	-	**60.0**	60.0
• Telstra Philippines Inc. (c)	Philippines	**-**	-	**40.0**	40.0
• Telstra Web Holdings Inc. (formerly Reach Web Holdings Inc.) (c)(j)	Philippines	**-**	-	**40.0**	40.0
• Thai Cyber Web Co Limited (d)	Thailand	**-**	-	**48.8**	48.8
• Telstra Global Holdings Limited	British Virgin Islands	**-**	-	**100.0**	100.0
• Telstra International Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Services Korea Limited	Republic of Korea	**-**	-	**100.0**	100.0
• Reach Holdings Limited (c)	Mauritius	**-**	-	**100.0**	100.0
• Reach Network India Private Limited (c)	India	**-**	-	**99.9**	99.9
• Reach Data Services India Private Limited (c)	India	**-**	-	**99.9**	99.9
• 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

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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	
		2013	2012	2013	2012
Controlled entities (continued)		$m	$m	%	%
• Telstra Holdings (Bermuda) No 1 Limited	Bermuda	-	-	100.0	100.0
• Telstra International HK Limited	Hong Kong	-	-	100.0	100.0
• Telstra Japan KK.	Japan	-	-	100.0	100.0
• Telstra International Holdings No. 2 Limited (b)	Bermuda	-	-	-	100.0
• Telstra Singapore Pte Ltd	Singapore	-	-	100.0	100.0
• Telstra Global Limited	United Kingdom	-	-	100.0	100.0
• PT Telstra Nusantara	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 Telecommunications 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 International PNG Limited	Papua New Guinea	-	-	100.0	100.0
• Telstra NZ Limited	New Zealand	-	-	100.0	100.0
• Telstra Network Services NZ Limited	New Zealand	-	-	100.0	-
• Telstra New Zealand Holdings Limited	New Zealand	-	-	100.0	100.0
• Telstra Network Services NZ Limited	New Zealand	-	-	-	100.0
• TelstraClear Limited (h)(i)	New Zealand	-	-	-	100.0
• CLEAR Communications Limited (h)(i)	New Zealand	-	-	-	100.0
• Telstra Telecommunications Private Ltd (c)	India	-	-	74.0	74.0
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	303	313	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	Australia	-	-	100.0	100.0
• CitySearch Australia Pty Ltd	Australia	-	-	100.0	100.0
• Australian Local Search Pty Ltd (f)	Australia	-	-	100.0	-
• Sensis Holdings Pty Ltd (a)	Australia	-	-	100.0	100.0
• Telstra Sensis (Beijing) Co. Limited (b)(c)(e)	China	-	-	100.0	100.0
Investment in controlled entities		12,641	12,651		
Allowance for impairment in value		(8,190)	(7,683)		
Total investment in controlled entities		4,451	4,968		

(#) The amounts recorded are before any provision for reduction in value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(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).

The following entities form part of the deed of cross guarantee:

- Telstra Corporation Limited;
- Telstra Multimedia Pty Ltd;
- Telstra International (Aus) Ltd;
- Telstra Pay TV Pty Ltd;
- Telstra Ventures Pty Ltd;
- Telstra iVision Pty Ltd;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- Telstra Services Solutions Holdings Limited;
- Sensis Pty Ltd; and
- Sensis Holdings Pty Ltd.

Telstra Business Systems Pty Ltd was released from its obligations from the deed by way of a revocation deed on 18 December 2012.

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 2013 $m	2012 $m
Current assets		
Cash and cash equivalents	**2,121**	3,582
Trade and other receivables	**4,340**	4,136
Inventories	**421**	246
Derivative financial assets	**43**	32
Current tax receivables	**79**	363
Prepayments	**269**	211
Total current assets	**7,273**	8,570
Non current assets		
Trade and other receivables	**935**	1,923
Inventories	**27**	24
Investments - accounted for using the equity method	**15**	10
Investments - other	**2,008**	2,818
Property, plant and equipment	**19,558**	19,812
Intangible assets	**6,762**	6,122
Derivative financial assets	**1,062**	658
Non current tax receivables	**-**	80
Total non current assets	**30,367**	31,447
Total assets	**37,640**	40,017
Current liabilities		
Trade and other payables	**3,687**	3,607
Provisions	**911**	934
Borrowings	**1,346**	4,044
Derivative financial liabilities	**44**	299
Current tax payables	**367**	675
Revenue received in advance	**1,044**	1,103
Total current liabilities	**7,399**	10,662
Non current liabilities		
Other payables	**53**	55
Provisions	**267**	257
Borrowings	**14,259**	11,951
Derivative financial liabilities	**1,625**	2,349
Deferred tax liabilities	**1,277**	1,045
Defined benefit liability	**42**	825
Revenue received in advance	**369**	469
Total non current liabilities	**17,892**	16,951
Total liabilities	**25,291**	27,613
Net assets	**12,349**	12,404
Equity		
Share capital	**5,711**	5,635
Reserves	**(87)**	(84)
Retained profits	**6,725**	6,853
Equity available to the closed group	**12,349**	12,404

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(a) ASIC deed of cross guarantee financial information (continued)

Closed group statement of comprehensive income	Closed group Year ended 30 June 2013 $m	2012 $m
Income		
Revenue (excluding finance income)	**23,936**	23,681
Other income	**273**	114
	24,209	23,795
Expenses		
Labour	**4,471**	3,717
Goods and services purchased	**5,630**	5,392
Other expenses	**4,842**	4,704
	14,943	13,813
Share of net profit from jointly controlled and associated entities	**1**	-
	14,944	13,813
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**9,265**	9,982
Depreciation and amortisation	**3,993**	4,007
Earnings before interest and income tax expense (EBIT)	**5,272**	5,975
Finance income	**298**	205
Finance costs	**1,134**	1,035
Net finance costs	**836**	830
Profit before income tax expense	**4,436**	5,145
Income tax expense	**1,552**	1,488
Profit for the year available to the closed group	**2,884**	3,657
Items that will not be reclassified subsequently to the closed group income statement		
Retained profits:		
- actuarial gain/(loss) on defined benefit plans	**668**	(740)
- income tax on actuarial gain/(loss) on defined benefit plans	**(200)**	222
	468	(518)
Items that may be reclassified subsequently to the closed group income statement		
Cash flow hedging reserve:		
- changes in fair value of cash flow hedges	**365**	(587)
- changes in fair value transferred to other expenses	**(617)**	204
- changes in fair value transferred to goods and services purchased	**12**	7
- changes in fair value transferred to finance costs	**236**	263
- changes in fair value transferred to property, plant and equipment	**-**	9
- income tax on movements in the cash flow hedging reserve	**(1)**	31
	(5)	(73)
Total other comprehensive income for the closed group	**463**	(591)
Total comprehensive income for the year for the closed group	**3,347**	3,066
Retained profits reconciliation		
Retained profits at the beginning of the financial year available to the closed group	**6,853**	7,189
Total comprehensive income recognised in retained profits	**3,352**	3,139
Dividends	**(3,480)**	(3,475)
Retained profits at the end of the financial year available to the closed group	**6,725**	6,853

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(b) Liquidations

During 2013, the following entities were liquidated:

- Telecom Australia (Saudi) Company Limited; and
- Telstra International Holdings No. 2 Limited.

At 30 June 2013, the following entity was in voluntary liquidation:

- Telstra Sensis (Beijing) Co. Limited.

(c) Controlled entities with different reporting dates

The following companies have reporting dates that differ from our reporting date of 30 June for financial year 2013:

- Autohome Inc. and its controlled entities - 31 December;
- Sequel Media Inc. and its controlled entities - 31 December;
- Telstra Asia Holdings Limited and its controlled entities - 31 December;
- Telstra Asia Limited - 31 December;
- Telstra SE Asia Holdings Limited - 31 December;
- Telstra Asia Regional Holdings Limited - 31 December;
- Telstra Philippines Holdings Limited and its controlled entities - 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 Telecommunications Private Ltd - 31 March; and
- Telstra Sensis (Beijing) Co Limited - 31 December.

Financial reports prepared as at 30 June are used for consolidation purposes.

(d) Controlled entities in which our equity ownership is less than or equal to 50 per cent

We have no direct equity interest in the following entities within the Autohome Inc. Group:

- Beijing Autohome Information Technology Co. Ltd;
- Shanghai Youcheyoujia Advertising Co. Ltd; and
- Guangzhou You Che You Jia Advertising Co. Ltd.

The purpose of these entities is to hold the licences and approvals required to operate Autohome Inc.'s internet content provision and advertising business respectively, for which Autohome Inc. has the decision-making powers to control these entities. Autohome Inc. is one of our controlled entities, 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 per cent direct interest in Haocheng Shidai (Beijing) Advertisement Co. Ltd.

The purpose of these entities is to hold the licences 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, 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 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 licences 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, therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(d) Controlled entities in which our equity ownership is less than or equal to 50 per cent (continued)

We have effective control over the following entities through economic dependency and contractual arrangements with the majority shareholders and have consolidated them into our group:

- Telstra (Thailand) Ltd;
- Incomgen Holdings Inc.; and
- Thai Cyber Web Co Limited.

(e) Controlled entities not individually audited by EY

These companies are not audited by EY, our Australian statutory auditor.

(f) New incorporations and business combinations

On 3 April 2013, a new controlled entity Telstra International Philippines, Inc. was incorporated.

On 29 April 2013, our controlled entity Sensis Pty Ltd acquired 100 per cent of the issued share capital of Australian Local Search Pty Ltd for consideration of $4 million. Refer to note 20 for further details.

