Office of the Company Secretary

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14 October 2008

The Manager

Company Announcements Office
Australian Stock Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited 2008 Annual Report

In accordance with the listing rules, I attach a copy of an announcement for release to the market.

Regards

Carmel Mulhern
Company Secretary

Telstra Annual Report 2008

Annual Report 2008

Telstra

Telstra Corporation Limited
ABN 33 051 775 556

Communicating with our Shareholders

Telstra is committed to providing our shareholders with timely information on a regular basis. Shareholders will receive either electronically or by post, ***Shareholder Update*** newsletters around key events such as results announcements and dividend payment dates. Copies are also made available online at www.telstra.com/annualreport.

Following the changes to the Corporations Act in June 2007, Telstra's Annual Report is available to all shareholders on our investor website at www.telstra.com/annualreport. To receive a hardcopy of the statutory Annual Report (free of charge), visit our Share Registry's website www.linkmarketservices.com.au/telstra, choose the "communications options" menu and follow the prompts. Alternatively you can call our Share Registry on 1300 88 66 77 and request a hardcopy of the Annual Report be sent to you.

We are being smarter and greener with our shareholders to reduce waste and cut carbon emissions. We actively encourage shareholders to receive their communications electronically and we have also embarked on a project to reduce the number of duplicative materials sent to shareholders under our ONE household, ONE communication initiative. This project targets non-statutory mailings and identifies households that receive more than one hardcopy and only sends one. It is important to note that communications such as dividend statements and Annual General Meeting notices are not included in this project - individual copies will continue to be mailed to each shareholding.

Contents

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™ Trade mark of Telstra Corporation Limited

† Registered trade mark of Twentieth Century Fox Film Corporation

‡ Registered trade mark of Research in Motion Ltd

* Registered trade mark of AUSTAR Entertainment Pty Limited

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

Full year results and operations review - June 2008

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Summary financial information

Results of operations

Results of operations

	Year ended 30 June				Half-year ended 30 June	
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**	2008 $m	2008/2007 (% change)
Sales revenue	**24,657**	23,673	984	**4.2%**	12,405	3.0%
Other revenue	**171**	36	135	**375.0%**	51	142.9%
Total revenue	**24,828**	23,709	1,119	**4.7%**	12,456	3.2%
Other income	**174**	251	(77)	**(30.7%)**	67	(32.3%)
Total income (excl. finance income)	**25,002**	23,960	1,042	**4.3%**	12,523	3.0%
Labour	**4,158**	4,017	141	**3.5%**	2,066	2.2%
Goods and services purchased	**5,181**	5,151	30	**0.6%**	2,505	(3.1%)
Other expenses	**5,246**	4,924	322	**6.5%**	2,707	3.9%
Operating expenses	**14,585**	14,092	493	**3.5%**	7,278	0.9%
Share of net loss from jointly controlled and associated entities	**1**	7	(6)	**(85.7%)**	1	(83.3%)
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**10,416**	9,861	555	**5.6%**	5,244	6.0%
Depreciation and amortisation	**4,190**	4,082	108	**2.6%**	2,138	1.6%
Earnings before interest and income tax expense (EBIT)	**6,226**	5,779	447	**7.7%**	3,106	9.3%
Net finance costs	**1,086**	1,087	(1)	**(0.1%)**	586	3.4%
Profit before income tax expense	**5,140**	4,692	448	**9.5%**	2,520	10.8%
Income tax expense	**1,429**	1,417	12	**0.8%**	751	5.6%
Profit for the period	**3,711**	3,275	436	**13.3%**	1,769	13.2%
Attributable to:						
Equity holders of the Telstra Entity	**3,692**	3,253	439	**13.5%**	1,766	14.0%
Minority interest	**19**	22	(3)	**(13.6%)**	3	(78.6%)
	3,711	3,275	436	**13.3%**	1,769	13.2%
Effective tax rate	**27.8%**	30.2%		**(2.4)**	29.8%	(1.5)
EBITDA margin on sales revenue	**42.2%**	41.7%		**0.5**	42.3%	1.2
EBIT margin on sales revenue	**25.3%**	24.4%		**0.9**	25.0%	1.4
	cents	cents	Change cents	**% change**		
Basic earnings per share (i)	**29.9**	26.3	3.6	**13.7%**		
Diluted earnings per share (i)	**29.8**	26.2	3.6	**13.7%**		
Dividends:						
Interim dividend	**14.0**	14.0				
Final dividend	**14.0**	14.0				
Total	**28.0**	28.0				

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

Full year results and operations review - June 2008

Statement of financial position

Statement of financial position

	As at			
	30 Jun 08 $m	30 Jun 07 $m	Change $m	**2008/2007 (% change)**
Current assets				
Cash and cash equivalents	**899**	823	76	**9.2%**
Trade and other receivables	**3,952**	3,853	99	**2.6%**
Inventories	**309**	318	(9)	**(2.8%)**
Derivative financial assets	**54**	41	13	**31.7%**
Prepayments	**299**	266	33	**12.4%**
Total current assets	**5,513**	5,301	212	**4.0%**
Non current assets				
Trade and other receivables	**198**	190	8	**4.2%**
Inventories	**12**	17	(5)	**(29.4%)**
Investments - accounted for using the equity method	**14**	16	(2)	**(12.5%)**
Investments - other	**1**	3	(2)	**(66.7%)**
Property, plant and equipment	**24,311**	24,607	(296)	**(1.2%)**
Intangible assets	**7,245**	6,639	606	**9.1%**
Deferred tax assets	**1**	1	-	**0.0%**
Derivative financial assets	**444**	249	195	**78.3%**
Defined benefit assets	**182**	814	(632)	**(77.6%)**
Total non current assets	**32,408**	32,536	(128)	**(0.4%)**
Total assets	**37,921**	37,837	84	**0.2%**
Current liabilities				
Trade and other payables	**3,930**	4,221	(291)	**(6.9%)**
Provisions	**535**	614	(79)	**(12.9%)**
Borrowings	**2,055**	2,743	(688)	**(25.1%)**
Derivative financial liabilities	**82**	177	(95)	**(53.7%)**
Current tax liabilities	**264**	449	(185)	**(41.2%)**
Revenue received in advance	**1,257**	1,192	65	**5.5%**
Total current liabilities	**8,123**	9,396	(1,273)	**(13.5%)**
Non current liabilities				
Trade and other payables	**181**	195	(14)	**(7.2%)**
Provisions	**776**	834	(58)	**(7.0%)**
Borrowings	**13,444**	11,619	1,825	**15.7%**
Derivative financial liabilities	**1,222**	1,328	(106)	**(8.0%)**
Deferred tax liabilities	**1,575**	1,513	62	**4.1%**
Revenue received in advance	**355**	372	(17)	**(4.6%)**
Total non current liabilities	**17,553**	15,861	1,692	**10.7%**
Total liabilities	**25,676**	25,257	419	**1.7%**
Net assets	**12,245**	12,580	(335)	**(2.7%)**
Equity				
Equity available to Telstra entity shareholders	**12,017**	12,329	(312)	**(2.5%)**
Minority interests	**228**	251	(23)	**(9.2%)**
Total equity	**12,245**	12,580	(335)	**(2.7%)**
Gross debt	**16,141**	15,410	731	**4.7%**
Net debt	**15,242**	14,587	655	**4.5%**
EBITDA interest cover (times)	**9.6**	9.1	0.5	**5.5%**
Net debt to EBITDA - annualised	**1.5**	1.5	-	**0.0%**
Return on average assets	**16.8%**	15.9%		**0.9**
Return on average equity	**30.3%**	26.1%		**4.2**
Return on average investment	**22.8%**	21.8%		**1.0**
Net debt to capitalisation	**55.5%**	53.7%		**1.8**

Full year results and operations review - June 2008

Statement of cash flows

Cash flow summary

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Receipts from customers (inclusive of goods and services tax GST)	**27,246**	26,187	1,059	**4.0%**
Payments to suppliers and employees (inclusive of GST)	**(16,871)**	(16,049)	(822)	**5.1%**
Net cash generated by operations	**10,375**	10,138	237	**2.3%**
Income taxes paid	**(1,531)**	(1,618)	87	**(5.4%)**
Net cash provided by operating activities	**8,844**	8,520	324	**3.8%**
Payments for:				
- property, plant and equipment	**(3,862)**	(4,657)	795	**(17.1%)**
- intangible assets	**(1,465)**	(995)	(470)	**47.2%**
Capital expenditure (before investments)	**(5,327)**	(5,652)	325	**(5.8%)**
- shares in controlled entities (net of cash acquired)	**(74)**	(326)	252	**(77.3%)**
- payments for other investments	**(1)**	(4)	3	**(75.0%)**
Total capital expenditure	**(5,402)**	(5,982)	580	**(9.7%)**
Proceeds from:				
- sale of property, plant and equipment and intangibles	**29**	34	(5)	**(14.7%)**
- sale of shares in controlled entities and other investments (net of cash disposed)	**51**	232	(181)	**(78.0%)**
Proceeds from finance lease principal amounts	**52**	84	(32)	**(38.1%)**
Net cash consideration from CSL New World Mobility merger	**-**	(21)	21	**-**
Loans repaid by/(provided to) jointly controlled and associated entities	**6**	(24)	30	**(125.0%)**
Interest received	**72**	56	16	**28.6%**
Proceeds from settlement of hedges in net investments	**73**	-	73	**-**
Distribution from FOXTEL† Partnership	**130**	-	130	**-**
Net cash used in investing activities	**(4,989)**	(5,621)	632	**(11.2%)**
Operating cash flows less investing cash flows	**3,855**	2,899	956	**33.0%**
Proceeds from borrowings	**6,498**	5,206	1,292	**24.8%**
Proceeds from Telstra bonds and domestic loans	**-**	373	(373)	**-**
Repayment of borrowings	**(5,397)**	(3,776)	(1,621)	**42.9%**
Repayment of finance lease principal amounts	**(42)**	(42)	-	**0.0%**
Staff repayments of share loans	**15**	17	(2)	**(11.8%)**
Purchase of shares for employee share plans	**(129)**	-	(129)	**-**
Finance costs paid	**(1,213)**	(1,056)	(157)	**14.9%**
Dividends paid	**(3,476)**	(3,479)	3	**(0.1%)**
Dividends paid to minority interests	**(22)**	-	(22)	**-**
Net cash used in financing activities	**(3,766)**	(2,757)	(1,009)	**36.6%**
Net increase/(decrease) in cash and cash equivalent	**89**	142	(53)	**(37.3%)**
Cash and cash equivalents at the beginning of the period	**823**	689	134	**19.4%**
Effect of exchange rate changes on cash and cash equivalents	**(13)**	(8)	(5)	**62.5%**
Cash and cash equivalents at the end of the period	**899**	823	76	**9.2%**

Full year results and operations review - June 2008

Segment information

Our domestic business is managed along segment, not product lines. It is therefore important to show the performance of each major business segment as this is how our company is organised and managed.

Segment information (i)

	Total Income Year ended 30 June			EBIT Contribution Year ended 30 June		
	2008 $m	2007 $m	**Change %**	**2008 $m**	2007 $m	**Change %**
Telstra Consumer Marketing and Channels	**10,030**	9,521	**5.3%**	**6,421**	5,965	**7.6%**
Telstra Business	**3,656**	3,361	**8.8%**	**2,624**	2,421	**8.4%**
Telstra Enterprise and Government	**4,624**	4,466	**3.5%**	**2,743**	2,530	**8.4%**
Telstra Wholesale	**2,513**	2,645	**(5.0%)**	**2,397**	2,566	**(6.6%)**
Telstra Operations	**137**	150	**(8.7%)**	**(3,998)**	(3,886)	**(2.9%)**
Sensis	**2,127**	1,970	**8.0%**	**944**	927	**1.8%**
CSL New World	**917**	1,000	**(8.3%)**	**13**	84	**(84.5%)**
Telstra Clear	**562**	573	**(1.9%)**	**(20)**	(59)	**66.1%**
Other	**267**	204	**30.9%**	**(5,063)**	(4,720)	**(7.3%)**
Total Telstra segments	**24,833**	23,890	**3.9%**	**6,061**	5,828	**4.0%**
Other items excluded from segment results	**169**	70	**141.4%**	**165**	(49)	**436.7%**
Total Telstra Group (reported)	**25,002**	23,960	**4.3%**	**6,226**	5,779	**7.7%**

Revenue by business segment - year on year growth

	Full year ended Jun 2008		Half-year ended Dec 2007		Half-year ended Jun 2008	
	$m	**YoY growth %**	$m	YoY growth %	$m	YoY growth %
Telstra Consumer Marketing and Channels						
PSTN products	**3,861**	**0.5%**	1,947	1.2%	1,914	(0.3%)
Mobile services revenue	**3,432**	**7.0%**	1,715	9.0%	1,717	5.1%
Total internet	**1,478**	**38.0%**	701	45.6%	777	31.8%
Telstra Business						
PSTN products	**1,392**	**(1.5%)**	702	(1.8%)	690	(1.1%)
Mobile services revenue	**1,270**	**19.5%**	624	21.7%	646	17.4%
Total internet	**330**	**43.5%**	155	46.0%	175	41.3%
Telstra Enterprise and Government						
Mobile services revenue	**689**	**21.6%**	329	19.3%	360	23.7%
IP & data access	**1,145**	**6.2%**	567	6.3%	578	6.0%

(i) Internally, we monitor our segment performance excluding the impact of irregular revenue and expense items such as sales of businesses, investments, and land and buildings, impairment write-offs and in 2008 the impact of two FOXTEL† distributions.

The total company segment results as shown above differ to the total Telstra financial results. The performance of each segment is measured based on their "underlying EBIT contribution" to the Telstra Group. Certain items are recorded by our corporate areas, rather than being allocated to each segment. Of particular note is that Telstra Operations includes the costs associated with the operation of the majority of our networks and IT costs associated with the supply and delivery of solutions to support our range of products and services. Depreciation and amortisation costs associated with our fixed assets are also recorded centrally in the corporate centre (included in the "other" category).

Further details about the performance of our business segments follows:

Full year results and operations review - June 2008

Telstra Consumer Marketing and Channels

Our consumer segment continues to benefit from the introduction of customer segmentation and market based management. Total income grew by 5.3%, sales revenue was up 6.1% while EBIT contribution grew by 7.6%.

PSTN revenues in this segment have grown by 0.5% in fiscal 2008 to $3,861 million with basic access SIOs increasing 56k to 5.56 million. PSTN SIOs have grown in 20 out of the past 21 months and there are now 584k or 10.5% of residential customers on subscription pricing plans. Finally, PSTN resale churn out continues to decline, finishing the year below 5% which is evidence of growing customer satisfaction with the products and services we offer.

Our consumer segment has also experienced another strong year in its mobiles business with mobile services revenue growing at 7.0% for the year to $3,432 million. Postpaid subscribers continued to grow with over 200k customers added during the year. There are now 72.2% of postpaid customers on the 3GSM network, up 27.9 percentage points from the end of fiscal 2007. Mobile data revenue grew 34.8% driven by the increase in customers on the Next G™ network. Internet revenue also grew 38.0% to $1,478 million due to increases in both fixed and wireless broadband.

Total external expenses in our consumer segment have increased by only 1.5% for the year resulting in a 0.9 percentage point improvement in the EBIT contribution margin. Higher service contract costs supporting revenue growth were offset by a decrease in goods and services purchased in the year due to improved subscriber acquisition and recontract costs (SARC) management.

Telstra Business

In the second half of fiscal 2008, our business segment has built on its strong momentum of the first half. For the full year, total income grew 8.8%, sales revenue grew 8.6% and EBIT contribution was up 8.4%.

Drivers of this impressive growth include a 19.5% increase in mobile services revenue and a 25.8% increase in IP and data access revenues. More than half of our business segment revenues remain in fixed telephony, so a small increase of 0.9% in this business in fiscal 2008 was very encouraging and included just a 1.5% decline in PSTN revenues in the year and a 1.1% decline in the second half.

PSTN basic access SIO's increased 30k to 1.61 million during the year driven by strong resale churn in. In the mobile business, 3GSM subscribers now represent 64.9% of the postpaid mobile SIO base, while 3GSM ARPU increased by 14.7% for the year partly driven by strong growth in data revenue.

The growth of 43.5% in internet revenues continues to be driven primarily by the performance of wireless broadband. For high-end business customers, we have also seen strong growth in both Internet Direct and IP Access portfolios, highlighting our success in selling the benefits of the Telstra Next IP® network.

Growth in external expenses for the year largely matched revenue growth, with the EBIT contribution margin declining just 0.1 percentage point on the year.

Telstra Enterprise and Government

Our enterprise and government segment (E&G) achieved an outstanding year of profitable growth. Total income rose 3.5% for the year, sales revenue was up 3.6% and EBIT contribution grew by 8.4%. In the first half, total income growth was 4.4% with the revenue slowdown in the second half of the year primarily due to a changing product mix, product simplification and the sales of non-core businesses.

In terms of trends on key products, E&G exemplifies the success of our network transformation programme with resilient performance in the core carriage business comprising fixed (excluding CPE), mobile services and IP and data access revenues.

IP and data access had a strong year growing at 6.2%. Growth in IP solutions, which have benefited from the launch of the Telstra Next IP® network, have more than compensated for the declining revenues from our legacy data networks.

Mobile services revenue growth was 21.6% driven by ARPU and SIO growth with very strong performance in mobile data and growing voice revenues. Non-SMS mobile data now represents 31.8% of total mobile revenue in this segment.

Our external expenses in this segment have decreased by 2.8% to $1,881 million. These results have been driven by an 11.1% decrease in our labour costs offset by higher goods and services purchased. Labour costs have decreased as we have taken staff out of the business following a review of our service offerings, whilst cost of goods sold increased due to higher mobile activity.

Full year results and operations review - June 2008

Telstra Wholesale

Our Telstra Wholesale business unit results declined from fiscal 2007 with total income declining 5.0%, sales revenue decreasing by 4.5% and EBIT declining by 6.6%.

Total income has declined this fiscal year primarily driven by fixed revenues, particularly within the basic access products where the revenues have decreased by 18.1% year on year. The Wholesale business continues to be impacted by increased ULL build activity by our competitors as they migrate their customers to their on-net offering and the success of Telstra retail business units in winning-back customers and increasing market share. The revenue decline has not been fully offset by increasing volumes of ULL and facilities access revenues where low regulatory pricing has had a significant impact. The decline in PSTN revenues has also been partially offset by increased mobiles interconnection and wholesale transmission revenues.

Total Wholesale expenses increased by 46.1% from fiscal 2007, driven significantly by the impact of higher network payments. Included in fiscal 2007 was a backdated adjustment relating to the mobile terminating access rate (MTA) impact from an Australian Competition and Consumer Commission (ACCC) final determination that was issued. As a result, network outpayments increased year on year despite a lower MTA rate in the current year agreed with wholesale customers. On a segment basis, Telstra Wholesale holds the impact of price variances year on year whilst the customer facing business units hold the volume impact of this cost category.

Telstra Operations

Telstra Operations is primarily a cost generating unit supporting the revenue generating activities of our other segments. It has experienced a decline in its negative EBIT contribution of 2.9% or $112 million to $3,998 million for fiscal 2008. This result includes increased year on year volumes relating to higher revenue and costs associated with major fault repairs and network restoration after extreme weather conditions.

Offsetting these costs was a significant reduction in labour expenses derived from the reduction in staff numbers within this segment. Telstra Operations had the largest decrease across our business segments of 1,621 workforce equivalents this fiscal year, particularly attributable to the streamlining of our field work force and call centres as part of the Transformation programme. Telstra Operations finished this financial year with 17,785 total workforce equivalents.

Sensis, CSL New World and TelstraClear

Refer to more detailed discussion in the major subsidiaries section within this document.

Other

Our other segment primarily includes the Corporate centre functions of our business where we recognise the depreciation and amortisation on fixed assets and redundancy expense for the Telstra Entity. Refer to the detailed discussion on these expense categories throughout the fiscal 2008 results and operations review for further details.

Full year results and operations review - June 2008

Statistical data summary

Statistical data summary - Billable traffic data [(i)]

	Year ended 30 June				Half-year ended 30 June			
	2008	2007	Change	**Change**	**2008**	2007	Change	**Change**
	m	m	m	**%**	**m**	m	m	**%**
Fixed telephony								
Number of local calls	**5,680**	6,528	(848)	**(13.0%)**	**2,689**	3,138	(449)	**(14.3%)**
National long distance minutes	**6,947**	7,130	(183)	**(2.6%)**	**3,417**	3,536	(119)	**(3.4%)**
Fixed to mobile minutes	**3,410**	3,389	21	**0.6%**	**1,696**	1,693	3	**0.2%**
International direct minutes	**548**	528	20	**3.8%**	**275**	264	11	**4.2%**
Mobiles								
Mobile voice telephone minutes	**10,096**	8,591	1,505	**17.5%**	**5,177**	4,445	732	**16.5%**
Number of short messaging service (SMS) sent	**6,973**	4,902	2,071	**42.2%**	**3,749**	2,675	1,074	**40.1%**

Statistical data summary - Services in operation [(i)]

		As at		Jun 08 vs Jun 07		Jun 08 vs Dec 07	
	Jun 2008	Dec 2007	Jun 2007	Change	**Change %**	Change	**Change %**
Fixed telephony							
Basic access lines in service (in millions)							
Residential	**5.56**	5.53	5.56	-	**0.0%**	0.03	**0.5%**
Business	**2.31**	2.29	2.22	0.09	**4.1%**	0.02	**0.9%**
Total retail customers	**7.87**	7.82	7.78	0.09	**1.2%**	0.05	**0.6%**
Domestic wholesale	**1.50**	1.73	1.98	(0.48)	**(24.2%)**	(0.23)	**(13.3%)**
Total basic access lines in services (in millions)	**9.37**	9.55	9.76	(0.39)	**(4.0%)**	(0.18)	**(1.9%)**
ISDN access (basic lines equivalents) (in thousands)	**1,298**	1,288	1,229	69	**5.6%**	10	**0.8%**
Unbundled local loop subscribers (in thousands)	**527**	391	239	288	**120.5%**	136	**34.8%**
Mobiles							
Mobile services in operation (in thousands)	**9,335**	9,319	9,212	123	**1.3%**	16	**0.2%**
3GSM mobile subscribers (in thousands)	**4,352**	3,295	2,003	2,349	**117.3%**	1,057	**32.1%**
Total wholesale mobile SIOs (in thousands)	**74**	71	131	(57)	**(43.5%)**	3	**4.2%**
Internet							
Online subscribers (in thousands)							
Broadband subscribers - retail	**3,269**	2,866	2,406	863	**35.9%**	403	**14.1%**
Broadband subscribers - wholesale	**1,708**	1,753	1,762	(54)	**(3.1%)**	(45)	**(2.6%)**
Total broadband subscribers	**4,977**	4,619	4,168	809	**19.4%**	358	**7.8%**
Narrowband subscribers	**530**	595	654	(124)	**(19.0%)**	(65)	**(10.9%)**
Total online subscribers (in thousands)	**5,507**	5,214	4,822	685	**14.2%**	293	**5.6%**
Spectrum sharing services (in thousands)	**436**	377	304	132	**43.4%**	59	**15.6%**
Total FOXTEL† subscribers (exc wholesale) (in thousands)	**1,370**	1,331	1,264	106	**8.4%**	39	**2.9%**
Employee data							
Domestic full time staff	**33,982**	34,236	35,706	(1,724)	**(4.8%)**	(254)	**(0.7%)**
Full time staff and equivalents	**42,784**	42,308	43,411	(627)	**(1.4%)**	476	**1.1%**
Total workforce	**46,649**	46,561	47,840	(1,191)	**(2.5%)**	88	**0.2%**

(i) Refer detail of data included in each product section.