(g) Purchase of additional interest

On 18 June 2013, Telstra Holdings Pty Ltd increased its ownership in Telstra Technology Services (Hong Kong) Limited from 75 per cent to 100 per cent for consideration of $1 million. Refer to note 20 for further details.

(h) Non current assets held for sale

On 30 June 2012, the carrying value of the assets and liabilities of TelstraClear Limited and its controlled entity were classified as held for sale. The sale was completed on 31 October 2012. Refer to note 12 for further details.

(i) Sales and disposals

On 31 October 2012, we sold our 100 per cent shareholding in TelstraClear Limited and its controlled entity for a total consideration of $669 million. Refer to note 20 for further details on our disposal.

(j) Name change

The following entities changed their names during financial year 2013:

- Application and Ventures Group Pty Ltd changed its name to Telstra Ventures Pty Ltd; and
- Reach Web Holdings Inc. changed its name to Telstra Web Holdings Inc.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. INVESTMENTS IN JOINTLY CONTROLLED AND ASSOCIATED ENTITIES

	Telstra Group As at 30 June 2013 $m	2012 $m
Investments in jointly controlled entities		
Investments in jointly controlled entities	**5**	2
Allowance for impairment in value	**-**	-
Carrying amount of investments in jointly controlled entities	**5**	2
Investments in associated entities		
Investments in associated entities	**38**	34
Allowance for impairment in value	**(25)**	(24)
Carrying amount of investments in associated entities	**13**	10
	18	12

Our investments in jointly controlled and associated entities are listed below.

Name of Entity	Principal activities	Ownership interest As at 30 June 2013 %	2012 %
Jointly controlled entities			
FOXTEL Partnership (h)(i)	Pay television	**50.0**	50.0
FOXTEL Television Partnership (h)(i)	Pay television	**50.0**	50.0
Customer Services Pty Limited (h)(i)	Customer service	**50.0**	50.0
FOXTEL Management Pty Ltd (h)(i)	Management services	**50.0**	50.0
FOXTEL Cable Television Pty Ltd (a)(h)(i)	Pay television	**80.0**	80.0
Reach Ltd (incorporated in Bermuda) (f)(h)(i)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (d)(h)	Toll free number portability in New Zealand	**-**	33.3
3GIS Pty Ltd (d)(f)(h)	Management of former 3GIS Partnership	**50.0**	50.0
3GIS Partnership (d)(h)	3G network services	**-**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (b)(f)(h)	Regional roaming provider	**10.0**	10.0
HealthEngine Pty Ltd (b)(d)(h)	Online healthcare booking	**25.0**	-
Associated entities			
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (f)(h)(i)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd (a)(i)	Superannuation trustee	**100.0**	100.0
Telstra Foundation Ltd (a)(h)	Charitable trustee organisation	**100.0**	100.0
Mandoe Pty Ltd (e)(h)	Signage software provider	**25.0**	25.0
IPscape Pty Ltd (h)	Cloud based call centre solution	**31.3**	31.3
Dimmi Pty Ltd (h)	Online restaurant reservation	**23.4**	23.4
Whispir Limited (c)(d)(h)	Software as a solution provider	**18.0**	-
IP Health Pty Ltd (d)(h)	Software development	**32.9**	-

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.

26. INVESTMENTS IN JOINTLY CONTROLLED AND ASSOCIATED ENTITIES (CONTINUED)

(a) Jointly controlled and associated entities in which we own more than 50 per cent equity

- We own 80 per cent of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a jointly controlled entity as the other equity shareholders have participating rights that prevent us from dominating the decision-making of the board. Effective voting power is restricted to 50 per cent and we have joint control.
- We own 100 per cent of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (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 per cent, which is equivalent to our representation on the board. The entity is therefore classified as an associated entity as we have significant influence over it.
- We own 100 per cent 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 per cent, which is equivalent to our representation on the board.

(b) Jointly controlled entities in which we own less than or equal to 50 per cent equity

We own 10 per cent of Bridge Mobile Pte Ltd and we have joint control over Bridge Mobile Pty Ltd through our decision making ability on the board.

We own 25 per cent of HealthEngine Pty Ltd and we have joint control over HealthEngine Pty Ltd through our decision making ability on the board.

(c) Associated entities in which we own less than or equal to 20 per cent equity

We own 18 per cent of Whispir Limited and we have significant influence over this entity through our decision making ability on the board.

(d) Other changes in jointly controlled and associated entities

During financial year 2013, we acquired interests in the following entities for a total consideration of $8 million:

- IP Health Pty Ltd;
- HealthEngine Pty Ltd; and
- Whispir Limited.

On 31 October 2012, we disposed of our 100 per cent shareholding in TelstraClear Limited and its controlled entity. The disposal included the investment in TNAS Limited.

Telstra and Vodafone Hutchison Australia concluded the 3GIS Partnership on 31 August 2012. We still retain our ownership interest in 3GIS Pty Ltd, which has been non-operating since that date.

(e) Dividends received

A $1 million dividend was received from Mandoe Pty Ltd during the year (2012: nil).

(f) Jointly controlled and associated entities with different reporting dates

The following jointly controlled and associated entities have different reporting dates from our reporting date of 30 June for financial year 2013:

- Reach Ltd - 31 December;
- 3GIS Pty Ltd - 31 December;
- Bridge Mobile Pte Ltd - 31 March; and
- Australia-Japan Cable Holdings Limited - 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.

(g) Share of net profits/(losses)

In financial year 2013, there was $1 million (2012: nil) share of losses from jointly controlled and associated entities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. INVESTMENTS IN JOINTLY CONTROLLED AND ASSOCIATED ENTITIES (CONTINUED)

(h) 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 Year ended/As at 30 June		Associated entities Telstra Group Year ended/As at 30 June	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Carrying amount of investments at beginning of year	**2**	2	**10**	-
Additional investments made during the year	**3**	-	**5**	10
	5	2	**15**	10
Share of net loss for the year	**-**	-	**(1)**	-
Dividends received	**-**	-	**(1)**	-
Carrying amount of investments at end of year	**5**	2	**13**	10
Our share of contingent liabilities of jointly controlled and associated entities	**10**	9	**-**	-
Our share of capital commitments contracted for by our jointly controlled and associated entities	**1**	9	**-**	1

Other commitments

Our jointly controlled entity FOXTEL has other commitments amounting to approximately $3,950 million (2012: $4,045 million). The majority of our 50 per cent 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.

On 31 August 2012, we concluded our 3GIS Partnership with Vodafone Hutchison Australia. Our property lease commitments have continued as both parties have been assigned their share of leases.

26. INVESTMENTS IN JOINTLY CONTROLLED AND ASSOCIATED ENTITIES (CONTINUED)

(h) 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	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Current assets	**592**	450	**38**	27
Non current assets	**3,010**	3,405	**183**	176
Total assets	**3,602**	3,855	**221**	203
Current liabilities	**795**	765	**58**	15
Non current liabilities	**3,283**	3,544	**287**	327
Total liabilities	**4,078**	4,309	**345**	342
Net liabilities	**(476)**	(454)	**(124)**	(139)
Total income	**5,886**	4,808	**78**	54
Total expenses	**5,592**	4,635	**57**	31
Profit before income tax expense	**294**	173	**21**	23
Income tax expense	**28**	4	**3**	1
Profit for the year	**266**	169	**18**	22

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):

	Jointly controlled entities 2013 $m	Jointly controlled entities 2012 $m	Associated entities 2013 $m	Associated entities 2012 $m
Total income	**2,941**	2,953	**32**	25
Total expenses	**2,795**	2,868	**23**	14
Profit before income tax expense	**146**	85	**9**	11
Income tax expense	**14**	2	**1**	-
Profit for the year	**132**	83	**8**	11

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. INVESTMENTS IN JOINTLY CONTROLLED AND ASSOCIATED ENTITIES (CONTINUED)

(i) 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 2013 $m	**Cumulative 2013 $m**	Period 2012 $m	Cumulative 2012 $m
Jointly controlled entities				
FOXTEL (*)	**4**	**166**	30	162
Reach Ltd	**(2)**	**558**	1	560
Associated entities				
Australia-Japan Cable Holdings Limited	**(11)**	**126**	(11)	137
	(9)	**850**	20	859

Equity accounting has been suspended for Telstra Super Pty Ltd. There is no significant unrecognised profits/losses in this entity.

(*) FOXTEL includes FOXTEL Partnership and its controlled entities, FOXTEL Television Partnership, Customer Services Pty Limited, FOXTEL Cable Television Pty Ltd and FOXTEL Management Pty Limited and its controlled entities.

A $155 million distribution was received from FOXTEL during the year (2012: $108 million). This has been recorded as revenue in the income statement and has increased our cumulative share of unrecognised losses in FOXTEL to $166 million after taking into account Telstra's share of FOXTEL's profit for the year of $130 million and other adjustments of $21 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 financial year 2000. Under the trust, Telstra operates a number of different equity plans, including:

- short term incentive plans;
- long term incentive plans;
- Ownshare; and
- other equity plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100 per cent owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares to underpin the equity instruments issued.

In financial year 2013, we recorded an expense of $42 million for our share based payment plans operated by the Telstra Growthshare Trust (2012: $19 million). As at 30 June 2013, we had an estimated total expense yet to be recognised of $26 million (2012: $36 million), which is expected to be recognised over a weighted average of 1.6 years (2012: 1.5 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.