Full year results and operations review - June 2008

Income

Income

	Year ended 30 June 2008 $m	2007 $m	Change $m	2008/2007 (% change)	Half-year ended 30 June 2008 $m	2008/2007 (% change)
Fixed telephony						
Basic access	**3,278**	3,333	(55)	**(1.7%)**	1,621	(2.9%)
Local calls	**736**	845	(109)	**(12.9%)**	348	(15.7%)
PSTN value added services	**269**	257	12	**4.7%**	135	2.3%
National long distance calls	**749**	808	(59)	**(7.3%)**	364	(9.0%)
Fixed to mobile	**1,222**	1,208	14	**1.2%**	607	1.2%
International direct	**181**	184	(3)	**(1.6%)**	89	(1.1%)
Fixed interconnection	**231**	252	(21)	**(8.3%)**	111	(6.7%)
Total PSTN products	**6,666**	6,887	(221)	**(3.2%)**	3,275	(4.4%)
ISDN products	**978**	1,014	(36)	**(3.6%)**	483	(2.8%)
Premium calling products	**440**	444	(4)	**(0.9%)**	220	(1.8%)
Payphones	**70**	85	(15)	**(17.6%)**	34	(17.1%)
Customer premises equipment	**334**	325	9	**2.8%**	154	(9.9%)
Intercarrier access services	**265**	190	75	**39.5%**	151	52.5%
Other fixed telephony	**196**	218	(22)	**(10.1%)**	96	(11.1%)
Total fixed telephony	**8,949**	9,163	(214)	**(2.3%)**	4,413	(3.3%)
Mobiles						
Mobile services - retail and interconnection	**5,506**	4,888	618	**12.6%**	2,805	12.7%
Mobile services - wholesale	**42**	51	(9)	**(17.6%)**	16	(36.0%)
Total mobile services	**5,548**	4,939	609	**12.3%**	2,821	12.2%
Mobile handsets	**828**	718	110	**15.3%**	369	2.2%
Total mobiles	**6,376**	5,657	719	**12.7%**	3,190	11.0%
Internet						
Narrowband	**93**	144	(51)	**(35.4%)**	41	(36.9%)
Retail broadband	**1,805**	1,210	595	**49.2%**	961	37.5%
Wholesale broadband	**554**	565	(11)	**(1.9%)**	276	(3.8%)
VAS & content	**34**	20	14	**70.0%**	18	80.0%
Total internet	**2,486**	1,939	547	**28.2%**	1,296	22.1%
IP & data access						
Internet direct	**146**	122	24	**19.7%**	73	21.7%
Specialised data	**690**	745	(55)	**(7.4%)**	340	(7.6%)
Global products	**97**	89	8	**9.0%**	52	18.2%
IP access	**534**	416	118	**28.4%**	282	19.5%
Wholesale internet & data	**278**	258	20	**7.8%**	141	7.6%
Total IP & data access	**1,745**	1,630	115	**7.1%**	888	5.8%
Business services and applications	**1,049**	1,059	(10)	**(0.9%)**	535	(4.5%)
Advertising and directories	**2,116**	1,954	162	**8.3%**	1,168	8.7%
CSL New World	**917**	1,000	(83)	**(8.3%)**	432	(10.2%)
TelstraClear	**562**	573	(11)	**(1.9%)**	275	(4.2%)
Offshore services revenue	**346**	348	(2)	**(0.6%)**	172	(1.7%)
Pay TV bundling	**426**	344	82	**23.8%**	222	23.3%
Other minor items	**250**	261	(11)	**(4.2%)**	130	3.2%
Elimination for wireless broadband	**(565)**	(255)	(310)	**(121.6%)**	(316)	(75.6%)
Sales revenue	**24,657**	23,673	984	**4.2%**	12,405	3.0%
Other revenue	**171**	36	135	**375.0%**	51	142.9%
Total revenue	**24,828**	23,709	1,119	**4.7%**	12,456	3.2%
Other income	**174**	251	(77)	**(30.7%)**	67	(32.3%)
Total income	**25,002**	23,960	1,042	**4.3%**	12,523	3.0%

Full year results and operations review - June 2008

Fixed telephony

- PSTN revenue decline further slowed to 3.2%
- Retail access lines grew by 87k
- PSTN ARPU substantially maintained
- Wholesale business driving PSTN reduction through losses to ULL

Fixed telephony

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
PSTN products	**6,666**	6,887	(221)	**(3.2%)**
ISDN products	**978**	1,014	(36)	**(3.6%)**
Premium calling products	**440**	444	(4)	**(0.9%)**
Payphones	**70**	85	(15)	**(17.6%)**
Customer premises equipment	**334**	325	9	**2.8%**
Intercarrier access services	**265**	190	75	**39.5%**
Other fixed telephony	**196**	218	(22)	**(10.1%)**
Total fixed telephony revenue	**8,949**	9,163	(214)	**(2.3%)**

PSTN products

PSTN products

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Basic access:				
- Retail	**2,667**	2,587	80	**3.1%**
- Domestic wholesale	**611**	746	(135)	**(18.1%)**
Total basic access revenue	**3,278**	3,333	(55)	**(1.7%)**
Local calls	**736**	845	(109)	**(12.9%)**
PSTN value added services	**269**	257	12	**4.7%**
National long distance calls	**749**	808	(59)	**(7.3%)**
Fixed to mobile	**1,222**	1,208	14	**1.2%**
International direct	**181**	184	(3)	**(1.6%)**
Fixed interconnection	**231**	252	(21)	**(8.3%)**
Total PSTN products revenue	**6,666**	6,887	(221)	**(3.2%)**
PSTN retail versus wholesale revenue				
Retail	**5,723**	5,731	(8)	**(0.1%)**
Wholesale	**943**	1,156	(213)	**(18.4%)**
Basic access lines in service (in millions)				
Residential	**5.56**	5.56	-	**0.0%**
Business	**2.31**	2.22	0.09	**4.1%**
Total retail	**7.87**	7.78	0.09	**1.2%**
Domestic wholesale	**1.50**	1.98	(0.48)	**(24.2%)**
Total access lines in service	**9.37**	9.76	(0.39)	**(4.0%)**
Average revenue per user per month $'s	**58.11**	58.26	(0.15)	**(0.3%)**
Number of local calls (in millions) (i)	**5,680**	6,528	(848)	**(13.0%)**
National long distance minutes (in millions) (i)	**6,947**	7,130	(183)	**(2.6%)**
Fixed to mobile minutes (in millions)	**3,410**	3,389	21	**0.6%**
International direct minutes (in millions) (i)	**548**	528	20	**3.8%**

Note: statistical data represents management's best estimates.

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

Full year results and operations review - June 2008

For the year ended 30 June 2008, the PSTN revenue decline continued to slow at 3.2% compared with a 4.4% decline for the year ended 30 June 2007[1]. While the revenue decline did pick up in the second half, this solid result is another tangible proof point of our investment in our transformation strategy and market based management initiatives.

PSTN revenue - % change

	Full year ended Jun 2008	Half-year ended Jun 2008	Half-year ended Dec 2007	Full year ended Jun 2007	Half-year ended Jun 2007	Half-year ended Dec 2006
Total PSTN	**(3.2%)**	(4.3%)	(2.1%)	(4.4%)	(2.9%)	(5.8%)
Retail	**(0.1%)**	(0.6%)	0.3%	(4.1%)	(1.7%)	(6.5%)
Wholesale	**(18.4%)**	(23.3%)	(13.7%)	(5.5%)	(8.4%)	(2.5%)
Wholesale as a percentage of total PSTN revenue	**14.1%**	13.2%	15.0%	16.8%	16.5%	17.0%

The decline in retail PSTN revenue slowed to 0.1% for the full year. This result was achieved on the back of retail access lines growing for the 14th consecutive month in June, increasing 87k for the full year. Of particular note in the retail space is the performance by our consumer segment which grew PSTN revenue by 0.5% and added 56k lines, while Business and Enterprise and Government also added access lines for the year. The strong results in Consumer have been achieved through improved net churn. The growth in retail access lines is partially due to the success of our subscription based pricing plans and continued win-backs from competitors in their on-net areas. This is in addition to other continued win-backs of customers from our competitors as they reduce off-net customers outside their unbundled local loop (ULL) footprint to focus on migrating their on-net customer base.

The contribution of our subscription based pricing is highlighted by the penetration of customers on subscription pricing plans with 584k residential customers now on subscription pricing plans, representing 10.5% of the residential base. With over 100k customers added over the last six months, this represents an increase of nearly 2 percentage points since the December half.

The wholesale segment has driven the overall PSTN revenue decline contributing $213 million of the total $221 million decline. The total PSTN revenue decline accelerated as wholesale customers migrate their base to ULL. We lost 480k wholesale lines over the year partly offset by a 288k increase in ULL lines of which the revenue is recognised in intercarrier access. This fuelled an overall PSTN revenue decline of 18.4% in wholesale.

Overall, PSTN SIOs continued to decline, down 4.0% for the year to 9.37 million lines. However, as can be seen from the table below, the decline remains entirely in wholesale lines.

PSTN basic access services in operation (millions)

	Full year ended Jun 2008	Half-year ended Dec 2007	Full year ended Jun 2007	Half-year ended Dec 2006
Retail	**7.87**	7.82	7.78	7.74
Wholesale	**1.50**	1.73	1.98	2.12

The total PSTN revenue decline was predominately caused by decreased revenue in basic access, local calls and fixed interconnection, mainly driven by the wholesale business. Also local call, national long distance, international direct and fixed interconnection revenue all declined consistent with the continuing fixed to mobile substitution trend. Although these categories have declined in the year ended 2008, they have declined at slower rates compared to the prior year as our subscription offerings continue to impact. Fixed to mobile revenue however increased 1.2% to $1,222 million. In terms of usage, international direct minutes increased by 3.8% and fixed to mobile increased by 0.6% as customers take advantage of cheaper calls and bill certainty offered by subscription plans.

While revenues have been falling, importantly PSTN average revenue per user (ARPU) has been substantially maintained at $58.11. This follows a 0.4% increase at the half-year ended 31 December 2007. PSTN ARPU in the second half of the year ended 30 June 2008 decreased by 0.8%.

1. *In fiscal 2007, we reported a PSTN decline of 4.1% which included our total fixed to mobile category. Consistent with our half-year disclosures we have split the ISDN component of fixed to mobile and included this with the ISDN product category. As mentioned above, on an equivalent basis our PSTN revenue decline would have been 4.4%.*

Full year results and operations review - June 2008

Going forward, we expect PSTN revenue to continue to decline with the strong growth in substitute products such as mobiles and broadband in addition to lower wholesale revenue as our competitors continue to migrate to ULL particularly in fiscal 2009. PSTN revenue, which once accounted for 34.9% of our sales revenue in 2005 now accounts for only 27.0%.

Other fixed telephony

Other fixed telephony

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
ISDN products				
Access revenue	**416**	419	(3)	**(0.7%)**
Calls revenue				
- Data calls	**75**	90	(15)	**(16.7%)**
- Voice calls	**221**	240	(19)	**(7.9%)**
- Fixed to mobile (i)	**266**	265	1	**0.4%**
Total calls revenue	**562**	595	(33)	**(5.5%)**
Total ISDN products revenue	**978**	1,014	(36)	**(3.6%)**
Premium calling products	**440**	444	(4)	**(0.9%)**
Payphones	**70**	85	(15)	**(17.6%)**
Customer premises equipment	**334**	325	9	**2.8%**
Intercarrier access services	**265**	190	75	**39.5%**
Other fixed telephony	**196**	218	(22)	**(10.1%)**
Total other fixed telephony revenue	**2,283**	2,276	7	**0.3%**
ISDN average revenue per user per month $'s	**66.02**	70.76	(4.74)	**(6.7%)**
ISDN access lines (basic access line equivalents) (in thousands) (ii)	**1,298**	1,229	69	**5.6%**
Unbundled local loop subscribers (in thousands)	**527**	239	288	**120.5%**

Note: statistical data represents management's best estimates.

(i) Fixed to mobile call revenue from ISDN was previously categorised within the PSTN fixed to mobile category.
(ii) Calculated on basic access line equivalents.

Other fixed telephony revenue increased by $7 million to $2,283 million in fiscal 2008, primarily driven by increasing intercarrier access services revenue of $75 million, offset by declining revenues in ISDN products.

Intercarrier access services revenue increased 39.5% to $265 million predominantly driven by growth in ULL revenue of $56 million. This is reflected in the strong SIO growth from June 2007, with ULL SIOs increasing by 288k to 527k. This has however been offset by regulatory decisions to retrospectively reduce the prices charged for both connection fees and monthly rental. In addition, provisions relating to backdated connection and access prices have also impacted the year on year revenue growth. Also contributing to the overall increment in intercarrier access services revenue was facility access revenue, driven by strong demand for TEBA (Telstra Equipment Building Access) and mobile tower access as other carrier/service providers have sought to expand their infrastructure.

ISDN products revenue decreased 3.6% to $978 million for the year ended 30 June 2008. This represents a slowing on last year's decline of 4.8% with ISDN basic access lines growing by 5.6% mostly due to Business and Enterprise and Government segments picking up whole of business customer wins. This is in contrast to the 3.2% decline in the prior year. ISDN voice and data calls revenue have driven the year on year decline as we have seen lower minutes of use and calls made across the various product offerings resulting in lower ARPU.

Payphones and other fixed telephony continue to decline mainly as a result of product substitution, particularly towards mobiles and alternative fixed line products such as IP access from old services such as card services and customnet which are entering the mature phase of their lifecycle.

Full year results and operations review - June 2008

Mobiles[1]

- Our 3GSM customer base now represents 46.6% of our total mobile base
- Mobiles services revenue grew by 12.3%, mobile non-messaging data accounts for 57.1% of this growth
- Our blended ARPU grew by 7.8% to $49.48

Since our initial investment in the Next G™ network in October 2006, we have been driving a significant increase of the Australian market penetration of 3GSM subscribers which now represents 46.6% of our total mobile base, up from 3.7% at the end of fiscal 2006. Penetration has more than doubled in the year as we added 2.3 million 3GSM services in operation (SIOs). Over the last two financial years, our Australian mobile business has achieved world-leading revenue growth in an already highly penetrated market.

In fiscal 2008, our mobile services revenue growth was 12.3%, boosted by a 7.8% increase in ARPU and a 1.3% increase in SIOs. Furthermore, we have delivered our third consecutive half-year of double digit growth in mobile services revenue. At the same time, we have focused on reducing associated costs. As a result, total subscriber acquisition and recontract costs (SARCs) as a proportion of our retail domestic mobile services revenue has fallen over the year from 17.1% to 13.8%.

Mobiles

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Access fees and call charges	**2,700**	2,664	36	**1.4%**
International roaming	**404**	327	77	**23.5%**
Mobile messagebank	**266**	231	35	**15.2%**
Mobile data				
- Messaging	**740**	615	125	**20.3%**
- Non-messaging (i)	**806**	458	348	**76.0%**
Total mobile data (i)	**1,546**	1,073	473	**44.1%**
Total mobile services revenue - retail	**4,916**	4,295	621	**14.5%**
Mobiles interconnection	**590**	593	(3)	**(0.5%)**
	5,506	4,888	618	**12.6%**
Mobile services revenue - wholesale resale	**42**	51	(9)	**(17.6%)**
Total mobile services revenue	**5,548**	4,939	609	**12.3%**
Mobile handset sales	**828**	718	110	**15.3%**
Total mobile revenue	**6,376**	5,657	719	**12.7%**
Mobile services retail postpaid and prepaid revenue				
Postpaid	**4,384**	3,781	603	**15.9%**
Prepaid	**532**	514	18	**3.5%**
Total mobiles retail and wholesale revenue				
Retail	**6,226**	5,563	663	**11.9%**
Wholesale	**150**	94	56	**59.6%**
Postpaid mobile SIOs (thousands)	**6,087**	5,515	572	**10.4%**
Prepaid mobile SIOs (thousands)	**3,248**	3,697	(449)	**(12.1%)**
Total mobile SIOs (thousands)	**9,335**	9,212	123	**1.3%**
3GSM Postpaid mobile SIOs (thousands)	**3,874**	1,984	1,890	**95.3%**
3GSM Prepaid mobile SIOs (thousands)	**478**	19	459	**2415.8%**
3GSM Total mobile SIOs (thousands)	**4,352**	2,003	2,349	**117.3%**
Wholesale SIOs (thousands) (included in total SIOs above)	**74**	131	(57)	**(43.5%)**
Blended average revenue per user (including interconnection)	**49.48**	45.92	3.56	**7.8%**
Prepaid average revenue per user	**12.78**	11.74	1.04	**8.9%**
Postpaid average revenue per user	**62.97**	60.32	2.65	**4.4%**
3GSM average revenue per user	**73.74**	73.08	0.66	**0.9%**

1. *Mobiles revenue includes total revenue from wireless broadband and data packs.*

Full year results and operations review - June 2008

Mobiles

	Year ended 30 June			
	2008	2007	Change	**2008/2007**
	$m	$m	$m	**(% change)**
2GSM average revenue per user	**29.22**	35.05	(5.83)	**(16.6%)**
Data average revenue per user	**13.89**	10.08	3.81	**37.8%**
Number of SMS sent (in millions)	**6,973**	4,902	2,071	**42.2%**
Mobile voice telephone minutes (in millions) (ii)	**10,096**	8,591	1,505	**17.5%**
Deactivation rate	**29.0%**	20.4%		**8.6**

Note: statistical data represents management's best estimates.

(i) Includes $565 million of revenue (June 2007: $255 million) relating to wireless broadband.
(ii) Infocalls have been removed from this category. Therefore the information presented in previous reporting periods have been restated.

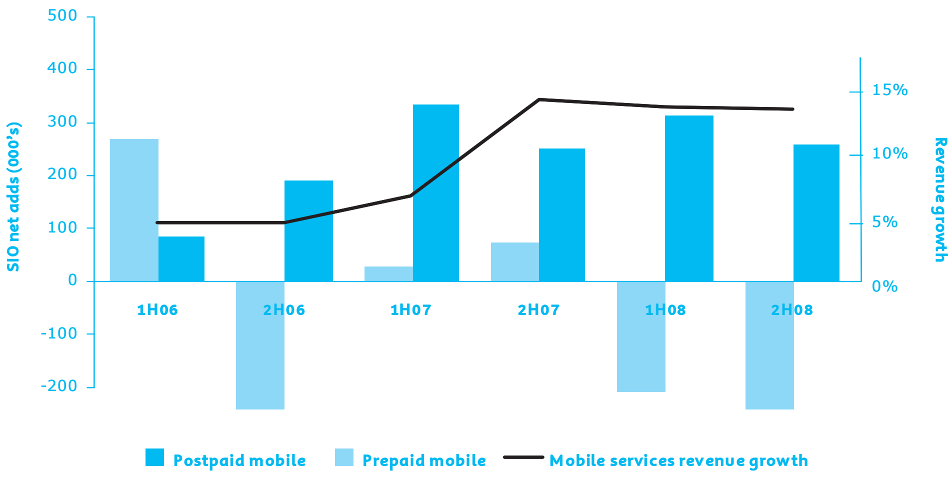
Our mobile voice revenues grew by 1.4% year on year while mobile data revenues grew by 44.1% to $1,546 million. Within mobile data, our non-SMS revenues contributed 52.1% of the total mobile data revenues in the year, driven by our unique wireless broadband proposition. Revenue from wireless broadband and low value data pack users has been the main driver of revenue growth and increased 121.6% to $565 million for the full year. BigPond® Mobile Services which allow customers to browse and stream enhanced Next G™/3G content has contributed to an increase in our content revenues of 62.4%. There has also been an increase in the revenues from other data devices such as Blackberry's‡ which show increased SIOs of 45k or 50.0%.

International roaming revenue has grown by $77 million to $404 million. This revenue growth is mainly related to an increase of 10.5% in the minutes of use and a 11.9% increase in yield for outbound international roaming. SMS revenues grew 20.3% from strong growth in volumes offset by reductions in yield.

Our closing postpaid SIOs were 6.1 million, showing an increase of 572k on the year. Our closing prepaid SIOs of 3.2 million show a decrease of 449k or 12.1% largely as a result of several significant deactivations of inactive customers, including 253k in July 2007 as reported at our last full year results, plus another 323k in June 2008, including the outstanding CDMA SIOs after the closure of this network in April 2008.

Due to the inconsistencies in the reporting of prepaid SIOs across the major players in the Australian market, we consider that an SIO based market share is not a reliable measure of business performance. In this highly penetrated market, we judge our mobile business performance on revenue growth and profitability. On this basis, we continue to win in the market, with customers demonstrating their appreciation of the simplicity and differentiation of our services as well as the unmatched network coverage.

Net SIO additions versus mobile services revenue growth



3GSM SIOs (which include wireless broadband SIOs) continue to grow strongly reaching 4.4 million at the end of fiscal 2008 of which 89.0% are postpaid customers. The 3GSM postpaid ARPU has increased by 5.3% year on year, and is significantly higher than the equivalent average for a 2GSM postpaid service. As customers continue to upgrade their services to the superior 3GSM offering we expect the blended ARPU to continue to grow.

Full year results and operations review - June 2008

In the second half, wireless broadband (defined as laptop data cards and browsing packs equal to and in excess of $29 which equates to data usage of 80Mb and above) continued the strong SIO growth seen in the first half of the year. At the end of June 2008 we had 588k WBB SIOs, an increase of 124k in the second half.

Our mobile business has seen success in all segments of the market in fiscal 2008. Our Consumer mobile revenue has grown by 7.6% year on year. Corresponding growth at Telstra Enterprise and Government and Telstra Business was 25.6% and 20.1% respectively. This growth has been stimulated by the additional revenue received from the new Next G™ network which is a result of both new connections and the migration of customers from our other networks. During fiscal 2008, the percentage of customers using our 3GSM network has grown by 25.6% and 31.7% in Telstra Enterprise and Government and Telstra Business respectively.

Internet[1]

- Retail broadband increased 49.2% to $1.8 billion driven by strong wireless broadband
- Retail broadband market share gain and ARPU growth
- High-speed plan subscribers (defined as 20Mbps or greater) grew 173.8% this fiscal year
- ADSL 2+ upgrade completed this fiscal year to an additional 907 exchanges

Internet

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Narrowband	**93**	144	(51)	**(35.4%)**
Retail broadband (i)	**1,805**	1,210	595	**49.2%**
Wholesale broadband	**554**	565	(11)	**(1.9%)**
VAS & content	**34**	20	14	**70.0%**
Total internet revenue	**2,486**	1,939	547	**28.2%**
Internet retail and wholesale revenue				
Retail	**1,932**	1,374	558	**40.6%**
Wholesale	**554**	565	(11)	**(1.9%)**
Broadband subscribers - retail (in thousands) (i)	**3,269**	2,406	863	**35.9%**
Average broadband retail revenue per subscriber per month $'s	**53.02**	51.54	1.48	**2.9%**
Average fixed broadband retail revenue per subscriber per month $'s	**49.34**	47.14	2.20	**4.7%**
Broadband subscribers - wholesale (in thousands)	**1,708**	1,762	(54)	**(3.1%)**
Average broadband wholesale revenue per subscriber per month $'s	**26.59**	29.53	(2.94)	**(10.0%)**
Spectrum sharing services (in thousands)	**436**	304	132	**43.4%**
Narrowband subscribers - retail (in thousands)	**530**	654	(124)	**(19.0%)**
Average revenue per narrowband subscriber per month $'s	**13.10**	14.26	(1.16)	**(8.1%)**

Note: statistical data represents management's best estimates.

(i) Telstra Internet Direct (Retail ADSL), Hyperconnect and Symmetrical HDSL are not included in retail broadband revenue and subscriber numbers.

Internet revenue continues to grow, up 28.2% for the year ended 30 June 2008 as we have again delivered the double achievement of growth in retail market share and ARPU. Retail broadband revenues increased 49.2% to $1.8 billion as SIOs reached 3.3 million, an increase of 35.9%.

As a result of our value-based proposition which provides customers with a unique offering in terms of speed, coverage and content, we estimate our share of the retail broadband market has increased 2 percentage points over the year to 49% despite the intense price competition in the retail broadband market. Furthermore, ARPU increased 2.9% to $53.02 as an increased number of customers migrate to premium high-speed plans. In particular, there has been 173.8% growth to 159k subscribers on plans with speeds of 20Mbps or greater. This revenue growth from high-speed plans follows our investment in our ADSL 2+ services rollout completed in April this year which provided an upgrade to an additional 907 exchanges serving 2.4 million homes and businesses.

1. *Internet revenue includes total revenue from wireless broadband and data packs.*

Full year results and operations review - June 2008

We remain the leader in fixed broadband and estimate a gain of 2 percentage points in market share over the course of the year. Fixed broadband revenues (i.e. excluding wireless), grew 29.7% to $1.2 billion with SIO growth of 17.7% or 332k.

Revenue from wireless broadband and low value data pack users has been an important driver of revenue growth and increased 121.6% to $565 million for the full year. Wireless broadband users (those using laptop cards and data packs equal to and in excess of $29 which equates to data usage of 80Mb and above) increased in terms of subscribers, with 124k added in the second half, taking total subscribers to 588k.

As penetration continues to climb, it is increasingly important to grow and seek new revenue streams. Although still relatively small, VAS and content revenues grew strongly, up 70.0% to $34 million. Usage continues to gain momentum in offerings such as BigPond® movie subscribers up 28.8%, BigPond® music customers up 30.7% and BigPond® games subscribers up 18.7%.

Wholesale broadband revenue fell 1.9% to $554 million as competitors move customers to a ULL or SSS (spectrum sharing service) offering. Wholesale broadband SIOs declined 3.1% to 1.7 million with 82.8% of the decline occurring in the second half.

Spectrum sharing SIOs grew 43.4% to 436k, an increase of 132k for the full year.

Narrowband revenues continue to decline as customers migrate towards higher speed plans with a 19.0% decline in SIOs this fiscal year, although 530k still remain at year end.

IP & data access

- IP access and Internet Direct revenues exceeded our specialised data revenues during the second half of fiscal 2008
- Our IP metro area network (IP MAN) has become our largest revenue generating data product overtaking the more traditional frame relay product

IP & data access

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Internet Direct	**146**	122	24	**19.7%**
Specialised data:				
- Frame relay	**209**	238	(29)	**(12.2%)**
- ATM	**63**	70	(7)	**(10.0%)**
- Digital data services	**146**	163	(17)	**(10.4%)**
- Leased lines	**226**	234	(8)	**(3.4%)**
- Other specialised data	**46**	40	6	**15.0%**
Total specialised data	**690**	745	(55)	**(7.4%)**
Global products	**97**	89	8	**9.0%**
IP access:				
- IP MAN	**233**	163	70	**42.9%**
- IP WAN	**182**	134	48	**35.8%**
- Symmetrical HDSL	**89**	80	9	**11.3%**
- Other IP access	**30**	39	(9)	**(23.1%)**
Total IP access	**534**	416	118	**28.4%**
Wholesale internet & data	**278**	258	20	**7.8%**
Total IP & data access revenue (i)	**1,745**	1,630	115	**7.1%**
Domestic frame access ports (in thousands)	**26**	28	(2)	**(7.1%)**
Internet direct services in operation (in thousands)	**50**	37	13	**35.1%**
Hyperconnect retail services in operation (in thousands)	**23**	18	5	**27.8%**
Symmetrical HDSL services in operation (in thousands)	**21**	17	4	**23.5%**
IP MAN services in operation (in thousands)	**13**	10	3	**30.0%**
IP WAN services in operation (in thousands)	**67**	57	10	**17.5%**

Note: statistical data represents management's best estimates.