(i) Description of equity instruments

Deferred shares for the Chief Executive Officer (CEO) and other senior executives (previously referred to as deferred incentive shares)

For financial years 2013, 2012 and 2011, the Board approved 25 per cent of the CEO and other senior executives' STI to be allocated as deferred shares. The effective allocation date will be 16 August 2013 for financial year 2013, and was 17 August 2012 and 19 August 2011 for financial years 2012 and 2011, respectively. These shares vest in equal parts over one and two years on the anniversary of their effective allocation date, subject to the CEO or a senior executive's continued employment with any entity that forms part of the Telstra Group. However, the CEO or a senior executive may retain the shares if they cease employment in a number of circumstances, for example because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits).

Applicable only to allocations from August 2012, deferred shares may also be retained if the CEO or a senior executive ceases employment due to retirement, expiry of a fixed term contract or country relocation, where that notice of retirement, fixed term contract expiry or request and agreement to relocate is more than six months after the actual allocation date. The CEO and senior executives are able to vote and receive dividends as and from the actual allocation date. Performance hurdles are applied in determining the number of deferred shares allocated and therefore deferred shares are not subject to any performance hurdles.

Deferred shares for other executives (previously referred to as deferred incentive shares)

For financial years 2013 and 2012, the Board approved 25 per cent of executives' (other than the CEO and senior executives) short term incentive to be allocated as deferred shares. The effective allocation date for the financial year 2013 plan will be 16 August 2013 and was 17 August 2012 for the financial year 2012 plan. These shares will vest on the three year anniversary of their allocation date, subject to the executive's continued employment with any entity that forms part of the Telstra Group. However, the executives may retain the shares if they cease employment in a number of circumstances, for example because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits). Deferred shares may also be retained if the executive ceases employment due to retirement, expiry of a fixed term contract or country relocation where that notice of retirement, fixed term expiry or request and agreement to relocate is more than six months after the actual allocation date. The executive is able to vote and receive dividends as and from the allocation date. Performance hurdles are applied in determining the number of deferred shares allocated and therefore the deferred shares are not subject to any performance hurdles.

Incentive shares

In relation to the financial year 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(a) Short term incentive (STI) plans (continued)

(i) Description of equity instruments (continued)

Incentive shares (continued)

- a date the Board determines (in response to an actual or likely change of control).

Once the vested incentive shares are released from trust, they 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 shares under our STI plans and are detailed in the following table.

	Incentive and deferred shares (^)	
	Number	Weighted average fair value (*)
Outstanding as at 30 June 2011	980,491	$4.35
Granted	893,678	$3.11
Forfeited	(206,734)	$3.11
Exercised	(416,965)	$4.35
Outstanding as at 30 June 2012	1,250,470	$3.67
Granted	**3,763,365**	**$3.05**
Forfeited	**(208,856)**	**$3.24**
Exercised	**(756,327)**	**$3.79**
Outstanding as at 30 June 2013 (#)	**4,048,652**	**$3.10**
Exercisable as at 30 June 2013	**-**	**-**

(^) The weighted average share price for incentive shares exercised during the financial year was $3.95 (2012: $3.11).

(*) The fair value of incentive shares and deferred shares granted for the CEO and other senior executives, is based on the market value of Telstra shares on allocation date. The fair value of deferred shares for executives (other than the CEO and other senior executives), is based on the market value of Telstra shares on grant date.

(#) The number outstanding includes incentives shares and deferred shares that are subject to a restriction period. These amount to 4,048,652 as at 30 June 2013.

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.

(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 share or a right to acquire a share in Telstra subject to certain conditions. Further information regarding each type of LTI plan that was outstanding during the year is detailed in the following table:

	Allocation date	Performance period from	Performance period to	Exercise price	End date (#)
Growthshare 2006 - Feb 2006 allocation					
RG & NT 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 2008					
ESOP options	17 Aug 2007	n/a	n/a	$4.34	17 Aug 2012
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 performance rights	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 performance rights	21 Aug 2009	1 Jul 2009	30 Jun 2012	nil	21 Aug 2013
FCF ROI performance rights	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 performance rights	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014
FCF ROI performance rights	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014
Growthshare 2012					
ESP restricted shares	19 Apr 2012	n/a	n/a	nil	19 Apr 2015
RTSR performance rights	19 Aug 2011	1 Jul 2011	30 Jun 2014	nil	19 Aug 2015
FCF ROI performance rights	19 Aug 2011	1 Jul 2011	30 Jun 2014	nil	19 Aug 2015
Growthshare 2013					
ESP restricted shares	**21 Feb 2013**	**n/a**	**n/a**	**nil**	**21 Feb 2016**
RTSR performance rights	**17 Aug 2012**	**1 Jul 2012**	**30 Jun 2015**	**nil**	**17 Aug 2016**
FCF ROI performance rights	**17 Aug 2012**	**1 Jul 2012**	**30 Jun 2015**	**nil**	**17 Aug 2016**
GMD Telstra Wholesale restricted shares	**17 Aug 2012**	**n/a**	**n/a**	**nil**	**17 Aug 2015**

(#) End date refers to expiry date of options, end of the restriction period for ESP restricted shares or the end of the service period for performance rights and GMD Telstra Wholesale restricted shares to vest.

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 financial year 2013, 2012, 2011, 2010 and 2009 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 material regulatory change; or
- a significant out-of-plan business development (this could include a major acquisition outside the current business plan, resulting in a significant change to the business of Telstra or the Telstra Group, that means that (in the reasonable opinion of the Board) the targets for that class of equity instruments are no longer appropriate).

In financial year 2013, the Board did not reset the hurdles governing the equity instruments issued in financial years 2013, 2012, 2011, 2010 or 2009.

(ii) Description of equity instruments

Performance rights

Executive LTI performance rights (previously referred to as restricted shares)

In respect of performance rights, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the performance rights become restricted trust shares.

In relation to performance rights issued, except for the 2006 financial year, if the performance hurdle is satisfied during the applicable performance period, a specified number of performance rights, as determined in accordance with the trust deed and terms of issue, will become restricted trust shares. Although the trustee holds the shares in trust, the executive will retain beneficial interest (dividends, voting rights, bonuses and rights issues) in the shares until they vest and are transferred to them or sold on their behalf, at the end of the restriction period (unless forfeited).

In respect of performance rights allocated in financial year 2006, 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 these rights is $1 in total for all of the performance rights exercised on a particular day.

Employee share rights plan (ESRP) performance rights

For ESRP performance rights allocated in financial years 2011 and 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 financial year 2013 is set out below:

Executive LTI performance rights:

- revenue growth (RG) performance rights - the performance hurdle for these rights is based on increases in Telstra's revenue;
- network transformation (NT) performance rights - the performance hurdle for these rights is based on completion of certain elements in Telstra's network transformation program;
- return on investment (ROI) performance rights - the performance hurdle for these rights is based on an increase in the earnings before interest and tax for Telstra divided by the average investment;
- relative total shareholder return (RTSR) performance rights - the performance hurdle for these rights is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in a peer group; and
- free cashflow return on investment (FCF ROI) performance rights - the performance hurdle for these rights is based on Telstra's annual free cashflow (less finance costs) over the performance period divided by the average investment over the performance period.

Employee performance rights:

- employee share rights plan (ESRP) performance rights - the vesting condition 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).

Restricted shares

GMD Telstra Wholesale restricted shares

Due to the Structural Separation Undertaking (SSU) arising from the NBN transaction, the GMD of Telstra Wholesale is prohibited from participating in the financial year 2013 and 2012 LTI plans. As a result, an alternative remuneration arrangement has been provided in financial year 2013, which is a restricted share plan where the number of restricted shares allocated is based on the same performance measures as his financial year 2012 STI plan.

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)

Restricted shares (continued)

Employee Share Plan (ESP) restricted shares

Restricted shares provided under the ESP in financial years 2013 and 2012 were allocated at no cost to certain eligible employees (excluding executives). The shares are held by the Trustee on behalf of employees until the restriction period ends. During the restriction period, employees are entitled to exercise the voting rights attached to the shares and to receive dividends on the shares. The shares are released from trust on the earlier of three years from the date of allocation or the date the participating employee ceases relevant employment.

A description of each type of restricted share that existed in financial year 2013 is set out below:

Executive LTI restricted shares

- GMD Telstra Wholesale restricted shares - performance hurdles are applied in determining the number of restricted shares allocated and therefore the restricted shared are not subject to any performance hurdles.

Employee restricted shares

- Employee Share Plan (ESP) restricted shares - there are no performance hurdles for these restricted shares.

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 financial year 2013 is set out below:

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 a peer group; 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.

Employee options

- ESOP options - the vesting condition 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 vesting condition 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).

(iii) Performance hurdles

Performance rights

Details of the relevant performance hurdles in relation to performance rights, are set out below:

Relative Total Shareholder Return (RTSR) performance rights

For financial years 2013, 2012, 2011 and 2010 RTSR performance rights, the single performance period is the three year period ending on 30 June 2015, 30 June 2014, 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 performance rights that will meet the hurdle for that performance period is scaled proportionately from the 50th percentile (which equates to 25 per cent of the allocation) to the 75th percentile (which equates to 100 per cent of the allocation); and
- any performance rights that do not meet the hurdle will lapse.

If Telstra does not reach the 50th percentile, all of these RTSR performance rights will lapse.

Any RTSR performance rights that meet the hurdle become restricted trust shares and are held by the Trustee until the restriction period ends (four years after the effective allocation date of the restricted shares) at which point they then vest.

Free Cashflow Return on Investment (FCF ROI) performance rights

For financial years 2013, 2012, 2011 and 2010 FCF ROI performance rights, the single performance period is the three year period ending on 30 June 2015, 30 June 2014, 30 June 2013 and 30 June 2012 respectively.

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)

Performance rights (continued)

The number of FCF ROI performance rights that will meet the hurdle is calculated as follows:

- if the threshold target is achieved, then 50 per cent of the allocation of FCF ROI performance rights will meet the hurdle;
- if the result achieved is between the threshold and stretch targets, then the number of FCF ROI performance rights that will meet the hurdle is scaled proportionately between 50 per cent and 100 per cent;
- if the stretch target is achieved or exceeded, then 100 per cent of the FCF ROI performance rights will meet the hurdle; and
- if the threshold target is not achieved, all of these FCF ROI performance rights will lapse.

Any FCF ROI performance rights that meet the hurdle become restricted trust shares and are held by the Trustee until the end of the restriction period (four years after the effective allocation date of the performance rights) at which point they then vest.

Return on Investment (ROI) performance rights

For ROI performance rights for financial year 2009, 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 performance rights that will vest is calculated as follows:

- if the threshold target is achieved, then 50 per cent of the allocation of performance rights for that period will vest;
- if the result achieved is between the threshold and stretch target, then the number of performance rights for that period that will vest is scaled proportionately between 50 per cent and 100 per cent; and
- if the stretch target is achieved or exceeded, then 100 per cent of the performance rights for that period will vest.

Any performance rights that vest become restricted trust shares. Any performance rights which do not vest in their respective performance periods will lapse.

Employee Share Rights Plan (ESRP) performance rights

As part of the employee share rights plan for financial years 2011 and 2010, 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.

Options

Details of the relevant performance hurdles in relation to options are set out below:

ESOP options and US ESOP options

As part of the employee share option plan for financial years 2009 and 2008, 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 performance hurdles.

Relative Total Shareholder Return (RTSR) options

For RTSR options for financial year 2009, 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 per cent of the allocation becomes exercisable) to the 75th percentile (at which 100 per cent of the allocation becomes exercisable); and
- 25 per cent of any unvested options for that performance period will lapse.

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iii) Performance hurdles (continued)

Options (continued)

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 per cent 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 will lapse following the end of the third performance period.

Return on Investment (ROI) options

The ROI hurdle for financial year 2008 has been measured over the following three performance periods:

- First performance period - 1 July 2008 to 30 June 2009;
- Second performance period - 1 July 2009 to 30 June 2010; and
- Third performance period - 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 per cent 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 per cent and 100 per cent; and
- if the stretch target is achieved, then 100 per cent of the options will vest.

Any options which do not vest in their respective performance period lapse.

Restricted shares

Details of the relevant performance hurdles in relation to restricted shares are set out below:

GMD Telstra Wholesale restricted shares

As part of the financial year 2013 GMD Telstra Wholesale restricted share plan, the GMD of Telstra Wholesale was provided restricted shares. Performance hurdles were applied in determining the number of restricted shares allocated and therefore the restricted shares are not subject to any performance hurdles.

Employee Share Plan (ESP) restricted shares

As part of the financial year 2013 and 2012 ESP, certain eligible employees were provided restricted shares. There are no performance hurdles for these restricted shares.

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

	Number of equity instruments						
	Outstanding at 30 June 2012	Granted	Forfeited (*)	Exercised	Expired (^)	Outstanding at 30 June 2013	Exercisable at 30 June 2013
Growthshare 2006 - Feb 2006 allocation							
RG performance rights	40,517	-	(22,398)	(18,119)	-	-	-
NT performance rights	18,313	-	(9,166)	(9,147)	-	-	-
Growthshare 2008							
ESOP options	10,133,145	-	(10,132,395)	(750)	-	-	-
ROI options	3,337,162	-	(540,941)	(2,796,221)	-	-	-
Growthshare 2009							
ESOP options	11,653,546	-	(960,028)	(1,523,821)	-	9,169,697	9,169,697
US ESOP options	36,000	-	(2,000)	(5,000)	-	29,000	29,000
RTSR options	4,992,832	-	(196,958)	(2,466,215)	-	2,329,659	2,329,659
Growthshare 2010							
ESRP performance rights	1,555,645	-	(212,652)	(1,342,993)	-	-	-
RTSR performance rights	3,848,717	-	(174,001)	-	-	3,674,716	-
FCF ROI performance rights	2,346,779	-	(229,885)	-	-	2,116,894	-
Growthshare 2011							
ESRP performance rights	1,076,385	-	(93,480)	-	-	982,905	-
RTSR performance rights	5,639,238	-	(569,659)	-	-	5,069,579	-
FCF ROI performance rights	5,639,238	-	(579,892)	-	-	5,059,346	-
Growthshare 2012							
ESP restricted shares	2,358,700	-	-	(218,500)	-	2,140,200	-
RTSR performance rights	2,749,267	-	(295,408)	-	-	2,453,859	-
FCF ROI performance rights	2,749,267	-	(295,408)	-	-	2,453,859	-
Growthshare 2013							
ESP restricted shares	-	2,556,700	-	(72,800)	-	2,483,900	-
RTSR performance rights	-	2,664,516	(194,912)	-	-	2,469,604	-
FCF ROI performance rights	-	2,664,516	(194,912)	-	-	2,469,604	-
GMD Telstra Wholesale restricted shares	-	116,371	-	-	-	116,371	-

(*) 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.

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 at 30 June 2011	Granted	Forfeited (*)	Exercised	Expired (^)	Outstanding at 30 June 2012	Exercisable at 30 June 2012
Growthshare 2002 - Sept 2001 allocation							
TSR Options	8,337,000	-	(8,337,000)	-	-	-	-
Growthshare 2006 - Feb 2006 allocation							
RG performance rights (#)	57,462	-	-	(16,945)	-	40,517	40,517
NT performance rights (#)	22,823	-	-	(4,510)	-	18,313	18,313
Growthshare 2008							
ESOP options	11,274,721	-	(1,141,576)	-	-	10,133,145	10,133,145
ROI options	4,491,914	-	(1,154,752)	-	-	3,337,162	3,337,162
Growthshare 2009							
ESOP options	12,576,618	-	(923,072)	-	-	11,653,546	11,653,546
US ESOP options	45,000	-	(9,000)	-	-	36,000	36,000
RTSR options	11,080,943	-	(1,530,652)	-	(4,557,459)	4,992,832	-
ROI performance rights	1,663,709	-	(213,440)	-	(1,450,269)	-	-
Growthshare 2010							
ESRP performance rights	1,696,020	-	(86,327)	(54,048)	-	1,555,645	-
RTSR performance rights	5,661,481	-	(994,023)	-	(818,741)	3,848,717	-
FCF ROI performance rights	5,661,481	-	(994,023)	-	(2,320,679)	2,346,779	-
Growthshare 2011							
ESRP performance rights	1,158,901	-	(82,516)	-	-	1,076,385	-
RTSR performance rights	6,858,590	-	(1,219,352)	-	-	5,639,238	-
FCF ROI performance rights	6,858,590	-	(1,219,352)	-	-	5,639,238	-
Growthshare 2012							
ESP restricted shares	-	2,375,300	-	(16,600)	-	2,358,700	-
RTSR performance rights	-	3,019,272	(270,005)	-	-	2,749,267	-
FCF ROI performance rights	-	3,019,272	(270,005)	-	-	2,749,267	-

(*) 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 2012 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.

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 (***)
Outstanding as at 30 June 2011	47,806,196	$0.45	29,639,057	$4.51	-	-
Granted	-	-	6,038,544	$2.40	2,375,300	$3.36
Forfeited	(13,096,052)	$0.84	(5,349,043)	$1.91	-	-
Exercised (^^)	-	-	(75,503)	$2.97	(16,600)	$3.36
Expired	(4,557,459)	$0.16	(4,589,689)	$2.39	-	-
Outstanding as at 30 June 2012	30,152,685	$0.32	25,663,366	$1.95	2,358,700	$3.36
Granted	**-**	**-**	**5,329,032**	**$2.71**	**2,673,071**	**$4.55**
Forfeited	**(11,832,322)**	**$0.42**	**(2,871,773)**	**$2.16**	**-**	**-**
Exercised (##)	**(6,792,007)**	**$0.35**	**(1,370,259)**	**$2.89**	**(291,300)**	**$3.66**
Expired	**-**	**-**	**-**	**-**	**-**	**-**
Outstanding as at 30 June 2013	**11,528,356**	**$0.21**	**26,750,366**	**$2.03**	**4,740,471**	**$4.03**
Exercisable as at 30 June 2013	**11,528,356**	**$0.21**	**-**	**-**	**-**	**-**

(*) Options include RTSR, 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 RG, NT, ROI, RTSR, FCF ROI and ESRP performance rights.

(#) Restricted shares relate to GMD Telstra Wholesale and ESP 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 fair value of these instruments is based on the market value of Telstra shares at the allocation date.

(^^) The weighted average share price for instruments exercised during financial year 2012 was $3.25 for financial year 2006 and 2010 allocation of performance rights, and $3.59 for financial year 2012 allocation of ESP restricted shares respectively. These share prices were based on the closing market price on the exercise dates.

(##) The weighted average share price for instruments exercised during financial year 2013 was $4.65 for the financial year 2008 and 2009 allocation of options, $3.73 for the financial year 2006 and 2010 allocation of performance rights, and $4.41 for financial year 2012 and 2013 allocation of ESP restricted shares respectively. These share prices were based on the closing market price on the exercise dates.