(i) During the year ended 30 June 2008, we created a new product revenue category called 'global products'. As a result of this, we have reclassified the entire international portfolio to this revenue category. The balances as of 30 June 2007 have been restated in order to maintain the comparability of year end data.

Full year results and operations review - June 2008

IP and data access revenues increased by 7.1% to $1,745 million. This was largely driven by growth in IP access of 28.4% to $534 million from the success of the Telstra Next IP® network.

IP metro area network (IP MAN) is the largest contributor to the IP access portfolio with revenues up 42.9% to $233 million. IP MAN has become our largest revenue generating data product overtaking the more traditional frame relay product. IP MAN takes advantage of the Telstra Next IP® network and together with our Next G™ network, allows us to offer a range of new and integrated solutions to support our converging voice, data and IT infrastructure regardless of what device the customer has or where they are located across our extensive footprint. Demand from the Government sector has been particularly strong driving SIO growth of 30.0%.

IP wide area network (IP WAN) revenues increased by 35.8% to $182 million driven by a combination of both SIO growth of 17.5% and higher ARPU. Large corporate customers contributed to the growth in SIOs in IP WAN which offers a cost-effective way to link metro, regional and rural offices in most places across Australia. Year on year subscriber numbers have grown by 34.5% and 14.7% in Telstra Business and Telstra Enterprise & Government respectively. Bundled services including access and managed routers are growing strongly, especially in the SME market using ADSL and BDSL access. New network capabilities are enticing customers to the benefits of IP networking and the security and versatility of the Telstra Next IP® network, especially as customers make the transition from traditional access. Next G™ allows IP WAN customers to manage their wireless internet access with network access into IP WAN being taken up by 49.0% of the total number of IP WAN customers.

This performance highlights the success of the Telstra Next IP® network in both migrating customers from traditional data products and winning new customers by providing a value proposition across bandwidth, speed, scalability, security, applications and services.

Internet direct revenues increased 19.7% to $146 million. SIOs continue to grow strongly up 35.1% which is mostly attributable to greater penetration within the Telstra Business segment.

Specialised data revenues continue to decline as customers migrate to IP based products. Frame relay, the largest product in the group is the source of much of the migration activity with SIOs down 7.1% and ARPU down 4.4%.

Of note, is that the combination of IP access and Internet Direct revenues exceeded specialised data revenues for the first time in the second half of fiscal 2008. This is a significant milestone which illustrates the re-defining of the business to focus on IP while continuing to grow the entire portfolio through the migration phase.

Wholesale internet and data grew 7.8% to $278 million mainly driven by leased transmission products which increased $26 million as a result of a number of factors including; an increase in end user bandwidth driven by corporate networks and internet usage, internet service provider's growing DSL network coverage and mobile providers requiring additional backhaul to support bandwidth requirements for their 3GSM networks.

Global products grew 9.0% to $97 million due to growth in international private lines for both our enterprise and wholesale customers.

Business services and applications

Business services and applications [(i)]

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Managed network services	**387**	357	30	**8.4%**
IT services	**422**	501	(79)	**(15.8%)**
Business applications	**122**	127	(5)	**(3.9%)**
Commercial recoverable and industrial works	**118**	74	44	**59.5%**
Total business services and applications revenue	**1,049**	1,059	(10)	**(0.9%)**

(i) Prior year comparatives have been updated to align with current year product categorisation.

Full year results and operations review - June 2008

During the current fiscal year, revenue within business services and applications decreased by 0.9% to $1,049 million. A decline in IT services revenue was offset by higher revenues in commercial recoverable and industrial works and managed network services.

IT services revenue declined by 15.8% to $422 million. The sale of several non-core businesses including Australian Administration Services Pty Ltd (AAS) in fiscal 2007 and KAZ Business Services Pty Ltd, KAZ Software Solutions Pty Ltd and Invizage Pty Ltd, in fiscal 2008, accounted for $40 million of the decline. Additionally, revenues within the application and development business were lower in fiscal 2008 resulting from lower spending of $24 million from a major customer. Managed IT services declined in fiscal 2008 mainly caused by the loss of a major desktop contract in the last quarter of this fiscal year and higher prior year sales from the same customer, with a total financial impact of $13 million in lower revenues this year.

Commercial recoverable and industrial works revenue increased by 59.5% to $118 million due to new and additional projects signed during the year with large resource companies. The positive result was driven by successful sales initiatives resulting in additional customer contracts at improved margins.

Managed network services revenue grew by 8.4% to $387 million. Significantly contributing to the overall growth was managed WAN which increased by 15.8% to $119 million resulting from higher connection activities during the year. Managed radio revenue increased by 13.4% to $59 million as a result of an infrastructure project carried out during the year. Other managed network services growth was driven by IP telephony supporting the sale of new managed solutions and higher revenue per customer in the SME and for corporate hosting.

Business applications revenue declined by 3.9% to $122 million for fiscal 2008 primarily due to the sale of Telstra eBusiness Services Pty Ltd in December 2007 which resulted in lower revenue of $9 million. Offsetting this was higher revenues within contact solutions driven by revenues associated with Telstra Locator® and web contact centres. These are fully integrated contact centres combining in and outbound voice, email, web chat and fax delivered via the internet.

Advertising and directories

Our advertising and directories revenue is predominantly derived from our wholly owned company, Sensis, and its controlled entities. The Sensis group provides innovative advertising and search solutions through print, online, voice, wireless and satellite navigation networks.

Advertising and directories

	Year ended 30 June			
	2008	2007	Change	**2008/2007**
	$m	$m	$m	**(% change)**
Advertising and directories revenue	**2,116**	1,954	162	**8.3%**

For a detailed description of the performance in this area, please refer to the Sensis financial summary on page 30.

Full year results and operations review - June 2008

Offshore controlled entities

Offshore controlled entities - revenue

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
CSL New World	**917**	1,000	(83)	**(8.3%)**
TelstraClear	**562**	573	(11)	**(1.9%)**
Other offshore controlled entities	**346**	348	(2)	**(0.6%)**
Total offshore controlled entities revenue	**1,825**	1,921	(96)	**(5.0%)**

Consolidated revenue from offshore controlled entities decreased in the year ending 30 June 2008 by 5.0% to $1,825 million. This decrease was primarily driven by foreign exchange impacts. For further details regarding the performance in CSL New World (CSLNW) and TelstraClear, please refer to their business summaries beginning on page 32.

Revenue decreased by 0.6% to $346 million in other offshore controlled entities mainly due to a decline in Europe which was partially offset by growth in Asia and the US. The revenue decline in Europe was $12 million and was mainly due to a decline in voice revenues due to the loss of a major customer. The Asian business grew by $9 million mainly due to continued strong sales growth in the established Telstra Singapore and Telstra Hong Kong businesses.

Pay TV bundling

Pay TV bundling

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Pay TV bundling revenue	**426**	344	82	**23.8%**
FOXTEL† Pay TV bundling subscribers (thousands)	**419**	357	62	**17.4%**
AUSTAR* Pay TV bundling subscribers (thousands)	**31**	33	(2)	**(6.1%)**
Total Pay TV bundling subscribers (thousands)	**450**	390	60	**15.4%**
Total FOXTEL† Pay TV subscribers (excl wholesale) (thousands)	**1,370**	1,264	106	**8.4%**

Note: statistical data represents management's best estimates.

FOXTEL† bundled Pay TV subscribers increased 17.4% to 419k following a targeted campaign to acquire 'new to Pay TV' customers driving strong revenue growth. The success of recent market based management campaigns like this have resulted in the percentage of FOXTEL† direct subscribers on a Telstra bundle increasing from 28.2% in June 2007 to 30.6% in June 2008. This has driven an increase in customers holding multiple products with us which in turn reduces churn. FOXTEL† ARPU increased 7.2% for the year driven by increased penetration of FOXTEL iQ† and uptake of higher value platinum packages.

AUSTAR* bundled Pay TV revenue declined by 16.6% as we wind down our association with AUSTAR*.

Other revenue

Other revenue

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Distribution received	**130**	-	130	**-**
Rental income	**41**	36	5	**13.9%**
Total other revenue	**171**	36	135	**375.0%**

The distribution of $130 million relates to a capital distribution from our FOXTEL† partnership in fiscal 2008 after the FOXTEL† Board refinanced to maintain a constant debt to EBITDA ratio.

Rental income growth for fiscal 2008 of $5 million relates to 1300 Australia’s rental of phonewords.

Full year results and operations review - June 2008

Other income

Other income

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Proceeds from sale of property, plant and equipment	**23**	34	(11)	**(32.4%)**
Proceeds from sale of intangibles	**1**	2	(1)	**(50.0%)**
Proceeds from sale of investments	**55**	251	(196)	**(78.1%)**
Proceeds from sale of investments in listed securities and other investments	**-**	4	(4)	**-**
Asset and investment sales	**79**	291	(212)	**(72.9%)**
Cost of property, plant & equipment	**23**	28	(5)	**(17.9%)**
Cost of investments	**18**	194	(176)	**(90.7%)**
Cost of asset and investment sales	**41**	222	(181)	**(81.5%)**
Net gain on assets/investment sales	**38**	69	(31)	**(44.9%)**
USO levy receipts & subsidies	**70**	141	(71)	**(50.4%)**
Miscellaneous income	**66**	41	25	**61.0%**
Other income	**136**	182	(46)	**(25.3%)**
Total other income	**174**	251	(77)	**(30.7%)**

Total other income decreased by $77 million to $174 million for fiscal 2008, primarily resulting from lower USO levy receipts and subsidies. The decline was largely due to lower Broadband Connect subsidies in fiscal 2008 as the old Broadband Connect agreement ended in June 2007. This was replaced with a new initiative (Australian Broadband Guarantee Scheme) agreed in October 2007.

Additionally, the net gain on the sale of assets and investments was lower in fiscal 2008 by $31 million. Fiscal 2008 included the sale of Telstra eBusiness in December 2007, recognising a net gain on sale of $38 million. Included in last year's net gain on sales was:

- the sale of our superannuation administration business of the KAZ Group (Australian Administration Services Pty Ltd) in August 2006, recognising a net gain on sale of approximately $43 million;
- the sale of our interest in Xantic for $9 million in August 2006; and
- the sale of Platefood Limited in November 2006, with a net gain on sale of $4 million.

Full year results and operations review - June 2008

Expenses

Labour

- Labour costs increased by $141 million or 3.5% to $4,158 million. Excluding redundancy, labour cost growth was only 1.3% to $3,920 million
- Excluding the impact of acquisitions and divestments, the total workforce reduced by 2,677 in the year, amounting to an 8,784 reduction in workforce since 2005, exceeding our target of 6,000 to 8,000 at this point in the transformation
- Redundancy expenses for fiscal 2008 were up 59.7% to $238 million

Labour

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Labour	**4,158**	4,017	141	**3.5%**
Domestic full time employees (whole numbers) (i)	**33,982**	35,706	(1,724)	**(4.8%)**
Full time employees and employed equivalents (whole numbers) (ii)	**42,784**	43,411	(627)	**(1.4%)**
Total workforce, including contractors and agency staff (whole numbers) (iii)	**46,649**	47,840	(1,191)	**(2.5%)**
Current year reduction in total workforce excluding acquisition/divestment activity (iv)	**(2,677)**			
Reduction in total workforce to June 2007 excluding acquisition/divestment activity against November 2005 announcement (iv) (v)	**(6,107)**			
Total 3 year reduction in workforce	**(8,784)**			

Note: statistical data represents management's best estimates.

(i) Our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities.
(ii) Our full time employees and equivalents include domestic full time employees plus casual and part time employees and employees in our offshore subsidiary entities.
(iii) Our total workforce includes full time employees and equivalents plus contractors and staff employed through agency arrangements measured on an equivalent basis.
(iv) The reduction in total workforce against our 10,000 to 12,000 FTE (full time equivalent) 5 year reduction target excludes the impact in fiscal 2008 of the June 2008 acquisition of the Chinese entities Norstar Media and Autohome/PCPop, our divestment of Telstra eBusiness Group and the ongoing impacts of SouFun Holdings Ltd. Reductions prior to fiscal 2007 excludes our divestment in Australian Administration Services Pty Ltd, the ongoing impact of our acquisition of SouFun Holdings Ltd and the impact of CSL's merger with NewWorld PCS Mobility.
(v) The total workforce FTE reduction through to June 2007 has been restated to include the ongoing impact of our acquisition in SouFun Holdings Ltd (1,555 at June 2007) as opposed to the workforce FTE taken as at the date of acquisition (1,194).

Our labour expense increased by 3.5% to $4,158 million mainly due to increased redundancy costs as a result of ongoing transformation activities offset by productivity improvements being achieved especially within Telstra Operations in centralised call centres and reductions in field service technicians through our Workforce Excellence transformation programs. Of note is that service parameters have also improved. We incurred redundancy expenses of $238 million for the year ended 30 June 2008 compared with $149 million for the comparable period last year. In the second half, redundancy expenses were $72 million, 56.6% lower than the $166 million incurred in the first half. Whilst approximately 73% of the workforce FTE redundancy activity took place during the first half of the year, the benefits of this headcount reduction were offset, in part, by further recruitment of new skilled resources as we progress through our transformation initiatives, particularly within Telstra Operations with new trainees to support our new IP network and customer focussed retail channels within centralised call centres.

As part of the transformation, a provision for restructuring and redundancy was raised at the end of fiscal 2006 which included a redundancy component amounting to $186 million of which a total of $176 million has been utilised in line with the level of transformational redundancy activity that has taken place (fiscal 2008: $29 million; fiscal 2007: $147 million).

Full year results and operations review - June 2008

From 30 June 2007, the total workforce has decreased 2.5% or 1,191 full time equivalent staff, contractors and agency staff, primarily within Telstra Operations and Enterprise and Government, reducing by 1,621 and 741 respectively. Also included in this figure are amounts related to acquisition/divestment activity:

- SouFun Holdings Ltd added 1,061 to 2,616 to support further expansion in China;
- a further 468 staff were added via the acquisition of Chinese entities Norstar Media and Autohome/PCPop at 30 June; offset by
- the sale of the Telstra eBusiness Group resulting in a reduction of 43 staff.

Excluding the impact of these investment changes, total workforce numbers have declined by 2,677 and an overall decline of 8,784 against our 10,000 to 12,000 full time equivalent 5 year reduction target.

These ongoing staff reductions have resulted in an improvement in our overall sales revenue per workforce FTE of 7.2% for the year.

Excluding the impact of redundancy costs, labour expenses increased by 1.3% or $52 million to $3,920 million due to:

- higher salary rates for award staff and those on contract;
- higher sales commissions and incentives;
- additional overtime costs associated with higher fault levels from the extreme weather conditions in the eastern states; offset by
- savings in salaries and associated costs driven by the reduced workforce in Telstra Operations and Enterprise and Government business units;
- lower net pension costs (see below); and
- labour savings within some of our controlled entities including Australian Administration Services which was sold in the prior year, a restructure of the KAZ business and staff reductions within CSL New World.

In fiscal 2008, we recognised $198 million of pension costs in our labour expenses compared to $239 million in fiscal 2007. This expense is due to the requirement for us to recognise the actuarially defined movement in our defined benefit pension plans in our operating results. The current year movement has been driven by a decrease in curtailment costs of $35 million which represent the difference between actual vested benefits paid to defined benefit members and the Defined Benefit Obligation (DBO).

We are required to make future employer payments to the Telstra Superannuation Scheme (Telstra Super) as may be required by the funding deed with the trustee of Telstra Super in relation to the defined benefit plan or as legally or constructively obligated for the accumulation scheme. In accordance with actuarial recommendations, we were not expected to, and did not make employer contributions to the Telstra Super defined benefit divisions for the financial years ended 30 June 2008 and 30 June 2007.

The average vested benefits index (VBI) of the defined benefit divisions for the June 2008 quarter was 104% (30 June 2007: 118%). At this level Telstra does not need to commence superannuation contributions to Telstra Super. If the VBI falls to 103% or below based on the average VBI in any calendar quarter of fiscal 2009, Telstra will be required to recommence superannuation contributions to Telstra Super. The performance of the fund is subject to the prevailing conditions in the financial markets. We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations.

Full year results and operations review - June 2008

Goods and services purchased

- Goods and services purchased increased by 0.6% to $5,181 million despite a 4.2% increase in sales revenue
- Handset subsidy costs decreased by 18.2% year on year with a 19.1% decrease in the subscriber acquisition and recontracting cost (SARC) rate
- SARC as a percentage of mobile services decreased by 3.3 percentage points year on year

Goods and services purchased

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Cost of goods sold - handset subsidies (postpaid)	**653**	798	(145)	**(18.2%)**
Cost of goods sold - other	**1,351**	1,238	113	**9.1%**
Usage commissions	**283**	299	(16)	**(5.4%)**
Network payments	**1,797**	1,799	(2)	**(0.1%)**
Service fees	**448**	349	99	**28.4%**
Managed services	**210**	224	(14)	**(6.3%)**
Dealer performance commissions	**122**	128	(6)	**(4.7%)**
Paper purchases and printing	**126**	135	(9)	**(6.7%)**
Other	**191**	181	10	**5.5%**
Total goods and services purchased	**5,181**	5,151	30	**0.6%**
Retail domestic subscriber acquisition and recontract costs (SARC) (i)	**744**	829	(85)	**(10.3%)**

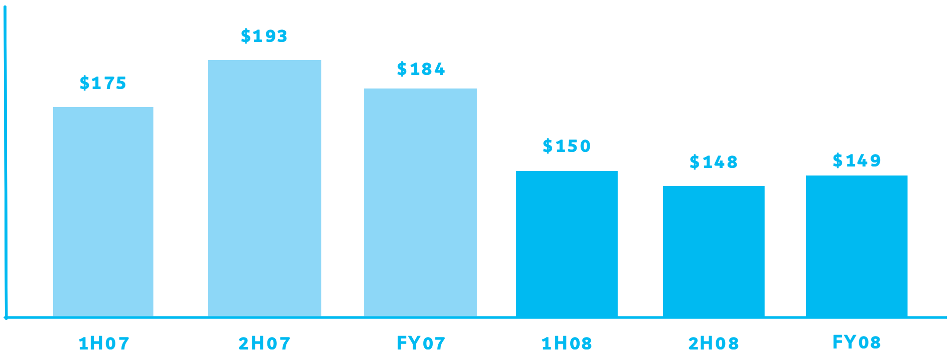
(i) Domestic subscriber acquisition and recontract costs include $610 million of domestic handset subsidy costs (June 2007: $709 million) and other go to market costs included within cost of goods sold-other and other goods and services purchased.

Our goods and services purchased costs have increased by 0.6% to $5,181 million driven by higher handset costs within other cost of goods sold and higher service fees supporting our revenue growth in pay TV offset by significantly lower subsidy costs.

Fiscal 2008 saw a decline in two important cost categories included within goods and services purchased. Our retail domestic SARC, represented by our handset subsidy expenses and other related go to market costs, decreased by 10.3% to $744 million. Also our domestic network costs, a subset of network payments, declined by 8.5% to $725 million.

Within cost of goods sold - handset subsidies, domestic postpaid handset subsidies declined by 17.6% to $553 million due to both lower rates and subsidised volumes despite postpaid contracted volumes increasing 4.3%. CSLNW handset subsidies declined by $25 million from lower volumes and foreign exchange impacts.

SARC trend reversal in fiscal 2008



Handset subsidy expense constituted 82.0% of the fiscal 2008 retail SARC of which 90.6% is related to postpaid subsidies. The blended SARC rate decreased by 19.0% to $149. The decline in total SARC and SARC rate was driven by:

- a lower average handset cost due to a reduction in overall 3GSM handset costs as the technology becomes more widely used;

Full year results and operations review - June 2008

- our market based management focus which has enabled us to apply a more targeted approach in handset subsidies based on each market segment specific features;
- an increased focus on our mobile repayment offering as opposed to the subsidy scheme; and
- the increase in the volumes of 3GSM prepaid handsets has also impacted the mix.

Total network payments costs decreased by 0.1% to $1,797 million. Our domestic network outpayments fell 8.5% to $725 million mainly as a result of a reduction of 3 cents to 9 cents in the Mobile Terminating Access (MTA) rate. During fiscal 2007 the MTA rate was 15 cents and 12 cents for the first and second half respectively. The reduction in the MTA rate was partially offset by a 13.0% increase in mobile terminating minutes of use originating from both fixed and mobile and a 20.4% increase in the number of terminating SMSs. The prior year figure was also abnormally low due to a $61 million backdated adjustment for mobile terminating rates as determined by the ACCC. Altogether, the net impact on the fiscal 2008 domestic network outpayments was a cost reduction of $60 million. Payments made to REACH for international capacity and termination costs increased by $51 million, partially impacted by a one off benefit that was passed through to us in fiscal 2007 from REACH.

Our increased sales volumes in a wide range of products and services categories have had a direct impact on goods and services purchased, and in particular cost of goods sold - other; including:

- handset costs within cost of goods sold - other increased by 10.9% to $799 million mainly as a result of a 23.6% increase in volumes sold driven by the success of our Next G™ offering and the migration activity generated by the closure of our CDMA network. This volume increase was partially offset by a lower average cost per handset as explained above;
- cost of goods sold - other was also impacted by additional BigPond® internet hardware and installation costs such as internet modems, HSDPA cards and digital and IT accessories due to ongoing broadband growth. Also in the Business segment, a 45.0% increase in Enhanced CPE revenue contributed to the year on year cost of goods sold growth; and
- a 23.8% revenue growth in Pay TV bundling was the main contributor to the 28.4% increase in service fees to $448 million.

Our usage commission costs decreased by 5.4% to $283 million, largely driven by customers belonging to an external agent that are no longer part of our commissionable mobile base and a decrease in the fixed telephony usage commission costs which is consistent with the revenue trend in this product category.

Managed services costs declined by 6.3% to $210 million mainly attributed to a decrease in project management professional services costs. Certain services are no longer provided by us to our customers after the related equipment was sold.

Other expenses

- IT transformation continues to drive expense growth in service contracts which are up 7.4%
- Bad and doubtful debts expense grew 29.8% mainly from the mobile and Sensis portfolios
- Lower impairment costs year on year due to $110 million Trading Post˜ masthead impairment in fiscal 2007

Other expenses

	Year ended 30 June			
	2008	2007	Change	**2008/2007**
	$m	$m	$m	**(% change)**
Property, motor vehicle and IT rental expense	**609**	592	17	**2.9%**
Net foreign currency conversion gains	**(13)**	(7)	(6)	**85.7%**
Service contracts and other agreements	**2,339**	2,177	162	**7.4%**
Promotion and advertising	**457**	422	35	**8.3%**
General and administration	**1,028**	949	79	**8.3%**
Other operating expenses	**465**	402	63	**15.7%**
Impairment and diminution expenses	**361**	389	(28)	**(7.2%)**
Total other expenses	**5,246**	4,924	322	**6.5%**

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Other expenses increased by 6.5% to $5,246 million in the year ended 30 June 2008.

The largest component within other expenses is service contracts and other agreements, which increased by 7.4% to $2,339 million, largely driven by the following factors:

- IT professional services costs increased 34.9% to $568 million. Most of the increase is driven by transformation activities associated with our billing and procurement platforms and a number of applications relating to billing, fulfilment, inventory and customer assurance going into production. In addition, cost increases were driven by BigPond® website costs, training and project write-offs.
- Other service contracts have remained relatively flat compared to the prior year with an increase of 0.7% or $12 million to $1,611 million. The drivers of this cost line were:
  - labour substitution to our outsource providers for call centres within our consumer business to cover increased call traffic; additional fault repairs resulting from the extreme weather in the eastern states; additional transformation costs related to simplifying our billing and procurement systems as well as costs related to the wireline transformation; offset by
  - substantial network maintenance cost savings, which has benefited from a reduced need for maintenance work in areas such as optic fibre and cable pressure alarm systems, as a result of the newer technologies and the recently transformed IP core network. Additionally, lower build activity occurred this fiscal year in our 3GIS partnership as the number of 2100MHz mobile towers required to be built slowed.

General and administration expenses increased by 8.3% to $1,028 million primarily due to:

- higher IT costs due to additional software contracts and licences to support transformation systems as we move from developmental to operational phases before the decommissioning of legacy systems;
- our legal costs were also higher this year following the settlement of a number of significant cases including finalisation of a shareholder class action that had been in progress since 2006;
- increased training costs; offset by
- savings in non-rent property costs driven by synergies from reducing the number of property service providers used.

Property, motor vehicle and IT rental expenses have slightly increased by 2.9% to $609 million mainly as a result of higher rental charges on our properties, including an additional 778 mobile sites domestically due to the expansion of the Next G™ network footprint. Further, we incurred new costs in upgrading our Telstra Shops to the new and improved format T[life]™ stores in Sydney and Melbourne during the second half of fiscal 2008. This was offset by lower IT rental expense as a result of the purchase, instead of the lease, of a number of new servers and lower mobile site rentals within our CSLNW business in Hong Kong.

Other operating expenses have increased by 15.7% to $465 million mainly as a result of the impact of a review of booking practises for parts of our Operations workforce where direct capital work labour is now being offset directly to labour costs. This is rather than offset through capitalised indirect overhead within our other operating expenses.

Promotion and advertising costs increased by 8.3% to $457 million mainly attributable to additional spend within our core print and online Yellow™ directory products to drive higher revenue and increase user awareness combined with the re-launch of our White Pages® brand this fiscal year. Also contributing to the increase were higher marketing activities for our pre-paid products, mobile search products, BigPond® music and games marketing, promotion of FOXTEL† by Telstra and FOXTEL iQ†, and the re-branding of CSLNW's One2Free brand and stores in the second half of fiscal 2008. This was partly offset by lower expenses associated with our launch of the Next G™ network campaign last fiscal year.

Our impairment and diminution expenses including bad debts/doubtful debts and inventory write downs, have decreased by 7.2% to $361 million in the year ended 30 June 2008 due to:

- lower impairment charges of $110 million relating to the Trading Post~ masthead which was impaired in fiscal 2007; offset by:
- 29.8% increase to $251 million in bad and doubtful debts due to a deterioration in the ageing of our mobile debt portfolio, higher wholesale customer provisions, including $15 million taken up against dealers that have gone into administration, and a review of delinquency rates for our Sensis non-print business;
- 56.5% increase to $55 million in impairment of plant and equipment mainly due to costs associated with the retirement of switching equipment and cancellation of some software capital projects as a result of transformation; and
- 24.4% increase to $50 million in inventory write down expenses largely linked to surplus stock relating to the CDMA network migration and closure this fiscal year.

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Share of net loss from jointly controlled and associated entities

Share of net loss from jointly controlled and associated entities

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Share of net loss from jointly controlled and associated entities	**1**	7	(6)	**(85.7%)**

Our share of net loss from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments. We have not had any significant losses/(gains) during the reported period.

In respect to FOXTEL† and REACH, as the carrying value of our investments in both have been written down to nil, any share of losses/(gains) from these entities will not be recognised. These entities will resume equity accounting once the accumulated losses have been fully offset by our share of profits derived from these entities. At 30 June 2008, the FOXTEL† carried forward losses amounted to $135 million. The increase of $52 million in fiscal 2008 is due to the $130 million distribution received, partially offset by our share of FOXTEL's† profit which amounted to $78 million.

Depreciation and amortisation

Depreciation and amortisation

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Depreciation	**3,486**	3,344	142	**4.2%**
Amortisation	**704**	738	(34)	**(4.6%)**
Total depreciation and amortisation	**4,190**	4,082	108	**2.6%**

Our depreciation and amortisation expense has risen by 2.6% to $4,190 million for the year ended 30 June 2008.

As part of the transformation strategy we undertook a strategic review of the service lives of our assets during fiscal 2006. The result of this was an acceleration of depreciation and amortisation on certain CDMA network, switching and software assets. The impact of this review amounted to the inclusion of $297 million in the prior year with no equivalent acceleration in the current year.

Excluding the above impact, depreciation increased by 13.4% to $3,486 million mainly due to an increase of $350 million in depreciation on communication assets driven by recent transformation spend. The Telstra Next IP® and Next G™ network roll outs were largely completed during fiscal 2007 amounting to a full year of depreciation experienced in fiscal 2008.

Also included in the increase in depreciation on communication assets was $77 million in CSLNW on their existing 3GSM and 2GSM networks as a result of investments in new network technologies together with the decision to accelerate depreciation on some of the older network assets.

Depreciation on other plant and equipment increased by $47 million mainly due to higher asset additions as a result of transformation activity including new servers as part of the IT transformation work. This was partially offset by asset retirements and service life reviews of our asset base.

Excluding the impact of the strategic review, amortisation has fallen by 0.8% to $704 million mainly due to a $32 million decrease in amortisation on customer bases in CSLNW. These customer bases were fully amortised in the previous year resulting in nil amortisation in fiscal 2008 compared with seven months of amortisation in fiscal 2007. Offsetting this decrease was an increase in software amortisation driven by the IT transformation roll out and an increase in capitalised software in Sensis due to transformation and project related activity.

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Net finance costs

Net finance costs

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Borrowing costs	**1,238**	1,053	185	**17.6%**
Finance leases	**10**	11	(1)	**(9.1%)**
Unwinding of discount on liabilities recognised at present value	**24**	43	(19)	**(44.2%)**
(Gain)/loss on fair value hedges - effective	**(171)**	9	(180)	**(2000.0%)**
(Gain)/loss on cash flow hedges - ineffective	**(4)**	4	(8)	**(200.0%)**
Loss on transactions not in a designated hedge relationship	**27**	-	27	**-**
Loss on transactions de-designated from fair value hedge relationships	**13**	8	5	**62.5%**
Other	**21**	16	5	**31.3%**
Finance costs	**1,158**	1,144	14	**1.2%**
Finance income	**(72)**	(57)	(15)	**26.3%**
Net finance costs	**1,086**	1,087	(1)	**(0.1%)**

The main factors influencing our finance costs are:

- our net debt level;
- interest rates; and
- movements in our borrowing cost margins.

Net finance costs have decreased by 0.1% to $1,086 million driven by unrealised valuation gains on our debt portfolio and an increase in finance income, offset by an increase in borrowing costs.

Our borrowing costs increased by 17.6% to $1,238 million. This increase was principally due to higher average net debt over the period, together with higher yields driven by a combination of interest rate rises and increased credit margins which have impacted our refinancing yields and the floating rate component of our debt portfolio.

The unfavourable movement in borrowing costs was partially offset by the net increase in unrealised gains on our hedges of $156 million relating to the impact of increased borrowing margins as a result of interest rate rises and a tighter credit market. As our borrowing margins increase, there is a net unrealised revaluation gain reflecting the opportunity benefit from existing borrowings at lower rates when revalued (marked to market) against the current higher margins. However, as we hold our borrowings and associated derivatives to maturity, these positions will progressively wind out to nil on maturity.

Finance income increased by 26.3% to $72 million due to a higher balance of surplus funds available for short term investments together with higher interest rates.

Income tax expense and franking account

Income tax expense

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Income tax expense	**1,429**	1,417	12	**0.8%**
Effective tax rate	**27.8%**	**30.2%**		**(2.4)**

Income tax expense increased by 0.8% or $12 million to $1,429 million in fiscal 2008 due to an increase of $448 million in profit before tax in combination with the following:

- a non assessable capital distribution from our FOXTEL[†] Partnership of $130 million, reducing tax expense by $39 million in the current year;
- the year on year impact of the non deductible impairment of the Trading Post[~] mastheads in fiscal 2007 amounting to $33 million tax effected; and
- the movement in under/over provision of tax in prior years of $50 million, including a reduction in tax expense amounting to $40 million from amendments to prior period income tax returns.

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The effective tax rate in fiscal 2008 has also reduced by 2.4 percentage points to 27.8% (which is a lower rate when compared with the Commonwealth statutory income tax rate of 30.0%) mainly due to the above items.

During the current year, we have paid a total of $1,564 million of tax instalments for the Telstra Tax Consolidated Group relating to the last quarter of fiscal 2007 and the first three quarters of fiscal 2008. Franking credits of $1,493 million were used when we paid our final 2007 ordinary dividend and 2008 interim dividend. In addition, the 2007 income tax return refund and amendments of prior period income tax returns have resulted in a further reduction in our franking credits of $74 million. With the overall movements in our franking account during the year, our franking account balance is $70 million. Our exempting account balance for the year is $24 million, however there are statutory restrictions placed on the distribution of credits from this account. Consequently, it is unlikely that we will be able to distribute our exempting credits.

Major subsidiaries - financial summaries

Below is a summary of the major reporting lines for our three largest subsidiaries: Sensis, CSL New World and TelstraClear. This information is in addition to the product analysis previously provided in the document and is intended to show these businesses as stand alone entities.

Sensis financial summary

We are a leading provider of advertising and search services through our advertising, directories and local search business Sensis. Sensis provides innovative advertising and search solutions through print, online, voice, wireless and satellite navigation networks. Sensis also manages the group's advertising assets in China. The group has expanded its investments into China with the acquisition in August 2006 of 55% (on an undiluted basis) of the issued capital of SouFun, a leading real estate, home furnishing and home improvement website in China. More recently in June 2008 we acquired 55% of two Chinese internet businesses, Norstar Media and Autohome/PCPop with leading positions in the fast-growing online auto and digital device advertising sectors.

Sensis financial summary (i)

	Year ended 30 June			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
Total income	**2,127**	1,974	153	**7.8%**
Total expenses (excluding depreciation and amortisation)	**1,033**	1,031	2	**0.2%**
EBITDA	**1,094**	943	151	**16.0%**
Depreciation and amortisation	**150**	130	20	**15.4%**
EBIT	**944**	813	131	**16.1%**
CAPEX	**257**	226	31	**13.7%**
EBITDA margin on sales revenue	**51.4%**	47.9%		**3.5**

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

(i) The above results differ from those segment results reported on page 7 as for segment reporting purposes we monitor our results excluding the impact of investment sales and impairment in value of investments. In the prior year, Sensis divested its investment in Platefood Limited and wrote off intangibles relating to Trading Post˜ mastheads.

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Sensis total income is split into the following categories:

Sensis total income

	Year ended 30 June			
	2008	2007	Change	**Change**
	$m	$m	$m	**%**
- Yellow™ revenue	**1,273**	1,203	70	**5.8%**
- White Pages® revenue	**369**	331	38	**11.5%**
- Classified revenue	**110**	125	(15)	**(12.0%)**
- Emerging business	**150**	127	23	**18.1%**
- SouFun revenue (i)	**88**	49	39	**79.6%**
- Voice	**126**	119	7	**5.9%**
Total advertising and directories	**2,116**	1,954	162	**8.3%**
Other	**11**	14	(3)	**(21.4%)**
Total Sensis sales revenue	**2,127**	1,968	159	**8.1%**
Other income	**-**	6	(6)	**-**
Sensis total income	**2,127**	1,974	153	**7.8%**

(i) SouFun revenues are unaudited management accounts converted from local currency to $US based on US GAAP and then translated to $A. There are no GAAP differences between the US GAAP accounts and the A-IFRS accounts. Fiscal 2007 includes only 10 months of revenue.

In the year ended 30 June 2008, Yellow™ revenue grew by 5.8% to $1,273 million. This included a return to growth for Yellow™ print directories with strong improvements in both metro and non-metro canvasses.

White Pages® revenue grew by 11.5% to $369 million. White Pages® print revenue grew by 10.8%, while online grew by 48.8%.

These strong results for our Yellow™ and White Pages® directories were driven by our dedicated focus on selling the value of our directories through both demonstration and sales force commitment to our customers.

Classifieds revenue declined 12.0% to $110 million, largely as a result of competitive factors in the print market, which are causing declines in both circulation and the number of advertisers. Operational initiatives continue to be executed to address these issues and the focus is on improving our online experience for customers to drive growth for the future. As part of these initiatives, our new Trading Post˜ Online Auctions feature was launched in May 2008.

Our emerging businesses delivered an 18.1% growth to $150 million. This is as a result of the following factors:

- the location and navigation portfolio continues to experience strong double digit growth driven by continuing demand for portable navigation units which grew to over 900k units; and
- demand for our online display advertising solutions grew strongly delivering 45.5% growth. Mobile display advertising was also launched during the financial year.

In December 2006, the Voice portfolio launched an initiative with the intention of consolidation and clearer positioning of services in the market. This has been successful with voice revenue increasing by 5.9% to $126 million primarily due to increased call volumes within 1234 of 31.2%.

SouFun contributed $88 million in revenue for the year ending 30 June 2008 and $49 million for 10 months in the previous year (unaudited). The foreign exchange impact during the year resulted in a lower external income result of $18 million and lower expense result of $12 million. SouFun continues to show strong growth which is driven by increased customer volumes through ongoing demand and now operates in 75 cities across China.

Total expenses (before depreciation and amortisation) increased by 0.2% to $1,033 million. Expenses were flat due to the following:

- the growth in cost for SouFun supporting its expansion;
- growth in labour expenses of 20.9% to $459 million mainly attributable to the growth in staff numbers as part of a core business investment strategy, the SouFun expansion, additional contractors in line with increased volumes in voice products and increased investment in major IT transformation projects;
- other expenses decreased by 14.4% to $402 million due to the following:
  - fiscal 2007 included an $110 million write down of intangibles relating to the Trading Post˜ mastheads largely as a result of increasing competition in the traditional print classified market, a highly competitive online classified market and the risks associated with the new initiatives;

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- an increase in promotion and advertising spend by $12 million. The additional spend drove print directories usage and revenue growth;
- an increase in information technology costs due to investment in IT transformation projects this fiscal year; and
- an increase in bad and doubtful debts following a review of delinquency rates and growth in the impaired rate for non-print products as we continue to support revenue increase.

In the year ending 30 June 2008, depreciation and amortisation also grew by 15.4% to $150 million due to increased software capitalised associated with the company's IT transformation and acceleration of related assets.

EBIT increased 16.1% due to the reasons above. Excluding the impact in fiscal 2007 of the $110 million write down of the Trading Post˜ mastheads, our EBIT would have increased 2.3% and total expenses would have increased 12.6%.

The increase in capex is largely related to the rebuilding of IT systems as part of the transformation strategy and the development of a new online website.

CSL New World financial summary

CSL New World financial summary

	Year ended 30 June			Year ended 30 June		
	2008	2007	**Change**	**2008**	2007	**Change**
	A$m	A$m	%	**HK$m**	HK$m	%
Total income	**917**	1,000	**(8.3%)**	**6,395**	6,109	**4.7%**
Total expense (excluding depreciation & amortisation)	**655**	717	**(8.6%)**	**4,565**	4,369	**4.5%**
EBITDA	**262**	283	**(7.4%)**	**1,830**	1,740	**5.2%**
Depreciation & amortisation	**247**	196	**26.0%**	**1,486**	1,095	**35.7%**
EBIT	**15**	87	**(82.8%)**	**344**	645	**(46.7%)**
CAPEX	**128**	80	**60.0%**	**937**	496	**88.9%**
EBITDA margin on sales revenue	**28.6%**	28.3%	**0.3**	**28.6%**	28.5%	**0.1**

Note: Amounts presented in HK$ have been prepared in accordance with A-IFRS.

Amounts presented in A$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from consolidation fair value adjustments.

EBITDA increased by 5.2% to HK$1,830 million whilst EBIT has decreased by 46.7% mainly driven by HK$540 million accelerated depreciation on existing networks which increased depreciation and amortisation expenses by 35.7% to HK$1,486 million. This increase was driven by the Company's investment in new network technologies and the corresponding decision to accelerate depreciation on some of the older network assets. Excluding this, EBIT growth was 37.1%. Acceleration of depreciation will also impact on fiscal 2009 results.

Total income increased by 4.7% to HK$6,395 million for the year ending 30 June 2008. This was driven predominantly by growth in handset sales; data; international voice; and mobile virtual network operator (MVNO) revenues. This was offset by a decline in local voice revenues which suffered from sustained tariff competition in the Hong Kong market.

Total expenses (excluding depreciation and amortisation) increased by 4.5% to HK$4,565 million mainly due to the following:

- goods and services purchased in line with the increased handset sales and higher data as well as higher programme marketing costs. This was partially offset by lower network and related costs including site cell rentals, handset subsidies and international disbursements; and
- other expenses increased mainly driven by promotion and advertising expenses associated with rebranding One2Free and launching 20 newly designed stores as at 30 June 2008.

The HK$ exchange rate had an unfavourable impact on revenue of A$128 million for the year ending 30 June 2008, which was offset by a favourable impact on expenses (including depreciation and amortisation) of A$124 million.

The increase in capital expenditure was predominantly driven by the investment in new network technologies.

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TelstraClear financial summary

TelstraClear financial summary

	Year ended 30 June			Year ended 30 June		
	2008	2007	**Change**	**2008**	2007	**Change**
	A$m	A$m	%	**NZ$m**	NZ$m	%
Total income	**562**	573	**(1.9%)**	**656**	657	**(0.2%)**
Total expense (excluding depreciation & amortisation)	**455**	501	**(9.2%)**	**531**	575	**(7.7%)**
EBITDA	**107**	72	**48.6%**	**125**	82	**52.4%**
Depreciation & amortisation	**127**	131	**(3.1%)**	**141**	142	**(0.7%)**
EBIT	**(20)**	(59)	**66.1%**	**(16)**	(60)	**73.3%**
CAPEX	**96**	115	**(16.5%)**	**113**	131	**(13.7%)**
EBITDA margin on sales revenue	**19.0%**	12.6%	**6.4**	**19.1%**	12.5%	**6.6**

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

For the year ended 30 June 2008, revenue declined by 0.2% to NZ$656 million. The primary driver of this decline was a mobile agency agreement that was terminated at 30 June 2007 with residual revenue continuing only part way through the current fiscal year. Excluding the impact of this, the ongoing business remains strong due to:

- the Consumer services provided on the Hybrid Fibre Coaxial (HFC) Cable Network in Wellington and Christchurch, with year on year revenue growth of 20%. Broadband penetration has increased by 13 percentage points during the year and is at world leading levels with 64% of the HFC customer base now broadband enabled; partially offset by:
- a decline in calling revenues as a result of competitor led price erosion.

Total expenses (excluding depreciation and amortisation) decreased by 7.7% to NZ$531 million as a result of:

- a reduction in labour costs, network payments and other operating costs. This was delivered by operational efficiencies such as platform retirements and the renegotiation of contracts. The utilisation of shared services within the wider Telstra group also reduced costs within New Zealand;
- impairment costs reduced as fiscal 2007 included the shut down of a pilot mobile network in the provincial city of Tauranga amounting to NZ$17 million.

As a result, EBITDA increased by 52.4% to NZ$125 million, with an increase in EBITDA margin to 19.1% from 12.5% in the prior year.

The NZ$ exchange rate had an unfavourable impact on revenues by A$10 million year on year and a favourable impact on expenses by A$10 million to be EBIT neutral.

Capex has reduced by 13.7% to NZ$113 million due to the completion of major projects such as the Lower South Island network build and a targeted approach on network build out for connecting new customers.

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Statement of financial position

Statement of financial position

	As at 30 Jun 08 $m	30 Jun 07 $m	Change $m	2008/2007 (% change)
Current assets				
Cash and cash equivalents	**899**	823	76	**9.2%**
Other current assets	**4,614**	4,478	136	**3.0%**
Total current assets	**5,513**	5,301	212	**4.0%**
Non current assets				
Property, plant and equipment	**24,311**	24,607	(296)	**(1.2%)**
Intangible assets	**7,245**	6,639	606	**9.1%**
Other non current assets	**852**	1,290	(438)	**(34.0%)**
Total non current assets	**32,408**	32,536	(128)	**(0.4%)**
Total assets	**37,921**	37,837	84	**0.2%**
Current liabilities				
Borrowings	**2,055**	2,743	(688)	**(25.1%)**
Other current liabilities	**6,068**	6,653	(585)	**(8.8%)**
Total current liabilities	**8,123**	9,396	(1,273)	**(13.5%)**
Non current liabilities				
Borrowings	**13,444**	11,619	1,825	**15.7%**
Other non current liabilities	**4,109**	4,242	(133)	**(3.1%)**
Total non current liabilities	**17,553**	15,861	1,692	**10.7%**
Total liabilities	**25,676**	25,257	419	**1.7%**
Net assets	**12,245**	12,580	(335)	**(2.7%)**
Equity				
Equity available to Telstra entity shareholders	**12,017**	12,329	(312)	**(2.5%)**
Minority interests	**228**	251	(23)	**(9.2%)**
Total equity	**12,245**	12,580	(335)	**(2.7%)**

Our financial position remains strong for fiscal 2008 with net assets of $12,245 million as at 30 June 2008. This was a slight decline of 2.7% from fiscal 2007, as total liabilities increased at a higher proportion against total assets.

The movement in total assets of $84 million was primarily due to:

- cash and cash equivalents increased by $76 million to $899 million, resulting from an increase in surplus funds held by our offshore controlled entities. This was offset by a reduced level of liquid investments represented by bank bills and promissory notes (maturing in less than 90 days) decreasing by $109 million;
- other current assets increased by $136 million to $4,614 million, largely driven by increasing trade debtors consistent with higher revenue activity during the year. This was offset by a small decline in current network inventory and inventory on hand as stock has wound down following the peak of CDMA migration activities, and lower accrued revenue;
- property, plant and equipment decreased by $296 million to $24,311 million over the year as depreciation of communication assets exceeded additions. There were however significant additions within our information technology equipment category for servers relating to our IT transformation;
- our intangible assets comprise of goodwill and intangible assets internally generated and acquired. A year on year increment of $606 million to $7,245 million was driven by:
  - the development of new billing systems as part of our IT transformation program, focusing on customer care and billing as well as several other projects undertaken during the year;
  - goodwill on acquisition of 55% of the controlling stakes in two Chinese internet businesses, Norstar Media and Autohome/PCPop, in June 2008 contributed to the overall intangibles growth; offset by
  - foreign exchange movements for goodwill relating to our offshore entities, CSL New World and TelstraClear. The decline in goodwill was also driven by the sale of Telstra eBusiness in December 2007;
- other non current assets decreased by $438 million to $852 million driven largely by:

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- gross pension asset, which decreased by $632 million from last fiscal year. This decrease was due to the defined benefit expense of $198 million and an actuarial loss (recognised in equity) of $434 million caused by a lower fiscal 2008 defined benefit fund investment return of -5.7% against the assumed long term rate of 8.0%; offset by
- a net fair value revaluation gain on our interest rate and cross currency swaps which resulted from exchange rate impacts combined with the effect of having locked in lower debt margins on our derivatives (hedging our foreign currency borrowings) as compared to market rates applicable as at 30 June 2008. Note that this fair value revaluation impact will also affect the current and non current borrowings and other non current liabilities.

The movement in total liabilities of $419 million was primarily due to:

- total current and non current borrowings, excluding derivatives, increased by $1,137 million to $15,499 million in fiscal 2008. This is attributable to:
  - current borrowings declined by $688 million to $2,055 million as several borrowings matured and were refinanced, totalling $1,313 million. Offsetting these maturities was a transfer from non current to current of $569 million for Telstra bonds and offshore loans due to mature in the next 12 months and a revaluation loss of $39 million from interest and foreign currency revaluations. This revaluation loss primarily relates to our borrowings which matured during the year including borrowings denominated in Japanese Yen, Singapore dollars, Euro (originally raised in Deutschmarks) and United States dollars; and
  - non current borrowings increased by $1,825 million to $13,444 million due to a combination of new borrowings, principally a domestic $1 billion 5 year bank loan issued in November 2007, $844 million (Euro 500 million) 5 year medium term Euro note issued in April 2008, $630 million (USD 600 million) US syndicate 5.25 year bank loan issued in June 2008, offset by a reclassification from non-current to current of $569 million and a revaluation gain of $73 million;
- other current liabilities decreased by $585 million to $6,068 million driven by lower payables and accruals associated with network build and IT transformation capital activities undertaken this year compared with fiscal 2007. There were also lower current tax liabilities for fiscal 2008 driven by higher tax deductible expenses for depreciation and research and development deductions relating to prior years, hence driving lower payables at year end; and
- other non current liabilities decreased by $133 million to $4,109 million largely due to a revaluation gain on our cross currency and interest rate swap payables offset by higher deferred tax liabilities.

Capital expenditure

- Capital expenditure has decreased mainly due to the completion of transformation programs in the prior year relating to the delivery of the Next G™ and Telstra Next IP® networks in addition to hardware purchased to support the IT transformation activity.

Operating capex by technology on an accruals basis

	Year ended 30 June			
	2008 **$m**	2007 $m	Change $m	**2008/2007 (% change)**
Fixed access	**820**	962	(142)	**(14.8%)**
IT	**1,252**	1,311	(59)	**(4.5%)**
Land & buildings	**295**	356	(61)	**(17.1%)**
Network core	**546**	714	(168)	**(23.5%)**
Products	**257**	399	(142)	**(35.6%)**
Sensis	**257**	237	20	**8.4%**
Transmission	**597**	584	13	**2.2%**
Wireless access	**443**	809	(366)	**(45.2%)**
International	**244**	207	37	**17.9%**
Other	**186**	300	(114)	**(38.0%)**
Operating capital expenditure	**4,897**	5,879	(982)	**(16.7%)**

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In the year ending 30 June 2008, our accrued operating capital expenditure decreased by 16.7% to $4,897 million due to:

- a reduction in the wireless access category of 45.2% or $366 million due to completion of the wireless transformation program to deliver the Next G™ national network in fiscal 2007. This was partly offset by increases in post transformation coverage and capacity growth in fiscal 2008;
- the network core program declined by 23.5% or $168 million due largely to the completion of much of the wireline transformation program in fiscal 2007 which transformed our existing voice, data, IP and DSL networks into a single IP based network. Most of the expenditure in the prior year related to IP enablement of our networks with only growth and some development components continuing in fiscal 2008;
- reduced expenditure of 14.8% or $142 million in the fixed access network due to the completion of the Telstra Next IP® transformation network rollout along with the broadband infrastructure program including a large rollout of Internet Protocol (IP) Digital Subscriber Line Access Multiplexors (DSLAMs), and the implementation of the Hybrid Fibre Coaxial (HFC) Cable infrastructure to support the deployment of BigPond® Extreme services, which all occurred through the prior fiscal year. Also, the Customer Access Network (CAN) upgrade program experienced lower volume demand in fiscal 2008. Offsetting this decrease were higher redevelopment programs in the current year due to higher than anticipated customer demand;
- the land and buildings program decreasing by 17.1% or $61 million driven by the Internet Data Centre program which was almost complete by the end of June 2007 with no new work in fiscal 2008, as well as the closure of the CDMA network in the second half of 2008 which resulted in space and power efficiencies; and
- IT expenditure decreasing by 4.5% or $59 million particularly from our IT transformation including hardware purchased in the prior year for programs such as customer care and billing transformation, Enterprise Data Warehouse and operation support systems. Expenditure continues to be strong for the overall IT transformation program as we move customers on to the new billing and support systems with most of the programs moving from the initial stages during the prior year to design and build phases in fiscal 2008.