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 performance rights Oct 2012	**Growthshare LTI RTSR performance rights Oct 2012**	Growthshare LTI FCF ROI performance rights Dec 2011	Growthshare LTI RTSR performance rights Dec 2011
Share price	**$4.03**	**$4.03**	$3.33	$3.33
Risk free rate	**2.51%**	**2.51%**	3.13%	3.13%
Dividend yield	**8.0%**	**8.0%**	9.0%	9.0%
Expected stock volatility	**19%**	**19%**	22%	22%
Expected life	**(*)**	**(*)**	(*)	(*)
Expected rate of achievement of TSR performance hurdles	**n/a**	**44%**	n/a	71%

(*) The date the instruments become exercisable.

For financial year 2013 LTI FCF ROI and RTSR performance rights, the fair value has been measured at a grant date of 22 October 2012 and has been allocated over the period for which the service is received which commenced 1 July 2012.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.

The fair value of financial year 2013 ESP restricted shares is $4.58 based on the market value of Telstra shares at the allocation date of 21 February 2013 and has been allocated over the period for which the service is received which commenced 1 July 2012.

The fair value of financial year 2013 GMD Telstra Wholesale restricted shares is $3.82 and is based on the market value of Telstra shares at the allocation date of 17 August 2012.

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

The Directshare plan, previously operated by the Company, was cancelled with effect from August 2012 as it is no longer in use. Under the Directshare plan, non-executive Directors could nominate to receive a percentage of their total remuneration package as Telstra shares (allocated to participating Directors at market price). As a result of its cancellation, no new grants may be made under the Directshare plan. Existing grants under the plan will remain on foot and under the terms of the Directshare plan and the relevant trust deed will continue to apply to such grants.

The restriction period on Directshares already allocated continues until the earliest of:

- 10 years from the date of allocation of the shares;
- the 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

The Ownshare plan has been cancelled with effect from October 2013. Under the Ownshare plan, certain eligible employees could, at their election, be provided part of their remuneration in Telstra shares. Shares were acquired by the trustee from time to time and allocated to these employees at the time their application was accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at the expiration of the restriction period.

The restriction period continues until the earliest of:

- three years from the date of allocation;
- the 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 (unless the participant directs the trustee to sell the Ownshares on the participant's behalf). 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 Ownshare plan is determined by the remuneration foregone by the participant. On the grant of Ownshares, the participants in the plan are not required to make any payment to the Telstra Entity. The 23 October 2012 grant of Ownshares relates to shares acquired through salary sacrifice by employees.

For the Ownshare plan, the weighted average fair value of fully paid shares granted to participants as at 30 June 2013 was $4.03 (2012: $3.15) and the total fair value of shares granted was $632,808 (2012: $553,637).

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 2011	Granted (*)	Distributed (^)	Outstanding at 30 June 2012	**Granted (*)**	**Distributed (^)**	**Outstanding at 30 June 2013**
Directshares							
5 September 2003 allocation	9,525	-	-	9,525	**-**	**(7,648)**	**1,877**
20 February 2004 allocation	10,233	-	-	10,233	**-**	**(8,216)**	**2,017**
20 August 2004 allocation	2,755	-	-	2,755	**-**	**(2,212)**	**543**
19 February 2005 allocation	7,911	-	-	7,911	**-**	**(5,911)**	**2,000**
19 August 2005 allocation	5,248	-	-	5,248	**-**	**(2,875)**	**2,373**
17 February 2006 allocation	8,230	-	-	8,230	**-**	**(4,499)**	**3,731**
18 August 2006 allocation	12,343	-	-	12,343	**-**	**(5,697)**	**6,646**
23 February 2007 allocation	14,522	-	-	14,522	**-**	**(5,061)**	**9,461**
17 August 2007 allocation	15,343	-	-	15,343	**-**	**(4,836)**	**10,507**
29 February 2008 allocation	24,968	-	-	24,968	**-**	**(9,283)**	**15,685**
21 August 2008 allocation	36,358	-	(2,909)	33,449	**-**	**(14,082)**	**19,367**
6 March 2009 allocation	63,181	-	(6,122)	57,059	**-**	**(15,152)**	**41,907**
21 August 2009 allocation	6,313	-	-	6,313	**-**	**-**	**6,313**
19 February 2010 allocation	6,809	-	-	6,809	**-**	**-**	**6,809**
	223,739	-	(9,031)	214,708	**-**	**(85,472)**	**129,236**
Ownshares							
15 September 2008 allocation	315,741	-	(315,741)	-	**-**	**-**	**-**
24 October 2008 allocation	189,846	-	(189,846)	-	**-**	**-**	**-**
24 December 2009 allocation	124,218	-	(14,096)	110,122	**-**	**(110,122)**	**-**
5 November 2010 allocation	170,664	-	(24,599)	146,065	**-**	**(7,683)**	**138,382**
21 October 2011 allocation	-	175,836	-	175,836	**-**	**(10,923)**	**164,913**
23 October 2012 allocation	-	-	-	-	**157,149**	**(2,356)**	**154,793**
	800,469	175,836	(544,282)	432,023	**157,149**	**(131,084)**	**458,088**

(*) 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 (unless an Ownshare participant directs the trustee to sell the Ownshares on the participant's behalf).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. EMPLOYEE SHARE PLANS (CONTINUED)

(d) Other equity plans

In exceptional circumstances, Telstra has put in place structured retention incentive plans. These are designed to protect Telstra from the loss of employees who possess specific skill sets considered critical to the business and where Telstra is vulnerable to losing key personnel. Such retention plans are not restricted to senior executives. The plans are granted on an ad hoc basis and the participants receive Telstra shares deferred for a certain amount of time.

As part of his Service Agreement negotiated upon appointment, the Chief Financial Officer (CFO) was allocated 96,500 performance shares of which 50 per cent are eligible to vest after two years and the remaining 50 per cent are eligible to vest after three years from the date of commencement of his employment. Vesting is subject to an assessment of performance by the Board and performance shares are forfeited in the event of resignation before vesting. In the event of redundancy or termination of employment for no reason, a pro rata entitlement of the performance shares as at the time of cessation of employment vest.

TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in financial years 2000 and 1998, Telstra offered eligible employees the opportunity to buy ordinary shares of Telstra. 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 the employees became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.

While a participant remains an employee of an entity within the Telstra Group or, in the case of TESOP97 only, the company that was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. However, a participant may, at any time:

- elect to repay the loan and have the shares transferred into their name; or
- arrange through the trustee the sale of the shares where the proceeds of the sale (after deducting the costs of sale) will be enough to repay the loan.

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 an entity within the Telstra Group or, in the case of TESOP97 only, the company that 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 which case the loan must be repaid within 12 months).

If the employee has ceased employment and does not repay the loan when required, the trustee must sell the shares if the sale proceeds (after deducting the costs of sale) will be enough to repay the loan. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. 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 Trust Trustee continues to hold loan shares where the employee ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs of sale. The Trustee is then required to sell the shares. In financial year 2013, 9,258,700 TESOP99 shares held for this purpose were sold in an off market transaction at market price to the Growthshare Trust. As at 30 June 2013, there were 73,000 shares held for this purpose (2012: 9,204,900).

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
Equity instruments outstanding and exercisable as at 30 June 2011	15,000	$2.89	-	13,789,000	$2.89	40
Exercised (#)	(12,500)	$3.10	-	(34,600)	$3.15	-
Equity instruments outstanding and exercisable as at 30 June 2012	2,500	$3.69	-	13,754,400	$3.69	51
Exercised (#)	**(2,500)**	**$3.85**	**-**	**(77,500)**	**$4.38**	**-**
Sold (^)	**-**	**-**	**-**	**(9,527,100)**	**$4.68**	**45**
Equity instruments outstanding and exercisable as at 30 June 2013	**-**	**-**	**-**	**4,149,800**	**$4.77**	**20**

(*) 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 amount sold relates to loan shares disposed of to the Growthshare Trust and external third parties during the year.

The employee share loan balance as at 30 June 2013 is $20 million (2012: $67 million). The weighted average loan still to be repaid for TESOP97 is nil per instrument (2012: $0.14) and for TESOP99 is $4.64 per instrument (2012: $4.85).

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. Hence, 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 financial years 2013 and 2012, the Directors of the Telstra Entity were:

Name	Position
Current Directors	
Catherine B Livingstone	Chairman, non-executive Director
David I Thodey	Executive Director and Chief Executive Officer
Geoffrey A Cousins	non-executive Director
Russell A Higgins	non-executive Director
John P Mullen	non-executive Director
Nora L Scheinkestel	non-executive Director
Margaret L Seale	non-executive Director
Steven M Vamos	non-executive Director
John D Zeglis	non-executive Director

Former Directors

Timothy Y Chen, resigned as non-executive Director on 5 October 2012
John W Stocker, retired as non-executive Director on 16 October 2012

Senior executives

The senior executives who qualified as KMP for financial years 2013 and 2012 were:

Name	Position
Current Senior Executives	
David I Thodey	Executive Director and Chief Executive Officer
Gordon Ballantyne	Chief Customer Officer, Group Managing Director, Telstra Customer Sales and Service
Rick Ellis	Group Managing Director, Telstra Media
Stuart Lee	Group Managing Director, Telstra Wholesale
Kate McKenzie	Group Managing Director, Telstra Innovation Products and Marketing
Robert Nason	Group Managing Director, Business Support and Improvement (KMP effective from 1 July 2012)
Andrew Penn	Chief Financial Officer
Brendon Riley	Chief Operations Officer

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

KMP aggregate compensation

During financial years 2013 and 2012, the aggregate compensation provided to our KMP was as follows.