Offsetting this is an increase in the following categories:

- international increased by 17.9% or $37 million, mainly resulting from the investment in new network technologies and the upgrade of the existing networks in CSLNW;
- Sensis increased by 8.4% or $20 million due to a program to upgrade Sensis systems and improve business processes across the Sensis core product chain; and
- transmission expenditure increased by 2.2% or $13 million reflecting higher demand driven growth in the access network mainly under the International Transmission capacity program. The increase reflects the build of the Sydney to Hawaii cable initiative to provide extra capacity for broadband use. In addition, there have been contributions to the Australia America Gateway (AAG) Network and additional capacity purchased on other wet segment cables. This was mostly offset by lower expenditure relating to the Ethernet aggregation network and the Next G™ mobiles network which were completed in the prior year with some residual work in fiscal 2008.

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Statement of cash flows

- Free cash flow grew by 33.0% or nearly $1 billion to $3.9 billion
- Cash flow from operating activities grew by 3.8%

Cash flow summary

	Year ended 30 June			
	2008 $m	2007 $m	Change $m	**2008/2007 (% change)**
Receipts from customers (inclusive of GST)	**27,246**	26,187	1,059	**4.0%**
Payments to suppliers and to employees (inclusive of GST)	**(16,871)**	(16,049)	(822)	**5.1%**
Net cash generated by operations	**10,375**	10,138	237	**2.3%**
Income taxes paid	**(1,531)**	(1,618)	87	**(5.4%)**
Net cash provided by operating activities	**8,844**	8,520	324	**3.8%**
Payments for property, plant and equipment	**(3,862)**	(4,657)	795	**(17.1%)**
Payments for intangible assets	**(1,465)**	(995)	(470)	**47.2%**
Capital expenditure (before investments)	**(5,327)**	(5,652)	325	**(5.8%)**
Investment expenditure	**(75)**	(330)	255	**(77.3%)**
Total capital expenditure	**(5,402)**	(5,982)	580	**(9.7%)**
Receipts from asset sales/proceeds from finance leases	**132**	329	(197)	**(59.9%)**
Loans repaid by/(provided to) jointly controlled and associated entities	**6**	(24)	30	**(125.0%)**
Interest received	**72**	56	16	**28.6%**
Proceeds from settlement of hedges in net investments	**73**	-	73	**-**
Distribution received	**130**	-	130	**-**
Net cash used in investing activities	**(4,989)**	(5,621)	632	**(11.2%)**
Operating cash flows less investing cash flows	**3,855**	2,899	956	**33.0%**
Movements in borrowings	**1,101**	1,803	(702)	**(38.9%)**
Repayment of finance lease principal amount	**(42)**	(42)	-	**0.0%**
Staff repayments of share loans	**15**	17	(2)	**(11.8%)**
Purchase of shares for employee share plans	**(129)**	-	(129)	**-**
Finance costs paid	**(1,213)**	(1,056)	(157)	**14.9%**
Dividends paid	**(3,476)**	(3,479)	3	**(0.1%)**
Dividends paid to minority interests	**(22)**	-	(22)	**-**
Net cash used in financing activities	**(3,766)**	(2,757)	(1,009)	**36.6%**
Net increase/(decrease) in cash and cash equivalents	**89**	142	(53)	**(37.3%)**

Net cash provided by operating activities

Our primary source of liquidity is cash generated from our operations. Net cash provided by operating activities includes receipts from trade and other receivables, payments made to suppliers and employees, and income tax payments including goods and services tax, paid and remitted to the Australian Taxation Office (ATO).

During fiscal 2008, operating cash flow increased by 3.8% or $324 million to $8,844 million driven by higher receipts generated during the year and lower tax payments, offset by higher payments made to suppliers and employees.

The increase in receipts from our customers of $1,059 million was due to higher sales revenue received during the year together with a lower comparative increase in trade receivables from fiscal 2007. The key drivers behind our increased revenue for the year were as a result of strong performances in our mobiles and broadband products.

The increase in payments to suppliers and employees of $822 million in fiscal 2008 has moved consistently with increases in expenditure, along with an increase in the payments of trade and other payables after higher IT related payables at the end of fiscal 2007. This has been somewhat offset by lower payments for inventories.

Income tax paid to the ATO was lower in fiscal 2008 than the prior year. This resulted from lower instalment payments made during the year from a reduced instalment rate in addition to tax refunds received from the ATO for prior year amended assessments.

Full year results and operations review - June 2008

Net cash used in investing activities

Net cash used in investing activities represents amounts paid for capital assets and investments, offset by cash receipts from the sale of capital assets and investments and other cash used/received from our investing activities.

During fiscal 2008, cash payments for capital activities before investments reduced by $325 million to $5,327 million. This represents a decline of 5.8% compared to the prior year. The higher spend in fiscal 2007 was largely driven by our transformation program and included significant additions in relation to the rollout of the Next G™ and Telstra Next IP® networks as well as infrastructure to support the IT transformation. As detailed in our discussions on capital expenditure on page 35, our capex program significantly reduced in the current year. Cash capex has not reduced by as much, as the peak of the expenditure in the last quarter of the prior year flowed through to payments in the first quarter of this year. Capital expenditure decreases were across the majority of technology categories.

Investment expenditure during the year primarily relates to the acquisition of 55% of two Chinese internet businesses with leading positions in the fast-growing online auto and digital device advertising sectors. We acquired the controlling stakes in the two businesses, Norstar Media and Autohome/PCPop, in June 2008 resulting in a cash outlay of $72 million (net of cash acquired). In fiscal 2007, investment expenditure relates largely to our acquisition of 55% of the SouFun group.

Our cash proceeds from asset sales in fiscal 2008 included $29 million from the sale of property, plant and equipment and intangibles, and $51 million from the sale of shares in controlled entities (net of cash disposed) including the sale of Telstra eBusiness in December 2007 for $48 million and a further $3 million of minor investment sales. In the previous fiscal year, the higher proceeds from the sale of shares in controlled entities were largely attributable to a divestment of the Australian Administration Services group for $208 million net of cash disposed. Other cash proceeds of $52 million during the year were driven by proceeds from finance lease principal amounts.

The distribution received during fiscal 2008 totalling $130 million relates to a capital distribution from our FOXTEL† partnership after the FOXTEL† Board refinanced to maintain a constant debt to EBITDA ratio.

Cash proceeds of $73 million from the settlement of hedges in net investments are attributable to the maturity of financial instruments used to hedge our foreign currency risk associated with investments in foreign operations. The gain is driven by the appreciation of the Australian dollar.

Free cash flow

Free cash flow increased by 33.0% or $956 million to $3,855 million for the year ended 30 June 2008. This is a turnaround from the prior fiscal year primarily driven by lower net cash used in investing activities (mainly capex) this year compared with fiscal 2007 combined with increased operating cash growth.

Net cash used in financing activities

Net cash used in financing activities increased by 36.6% or $1,009 million to $3,766 million in fiscal 2008. This was mainly resulting from lower net cash proceeds from borrowings in addition to higher payments towards finance costs and the purchase of shares for employee share plans taken up during the year.

Net proceeds from borrowings declined by 38.9% to $1,101 million for the year ended 30 June 2008, represented by the following:

- Increased cash proceeds from higher borrowings mainly to facilitate the cash outflow relating to our transformation initiatives. New borrowings during the year include a domestic $1 billion 5 year AUD bank loan issued in November 2007, $854 million (Euro 500 million) 5 year medium term Euro note issued in April 2008 and $608 million (USD 600 million) US syndicate 5 year bank loan issued in June 2008;
- Higher repayments of our overseas borrowings as loans totalling approximately $1 billion have matured during the year and were refinanced; and
- In fiscal 2007, cash proceeds of $373 million relating to Telstra Bonds and domestic loans were received. No equivalent activity has taken place in the current year.

Other net financing cash movements include:

- The purchase of 27.5 million Telstra shares on market in order to support the long term incentive plan, amounting to $129 million in fiscal 2008;
- An increase in finance costs of $157 million in fiscal 2008 resulting from higher average debt levels, in conjunction with the increase in interest rates; and
- $22 million cash outflow largely relates to a dividend paid by our offshore entity, CSLNW, to their minority shareholders.

Full year results and operations review - June 2008

Glossary

2GSM: Second generation global system for mobile communications - refers to the initial group of wireless technology standards that were digital instead of analogue.

3GSM: Third generation global system for mobile communications - is the evolution of the previous GSM technology to support voice, high-speed data and multimedia services.

3GSM 850Mhz: Third generation mobile technology operating on the 850Mhz spectrum.

ACCC: Australian Competition and Consumer Commission.

ADSL: Asymmetric digital subscriber line - high-speed broadband technology that provides access to the internet. It allows high-speed data to be carried over copper network phone lines.

ADSL 2+: Asymmetric digital subscriber line 2 plus - our upgraded national high-speed broadband network offering improved fixed line ADSL speeds.

A-IFRS: Australian equivalents of International Financial Reporting Standards.

ARPU: Average revenue per user.

BDSL: Business digital subscriber line - high-speed broadband data service.

CDMA: Code division multiple access - a mobile standard that provides voice, data, fax and short messaging services.

Churn: When subscribers move between telecommunication providers.

CPE: Customer premises equipment/environment - telephones or other service equipment physically located on the customer's premises rather than on the provider's premises or in between.

CSLNW: CSL New World Group.

EBIT: Earnings before interest and tax. This is a measure of company profitability.

EBITDA: Earnings before interest, tax, depreciation and amortisation. This is a measure of company profitability.

FTE: Full time equivalent.

HDSL: High bit rate Digital Subscriber Line.

HFC: Hybrid fibre coaxial cable - broadband access architecture using optical fibre between exchanges and hubs in suburban streets, and coaxial cables between the hubs and customers to carry FOXTEL† and BigPond® cable services.

HSDPA: High speed downlink packet access - this is an addition to the existing 3GSM network that supports high speed downlink packet access.

IP: Internet protocol - a standard set of rules for the carriage of digital information such as voice, video, data and images, across a global network.

IP core: The core element of a network that carries and logically splits voice, data and video using IP technology.

IPMAN: Internet protocol metro area network. A Telstra IP solution product providing a high-speed data networking solution that offers a cost-effective means of interconnecting offices throughout Australia. IPMAN solutions provide customers with 'bandwidth-on-demand', the ability to dynamically change the data access capacity of their network from 2Mbps up to 1000Mbps from their desk, via the Internet.

IPWAN: Internet protocol wideband area network. A Telstra IP solution product, providing Corporate Virtual Private Networks to customers. IP WAN uses Telstra's private network infrastructure to combine all of a company's communications between sites and mobiles.

ISDN: Integrated services digital network - a digital service providing switched and dedicated integrated access to voice, data and video. An early form of digital technology, its use has been largely surpassed by ADSL.

MBM: Market-based management.

MTA: Mobile terminating access rate - as determined by the ACCC.

NBN: National Broadband Network.

Next G™: Telstra's trade mark name for its 3G mobile network that operates on the 850Mhz spectrum. This third generation network is technically known as '3GSM 850Mhz'.

Next IP™: Telstra's trade mark name for the integrated national internet protocol network.

Full year results and operations review - June 2008

PSTN: Public switched telephone network - referred to as the ‘fixed line’ network, it is the standard home telephone service delivered over copper wires.

Resale Churn: a movement of a fixed service between Telstra Wholesale and Telstra Retail, or between Telstra Wholesale resellers on the Telstra access network.

SARC: Subscriber acquisition and recontracting cost - a measure of the upfront costs that we incur in the acquisition and retention of our postpaid and prepaid mobile customers.

SIO: Services in operation.

SMS: Short message service - the text based message service on mobile phones.

ULL: Unconditioned or unbundled local loop - the local loop is the copper wire that connect the Telstra exchanges to individual properties. We are required to provide access to this wire to other operators. Other telecommunications providers can provide customers with their own services, like broadband or a telephone service, by installing their own equipment in our exchanges and connecting to the ‘loop’.

USO: Universal service obligation - ensures that all people in Australia have reasonable access, on an equitable basis, to the standard telephone service and payphones.

VAS: Value added services.

WAN: Wide area network.

WBB: Wireless broadband. A wireless broadband SIO is defined as any customer with a BigPond® wireless device or a mobile wireless broadband product on a plan with a data access fee of $29 or above.

Corporate Governance and Board Practices 2008

Demonstrating excellence in corporate governance

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

Our corporate objective is to create long-term shareholder value through providing integrated communication, information and entertainment services and customer-focused solutions.

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

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

We continue to refine and improve our corporate governance systems. The Board evaluates and, where appropriate, implements relevant proposals with the aim of ensuring that we continue to demonstrate our commitment to good corporate governance, having regard to developments in market practice expectations and regulation. Following a review of Telstra's governance framework, in light of the release of the revised ASX Corporate Governance Principles & Recommendations (2nd ed) (Revised Principles & Recommendations) in August 2007, your Board has made the decision to adopt the Revised Principles & Recommendations for the 2008 financial year. This is ahead of the date reporting against those Revised Principles & Recommendations becomes mandatory. To this end, your Board approved revisions to the Charters for the Board and each Board Committee in November 2007. Revisions to the Charters were also made at that time to reflect the Company's delisting from the New York Stock Exchange (NYSE) and deregistration from US Securities and Exchange Commission (SEC).

We comply with the Revised Principles & Recommendations and the disclosures set out in this statement reflect the revised content of the Board and Board Committee Charters.

Further information regarding our corporate governance and Board practices, including copies of key policies and Charters, can be found on our website www.telstra.com.

Corporate Social Responsibility

Acting ethically and responsibly in all we do

Telstra's commitment to corporate responsibility begins with a simple and straight-forward commitment to principled decision-making in all that we do.

From a principled perspective, your Company's primary corporate responsibilities are to:

- Provide good jobs at good wages;
- Serve the needs of our customers;
- Increase shareholder value and protect shareholder interests;
- Provide good stewardship of the environment - first and foremost by conservation (i.e. by increasing efficiency in the way we use resources), reducing operating costs, and minimising our environmental footprint;
- Contribute resources - people, money, technology, products and services - to support the communities in which we operate and the needs of the larger society; and
- Advance the national interest by strengthening the capacity of the nation's telecommunications nerve centre, operated by Telstra, and providing the nation a foundation for economic growth, productivity improvement, sustainable prosperity, and global competitive advantage.

Telstra produces a comprehensive corporate social responsibility report each year and it is available on our website.

Shareholder Communications

Staying in touch

Telstra works hard to keep you, our shareholders, informed about the performance of your Company. Telstra's shareholder communications are founded on the principle that Telstra is owned by its shareholders and must protect and advance their best interests.

Telstra is committed to:

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

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

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

- Maintaining an investor relations website;
- Maintaining a corporate blogging and advocacy website, www.nowwearetalking.com.au, which informs shareholders about the digital revolution and how it can improve our quality of life in the 21st century. nowwearetalking has facilitated the public debate about the future of Australian telecommunications;
- Writing directly to you, our shareholders, twice a year about the half-year and annual financial results and other issues that affect your investment;
- Placing all announcements made to the market, including transcripts of investor and media briefings and related information, on our website;
- Webcasting and podcasting important events such as briefings and the annual general meeting; and
- Using electronic communications to advise investors, who have provided their email address, of significant matters.

Telstra's Shareholder Business Principle and the Shareholder Communications Policy are available on our website.

Corporate Governance and Board Practices 2008

The Board of Directors

Providing strategic direction

Role and responsibilities of the Board

Your Board has helped oversee the Company through one of the most challenging transformation projects ever attempted by either a major telecommunications company or a major Australian company.

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

- Defining the corporate objective which is the foundation for all the actions and decisions of the Board and management;
- Providing strategic direction to the Company by approving the corporate strategy and performance objectives, monitoring developments and approving any variations;
- Approving significant business decisions;
- Approving the annual corporate plan;
- Overseeing the review and update of corporate governance practices and procedures as necessary to support our commitment to best practice in corporate governance in Australia and globally;
- Monitoring and influencing Telstra's culture, reputation and ethical standards and encouraging a robust whistleblowing framework;
- Driving Board succession planning;
- Ensuring appropriate resources are available to senior management;
- Appointing, assessing the performance of and determining the remuneration of the CEO, overseeing the performance of key management personnel and any other members of the management team the Remuneration Committee determines should be subject to its supervision and reviewing management succession plans and senior management performance measures and remuneration arrangements;
- Overseeing shareholder reporting and communications;
- Requiring appropriate compliance frameworks and controls to be in place and operating effectively;
- Monitoring the integrity of internal control and reporting systems and monitoring strategic risk management systems;
- Approving Telstra's statutory accounts and overseeing its financial position as well as internal and external audit activities; and
- Approving decisions concerning Telstra's capital and determining the dividend policy.

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

Your Board has delegated responsibility for day-to-day management of the Company to the CEO and has put 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 delegation structure from the CEO to Telstra employees.

Board membership, size and composition

A broad range of relevant experience

Your Board has a broad range of relevant experience in Australian and international business and in telecommunications.

The Board's wide experience enables it to discharge its legal obligations, perform the roles set out in its Charter and deliver the corporate objective – as well as seeking new ways of driving performance through innovation and entrepreneurship.

Telstra's Constitution allows a minimum of three Directors. The maximum number of Directors is to be fixed by your Directors, but may not be more than thirteen unless you, our shareholders, in a general meeting, resolve otherwise. Your Directors must not determine a maximum which is less than the number of Directors in office at the time any such determination takes effect.

Your Board's policy is that the Board needs to have a mix of Directors who together provide a range of complementary skills and appropriate experience to be well equipped to help the Company navigate the range of challenges that we face.

The Board retains an executive search firm to assist in the identification and selection of new directors.

Corporate Governance and Board Practices 2008

Your Board undertakes a three-stage consideration of external nominations in selecting new directors for your Board.

First, we consider the general qualifications and experience of the candidate to serve on the Board of a major public company like Telstra. Second, we consider the need, if any, that the Board has for the particular qualifications that the candidate brings. After clearing these threshold considerations we undertake a comprehensive assessment of whether the candidate satisfies the requirements of the Board's Charter and the specific criteria agreed by the Board.

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

Your Directors may appoint an individual to be a Director, either as an addition to the existing Directors or to fill a casual vacancy up to the maximum number. Any new Director appointed by your Board during the year is required to stand for election at the next annual general meeting. Individuals may also nominate themselves for election as a Director at the annual general meeting.

All new Directors participate in a formal induction process co-ordinated by the Company Secretary. Formal letters of appointment are provided to all new non-executive Directors setting out the key terms and conditions of their appointment.

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

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

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

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

Role of the Chairman

Providing leadership

Telstra's Chairman, Donald McGauchie AO, is an independent non-executive Director. He has been a Director of Telstra since 1998 and was elected Chairman in 2004. The Chairman attends the meetings of each Board Committee, is a member of the Remuneration Committee and Chairman of the Nomination Committee.

The Chairman must be an independent Director and is appointed by your Board. The Chairman's principal responsibilities are to ensure that the Board fulfils its obligations under the Board Charter and as required under relevant legislation and to provide appropriate leadership to your Board and Telstra. The Chairman's specific responsibilities include:

- Representing the views of your Board to all shareholders and maintaining appropriate ongoing contact with major shareholders to ensure your Board understands their views;
- Establishing the timetable and working with the CEO and Company Secretary to agree the agenda for Board meetings;
- Chairing Board meetings, non-executive Directors' meetings and shareholder meetings;
- Facilitating Board and non-executive Directors' meetings to ensure:
  - The discussions are conducted in an open and professional manner where Directors are encouraged to express their views, leading to objective, robust analysis and debate; and
  - The core issues facing Telstra are addressed;
- Working with the CEO to ensure the CEO provides the Board with the information it requires to contribute effectively to the Board decision making process and to monitor the effective implementation of Board decisions;
- Maintaining a regular dialogue and mentoring relationship with the CEO and senior management, serving as the primary link between your Board and management and providing continuity between Board meetings;
- Guiding and promoting the on-going effectiveness and development of your Board and individual Directors; and

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- Ensuring the meetings of shareholders are conducted in an open and proper manner with appropriate opportunity to ask questions.

Director Independence

Unfettered and independent judgement

Your Board recognises the important contribution independent Directors make to good corporate governance.

All Directors, whether independent or not, are required to act in the best interests of the Company and to exercise unfettered and independent judgment.

Your Board's current policy is that the CEO is the only executive Director and that the non-executive Directors should also be independent Directors, as defined in the Board Charter. With the exception of the CEO, all Directors are non-executive Directors and have been determined by your Board to be independent.

The Board, at least annually, assesses the independence of each Director. In assessing each Director's independence, your Board has regard to the specific set of considerations set out in the Board Charter. These considerations are consistent with those set out in the Revised Principles & Recommendations.

In our view, consistent with the Revised Principles & Recommendations, independent directors are not members of management and are free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the exercise of the Director's unfettered and independent judgment and ability to act in the best interests of the Company.

Materiality is assessed on a case-by-case basis from the perspective of both Telstra and the relevant Director and consideration is given to both qualitative and quantitative factors. In determining what is material in a quantitative sense, the Board regards an interest of 5% or more of the relevant interest being assessed (eg of net assets, revenue, equity or expense) as potentially material. Your Board's Charter provides that if at any time during the year a Director ceases or may have ceased to be independent he/she is required to advise the Chairman immediately. Where the Board determines a Director is no longer independent, an announcement will be made to the market.

During fiscal 2008, no non-executive Director had any relationships that could materially interfere, or be perceived to materially interfere with the Director's unfettered and independent judgement.

Board Meetings

Regular review

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

Details of the number of meetings held by your Board during fiscal 2008 and attendance by Board members are set out in the Directors' report.

Board access to management and independent professional advice

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

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

In addition, each Director has the right to seek independent professional advice at Telstra's expense, subject to the prior approval of the Chairman.

Corporate Governance and Board Practices 2008

Performance Evaluation

Your Board annually reviews its performance (including its performance against the requirements of its Charter), the performance of individual Committees and the performance of individual Directors. In fiscal 2008, your Board engaged an external consultant to facilitate this review.

The review comprised a short form questionnaire, analysis of the time spent by each Director, the Board and individual Committees as well as one-on-one interviews with Board members and Group Managing Directors. The findings and recommendations were presented to the August 2008 Board meeting.

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

Declaration of interests

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

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

A Director who believes that he or she may have a conflict of interest or material personal interest in a matter, is required to disclose the matter in accordance with the relevant Corporations Act and Constitutional requirements and follow the procedures developed by the Board to deal with such circumstances.

Board Committees

Detailed review

Four standing Committees assist your Board:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee; and
- Technology Committee.

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

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

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

- Undertakes an annual assessment of its performance against the requirements of its Charter and provides that information to the Board; and
- Reviews and assesses the adequacy of its Charter annually, discusses any required changes with your Board and ensures any revisions to the Charter are approved by your Board.

In accordance with its policy of regular review, revisions to the Charters for the Board and each Committee were approved by your Board in November 2007.

Audit Committee

Role and responsibilities of the Audit Committee

The Audit Committee:

- Assists your Board in discharging its responsibilities by monitoring and advising on:
  - Financial reporting including:
    - The integrity, truth and fairness of the view given by Telstra's financial statements;

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  - The integrity of Telstra's financial systems and processes; and
  - The appropriateness of Telstra's accounting policies and practices and consistency with current and emerging accounting standards.
- Telstra's overall risk management process and the management of specific risk areas as directed by your Board;
- The effectiveness and operation of Telstra's Financial Reporting Compliance Framework;
- The effectiveness and operation of our internal control environment;
- Compliance with legal and regulatory requirements and Company policies;
- The external audit including the external auditors' qualifications, scope, independence and performance;
- The non-audit services disclosures to be made in the annual report including the reasons for being satisfied that the auditors' independence was not compromised by the provision of those services;
- The objectivity and performance of the internal audit function;
- The structure and operation of our corporate governance framework and related disclosures;

- Provides a forum for communication between your Board, management and both the internal and external auditors; and
- Provides a conduit to your Board for external advice on audit, risk management and compliance matters.

During the 2008 financial year, the Audit Committee comprehensively addressed its responsibilities under its Charter, which is available on our website.

Composition and membership of the Audit Committee

It is your Board's policy that the Audit Committee is comprised of at least three independent Directors.

Each member is expected to:

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

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

In addition, the Chairman of the Audit Committee must not be the Chairman of the Board and no Director may serve as a member of the Audit Committee if that Director serves on the Audit Committee of more than two other public companies.

Meetings of the Audit Committee

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

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

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

Relationship with external auditor

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

- Reviewing and agreeing on the terms of engagement for the external auditors prior to the commencement of each annual audit of the financial statements;
- Reviewing the external auditors' proposed audit scope and audit approach, including materiality levels, for the current year in the light of Telstra's circumstances and changes in regulatory and other requirements;
- Approving the provision of recurring audit services as part of the annual approval of the audit plan, and
- Approving the process for the provision of all other audit and non-audit services not approved as part of the audit plan.

The Audit Committee provides an annual, formal, written report detailing the nature and amount of any non-audit services rendered by Ernst & Young during the most recent fiscal year and an explanation of how the provision of those non-audit services

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are compatible with auditor independence. Details of the process for approving and the amounts paid or payable to the auditor for non-audit services provided during the year are disclosed in Note 8 to the financial statements.

Telstra shareholders appointed Ernst & Young as the Company's external auditor at the 2007 Annual General Meeting following the resignation of the Australian National Audit Office at the conclusion of T3. The Audit Committee will consider whether to offer the external audit for tender for the 2010 financial year.

In accordance with the requirements of the Corporations Act 2001, at the completion of a five year term, the lead Ernst & Young audit partner rotated upon the signing of the audit opinion for the 2007 financial year.

The external auditors attend the annual general meeting and are available to answer your questions as shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Nomination Committee

Role and responsibilities of the Nomination Committee

The Nomination Committee monitors and advises on:

- Board composition and performance;
- Director independence; and
- Appointment of the CEO.

During the 2008 financial year, the Nomination Committee comprehensively addressed its responsibilities under its Charter.

Composition and membership of the Nomination Committee

It is your Board's policy that the Nomination Committee is comprised of at least three independent Directors including the Chairman of the Board.

Each member is expected to:

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

Meetings of the Nomination Committee

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

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

The Board's policy and procedure for the selection, nomination and appointment of Directors is discussed in further detail on pages 43 and 44.

Remuneration Committee

Role and responsibilities of the Remuneration Committee

The Remuneration Committee monitors and advises on:

- Board remuneration;
- CEO performance and remuneration;
- The performance and remuneration of key management personnel and any other members of the management team the Remuneration Committee determines should be subject to its supervision;
- Remuneration strategies, practices and disclosures; and
- Employee share and option plans.

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

During the 2008 financial year, the Remuneration Committee comprehensively addressed its responsibilities.

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Composition and membership of the Remuneration Committee

It is your Board's policy that the Remuneration Committee is comprised of at least three independent Directors, including the Chairman of the Board.

Each member is expected to:

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

Meetings of the Remuneration Committee

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

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

Our Remuneration Framework

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

- Board members; and
- Senior executives who were the key management personnel of the Company during fiscal 2008.

The Remuneration Committee seeks and receives extensive external advice from independent remuneration consultants in determining Telstra's remuneration practices.

Each year, your Board reviews the CEO's performance against agreed measures, broader expectations and other relevant factors. Each year, the CEO undertakes a similar exercise in relation to senior management. The results of the CEO's annual performance review of senior management are considered by your Board. The process for evaluating the performance of the CEO and senior executives is discussed in greater detail in our Remuneration Report (particularly in the context of determining levels of compensation and entitlements to performance based remuneration). In fiscal 2008, the performance of the CEO and key management personnel was reviewed in the manner set out in the Remuneration Report.

Technology Committee

The Technology Committee allows the Board to review technology developments which can enhance Telstra's business in greater detail than is possible at Board meetings. The Committee's purpose is educative only.

Risk Oversight and Management

Maximising opportunities and minimising negatives

Risk management and oversight is integral to Telstra's business, and managing risks effectively enables the Company to achieve its objectives and create value for our shareholders, satisfy our customers, protect our staff, our assets, the community, and the natural environment. Telstra's commitment is to manage those risks that arise in the course of Telstra's business to an acceptable level, so as to maximise opportunities and minimise negative outcomes.

Management and staff within each part of the business have primary responsibility to proactively identify risks, choose and implement methods to treat these risks, and monitor their control effectiveness. They periodically review and update the Audit Committee as to their significant business risks. Telstra also has groups assisting to manage and report in specialised areas such as Compliance, Climate Change, Treasury, Insurance, Credit and Regulatory risks.

The Risk Management and Assurance group develops and promotes a common risk management language and approach. This group is also responsible for conducting independent risk assessments in key areas and reporting its findings on significant risks with an evaluation as to the adequacy and effective operation of controls to senior management and the Audit Committee.

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Your Board monitors the integrity of internal control and reporting systems and monitors the effectiveness of the management of strategic, financial, operational and compliance risks. The Audit Committee oversees the management of risk within the Company, approves the Company-wide risk policy, and reviews trends in the risk profile. Through management reports and independent assessments undertaken by the Risk Management and Assurance function, the Audit Committee monitors the adequacy and operating effectiveness of the controls that seek to ensure significant risks are managed to an acceptable level.

For the financial year ended 30 June 2008, the CEO and Chief Financial Officer ('CFO') have provided the Board with the certifications required by the Corporations Act and those set out in the Revised Principles & Recommendations.

Specifically, your Board has received:

- Reports from management as to the effectiveness of the Company's management of its material business risks;
- The declaration from the CEO and CFO required in accordance with section 295A of the Corporations Act that the Company's financial reports for the year ended 30 June 2008 presented a true and fair view of the Company's financial position and performance were in accordance with relevant accounting standards.
- Assurance from the CEO and CFO that the section 295A declaration was founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Telstra Values, Telstra Business Principles, Code of Conduct and other Company policies

Reinforcing appropriate standards

We have a number of internal operating policies and principles which promote ethical and responsible decision making and timely and balanced disclosure.

We provide guidance to our Directors, senior management and employees on the practices, principles and standards of corporate and personal behaviour required of all of our officers and employees in performing their daily business activities through our Company Values, the Telstra Business Principles and our Company policies, including our Code of Conduct. The Telstra Business Principles, the Code of Conduct and other Company policies reinforce the standards of appropriate business and ethical behaviour expected from all employees. A mandatory training program for all employees is in place to reinforce these standards.

Our Values, the Telstra Business Principles and our Code of Conduct are available on our website.

Whistleblower policy and service

Accountability, integrity and leadership

We have a whistleblower policy and a confidential whistleblower service which provides our staff with an avenue to raise concerns they might have with behaviour that is potentially illegal, improper or unethical. The whistleblowing process is supported by an independent service provider who specialises in receiving sensitive reports or disclosures. All reports or disclosures are treated as confidential and reports can be made anonymously. Reports are referred to our Ethics Committee which is made up of senior managers and oversees the investigation of these matters and the implementation of any recommendations considered appropriate.

The Ethics Committee's Charter was reviewed by the Audit Committee during the 2007 financial year. The Audit Committee oversees the whistleblowing program, receives regular reports from the Ethics Committee, and provides an escalation channel for the Ethics Committee where required. Our whistleblowing policy reflects the Telstra values of accountability, integrity and leadership, supports our Code of Conduct and complements existing management structures and functions.

Share Trading

Protecting price-sensitive information

Telstra's share trading policy prohibits Directors, the CEO, senior management and certain other employees (and their associates) from engaging in short-term trading of our securities, including the acquisition of derivatives and financial and other products issued or created over Telstra's shares by us or any third party. This policy also restricts the buying or selling of Telstra securities to three "window" periods (between 24 hours and one month following the release of the annual results, the release of the half-yearly results and the close of the annual general meeting) and at such other times as the Board permits. Trading during these window periods is subject to the overriding requirement that buying or selling of Telstra securities is not permitted at any time by any person who possesses price-sensitive information which is not generally available in relation to those securities.

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

The Company has now implemented a policy which, from 1 October 2008, prohibits Directors, senior management and other designated people from using Telstra shares as collateral in any financial transaction (including margin loan arrangements) or any stock lending arrangement. Arrangements in place prior to 1 October 2008 which would otherwise be prohibited by this policy are permitted to continue until 1 October 2009.

Further, Directors, the CEO, senior management and relevant employees are prohibited from entering into arrangements which effectively operate to limit the economic risk of their security holdings in shares allocated under our share plans during the period the shares are held in trust.

Market disclosure

Keeping shareholders fully informed

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

The procedure provides that:

- Ultimate management responsibility for continuous disclosure rests with the CEO and the CFO;
- The responsibilities of the Continuous Disclosure Committee (the Committee), which is chaired by the Company Secretary, include:
  - Ensuring there is an adequate system in place for the disclosure of all material information to the ASX; and
  - Advising the CEO and the CFO in relation to the disclosure of information reported to the Committee;
- The Committee's membership includes the Company Secretary, a representative of Public Policy and Communications, the General Counsel - Finance and Administration, a representative from Finance and Administration and the General Manager - Investor Relations or their delegates;
- Senior management (including Group Managing Directors other than the CFO and their direct reports, all Group Financial Controllers and certain legal and regulatory counsel) must immediately inform the Committee of any potentially price-sensitive information or proposal as soon as they become aware of it;
- Where material information has originated in the office of the CEO or the CFO or has been reported directly to them, the CEO or CFO may, at their discretion, seek the advice of, or a recommendation from, the Committee in deciding whether to make or approve an ASX announcement in relation to that material information; and
- If the matter is disclosable, an announcement is prepared and immediately sent via the Company Secretary's office electronically to all relevant stock exchanges.

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

- Every Director is made aware of our continuous disclosure obligations upon taking office and each member of senior management undertakes training with the General Counsel - Finance and Administration, in relation to our continuous disclosure obligations;
- A weekly email is sent to all senior management reminding them to notify the Committee immediately if they become aware of any potentially price-sensitive information or proposals;
- The Committee maintains a list of issues which, although not yet disclosable, are monitored in case they become disclosable;
- All proposed media releases and external speeches and presentations to be made by senior management are reviewed by internal legal counsel to determine whether they should be disclosed;
- A specific information paper is prepared for each Board meeting summarising ASX announcements and details of significant matters considered by the Committee but judged not to be disclosable; and

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- The Company Secretary's office maintains a record of all market announcements made. The announcements are also posted on our website after market release is confirmed.

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

Legal and Regulatory Compliance

Telstra is committed to conducting its business in compliance with its legal and regulatory obligations. Compliance with these obligations is not just a legal requirement but is integral to the Company's commitment to its employees, customers, shareholders and the community. Compliance is a key element of the Telstra Values which are the foundation for the cultural priorities and the way Telstra pursues its vision and mission. The Company seeks to achieve this through a focus on policies, procedures, work instructions and controls that are intended to ensure that Telstra's actions, and those of its employees, are in accordance with these requirements.

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

The C&CEF brings together Telstra's business units and the individual subject matter specific compliance programs in an integrated, consistent and collaborative way.

Telstra has adopted a comprehensive program-based approach to compliance. This has been fundamental to its approach to compliance for many years and this continues to be a key element of the C&CEF. Subject matter experts work with the business to help understand the many legal and regulatory obligations and responsibilities faced by the Company and translate them into appropriate practice. There are 13 programs under the C&CEF including health, safety and environment, privacy, trade practices, diversity and industry regulation.

This program-based approach at a corporate level is supported by a network of senior personnel appointed to the role of Business Unit Compliance Manager. They are, in turn, supported by other personnel at the business unit level with specific responsibility for the implementation of the compliance programs within their business unit. This structure has been designed with the aim of ensuring that each business unit's operations are conducted in accordance with the Company's obligations in an efficient, effective and integrated manner that reflects that business unit's individual risk profile.

A number of programs, including the privacy compliance program, are subject to periodic, independent external audits which are intended to:

- Ensure that our approach is comprehensive, robust and rigorous; and
- Provide an objective view of areas for further improvement.

Political and Other Donations

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

We make donations and contribute funds to community and other organisations as part of our approach to corporate social responsibility. Further discussion of your Company's corporate social responsibility is on page 42**.**

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Compliance with the Revised Principles & Recommendations

The table below is provided to facilitate your understanding of Telstra's compliance with the Revised Principles & Recommendations.

Recommendation		Please refer to the following sections of the Corporate Governance Statement
Recommendation 1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓	See "Role and Responsibilities of the Board". See also the Board Charter including Appendix 1 which is available in full from our website.
Recommendation 1.2 Companies should disclose the process for evaluating the performance of senior executives.	✓	See the Remuneration Report at page 75 which forms part of the Directors' Report.
Recommendation 2.1 A majority of the board should be independent directors.	✓	See "Director Independence".
Recommendation 2.2 The chair should be an independent director.	✓	See "Role of the Chairman".
Recommendation 2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	✓	See "Role of the Chairman".
Recommendation 2.4 The board should establish a nomination committee.	✓	See "Nomination Committee". See also the Nomination Committee Charter which is available in full from our website.
Recommendation 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓	See "Performance Evaluation"
Recommendation 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: • The practices necessary to maintain confidence in the company's integrity; • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✓	See "Telstra Values, Telstra Business Principles, Code of Conduct and Other Company Policies". See also the Telstra Business Principles and Code of Conduct which are available in full from our website.
Recommendation 3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	✓	See "Share Trading". See also the Telstra Share Trading Policy which is available in full from our website.
Recommendation 4.1 The board should establish an audit committee	✓	See "Audit Committee".
Recommendation 4.2 The audit committee should be structured so that it: • Consists only of non-executive directors; • Consists of a majority of independent directors; • Is chaired by an independent chair, who is not chair of the board; • Has at least three members.	✓	See "Audit Committee".
Recommendation 4.3 The audit committee should have a formal charter.	✓	See "Audit Committee". See also the Audit Committee Charter which is available in full from our website.
Recommendation 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓	See "Market Disclosure". See "Telstra Values, Telstra Business Principles, Code of Conduct and Other Company Policies".

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Recommendation		Please refer to the following sections of the Corporate Governance Statement
Recommendation 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓	See “Shareholder Communications”. See “Telstra Values, Telstra Business Principles, Code of Conduct and Other Company Policies”. See also the Shareholders Telstra Business Principle and the Shareholder Communications Company Policy which are available in full from our website
Recommendation 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓	See “Risk Oversight & Management”. See also the Telstra Business Principles which are available in full from our web site.
Recommendation 7.2 The board should require management to design and implement the risk management and internal control system to manage the company’s material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company’s management of its material business risks.	✓	See “Risk Oversight & Management”.
Recommendation 7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓	See “Risk Oversight & Management”.
Recommendation 8.1 The board should establish a remuneration committee.	✓	See “Remuneration Committee”. See also the Remuneration Committee Charter which is available in full from our website.
Recommendation 8.2 Companies should clearly distinguish the structure of non-executive directors’ remuneration from that of executive directors and senior executives.	✓	See the Remuneration Report at page 75 which forms part of the Directors’ Report.

Shareholder Information

Listing Information

Markets in which our shares are traded

We are listed, and our shares are quoted on the Australian Securities Exchange (**ASX**) and on the New Zealand Stock Exchange (**NZX**). A number of our shares are unquoted. These unquoted shares are held by the Future Fund Board of Guardians (**Future Fund**).

On 15 May 2008, instalment receipts (**IRs**) which were quoted on the ASX and NZX as part of the Telstra 3 Sale of Commonwealth Shares in Telstra, ceased trading. An IR was evidence of a beneficial interest in a Telstra share. Shares underlying IRs were transferred to the beneficial owner following payment of the final instalment amount to the Government by 29 May 2008.

Our securities were initially listed on 17 November 1997. This followed the sale by the Commonwealth of 33.3% of its shares in the Company. Subsequently on 18 October 1999, the Commonwealth sold an additional 16.6% of the shares in the Company. On 20 November 2006, the Commonwealth sold a further 31.1% of its shares in the Company and transferred the remaining 17.1% to the Future Fund.

Under the terms of the Telstra 3 Share Offer, Telstra shares transferred to the Future Fund were held in escrow for a two year period commencing on 20 November 2006 during which time the shares were not able to be sold, subject to some limited exceptions. The Future Fund shares will be released out of escrow on 20 November 2008.

Markets on which our debt securities are listed

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

Distribution of securities and security holdings

The following table shows the number of listed and unlisted shares on issue at 5 September 2008.

Title of Class	Identity of person or group	Amount owned	%
Unlisted Shares	Future Fund[1]	1,978,481,631	15.90
Listed Shares	Listed shareholders	10,464,592,726	84.10
		12,443,074,357	100.00

(1) The Future Fund also holds 21,894,459 listed shares.

Distribution of shares

The following table summarises the distribution of our listed shares as at 5 September 2008:

Size of holding	Number of Shareholders	%	Number of Shares	%
1-1,000	724,016	50.37	422,545,160	4.04
1,001-2,000	262,240	18.24	381,090,894	3.64
2,001-5,000	277,695	19.32	877,674,780	8.39
5,001-10,000	108,036	7.52	732,817,909	7.00
10,001-100,000	63,087	4.39	1,356,040,312	12.96
100,001 and over	2,294	0.16	6,694,423,671	63.97
	1,437,368	100.00	10,464,592,726	100.00

The number of shareholders holding less than a marketable parcel of shares was 11,123 holding 763,890 shares.

Shareholder Information

Twenty largest shareholders as at 5 September 2008

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

Shareholders		Number of Shares	% of issued shares
1	Future Fund Board Of Guardians[1]	2,000,376,090	16.08%
2	National Nominees Limited	1,395,653,698	11.22%
3	HSBC Custody Nominees (Australia) Limited	1,351,583,383	10.86%
4	J P Morgan Nominees Australia Ltd	1,101,606,829	8.85%
5	Citicorp Nominees Pty Limited	600,170,749	4.82%
6	RBC Global Services Australia Nominees Pty Ltd	283,775,703	2.28%
7	Cogent Nominees Pty Limited	224,044,549	1.80%
8	ANZ Nominees Limited	164,487,368	1.32%
9	Queensland Investment Corporation	126,125,220	1.01%
10	AMP Life Limited	114,842,141	0.92%
11	Equitas Nominees Pty Ltd	65,989,853	0.53%
12	Neweconomy Com Au Nominees Pty Limited	54,637,562	0.44%
13	Australian Foundation Investment Company Limited	49,628,107	0.40%
14	Australian Reward Investment	47,100,751	0.38%
15	ANZ Nominees Limited	44,203,305	0.36%
16	Telstra ESOP Trustee Pty Ltd	41,696,450	0.34%
17	UBS Nominees Pty Ltd	40,593,799	0.33%
18	UBS Wealth Management Australia Nominees Pty Ltd	38,234,391	0.31%
19	Telstra Growthshare Pty Ltd	36,091,452	0.29%
20	Telstra Sale Company Limited	35,397,360	0.28%
Total		7,816,511,760	62.82%

(1) This number includes both listed and unlisted shares in Telstra.

Substantial shareholders

As at 5 September 2008, other than the Future Fund, we do not have any substantial shareholders.

Voting Rights

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

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

Directors' Report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited and the entities it controlled at the end of or during the year ended 30 June 2008.

Principal activity

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

Strategy

We are Australia's largest telecommunications and information services company moving rapidly toward being a media communications company. We offer a full range of products and services throughout Australia and various telecommunication services in certain overseas countries. We have the telecommunications networks, distribution channels and integrated portfolio of media communication assets - including BigPond®, Sensis and FOXTEL† - to achieve on our media-comms vision.

We are delivering on our integrated value-based strategy. Our network and information technology transformations are providing us with the capability to streamline our processes and provide integrated telecommunication services that are simple and valued by our customers. This is differentiating us from our competitors and providing us with a competitive advantage.

Market-based management is delivering an improved customer experience. It involves ensuring we understand our respective customers' unique segment needs, priorities and expectations and is enabling us to compete on value and personalise the customer experience across our segments.

As we progress through our end-to-end transformation, we will continue to invest in our networks, information technology systems, products, processes and people in order to create a different experience for our customers and create long term value for our shareholders.

Transformation Highlights

We are now over half way through our five year plan, and our transformation continues to meet the operational and financial objectives we set ourselves in November 2005 as we deliver on our strategy. Positive earnings growth has been recorded for fiscal 2008, with our peak capital spending year now behind us. We will continue to streamline our processes with a view to creating long term value for our shareholders.

Our achievements in the past year, as we continue to deliver on our five year transformation strategy, include that:

- we launched the first phase of our IT transformation, with Release 1.0 going into production in October 2007 - an important milestone which provides new IT capabilities that will reduce complexity for our people and customers and lead to further improvements in customer service and employee productivity;
- as at 11 August, we had successfully migrated 3.3 million customers and 4.3 million services onto our new billing platform as part of Release 1.0;
- we closed our CDMA network and successfully migrated customers to our Next G™ network, which offers 14.4Mbps peak download speeds to 99% of Australia's population;
- we completed our ADSL2+ upgrade to an additional 907 telephone exchanges serving 2.4 million homes and businesses;
- we upgraded our hybrid fibre-coaxial (HFC) broadband network to 30Mbps in Melbourne and Sydney - we now have the fastest fixed and mobile broadband networks in Australia; and
- we unveiled our new retail strategy with our interactive T[life]™ retail stores in Sydney and Melbourne as well as the state-of-the-art Telstra Experience Centre where business and government customers can get hands-on experience using our world-class products and technologies.

The second phase of our IT transformation will play an important part in delivering further customer service improvements as we reduce the system complexity surrounding customer care, billing and product management systems.

Other highlights over the last twelve months include the following:

- continuing to slow the decline in retail PSTN revenues; and
- achievement of 99.999% reliability on the Telstra Next IP™ network for business.

During the year we acquired controlling interests in Norstar Media and Autohome/PCPop, and combined with our majority stake in SouFun, we now own majority interests in three of the leading Chinese companies operating in three key online advertising industry segments: real estate, auto and digital devices. This is consistent with our strategy of creating a media-comms footprint both in Australia and internationally.

Directors' Report

National Broadband Network

We are currently constructively participating in the Government's process to invest in a National Broadband Network in accordance with our shareholder based principles.

Industry dynamics

The Australian telecommunications industry is continually changing. We have seen the number of mobile handsets in the Australian market continue to grow, as well as the use of mobile services. Most households continue to maintain a basic access line, however PSTN calling products are increasingly being substituted by wireless or broadband products.

Advances in technology are transforming the telecommunications industry. In recent years, we have seen various new product offerings released to the market, including the provision of high-speed wireless services, 3G mobile services and our Next G™ network to accommodate this.

We aim to be at the forefront of providing leading edge telecommunication services to meet the demands of our customers. During fiscal 2008, we extended the coverage of our Next G™ and ADSL2+ high speed broadband networks. In addition to current services on existing networks, we believe future 3G customers will enjoy many enhanced features, such as integrated application and service offerings and faster broadband access speeds, in addition to better coverage and scalability.

The broadband sector is in a significant growth phase as the demand for high speed internet access accelerates. We have recently seen large increases in broadband customers and broadband average revenue per user ("ARPU") despite a steady fall in prices as providers compete for market share. We expect the broadband sector to continue its expansion through the provision of new innovative products and we expect to be at the forefront of this market dynamic with our ability to integrate services over our fixed and wireless platforms. We believe our growth in broadband market share and broadband ARPU is a unique double amongst the world's leading incumbent operators.

Results of operations

Telstra's net profit for the year was $3,711 million (2007: $3,275 million). This result was after deducting:

- net finance costs of $1,086 million (2007: $1,087 million); and
- income tax expense of $1,429 million (2007: $1,417 million).

Earnings before interest and income tax expense was $6,226 million, representing an increase of $447 million or 7.7% on the prior year's result of $5,779 million.

This increase was due to revenue growth in mobile goods and services and in internet and IP solutions, offset by higher labour costs and an increase in other expenses mainly due to transformational activities.

Review of operations

Financial performance

Our total income (excluding finance income) increased by $1,042 million or 4.3% to $25,002 million (2007: $23,960 million) reflecting a rise in total revenue (excluding finance income) of $1,119 million or 4.7% offset by a decrease in other income by $77 million or 30.7%.

Total income (excluding finance income) growth was mainly attributable to:

- total mobile revenue (including wireless broadband) - increased by $719 million, up 12.7%;
- internet revenue (including wireless broadband) - increased by $547 million, up 28.2%;
- IP and data access revenue - increased by $115 million, up 7.1%; and
- Sensis income - increased by $157 million, up 8.0%.

Mobile goods and services revenue increased owing to the continued growth in the number of mobile customers as we increase our market penetration, particularly for 3GSM services and wireless data services on the Next G™ network. In addition we also saw increased usage across a range of voice and data services, driving up average revenue per customer.

Internet revenue recorded strong growth during the year as we continued to increase our market share in the expanding retail and wireless broadband markets. High speed plan customers grew significantly during the year, with growth in our customer base also due to the continuing migration from narrowband products and an increased demand for applications and content.

Consistent with the prior year, we have included the results of wireless broadband in both the mobile and internet categories. In fiscal 2008, wireless broadband and low-end browse pack revenues were $565 million, up $310 million or 121.6%.

Directors' Report

IP and data access revenue growth during the year was driven by the success of the Telstra Next IP® network. IP Metropolitan Area Network has become our largest revenue generating data product within the IP access portfolio - with revenues up significantly from the prior year. IP Wide Area Network customers have also increased, with growth in bundled services including access and managed routers.

Sensis increased revenue for Yellow™ directories and Yellow™ Online due to our dedicated focus on selling the value of these directories through demonstration and sales force commitment to our customers.

In addition, our total income for the year includes a $130 million capital distribution received from the FOXTEL† partnership, in which we hold a 50% interest.

The PSTN product revenue decline of $221 million or 3.2% continued as customers move towards mobile and broadband products. However, our market based management initiatives, such as the introduction of subscription pricing plans, have helped us to improve this decline year on year, with a 4.4% decline recorded for the prior full year.

Total operating expenses (before depreciation and amortisation, finance costs and income tax expense) increased by $493 million or 3.5% compared with the prior year. This growth was attributable to:

- labour - $4,158 million, up 3.5%;
- goods and services purchased - $5,181 million, up 0.6%; and
- other expenses (excluding labour and goods and services purchased) - $5,246 million, up 6.5%.

Labour expenses increased by $141 million, driven by redundancy costs as a result of ongoing transformation activities. Excluding redundancies, labour expenses grew by 1.3% due to higher salaries and associated costs.

Goods and services purchased increased by $30 million largely due to higher handset costs and services fees supporting our revenue growth in pay TV offset by significantly lower handset subsidy costs.

Domestic postpaid handset subsidies declined due to both lower rates and subsidised volumes despite postpaid contracted volumes increasing. CSL New World handset subsidies declined from lower volumes and foreign exchange impacts.