	Telstra Group	
	As at 30 June	
	2013	2012
	$	$
Short term employee benefits	**23,215,153**	20,104,442
Post employment benefits	**385,612**	418,627
Other long term benefits	**261,494**	226,353
Termination benefits	**-**	744,751
Share-based payments.	**8,919,444**	6,318,874
	32,781,703	27,813,047

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 that this 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 financial year 2013, our KMP and their related parties held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2012	Equity instruments exercised	Net shares acquired or disposed of by other means (c)	Total shares held at 30 June 2013	Shares held nominally at 30 June 2013 (d)
	Number	Number	Number	Number	Number
Non-Executive Directors					
Catherine B Livingstone	165,816	-	10,000	175,816	175,816
Timothy Y Chen (b)	-	-	-	-	-
Geoffrey A Cousins	31,765	-	50,000	81,765	21,765
Russell A Higgins	88,404	-	-	88,404	83,084
John P Mullen	26,159	-	-	26,159	26,159
Nora L Scheinkestel	59,450	-	27,847	87,297	87,297
Margaret L Seale	224,141	-	11,614	235,755	235,755
John W Stocker (b)	212,238	-	-	212,238	108,652
Steven M Vamos	40,000	-	-	40,000	40,000
John D Zeglis	103,993	-	-	103,993	37,493
	951,966	-	99,461	1,051,427	816,021
Senior Executives					
David I Thodey	786,117	252,174	(28,239)	1,010,052	997,442
Gordon Ballantyne	86,568	-	109,990	196,558	153,274
Rick Ellis	10,000	-	46,607	56,607	42,607
Stuart Lee	265,503	48,913	6,686	321,102	176,044
Kate McKenzie	167,698	91,304	(7,711)	251,291	141,725
Robert Nason (a)	78,786	-	87,992	166,778	139,885
Andrew Penn	74,232	-	64,677	138,909	110,524
Brendon Riley	183,417	-	109,990	293,407	275,536
	1,652,321	392,391	389,992	2,434,704	2,037,037
	2,604,287	392,391	489,453	3,486,131	2,853,058

Total shareholdings include shares held by our KMP and their related parties. Unless related to our employee share plans, shares acquired or disposed by our KMP during financial year 2013 were on an arm's length basis at market price.

(a) Robert Nason qualified as KMP during the year and this balance represents shares held as at the date on which he became KMP.

(b) For these non-executive Directors who left Telstra/the Board during the year, represents shares held as at the date on which they retired or no longer qualified as KMP.

(c) Also includes deferred shares granted to senior executives which are subject to a restriction period.

(d) Nominally refers to shares held either indirectly or beneficially, including (for non-executive Directors) those acquired under Directshare, as well as (for senior executives) certain incentive shares and deferred shares. The Directshares, incentive shares and deferred shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with these 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 financial year 2012 our KMP and their related parties held share capital of the Telstra Entity directly, indirectly or beneficially, as follows.

	Total shares held at 30 June 2011	Equity instruments exercised	Net shares acquired or disposed of by other means (c)	Total shares held at 30 June 2012	Shares that are held nominally (d)
	Number	Number	Number	Number	Number
Non-Executive Directors					
Catherine B Livingstone	150,816	-	15,000	165,816	165,816
Timothy Y Chen (a)	-	-	-	-	-
Geoffrey A Cousins	31,765	-	-	31,765	21,765
Russell A Higgins	40,513	-	47,891	88,404	83,084
John P Mullen	26,159	-	-	26,159	26,159
Nora L Scheinkestel	30,000	-	29,450	59,450	59,450
Margaret L Seale (a)	224,141	-	-	224,141	224,141
John W Stocker	212,238	-	-	212,238	194,124
Steven M Vamos	40,000	-	-	40,000	40,000
John D Zeglis	103,993	-	-	103,993	37,493
John M Stewart (b)	34,031	-	-	34,031	9,031
	893,656	-	92,341	985,997	861,063
Senior Executives					
David I Thodey	605,113	-	181,004	786,117	667,594
Gordon Ballantyne	-	-	86,568	86,568	86,568
Rick Ellis (a)	10,000	-	-	10,000	8,000
Stuart Lee (a)	214,087	-	51,416	265,503	149,443
Kate McKenzie	117,710	-	49,988	167,698	122,009
Andrew Penn (a)	-	-	74,232	74,232	58,800
Brendon Riley	5,735	-	177,682	183,417	179,387
Bruce Akhurst (b)	177,306	-	94,330	271,636	263,856
John V Stanhope (b)	446,545	-	3,383	449,928	7,410
	1,576,496	-	718,603	2,295,099	1,543,067
	2,470,152	-	810,944	3,281,096	2,404,130

Total shareholdings include shares held by our KMP and their related parties. Unless related to our employee share plans, shares acquired or disposed by our KMP during financial year 2012 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 on which 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 on which they retired or no longer qualified as KMP.

(c) Also includes deferred shares granted to senior executives which are subject to a restriction period.

(d) Nominally refers to shares held either indirectly or beneficially, including (for non-executive Directors) those acquired under Directshare, as well as (for senior executives) certain incentive shares and deferred shares. The Directshares, incentive shares and deferred shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with these 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 the Telstra Entity

The following details the balances and changes in instruments issued for our KMP during financial year 2013.

Instrument type (*)	Total held at 30 June 2012 (a)	Granted during the year	Exercised during the year	Total held at 30 June 2013	Vested as at 30 June 2013	Vested and exercisable at 30 June 2013
Senior Executive	Number	**Number**	**Number**	**Number**	**Number**	**Number**
Options						
David I Thodey	641,721	**-**	**(252,174)**	**389,547**	**389,547**	**389,547**
Stuart Lee	130,468	**-**	**(48,913)**	**81,555**	**81,555**	**81,555**
Kate McKenzie	240,024	**-**	**(91,304)**	**148,720**	**148,720**	**148,720**
Performance rights						
David I Thodey	3,649,052	**1,391,076**	**-**	**5,040,128**	**-**	**-**
Rick Ellis	225,080	**388,452**	**-**	**613,532**	**-**	**-**
Stuart Lee	438,111	**-**	**-**	**438,111**	**-**	**-**
Kate McKenzie	981,675	**419,948**	**-**	**1,401,623**	**-**	**-**
Robert Nason	900,841	**440,944**	**-**	**1,341,785**	**-**	**-**
Andrew Penn	-	**587,926**	**-**	**587,926**	**-**	**-**
Brendon Riley	643,086	**545,932**	**-**	**1,189,018**	**-**	**-**
Performance shares						
Andrew Penn	96,500	**-**	**-**	**96,500**	**-**	**-**
Restricted shares						
Stuart Lee	-	**116,371**	**-**	**116,371**	**-**	**-**
TESOP99						
Stuart Lee	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 on which they became KMP.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

KMP interests in rights, options and restricted shares of the Telstra Entity (continued)

The following details the balances and changes in instruments issued for our KMP during financial year 2012.

Instrument type (*)	Total held at 30 June 2011 (a)	Granted during the year	Other changes (b)	Total held at 30 June 2012 (c)	Vested as at 30 June 2012 (c)	Vested and exercisable at 30 June 2012 (c)
Senior Executive	Number	Number	Number	Number	Number	Number
Options						
David I Thodey	1,535,305	-	(893,584)	641,721	641,721	252,174
Stuart Lee	393,751	-	(263,283)	130,468	130,468	48,913
Kate McKenzie	377,304	-	(156,964)	240,024	240,024	91,304
Bruce Akhurst	1,695,687	-	(617,000)	1,078,687	1,078,687	271,739
John V Stanhope	1,035,137	-	(1,035,137)	-	-	-
Performance rights						
David I Thodey	2,566,575	1,567,846	(485,369)	3,649,052	-	-
Rick Ellis	-	225,080	-	225,080	-	-
Stuart Lee	526,890	-	(88,779)	438,111	-	-
Kate McKenzie	633,667	488,746	(140,738)	981,675	-	-
Brendon Riley	-	643,086	-	643,086	-	-
Bruce Akhurst	1,565,313	700,552	-	2,265,865	-	-
John V Stanhope	1,621,538	-	(1,621,538)	-	-	-
Performance shares						
Andrew Penn	-	96,500	-	96,500	-	-
TESOP99						
Stuart Lee	400	-	-	400	400	400
Bruce Akhurst	400	-	-	400	400	400
John V Stanhope	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 on which they became KMP.

(b) During financial year 2012, 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 left Telstra during the year, represents equity instruments held as at the date on which they retired or no longer qualify as KMP.