Other expenses were higher by $322 million, up 6.5% due to the following:

- increased service contracts and other agreements expenses largely due to costs associated with our transformational activities. In particular, IT professional services spend associated with our billing, fulfilment, inventory and customer assurance applications;
- increased IT costs due to higher software contracts and licence requirements required to support transformation systems; and
- higher promotion and advertising costs associated with additional spend within our core printing and online Yellow™ directory products to drive higher revenue, combined with the relaunch of our White Pages® brand during the year.

Depreciation and amortisation expenses have risen by $108 million to $4,190 million for the year ended 30 June 2008. Growth in our communications plant assets resulting from spend on the Next G™ and Telstra Next IP™ network roll outs in fiscal 2007 has contributed to this increase during the year. In addition, there has been an acceleration in depreciation of CSL New World mobile network assets which are being replaced.

Financial condition

During fiscal 2008, our credit rating outlook remained unchanged. Our credit ratings are as follows:

	Long term	Short term	Outlook
Standard & Poors	A	A1	negative
Moodys	A2	P1	negative
Fitch	A	F1	stable

We reported a strong free cash flow position and we continue to source cash through ongoing operating activities and through careful capital and cash management.

Our cash flow before financing activities (free cash flow) position has increased to $3,855 million in the year from $2,899 million in the prior year. This increase is due to our peak capital spending year now being behind us, with high levels of cash used in investing activities in fiscal 2007 as we undertook our network and information technology platform transformation.

Cash used in investing activities was $4,989 million, a decrease of $632 million over the prior year. The decrease is mainly attributable to less capital expenditure on our transformation activities in fiscal 2008.

Directors' Report

Our cash used in financing activities was $3,766 million, up $1,009 million over the prior year. Proceeds from a new bank loan were offset by repayments of borrowings made during the year as well as amounts paid for an on market purchase of shares in association with our executive long term incentive plan and the new employee share options scheme launched in fiscal 2008.

The effective net debt position at 30 June 2008 was $15,242 million which represents an increase over the year of $655 million. This increase, which largely took place in the first half of the year, is as anticipated and largely results from the higher levels of capital and operational spending associated with our transformation programme.

This year there has been a major downturn in the capital markets triggered by the "sub prime" crisis. We have weathered this difficult period relatively well, undertaking several successful long term borrowings despite the adverse conditions and historically wide margins. During the year we undertook a A$1,000 million 5 year bank loan, a Euro 500 million 5 year Euro bond issue off our euromarket Debt Issuance Program which provided A$859 million after swap and a US$600 million 5.25 year bank loan which provided A$630 million after swap. Together these provided some $2,489 million of long term funding. In addition we were able to access the Commercial Paper (CP) Markets in US, Europe, and Australia throughout the year which were used principally to manage our cash flow peaks and troughs.

Dividends, investor return and other key ratios

Our basic earnings per share increased to 29.9 cents per share in fiscal 2008 from 26.3 cents per share in the prior year. The majority of the increase was due to higher profit in fiscal 2008.

On 13 August 2008, the directors resolved to pay a final fully franked dividend of 14 cents per ordinary share ($1,736 million), bringing dividends per share for fiscal 2008 to 28 cents per share. The dividends will be franked at a tax rate of 30%. The record date for the final dividend will be 29 August 2008 with payment being made on 26 September 2008. Shares will trade excluding entitlement to the dividend on 25 August 2008.

The dividends resolved and paid in fiscal 2008 amounted to 28 cents (2007: 28 cents).

Dividend	Date resolved	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 2007	9 August 2007	21 September 2007	14 cents franked to 100%	$1,740 million
Interim dividend for the year ended 30 June 2008	21 February 2008	4 April 2008	14 cents franked to 100%	$1,736 million

In July 2007, the directors of Telstra Corporation Limited offered shareholders the opportunity to participate in a Dividend Reinvestment Plan ("DRP") where Telstra expected to source the shares to be allocated under the DRP from the Future Fund. The Future Fund has confirmed that they will not participate in the DRP for the 2008 final dividend. Therefore, the directors of Telstra Corporation Limited have decided to suspend the DRP for the final dividend to be paid on 26 September 2008.

No decision with respect to the payment or funding of future ordinary dividends has been made. The Board will make these decisions in the normal cycle having regard to, among other factors, the Company's earnings and cash flow requirements, as well as regulatory decision impacts.

At present, it is expected that, for fiscal 2009, we will be able to resolve to pay fully franked dividends. However, the directors can give no assurance as to the level of franking of future dividends. This is because our ability to frank dividends depends upon, among other factors, our earnings, Government legislation and our tax position.

Other relevant measures of return include the following:

- Return on average assets - 2008: 16.8% (2007: 15.9%)
- Return on average equity - 2008: 30.3% (2007: 26.1%)

The return on both average assets and average equity were higher in fiscal 2008 primarily due to the increased profit as previously discussed.

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 2008.

Directors' Report

Telstra Superannuation Scheme

In accordance with actuarial recommendations, we were not expected to, and did not make employer contributions to the Telstra Super defined benefit divisions for the financial year ended 30 June 2008 and 30 June 2007.

A funding deed is in place with the trustee of Telstra Super under which Telstra is committed to maintaining Telstra Super's assets at a specific level measured in terms of the average vested benefits index (VBI). The intention of the funding deed is to maintain the VBI of Telstra Super at or above 100%. The average VBI of the defined benefit divisions for the June 2008 quarter was 104% (30 June 2007: 118%). At this level Telstra does not need to commence superannuation contributions to Telstra Super. The performance of the fund is subject to the prevailing conditions in the financial markets. If the VBI falls to 103% or below based on the average VBI in any calendar quarter of fiscal 2009 Telstra will be required to recommence superannuation contributions to Telstra Super in accordance with the requirements of the funding deed. We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations.

Likely developments and prospects

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

- the likely developments and future prospects of Telstra's operations; or
- the expected results of those operations in the future.

Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs, other than the following significant changes to Directshare allocations from fiscal 2009:

- the restriction period for Directshares has changed from five years to ten years. This change applies to all Directshares held by the trustee and for all future Directshare allocations to the directors of the Company; and
- a new valuation method for determining the market price of Directshares will be used (this method will be based on a monthly volume weighted average price of the shares in the 6 months prior to allocation).

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:

- Belinda J Hutchinson retired as a director on 7 November 2007;
- John M Stewart was appointed as a director on 28 April 2008; and
- John P Mullen was appointed as a director on 1 July 2008.

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

- names of directors and details of their qualifications, experience, special responsibilities and directorships of other listed companies are given on pages 65 to 70;
- number of Board and Committee meetings and attendance by directors at these meetings is provided on page 71;
- details of director and senior executive shareholdings in Telstra are shown on pages 71 to 72; and
- details of director and senior executive remuneration is detailed in the remuneration report on pages 75 to 99.

Company Secretary

The qualifications and experience of our Company Secretary are provided on page 69 and forms part of this report.

Directors' and officers' indemnity

Constitution

Our constitution provides for us to indemnify each officer to the maximum extent permitted by law for any liability incurred as an officer. It also provides for us to indemnify each officer, to the maximum extent permitted by law, for legal costs and expenses incurred in defending civil or criminal proceedings.

If one of our officers or employees is asked by us to be a director or alternate director of a company which is not related to us, our constitution provides for us to indemnify the officer or employee out of our property 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. It is also subject to any corporate policy made by our CEO. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in our constitution.

Directors' Report

Deeds of indemnity in favour of directors, officers and employees

Telstra has also executed deeds of indemnity in favour of:

- directors of the Telstra Entity (including past directors);
- secretaries and executive officers of the Telstra Entity (other than Telstra Entity directors) and directors, secretaries and executive officers of our wholly owned subsidiaries;
- directors, secretaries and executive officers of a related body corporate of the Telstra Entity (other than a wholly owned subsidiary) while the director, secretary or executive officer was also an employee of the Telstra Entity or a director or employee of a wholly owned subsidiary of the Telstra Entity (other than Telstra Entity directors); and
- employees of Telstra appointed to the boards of other companies as our nominees.

Each of these deeds provides an indemnity on substantially the same terms as the indemnity provided in the constitution in favour of officers. The indemnity in favour of directors also gives directors a right of access to Board papers and requires Telstra to maintain insurance cover for the directors.

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

Directors' and officers' insurance

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

Environmental regulation and performance

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

- the impact of the rollout of telecommunications infrastructure;
- energy and water efficiency;
- packaging of products;
- site contamination and pollution; and
- waste management.

Telstra is subject to the Energy Efficiency Opportunities Act 2006. We registered on 31 March 2007, and submitted our Assessment and Reporting Schedule on 24 December 2007 as required by the legislation.

Telstra notes that the National Greenhouse and Energy Reporting Act 2007 (Cwlth) has come into force and Telstra will be a party who is required to register under that Act.

Telstra is closely following the developments of the Federal Government's Carbon Pollution reduction Scheme which is proposed to come into operation in 2010.

Telstra has well established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

The directors are not aware of any significant breaches of environmental regulation during the financial year.

Directors' Report

Non-audit services

During fiscal 2008, our auditor Ernst & Young has been employed on assignments additional to their statutory audit duties. Details of the amounts paid or payable to Ernst & Young for audit and non-audit services provided during the year are located in note 8 to the financial statements.

The directors are satisfied that the provision of non-audit services during fiscal 2008 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, and 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 requires approval from the Chief Financial Officer which is communicated to the Audit Committee at each meeting;
- fees earned from non-audit work undertaken by Ernst & Young are capped at 1.0 times the total audit fee; and
- the provision of non-audit services by Ernst & Young is monitored by the Audit Committee via semi-annual reports to the Audit Committee.

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

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

A copy of the auditors' independence declaration is set out on page 73 and forms part of this report.

Directors' Report

Rounding of amounts

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

This report is made in accordance with a resolution of the directors.

Donald G McGauchie AO

Chairman

13 August 2008

Solomon D Trujillo

Chief Executive Officer and Executive Director

13 August 2008

Directors' Report

Directors' profiles

As at 13 August 2008, our directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected (1)
Donald G McGauchie	58	Chairman, Non-executive Director	1998	2005
Solomon D Trujillo	56	Chief Executive Officer	2005	-
Geoffrey A Cousins	65	Non-executive Director	2006	-
Catherine B Livingstone	52	Non-executive Director	2000	2005
Charles Macek	61	Non-executive Director	2001	2006
John P Mullen(2)	53	Non-executive Director	2008	-
John M Stewart(2)	59	Non-executive Director	2008	-
John W Stocker	63	Non-executive Director	1996	2006
Peter J Willcox	62	Non-executive Director	2006	2006
John D Zeglis	61	Non-executive Director	2006	2006

(1) *Other than the CEO, directors may not hold office for more than three years or beyond the third annual general meeting following their appointment (whichever is the later) without re-election.*

(2) *In accordance with our constitution, Mr Stewart and Mr Mullen have been appointed to fill interim positions and will stand for election at the 2008 annual general meeting.*

A brief biography for each of the directors as at 13 August 2008 is presented below:

Donald G McGauchie AO**,** FAICD

Age 58

Mr McGauchie joined Telstra as a non-executive director in September 1998 and was appointed as chairman in July 2004. He is chairman of the Nomination Committee and is a member of the Audit and Remuneration Committees.

Experience:

Mr McGauchie has wide commercial experience within the telecommunication, food processing, commodity trading and finance sectors. He also has extensive public policy experience, having previously held several high-level advisory positions to the government including the Prime Minister's Supermarket to Asia Council, the Foreign Affairs Council and the Trade Policy Advisory Council.

Directorships of other listed companies - current:

Director, James Hardie Industries NV (2003-) and Nufarm Limited (2003-).

Directorships of listed companies - past three years:

Director, National Foods Limited (2000-2005).

Other:

Current: Director, Reserve Bank of Australia; Partner, C&E McGauchie - Terrick West Estate.

Former: President of the National Farmers Federation (1994-1998); Chairman, Rural Finance Corporation (2003-2004); Director, Graincorp Limited (1999-2003); Deputy Chairman, Ridley Corporation Limited (1998-2004).

Awarded the Centenary Medal for service to Australian society through agriculture and business in 2003. Appointed an officer in the general division of the Order of Australia in 2004.

Solomon D Trujillo – BSc, BBus, MBA, Hon Doctor of Law Degrees (University of Wyoming, University of Colorado)

Age 56

On 1 July 2005, Mr Solomon ("Sol") Trujillo joined Australia's leading telecommunications company, Telstra Corporation Limited (Telstra) as its Chief Executive Officer (CEO). He is leading an end-to-end transformation, driving Telstra's evolution into a media communications company.

Directors' Report

Experience:

Prior to joining Telstra, Mr Trujillo was CEO of London-based Orange, the first American to lead a CAC-40 company; President and CEO of US West Dex Inc; President and CEO of US West Communications; and CEO and Chairman of US West Inc. Mr Trujillo was the first native Hispanic-American to serve as CEO of a Fortune 150 company. Mr Trujillo has also served as a trade policy advisor to the Clinton and Bush administrations.

Directorships of other listed companies - current:

Target Corporation (1994-).

Directorships of listed companies - past three years:

Director, Electronic Data Systems Corporation (EDS) (2005-2005), PepsiCo Inc. (2000-2005), Orange SA (2001-2005) and Gannett Co Inc (2002-2006).

Other:

Current: Member, World Economic Forum (2005-) and UCLA's School of Public Affairs (2000-); Trustee, Boston College; Director, Tomas Rivera Policy Institute (1991-). Appointed to the Board of the International GSM Association (GSMA) in April 2008.

Recipient, the Ronald H. Brown Corporate Bridge Builder Award in 1999 from President Clinton for his lifetime commitment as an advocate of workplace diversity.

Geoffrey A Cousins

Age 65

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

Experience:

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

Directorships of other listed companies – current:

Nil

Directorships of listed companies - past three years:

Director, Insurance Australia Group Ltd (2000-2007).

Other:

Former: Director, Globe International Limited (2001-2003). Mr Cousins was previously a consultant to a former Prime Minister.

Catherine B Livingstone – AO, BA (Hons), FCA, FTSE

Age 52

Ms Livingstone joined Telstra as non-executive director in November 2000. She is a member of the Audit and Technology Committees.

Experience:

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

Directorships of other listed companies - current:

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

Directorships of listed companies - past three years:

Nil

Directors' Report

Other:

Current: Director, Macquarie Graduate School of Management Pty Ltd (2007-); Future Directions International Pty Ltd (2007-); Member, New South Wales Innovation Council (2007-) and Federal Government's National Innovation System Review Panel (2008-).

Former: Chairman, CSIRO (2001-2006); Director, Goodman Fielder Ltd (2000–2003) and Rural Press Limited (2000–2003); Chairman and Director, Australian Business Foundation (2000–2005); Director, Sydney Institute (1998–2005); Former Member, Department of Accounting and Finance Advisory Board Macquarie University and Business/Industry/Higher Education Collaboration Committee (BIHECC).

Charles Macek - BEc, MAdmin, FAICD, FCPA, FAIM, SF Fin, FCA

Age 61

Mr Macek joined Telstra as a non-executive director in November 2001. He is a member of the Audit Committee and Nomination Committee and is chairman of the Remuneration Committee.

Experience:

Mr Macek has a strong background in economics and has had a long association with the finance and investment industry. His former roles include 16 years as Founding Managing Director and Chief Investment Officer and subsequently Chairman of County Investment Management Ltd.

Directorships of other listed companies - current:

Director, Wesfarmers Ltd (2001-).

Directorships of listed companies - past three years:

Director, Living Cell Technologies Limited (2006-2007).

Other:

Current: Chairman, Sustainable Investment Research Institute Pty Ltd (2002-); Director, Racing Information Services Australia Pty Ltd (2007-) and Orchard Funds Pty Ltd (2007-); Member, Investment Committee of Unisuper Ltd.

Former: Chairman, Centre for Eye Research Australia Ltd (1996-2003); Member, Financial Reporting Council (FRC) (2000-2003) and Chairman (2003-2007); Chairman and Director, IOOF Holdings Ltd (2002-2003); Director, Famoice Technology Pty Ltd (2001-2004), Vertex Capital Pty Ltd (2004-2006) and Williamson Community Leadership Program Limited (2004-2007); Victorian Councillor, Australian Institute of Company Directors; Member, New Zealand Accounting Standards Review Board (2004-2007).

John P Mullen

Age 53

Mr Mullen joined Telstra as a non-executive Director on 1 July 2008.

Experience:

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

Directorships of other listed companies - current:

Director, Deutsche Post World Net, Board of Management, Germany (2005-) and Embarq Corporation USA (2006-).

Directorships of listed companies - past three years:

Nil

Directors' Report

Other:

Current: Member, Australian Graduate School of Management (2005-); Advisory Council to the City of Seoul (2006-) and Chairman, National Foreign Trade Council (Washington DC) (2008-).

Former: Director, International Swimming Hall of Fame (USA) (2005-2008).

John M Stewart - BA, FCIB, ACII

Age 59

Mr Stewart joined Telstra as a non-executive Director on 28 April 2008.

Experience:

Mr Stewart has had a long and successful career in the finance industry since he first joined Woolwich PLC in 1977. Mr Stewart was appointed to the Board of Woolwich in 1995 and became Chief Executive Officer in 1996. Following Woolwich's acquisition by Barclays PLC in October 2000, Mr Stewart was appointed Deputy Chief Executive Officer and became a member of the Barclays Group Board and Group Executive Committee. In August 2003 he joined the Group comprising National Australia Bank (NAB), the Clydesdale & Yorkshire banks in the UK, Bank of New Zealand, and nabCapital as Chief Executive, Europe and Principal Board Member. In February 2004 Mr Stewart was appointed Group Chief Executive Officer of NAB. On 31 July 2008, NAB announced that Mr Stewart will be succeeded as Group Chief Executive Officer effective 1 January 2009.

Directorships of other listed companies - current:

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

Directorships of Listed companies - past three years:

Nil

Other:

Current: Chair, Australian Bankers' Association (2007-); Director, Business Council of Australia (2006-); Member, Scottish Enterprise's International Advisory Board (2006-); and Member of the Federal Attorney General's Business-Government Advisory Group on national security.

Former: Executive Director, Barclays PLC (2000-2003); and Group Chief Executive Officer, Woolwich PLC (1996-2000). Recently, Mr Stewart was a member of the Prime Minister's Task Group on Emissions Trading.

John W Stocker - AO, MB, BSc, BMedSc, PhD, FRACP, FTSE

Age 63

Dr Stocker joined Telstra as a non-executive director in October 1996. He is chairman of the Audit Committee and Technology Committee.

Experience:

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

Directorships of other listed companies - current:

Chairman, Sigma Pharmaceuticals Ltd (2005-); Director, Circadian Technologies Ltd (1996-) and Nufarm Limited (1998-).

Directorships of listed companies - past three years:

Chairman, Sigma Company Ltd (1998-2005); Director, Cambridge Antibody Technology Group plc (1995-2006).

Other:

Current: Principal, Foursight Associates Pty Ltd; Chairman, CSIRO (2007-).

Former: Chairman, Grape and Wine Research and Development Corporation (1997-2004).

Directors' Report

Peter J Willcox - MA

Age 62

Mr Willcox joined Telstra as a non-executive director in May 2006. He is a member of the Audit, Nomination and Remuneration Committees.

Experience:

Mr Willcox holds a degree in physics from Cambridge University and following a 28 year career in the international petroleum industry was appointed as Chief Executive Officer of BHP Petroleum Limited, from 1986 to 1994. He has wide and diverse experience as a Director and Chairman of Australian and American listed companies.

Directorships of other listed companies - current:

Chairman, 3D Oil Ltd (2007-).

Directorships of listed companies – past three years:

Chairman, AMP Limited (2002-2005), Mayne Group Ltd (2002-2005) and Mayne Pharma (2005-2007).

Other:

Former: Chairman and Director, CSIRO (2006-2007); Director, F.H.Faulding & Co Ltd (1996-2000); Energy Developments Ltd (1994-2002), Lend Lease Corporation (1994-2000), Schroders (Australia) Ltd (1994-1999), North Ltd (1994-2000), James Hardie Industries Ltd (1992-2001), BHP Ltd (1988-1994), Woodside Petroleum (1986-1993).

John D Zeglis - BSc Finance, JD Law

Age 61

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

Experience:

Mr Zeglis has a legal background, and became partner with the law firm Sidley & Austin in 1978. His qualifications include a BSc in finance from the University of Illinois, and a JD in law from Harvard.

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

Directorships of other listed companies - current:

Director, Helmerich & Payne Corporation (1989-).

Directorships of listed companies – past three years:

Director, Georgia Pacific Corporation (2001-2005).

Other:

Current: Director, AMX Corporation; (2005-) and State Farm Automobile Insurance (2004-).

Former: Director, Sara Lee Corporation (1998-2000) and Illinois Power Company (1992-1996).

Qualifications and experience of each person who is a company secretary:

Carmel C Mulhern - BA, LLM, FCIS

Age 39

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

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

Directors' Report

Claire E Elliott - BA, GDip IS, GDip App IS

Age 45

Ms Elliott was appointed as an additional company secretary of Telstra Corporation Limited on 7 September 2007. She is also company secretary of all Telstra subsidiaries including the Telstra Foundation.

During her time at Telstra, Ms Elliott has worked on all three privatisation tranches and overseen the implementation of Telstra's two buy-backs and dividend reinvestment plan. She was appointed as additional company secretary to undertake the statutory and administrative duties of company secretary whilst Ms Mulhern was on maternity leave.

During the year and through to the date of the report, the following director and company secretary resigned:

- Belinda J Hutchinson retired as a director on 7 November 2007; and
- Douglas C Gration resigned as company secretary on 7 September 2007.

Brief biographies of the former director and company secretary are presented below:

Director

Belinda J Hutchinson - AM, BEc, FCA

Ms Hutchinson joined Telstra as a non-executive director in November 2001. She was a member of the Audit Committee. Ms Hutchinson resigned as director on 7 November 2007.

Ms Hutchinson has had a long association with the banking industry and has been associated with Macquarie Bank since 1993 where she was an executive director. She was previously a vice president of Citibank Ltd.

Company secretary

Douglas C Gration - FCIS, BSc, LLB (Hons), GDip AppFin

Mr Gration was appointed company secretary of Telstra Corporation Limited in August 2001. Mr Gration resigned as company secretary on 7 September 2007.

Mr Gration was a partner in a leading national law firm before joining Telstra. He played a key role in the T1 and T2 privatisations and also advised on telecommunication regulatory matters.

Directors' Report

Directors' meetings

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

	Board		Committees [1]					
			Audit		Nominations		Remuneration	
	a	b	a	b	a	b	a	b
D G McGauchie[2]	9	9	4	4	3	3	4	4
S D Trujillo	9	9	-	-	-	-	-	-
G Cousins[3]	9	9	-	-	1	1	2	2
B J Hutchinson [4]	4	4	2	2	-	-	-	-
C B Livingstone	9	8	6	6	-	-	-	-
C Macek	9	9	6	6	3	3	4	4
J Stewart [5]	2	1	-	-	-	-	-	-
J W Stocker	9	9	6	6	-	-	-	-
P J Willcox[2]	9	9	4	4	3	3	4	4
J D Zeglis	9	7	-	-	-	-	-	-

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 in an ex officio capacity.*
(2) *Appointed to the Audit Committee on 8 November 2007.*
(3) *Appointed to the Nomination and Remuneration Committees on 8 November 2007.*
(4) *Resigned from the Board on 7 November 2007.*
(5) *Appointed to the Board on 28 April 2008.*

Director and senior executive shareholdings in Telstra

As at 13 August 2008:

Directors

	Number of shares held		
	Direct interest	Indirect interest [1]	Total[2]
Donald G McGauchie	38,391	96,814	135,205
Solomon D Trujillo	250,000	-	250,000
Geoffrey A Cousins	-	9,979	9,979
Catherine B Livingstone	17,547	57,098	74,645
Charles Macek	5,568	135,810	141,378
John P Mullen	-	-	-
John M Stewart	-	-	-
John W Stocker	18,114	134,380	152,494
Peter J Willcox	-	67,836	67,836
John D Zeglis	16,500	13,563	30,063

(1) *Shares in which the director does not have a relevant interest, including shares held by the director related entities, are excluded from indirect interest.*
(2) *Some of the directors' holdings were instalment receipts purchased in the Telstra 3 Commonwealth share offering. On payment of the final instalment on 29 May 2008, the underlying share was transferred to the registered shareholder.*

Directors' Report

Senior executives

	Number of shares held		
	Direct interest	Indirect interest [1]	Total[2]
Bruce Akhurst	4,880	-	4,880
Kate McKenzie	13,963	-	13,963
David Moffatt	506,030	-	506,030
Deena Shiff	79,187	-	79,187
John Stanhope	223,999	-	223,999
David Thodey	190,975	-	190,975
Gregory Winn	-	-	-

(1) *Shares in which the senior executive does not have a relevant interest, including shares held by related entities of the executive, are excluded from indirect interest.*

(2) *Some of the senior executives' holdings were instalment receipts purchased in the Telstra 3 Commonwealth share offering. On payment of the final instalment on 29 May 2008, the underlying share was transferred to the registered shareholder.*

Directors' Report

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 2008, 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

Sean C Van Gorp

Partner

Melbourne, Australia

13 August 2008

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Remuneration Report

Dear Shareholder,

Telstra is pleased to present its Remuneration Report (the Report) for fiscal year 2008. Telstra and its Remuneration Committee seek to inform shareholders on matters of executive remuneration in a clear and understandable way. Based on shareholder feedback, we have this year created an executive summary that outlines our remuneration framework and strategy and describes how they are connected to Telstra's business objectives and our commitment to creating shareholder value.