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 2013 $m	2012 $m
Income from controlled entities		
Sale of goods and services (a)	**789**	892
Dividend revenue (b)	**635**	668
Expenses to controlled entities		
Purchase of goods and services (a)	**746**	602
Finance costs	**24**	33
Total amounts receivable at 30 June		
Current		
Controlled entities - receivables (a)(d)	**1,119**	985
Controlled entities - loans (e)(f)(g)	**3,387**	3,331
Allowance for amounts owed by controlled entities (e)	**(3,163)**	(2,948)
	1,343	1,368
Non current		
Controlled entities - loans (g)	**-**	1
Movement in allowance for amounts owed by controlled entities		
Opening balance	**(2,948)**	(2,773)
Impairment loss (c)	**(215)**	(175)
Closing balance (e)	**(3,163)**	(2,948)
Total amounts payable at 30 June		
Current		
Controlled entities - payables (a)(d)	**250**	214
Controlled entities - loans (e)(h)	**1,936**	1,492
	2,186	1,706

(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 financial year 2013 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 $263 million (2012: $355 million). As at 30 June 2013, the Telstra Entity recorded revenue received in advance amounting to $136 million (2012: $90 million) for the use of these trademarks;
- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to $367 million (2012: $356 million) for access to ducts that store the hybrid fibre coaxial (HFC) cable network;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to $329 million (2012: $334 million) for undertaking agency and contract management services for the national directory service; and
- the Telstra Entity paid for international connectivity and management services to Telstra International Limited amounting to $221 million (2012: $136 million).

(b) During financial year 2013, the Telstra Entity recorded dividend revenue mainly from the following entities:

- $518 million (2012: $64 million) from Telstra Holdings Pty Ltd; and
- $114 million (2012: $50 million) from Telstra Media Pty Limited.

In financial year 2012, $550 million from Sensis Pty Ltd was recorded as dividend revenue.

29. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions involving our controlled entities (continued)

(c) The profit before income tax expense of the Telstra Entity includes an impairment loss of $215 million (2012: $175 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.

(e) The Telstra Entity operates a current account with some of its controlled entities, being an internal group bank account used to settle transactions with these controlled entities or between two controlled entities. Cash deposit balances in the current account owed to these controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. As at 30 June 2013, $3,244 million (2012: $3,181 million) related to loans owed by, and $1,936 million (2012: $1,258 million) related to, loans payable to controlled entities. We also have an allowance for amounts owed by controlled entities of $3,163 million (2012: $2,948 million) as at 30 June 2013.

(f) As at 30 June 2013, the Telstra Entity had a loan of $142 million (2012: $150 million) with Telstra OnAir Holdings Pty Ltd. This loan is an interest free loan.

(g) As at 30 June 2013, $2 million (2012: $1 million) related to a loan provided to Life Events Media Pty Limited. The loan is interest bearing and matures in March 2014.

(h) As at 30 June 2012, the Telstra Entity had a $234 million loan from TelstraClear Limited. The loan was interest bearing and was repaid upon the sale of TelstraClear.

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.

	Telstra Group Year ended/As at 30 June	
	2013 $m	2012 $m
Income from jointly controlled and associated entities		
Sale of goods and services (i)	**135**	139
Distribution from FOXTEL Partnership (j)	**155**	108
Interest on loans to jointly controlled and associated entities (k)	**53**	12
Expenses to jointly controlled and associated entities		
Purchase of goods and services (i)	**749**	892
Total amounts receivable at 30 June		
Current		
Jointly controlled and associated entities - trade receivables (i)	**2**	4
Jointly controlled and associated entities - loans (k)	**-**	33
	2	37
Non current		
Jointly controlled and associated entities - loans (k)	**457**	448
Allowance for amounts owed by jointly controlled and associated entities (k)	**(6)**	(5)
	451	443
Movement in allowance for amounts owed by jointly controlled and associated entities		
Opening balance	**(5)**	(5)
Amounts reversed	**-**	-
Foreign currency exchange differences	**(1)**	-
Closing balance	**(6)**	(5)
Total amounts payable at 30 June		
Current		
Jointly controlled and associated entities - payables (i)	**56**	31

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions involving our jointly controlled and associated entities (continued)

(i) 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 financial year 2013 are detailed as follows:

- we purchased pay television services amounting to $655 million (2012: $649 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 $119 million (2012: $118 million); and
- purchases were made by the Telstra Group of $27 million (2012: $79 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.

(j) A $155 million (2012: $108 million) distribution was received from our jointly controlled entity FOXTEL during the year.

(k) Loans provided to jointly controlled and associated entities relate to loans provided to Reach of $6 million (2012: $5 million) and FOXTEL Management Pty Ltd of $451 million (2012: $443 million).

The loan provided to Reach is an interest free loan and repayable upon the giving of 12 months' notice by both PCCW Limited and us. We have fully provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term.

In April 2012, Telstra Corporation Limited provided a loan to FOXTEL Management Pty Ltd to fund the acquisition of shares in AUSTAR. The loan is interest bearing and it has a minimum term of just over 10 years and a maximum of 15 years.

The $33 million loan provided to 3GIS represented interest free funding for operational expenditure purposes. Telstra and Vodafone Hutchison Australia Pty Ltd concluded their joint venture agreement for the 3GIS network on 31 August 2012. In accordance with the partnership agreement, the loan was partially recovered on dissolution of the partnership.

Transactions involving other related entities

Post employment benefits

As at 30 June 2013, the Telstra Superannuation Scheme (Telstra Super) owned 40,152,463 shares in Telstra Corporation Limited (2012: 38,383,958) at a cost of $136 million (2012: $118 million) and a market value of $192 million (2012: $142 million). All of these shares were fully paid at 30 June 2013. In financial year 2013, we paid dividends to Telstra Super of $10 million (2012: $13 million). We own 100 per cent of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also holds bonds issued by Telstra Corporation Limited. These bonds had a cost of $6 million (2012: $11 million) and a market value of $6 million (2012: $11 million) at 30 June 2013.

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 for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. PARENT ENTITY INFORMATION

	Telstra Entity As at 30 June 2013 $m	Telstra Entity As at 30 June 2012 $m
Statement of financial position		
Total current assets	**8,145**	9,399
Total non current assets (a)	**31,870**	31,551
Total assets	**40,015**	40,950
Total current liabilities	**8,707**	11,451
Total non current liabilities	**17,857**	16,942
Total liabilities	**26,564**	28,393
Share capital	**5,711**	5,635
Cashflow hedging reserve	**(92)**	(87)
General reserve	**194**	194
Retained profits	**7,638**	6,815
Total Equity	**13,451**	12,557

	Telstra Entity Year ended 30 June 2013 $m	Telstra Entity Year ended 30 June 2012 $m
Statement of comprehensive income		
Profit for the year (a)	**3,834**	4,086
Total comprehensive income	**4,297**	3,495

(a) Includes $722 million (2012: $307 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; and
- 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 2013 $m	Telstra Entity As at 30 June 2012 $m
Total property, plant and equipment expenditure commitments contracted for at balance date but not recorded in the financial statements	**1,222**	572

Contingent liabilities and guarantees

Common law claims

Asbestos-related claims

For asbestos claims made under common law, we assess each claim on a case by case basis. Asbestos liabilities are inherently difficult to estimate due to the extremely long term nature of asbestos claims and the risk of significant changes in case law, legislation, litigation processes and medical developments. Therefore, arriving at any estimate will inevitably involve significant judgement about assumptions used and actual amounts could be considerably different from initial estimates.

In light of the significant uncertainty associated with asbestos claims, the associated costs of resolution are not able to be measured with sufficient reliability and, as required by accounting standards, no provision has been made to cover these liabilities as at 30 June 2013. These claims will continue to be assessed and where appropriate, settled on a case by case basis. We have carefully reviewed the evidence available to us and we do not expect that the liability and costs associated with asbestos claims will have a material adverse effect on our financial position, results of operations or cash flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. PARENT ENTITY INFORMATION (CONTINUED)

Contingent liabilities and guarantees (continued)

Common law claims (continued)

Other claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2013, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial results. The maximum amount of these contingent liabilities cannot be reliably estimated.

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 $455 million (2012: $279 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 is $152 million (2012: $156 million);
- indemnities to financial institutions in respect of the obligations of TelstraClear to third parties of $25 million (2012: $33 million). We have, however, received an indemnity for an equal amount from the acquirer as part of the TelstraClear disposal;
- 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 $134 million (2012: $108 million) and a requirement that the entity remains our controlled entity;
- guarantee of the performance of a controlled entity under a lease contract for 25 years to the amount of $49 million (2012: nil);
- guarantees of the performance of jointly controlled entities under contractual agreements to a maximum amount of $11 million (2012: $10 million); and
- during financial year 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to $210 million as a shareholder of IBMGSA. We issued a guarantee of $68 million on behalf of IBMGSA during financial year 2000. During financial year 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 2013, this guarantee remains unchanged and $142 million (2012: $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.

The guarantees we provided over the performance of third parties under defeasance arrangements, whereby lease payments were made on our behalf by the third parties over the terms of the finance leases, expired during the year (2012: $96 million (US$98 million)).

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 2013 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 8 August 2013, 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 23 August 2013, with payment being made on 20 September 2013. Shares will trade excluding the entitlement to the dividend on 19 August 2013.

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 per cent. The financial effect of the dividend resolution was not brought to account as at 30 June 2013.

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 of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Dividend Reinvestment Plan continues to be suspended.

DIRECTORS' DECLARATION

This Directors' Declaration is required by the Corporations Act 2001 of Australia.

The Directors of Telstra Corporation Limited have made a resolution that declared:

(a) in the Directors' opinion, the financial statements and notes of the Telstra Group for the financial year ended 30 June 2013 set out on pages 70 to 196:

  (i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations (as disclosed in note 1.1 to the financial statements), and Corporations Regulations 2001;

  (ii) give a true and fair view of the financial position of Telstra Corporation Limited and the Telstra Group as at 30 June 2013 and of the performance of Telstra Corporation Limited and the Telstra Group, for the year ended 30 June 2013; 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; 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 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

C B Livingstone David Thodey

Catherine B Livingstone AO Chairman	David I Thodey Chief Executive Officer and Executive Director

8 August 2013
Sydney, Australia

Ernst & Young
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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 2013, 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.

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 2013 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 46 to 67 of the Directors' Report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

SJ Ferguson
Partner
Sydney, Australia
8 August 2013

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, the Singapore Stock Exchange and the Swiss Stock Exchange.

Distribution of securities and security holdings

The following table shows the number of listed shares on issue at 26 July 2013:

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 summarises the distribution of our listed shares as at 26 July 2013:

Size of Holding	Number of Shareholders	%	Number of Shares	%
1-1,000	673,205	48.07%	375,912,566	3.02%
1,001-5,000	506,768	36.19%	1,209,594,084	9.72%
5,001-10,000	119,950	8.57%	850,320,930	6.83%
10,001-100,000	96,867	6.92%	2,304,559,076	18.52%
100,001 and over	3,585	0.26%	7,702,687,701	61.90%
Total	**1,400,375**	**100.00%**	**12,443,074,357**	**100.00%**

The number of shareholders holding less than a marketable parcel of shares was 30,050 holding 1,762,108 shares.

SHAREHOLDER INFORMATION

Substantial shareholders

As at 26 July 2013, we are not aware of any substantial shareholders.

Twenty largest shareholders as at 26 July 2013

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

Shareholders		Number of Shares	% of Issued Capital
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,914,810,894	15.39%
2	J P MORGAN NOMINEES AUSTRALIA LTD	1,624,714,180	13.06%
3	NATIONAL NOMINEES LIMITED	1,581,137,463	12.71%
4	CITICORP NOMINEES PTY LIMITED	539,070,317	4.33%
5	BNP PARIBAS NOMS PTY LTD	300,003,415	2.41%
6	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	194,088,079	1.56%
7	AMP LIFE LIMITED	116,318,718	0.93%
8	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	64,484,116	0.52%
9	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	52,595,000	0.42%
10	UBS NOMINEES PTY LTD	48,436,757	0.39%
11	ARGO INVESTMENTS LIMITED	38,954,800	0.31%
12	NEWECONOMY COM AU NOMINEES PTY LIMITED	36,418,851	0.29%
13	QUESTOR FINANCIAL SERVICES LIMITED	28,731,046	0.23%
14	NAVIGATOR AUSTRALIA LTD	24,454,493	0.20%
15	TELSTRA GROWTHSHARE PTY LTD	23,081,832	0.19%
16	NULIS NOMINEES (AUSTRALIA) LIMITED	22,347,348	0.18%
17	NETWORK INVESTMENT HOLDINGS PTY LTD	17,309,017	0.14%
18	EQUITAS NOMINEES PTY LTD	16,018,179	0.13%
19	MILTON CORPORATION LIMITED	13,280,253	0.11%
20	DJERRIWARRH INVESTMENTS LTD	10,914,291	0.09%
Total for Top 20		**6,667,169,049**	**53.58%**

Voting Rights

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

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

REFERENCE TABLES

FIVE YEAR SUMMARY – FINANCIAL RESULTS

	FY13 $m	FY12 $m	FY11 $m	FY10 $m	FY09 $m
Sales revenue	**25,502**	25,232	24,983	24,813	25,371
EBITDA[1]	**10,629**	10,234	10,151	10,847	10,948
EBIT[2]	**6,391**	5,822	5,692	6,501	6,558
Profit after tax	**3,865**	3,424	3,250	3,940	4,076
Dividends declared per share (cents)	**28.0**	28.0	28.0	28.0	28.0
Total assets	**38,527**	39,525	37,913	39,282	39,962
Gross debt	**15,628**	17,222	16,232	16,031	17,036
Net debt	**13,149**	13,277	13,595	13,926	15,655
Total equity	**12,875**	11,689	12,292	13,008	12,681
Accrued capital expenditure	**3,792**	3,591	3,410	3,471	4,598
Free cashflow	**5,024**	5,197	5,477	6,225	4,365
Earnings per share (cents)	**30.7**	27.5	26.1	31.4	32.9
Dividend payout ratio (%)	**91**	102	107	89	85

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

(2) EBITDA less depreciation and amortisation.

NON-FINANCIAL RESULTS

Key performance indicator	**FY13**	**FY12**	**FY11**
Employee engagement Score (%)	**79**	77	75
Health and safety Lost Time Injury Frequency Rate (LTIFR)	**1.36**	1.32	1.30
Gender equality Women in executive management (%)	**25**	25	23
Volunteering during Telstra time Total (days)	**4,248**	1,375	-
Payroll Giving Participation rate (%)	**3.58**	1.56	-
Social and community investment Value ($m)	**231.0**	239.8	248.0
Everyone Connected Targeted community programs (people impacted)	**145,800**	101,500	-
Carbon emissions Tonnes of carbon dioxide equivalent (tCO_2e) ('000s)	**1,634**	1,677	1,660
Carbon emissions intensity tCO_2e per terabyte of data	**0.83**	1.24	1.93
e-waste Mobile phones (tonnes collected)	**14.0**	14.3	17.3

REFERENCE TABLES

GUIDANCE VERSUS REPORTED RESULTS

This schedule details the adjustments made to the reported results for the current year to reflect the performance of the business on the basis which we provided guidance to the market. Our guidance assumed wholesale product price stability, no impairments to investments and excludes any proceeds on the sale of businesses.

	REPORTED			ADJUSTMENTS			GUIDANCE BASIS		
				FY13		FY12			
	FY13 $m	FY12 $m	Growth %	TClear (i) $m	Spectrum (ii) $m	TClear (iii) $m	FY13 $m	FY12 $m	Growth %
Sales revenue	**25,502**	25,232	**1.1%**	(164)		(502)	**25,338**	24,730	2.5%
Total revenue	**25,678**	25,368	**1.2%**	(164)		(502)	**25,514**	24,866	2.6%
Total income (excl. finance income)	**25,980**	25,503	**1.9%**	(164)		(502)	**25,816**	25,001	3.3%
Labour	**4,803**	4,967	**(3.3%)**	(35)		(100)	**4,768**	4,867	(2.0%)
Goods and services purchased	**6,389**	6,179	**3.4%**	(81)		(226)	**6,308**	5,953	6.0%
Other expenses	**4,158**	4,123	**0.8%**	(175)		(206)	**3,983**	3,917	1.7%
Operating expenses	**15,350**	15,269	**0.5%**	(291)		(532)	**15,059**	14,737	2.2%
Share of net losses from jointly controlled and associated entities	**1**	0	n/a	0		0	**1**	0	n/a
EBITDA	**10,629**	10,234	**3.9%**	127	0	30	**10,756**	10,264	4.8%
Depreciation and amortisation	**4,238**	4,412	**(3.9%)**	0		(109)	**4,238**	4,303	(1.5%)
EBIT	**6,391**	5,822	**9.8%**	127	0	139	**6,518**	5,961	9.3%
Net finance costs	**909**	888	**2.4%**	0		1	**909**	889	2.2%
Profit before income tax expense	**5,482**	4,934	**11.1%**	127	0	138	**5,609**	5,072	10.6%
Income tax expense	**1,617**	1,510	**7.1%**	0	0	0	**1,617**	1,510	7.1%
Profit for the period	**3,865**	3,424	**12.9%**	127	0	138	**3,992**	3,562	12.1%
Attributable to:									
Equity holders of the Telstra Entity	**3,813**	3,405	**12.0%**	127	0	138	**3,940**	3,543	11.2%
Non-controlling interests	**52**	19	**173.7%**	0		0	**52**	19	173.7%
Free cashflow	**5,024**	5,197	**(3.3%)**	(669)	821	(48)	**5,176**	5,149	0.5%

This table has been subject to review by our auditors.

Note:
In the table above, we have adjusted the results for:

(i) TelstraClear adjustments for assets held for sale:
Adjustments relating to TelstraClear trading results and sale to Vodafone New Zealand.
This includes the net loss on disposal of TelstraClear in financial year 2013 of $127 million.

(ii) Spectrum purchases and renewals:
Adjustments relating to the impact of free cashflow associated with our spectrum purchases and renewals for the year ($637.1m 800 MHz, $142.2m 1800 MHz 1st tranche & $41.4m CSL 4G spectrum).

(iii) TelstraClear Jun12 adjustment:
Adjustments relating to TelstraClear operating results to June 2012. This included the $130m impairment booked in June 2012.

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ABN 33 051 775 556
Incorporated in the Australian Capital Territory
Telstra is listed on Stock Exchanges in
Australia and in New Zealand (Wellington)

WEBSITES
Telstra Investor Centre:
www.telstra.com.au/investor

Telstra's Sustainability home page:
www.telstra.com.au/sustainability

Indicative Financial Calendar*	
Final dividend paid	Friday 20 September 2013
Annual General Meeting	Tuesday 15 October 2013
Half Year Results Announcement	Thursday 13 February 2014
Ex-dividend share trading commences	Monday 24 February 2014
Record date for interim dividend	Friday 28 February 2014
Interim dividend paid	Friday 28 March 2014
Annual Results Announcement	Thursday 14 August 2014
Ex-dividend share trading commences	Monday 25 August 2014
Record date for final dividend	Friday 29 August 2014
Final dividend paid	Friday 26 September 2014
Annual General Meeting	Tuesday 14 October 2014

* Timing of events may be subject to change.
Any change will be notified to the Australian Securities Exchange (ASX).

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