The Remuneration Committee is responsible for reviewing and recommending to the Board the remuneration policy, strategy, and structure for Telstra's Board, the CEO, and senior executives. In carrying out its functions the Remuneration Committee seeks external, independent advice and information.

Our remuneration philosophy is designed to attract and retain world-class Board and executive talent; to create a performance culture by driving and rewarding executive performance focused on the achievement of the company's strategy and business objectives; and to link incentive, at-risk remuneration to the creation of shareholder value.

Accountability to shareholders is very important to Telstra and we are committed to simple and transparent reporting while protecting commercially-sensitive information. In the last year we have engaged directly with a significant number of shareholders and taken their feedback into consideration in the design of this year's plan and the Report.

The executive summary also highlights Telstra's key accomplishments for the past year and describes how our remuneration plans are linked to Telstra's transformation into a world-class media communications company. The full Report follows providing more detailed information on how Telstra incentivises its executives to drive the company to achieve its goals.

We hope this executive summary assists your review of the Report. On behalf of the Board, I commend the Report for your attention.

Charles Macek

Chairman, Remuneration Committee

Remuneration Report

Executive Summary

Telstra's Remuneration Plan - Aligned with shareholder value

Telstra's remuneration plan is designed to ensure Telstra attracts and retains world-class executives and directors to support the continued success of the business and creation of shareholder value.

A combination of fixed remuneration and short and long-term incentives ensures executive performance is measured against defined objectives and that senior executives are rewarded when desired results are achieved. Both the short and long-term incentives are "at risk" – they do not produce gains for executives unless certain individual or corporate milestones are reached. Short-term incentives (STI), including individual performance requirements, are based on stretch targets and ensure executives are linked directly to the business strategy.

The long-term incentive (LTI) portion of the remuneration plan only rewards executives if performance measures for Total Shareholder Return (TSR) or Return on Investment (ROI) are met. This aligns executives' interests with the interests of shareholders. Even when these hurdles are met, the vesting schedule is designed to deliver the rewards at the end of the transformation period. Therefore, executives must consistently meet or exceed expectations to fully benefit from the plan.

The Board believes that absolute TSR rather than relative TSR is preferable due to the absence of an appropriate benchmark either domestically or internationally. Further, an absolute TSR measure requires delivery of positive returns to shareholders, removing the potential for executives to be rewarded for negative returns. In a volatile or declining market an absolute TSR measure locks in the returns that must be delivered to shareholders in future years before executives can be rewarded on this measure.

ROI is used as it measures the level of return from the significant investment that has been made in the transformation strategy. Executives will be rewarded on successfully generating value from these investments.

The Year in Review

Since linking executive reward to delivery of the company's transformation strategy, we are pleased to report that Telstra has exceeded expectations financially, operationally, and as measured against our competitors. The effectiveness of the remuneration plan is also evidenced by the retention of our senior executive team.

The fiscal 2007 plan has helped drive Telstra executives to perform above expectations, achieving growth and implementing our ambitious transformation to an integrated, fully-converged business centered on the customer with leading next generation networks and systems.

In the past year, Telstra has:

- Delivered revenue and EBITDA growth above guidance;
- Implemented Transformation Release 1 (our new customer management system and first phase of our IT transformation) and migrated millions of customers to this new platform;
- Grown broadband market-share across cable, ADSL, and wireless;
- Achieved double-digit service revenue growth in our mobile business;
- Slowed the decline in PSTN revenues to 3.2%;
- Seen strong growth in our key Consumer, Business, and Enterprise & Government areas;
- Grown Free Cash Flow by $956 million to $3.855 billion; and
- Posted reported Earnings Per Share (EPS) growth of 13.7%.

While Telstra has achieved many of its objectives, there were also certain areas in which we did not meet our stretch targets despite strong performance. Commensurately, incentives for the senior leadership team were not earned to their maximum potential.

Chief Executive Officer

In a year that Telstra outperformed the ASX 200 by 11.8 percentage points and delivered on or ahead of financial guidance on all measures, Chief Executive Officer Sol Trujillo's total reportable remuneration for 2008 was $13,394,523.

The package for fiscal 2008 includes fixed remuneration of $3,000,000, a potential maximum short-term incentive of $3,000,000 in cash and $3,000,000 in deferred shares, and a potential maximum allocation of 5,172,414 long-term incentive options.

Mr Trujillo is rewarded for operational excellence, and for the role he plays in guiding and driving specified outcomes in one of the most ambitious transformation projects attempted by a global telecommunications company.

Although the majority of the LTI performance measures tested on 30 June 2008 were achieved, under the terms of Mr Trujillo's fiscal 2007 long-term incentive plan, all options are subject to a gateway TSR hurdle being achieved before they can vest. The

Remuneration Report

gateway TSR hurdle of 11.5% compound annual growth for the period 1 July 2006 to 30 June 2008 was achieved for options granted in fiscal 2007 and a proportion of those options have vested. However, the gateway TSR hurdle of 11.5% annual growth for the period 1 July 2007 to 30 June 2008 was not achieved and the entire grant of 5,172,414 options allocated in fiscal 2008 has lapsed.

Other members of the senior executive team[1]

Telstra ensures key performance measures are aligned across the executive team.

The following table summarises the 2008 short-term incentive payments for the senior executives who are Key Management Personnel. Full details of their remuneration are included in the Report.

Name	Maximum potential STI ($)	Actual STI (cash and shares) ($)	% of the maximum potential	% forfeited
Solomon Trujillo	6,000,000	5,162,400	86.0%	14.0%
Bruce Akhurst	2,000,000	1,780,000	89.0%	11.0%
Kate McKenzie	840,000	577,920	68.8%	31.2%
David Moffatt	2,104,000	1,651,640	78.5%	21.5%
Deena Shiff	1,520,000	1,193,200	78.5%	21.5%
John Stanhope	1,840,000	1,444,400	78.5%	21.5%
David Thodey	1,856,000	1,456,960	78.5%	21.5%
Gregory Winn	4,000,000	3,241,600	81.0%	19.0%

2008 LTI Plan

The fiscal 2008 LTI Plan builds on the success of the existing plan and also increases transparency of the performance hurdles. While the performance targets in the 2007 LTI were specifically linked to commercially sensitive transformational goals, the 2008 LTI reverts to more traditional measures of TSR and ROI.

Long-term rewards will not be earned by executives unless value is created for shareholders from Telstra's transformation investment. This is evidenced by the hurdles, performance measures and vesting schedules described in the Report.

The hurdles for the 2008 LTI Plan are as follows:

		30 June 2009	30 June 2010	30 June 2011
Total Shareholder Return*	**Target**	10.4 per cent growth p.a. over two years	10.4 per cent growth p.a. over three years	10.4 per cent growth p.a. over four years
	Stretch	12.7 per cent growth p.a. over two years	12.7 per cent growth p.a. over three years	12.7 per cent growth p.a. over four years
Return on Investment	**Target**	21.4 per cent	24.6 per cent	28.3 per cent
	Stretch	22.8 per cent	25.8 per cent	29.6 per cent

** TSR growth is calculated from a base TSR value of $4.75 which was the 30 day average closing price up to 30 June 2007.*

Share ownership policy

The remuneration plan continues to require senior executives to maintain a direct stake in Telstra. The minimum holding for the senior executive team, other than the CEO and COO, is shares equivalent to 100 per cent of their fixed remuneration. These shares must be acquired over no more than five years and the minimum holding requirement first applies from 2012.

1. *For the purposes of this Report the Board has determined that, in addition to the Non-executive directors, the key management personnel (being those persons with authority and responsibility for planning, directing and controlling the activities of the group) of the group comprise the Chief Executive Officer and the 7 group executives named at page 95.*

Remuneration Report

Non-executive directors

Telstra's non-executive directors continue to be remunerated with set fees. This enables the non-executive directors to maintain their independence and objectivity when making company decisions.

Non-executive directors must take a minimum of 30 per cent of their remuneration as cash, and a minimum of 20 per cent as Telstra shares which are held in trust. This creates an alignment between director and shareholder interests, without compromising independence and objectivity.

We recommend the full Report for your further review.

Remuneration Report

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Remuneration Report

Remuneration Report[2]

This section of the Remuneration Report provides full detail on the amount of remuneration paid to Telstra's directors and senior executives, as well as the strategy behind the Remuneration Plan.

1. Non-Executive Directors

1.1 Remuneration policy and strategy

In determining the required level for the fee pool and individual director fee levels, the Remuneration Committee makes recommendations to the Board, and in the case of the fee pool, the Board makes a recommendation to shareholders.

Our non-executive directors are remunerated in accordance with our constitution, which provides for:

- an aggregate pool of fees, set and varied only by approval of a resolution of shareholders at the annual general meeting (AGM); and
- the Board to determine how fees are allocated among the directors within the fee pool, based on independent advice and market practice; and
- the total non-executive director fees not to exceed the annual limit of $3,000,000 per annum, which was approved by shareholders at the AGM in November 2007.

1.2 Remuneration structure

Telstra's non-executive directors will continue to be remunerated with set fees. This enables Telstra's non-executive directors to maintain their independence and impartiality when making decisions about the future direction of the company. Non-executive directors must receive at least 20 per cent of their fees in the form of Telstra shares to align their interests with those of our shareholders.

All Board and Committee fees, including superannuation, paid to non-executive directors in fiscal 2008 remain within the approved fee pool. Board fees were increased in fiscal 2008 effective from 1 July 2007.

During fiscal 2008 the Board approved an increase in Directors' fees effective from 1 July 2008. The increase is within the overall annual limit of $3,000,000 approved by shareholders in November 2007.

Board fees

	Chairman	Director
Board (fiscal 2008)	$600,000	$200,000
Board (from 1 July 2008)	$660,000	$220,000

Committee fees

Board members, excluding the Chairman, are paid the following additional fees for service on Board committees:

Committee	Chairman	Member
Audit Committee	$70,000	$35,000
Remuneration Committee	$40,000	$20,000
Nomination Committee	-	$7,000
Technology Committee	$7,000	$7,000

2. *The information provided in this Remuneration Report has been audited as required by section 308 (3C) of the Corporations Act 2001. This Report forms part of the Directors' Report for the year ended 30 June 2008.*

Remuneration Report

1.3 Components of the total remuneration package (TRP)

Each year directors are asked to specify the allocation of their total remuneration between the three components below.

CASH	DIRECTSHARE	SUPERANNUATION
Must take a minimum 30 per cent of TRP as cash	Must take a minimum of 20 per cent of TRP as Telstra shares through the Directshare plan	Must take at least the minimum superannuation guarantee

The Board will continue to review its approach to non-executive directors' remuneration structure to ensure it reflects general market practice and best-practice principles of corporate governance.

1.4 Equity compensation – Directshare

Directshare aims to encourage a longer-term perspective and to align the directors' interests with those of our shareholders. The shares are purchased on-market and allocated to the participating non-executive director at market price. The shares are held in trust and are unable to be dealt with for ten (previously five) years unless the participating director ceases to be a director of Telstra or on a date the Trustee notifies the participating director that a specified control event or winding up event has occurred. Although the Trustee holds the shares in trust, the participating director retains the beneficial interest in the shares, including dividends, voting rights, bonuses and rights issues, until they are transferred at the expiry of the restriction period.

If non-executive directors choose to increase their participation in the Directshare plan, they take a greater percentage of TRP in Telstra shares, and their cash component is reduced. As the allocation of Directshares is simply a percentage of the non-executive director's TRP, it is not subject to the satisfaction of a performance measure.

Directors are restricted from entering into arrangements that effectively operate to limit the economic risk of their shareholdings allocated under the Directshare plan during the restriction period. Directors are required to confirm that they comply with this policy restriction on an annual basis which enables the company to monitor and enforce the policy. In addition, the Company has decided to implement a policy which will prohibit directors from using Telstra shares as collateral in any financial transaction, including margin loan arrangements.

For Directshare allocations from fiscal 2009, the following changes have been introduced:

- a new valuation method for determining the market price of Directshares based on a monthly volume weighted average price of the shares in the six months prior to allocation will be used; and
- the circumstances in which the Trustee can determine that specified control events have occurred (resulting in an end to the restriction period) will be tightened to align with those that apply for the senior executive equity plans.

1.5 Retirement benefits

Superannuation contributions, in accordance with legislation and Telstra policy, are included as part of each director's total remuneration. Directors may choose to increase the proportion of their remuneration taken as superannuation, subject to legislative requirements.

We do not provide retirement benefits for directors other than superannuation contributions.

2. Senior Executives (CEO, COO and other Senior Executives)

In the constant challenge to attract and retain talented executives in a competitive global market, Telstra's senior executive remuneration links executive rewards with building shareholder value. The remuneration strategy includes performance measures aligned to achieving Telstra's transformation strategy.

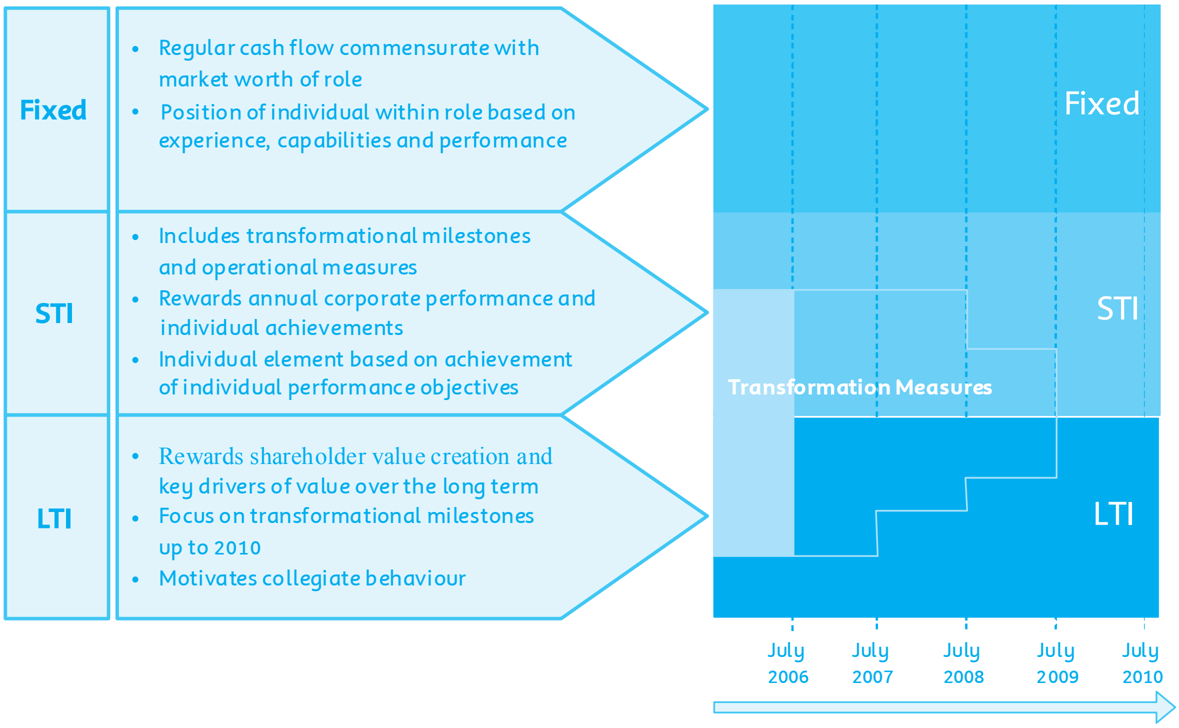
2.1 Remuneration policy and strategy

The remuneration strategy for the senior executive team has been positioned to attract and retain key talent and drive the delivery of the transformation milestones. Telecommunication is a global industry. For Telstra to be able to secure executive talent from the global market we must have competitive and progressive remuneration practices that provide appropriate reward and are aligned with delivering increased shareholder value.

In fiscal 2006 the Board approved a remuneration strategy that provided direct alignment with the company's transformation strategy.

Remuneration Report

Figure 1:



(Note: This figure is provided for illustrative purposes and is not intended to represent actual weightings of remuneration elements).

In achieving this, we have implemented specific arrangements for the Chief Executive Officer and the Chief Operations Officer taking into account their central role in driving the transformation of Telstra, their global market experience and ensuring that a substantial part of their reward is directly linked to delivering on the strategy approved by the Board. Their specific arrangements are described further on pages 83 to 86.

In developing the remuneration strategy the Remuneration Committee of the Board seeks the assistance of an independent remuneration advisor, Egan & Associates, who provides advice direct to the Committee on market practice, remuneration structure and competitive analysis of the executive market.

The remuneration for other senior executives is based on performance measures strongly aligned to achieving those transformation outcomes as well as other traditional business measures. In fiscal 2006 and fiscal 2007 the performance measures were heavily weighted towards driving transformation. In fiscal 2008 the weighting has shifted:

- For the short term incentive (STI) we continue to focus on a mix of operational and transformation measures; and
- For the long-term incentive (LTI) we have moved to a more traditional position of using shareholder and investment return measures.

The balance between the various remuneration components continues to provide significant focus on delivery of the transformation plan and the creation of longer term shareholder value.

The senior executive team are restricted from entering into arrangements that effectively operate to limit the economic risk of their security holdings in instruments allocated under STI and LTI plans during the period the instruments remain unvested. Senior executives are required to confirm that they comply with this policy restriction on an annual basis which enables the company to monitor and enforce the policy. In addition, the Company has decided to implement a policy which will prohibit the senior executive team and other designated people from using Telstra shares as collateral in any financial transaction, including margin loan arrangements.

Remuneration Report

3. Chief Executive Officer remuneration

The CEO is rewarded for delivering operational excellence, as well as for his leadership of Telstra's five-year transformation plan.

3.1 CEO remuneration mix

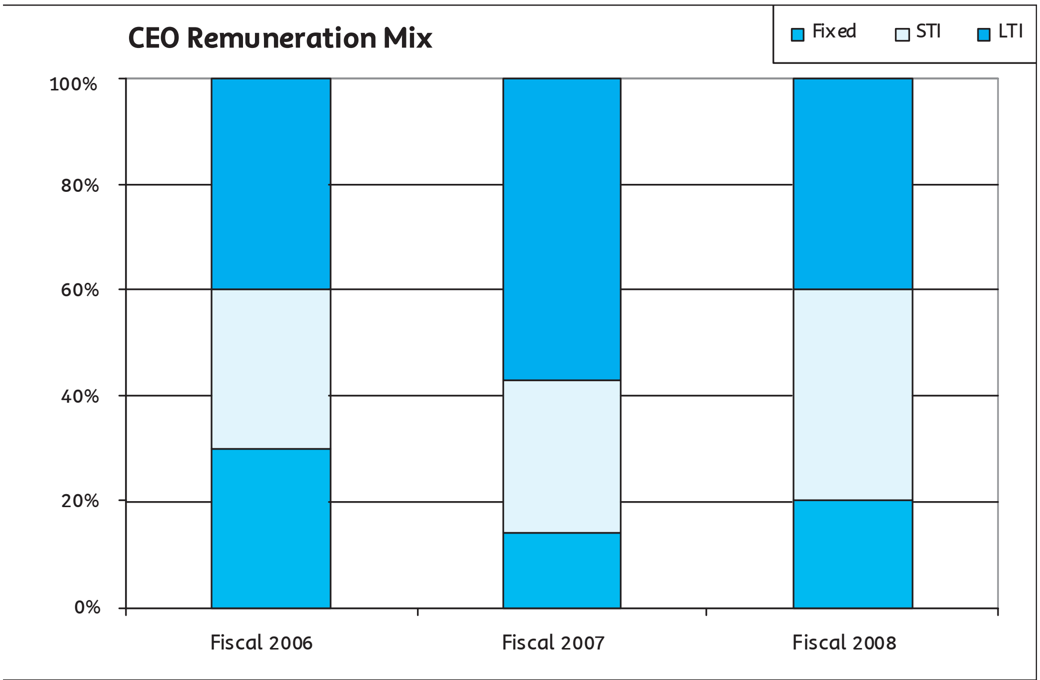
Chief Executive Officer Sol Trujillo's total reported remuneration for fiscal 2008 was $13,394,523. Details are provided in the Remuneration Table (Figure 7).

His fiscal 2008 package was announced in August 2007 and has not changed. It includes fixed remuneration of $3,000,000, a potential maximum short-term incentive of $3,000,000 in cash and a potential maximum of $3,000,000 in deferred incentive shares, and 5,172,414 long-term incentive options allocated in fiscal 2008.

The Board structured the package to reflect the role Mr Trujillo plays in guiding and driving the transformation strategy. The majority of the package is "at risk" and directly linked to the delivery of transformation milestones, financial performance and increasing shareholder value.

Figure 2 shows a comparison of the fiscal 2006, fiscal 2007 and fiscal 2008 remuneration mix based on the maximum level of reward available for the CEO. The change in the ratio between fiscal 2007 and fiscal 2008 is due to the larger LTI allocation for fiscal 2007.

Figure 2: CEO remuneration mix



3.2 CEO Short Term Incentive (STI) opportunity and performance levels required

The CEO's STI payment is 86 per cent of the maximum achievable value.

The CEO's STI payment is determined by the Board, based on the same performance measures as the senior executive team and by assessment of his individual performance objectives. Refer to Section 6.4 for details of the fiscal 2008 STI plan.

The CEO receives 50 per cent of the total actual value of his STI as cash and the other 50 per cent as Telstra deferred incentive shares, linking a greater percentage of his potential reward to the creation of shareholder value. The actual number of deferred incentive shares allocated to the CEO is based on the volume weighted average price of Telstra shares for the five trading days after announcement of the fiscal 2008 annual results.

The CEO does not receive cash dividends on the deferred incentive shares. Instead dividends are re-invested in further shares that are transferred to the CEO at the time of vesting of the deferred incentive shares. The volume weighted average price of Telstra shares for the five days prior to the dividend payment date is used to calculate the number of additional shares which are allocated.

Remuneration Report

These deferred incentive shares (and further shares acquired through the reinvestment of dividends) are held in trust until the earlier of 30 June 2009, or the first day of the seventh month following ceasing employment with Telstra and a date the Board determines (in response to an actual or likely change in control or a winding up) at which time they will be automatically transferred to the CEO and all restrictions on dealing will cease.

3.3 CEO Long Term Incentive (LTI)

As detailed in the 2007 Remuneration Report the CEO was allocated 5,172,414 options in fiscal 2008 to be tested at 30 June 2008 against performance criteria based on operational and financial measures linked to the transformation strategy. In fiscal 2007 the CEO was issued 10,344,828 options linked to meeting the LTI targets. The performance measures and weighting for the fiscal 2007 and 2008 LTI plans are as follows:

Measure	Weighting
Transformation Release 1 in production	10%
Transformation Release 1 conversion	10%
Transformation Release 2 in production	10%
Multi Service Edge – Build	10%
Switched Data Network Core exit	10%
Ethernet build	10%
Revenue – 2 year compound annual growth	25%
Total Shareholder Return (TSR) – 2008 one year growth; 2007 two year compound annual growth	15%

The key conditions for the CEO's LTI allocations in fiscal 2008 are as follows:

- Allocations granted on 17 August 2007;
- The exercise price is $4.34 being the volume weighted average price of Telstra shares traded in the five trading days prior to allocation date;
- The options are subject to a one year performance period although some performance criteria are measured over a longer period;
- Vested options that have met the required performance conditions may only be exercised if a TSR gateway hurdle of 11.5% compound annual growth is achieved over the performance period from a base TSR value of $4.75 which was the 30 day average closing price up to 30 June 2007;
- Vested options may only be exercised between 1 January 2010 or six months following cessation of employment with Telstra (if earlier than the specified window for exercise) until 30 June 2011; and
- Options not exercised by 30 June 2011 will lapse.

The CEO is also eligible for a further 5,172,414 options to be allocated in fiscal 2009. The options will be granted on 21 August 2008 and the exercise price will be determined using the volume weighted average price of Telstra shares traded in the five trading days following announcement of the fiscal 2008 annual results. These options will be subject to a one year performance period and may only be exercised if a TSR gateway hurdle of 11.5 percent compound annual growth is achieved over the performance period. If this is achieved the vested options may be exercised either:

(a) from 1 July 2009 until 30 June 2012 if the CEO ceases employment with Telstra before 1 January 2009; or

(b) from the earlier of 1 January 2010 and six months following cessation of employment with Telstra until 30 June 2012 if the CEO has not ceased employment with Telstra before 1 January 2009.

Remuneration Report

Results of the LTI plans as at 30 June 2008

The CEO participates in LTI plans for fiscal 2006, 2007 and 2008. Performance against the fiscal 2006 and 2007 plans was assessed on 30 June 2008 and is subject to approval by the Board before vesting can occur. The following table summarises the results from these LTI plans:

Fiscal Year	Measure	% of total allocation tested at 30 June 2008	% vested
2006	Revenue Growth	10%	10%
	Expense Growth	10%	0%
	Number of OSS / BSS Systems	10%	0%
	IP Core & Ethernet	10%	10%
	Return on Investment (ROI) (2007/2008)	20%	0%
	TOTAL	**60%**	**20%**

The performance rights that have vested under the fiscal 2006 LTI can be exercised at any time after vesting subject to Telstra's share trading policy.

Fiscal Year	Measure	% of total allocation tested at 30 June 2008	% provisionally vested
2007 & 2008	Transformation Release 1 in production	10%	10%
	Transformation Release 1 conversion	10%	0%
	Transformation Release 2 in production	10%	0%
	Multi Service Edge - Build	10%	10%
	Multi Service Edge - SDN Core Exit	10%	10%
	Ethernet Build	10%	10%
	Revenue Growth - 2 year compound annual growth	25%	25%
	Total Shareholder Return - 2008 - one year growth; 2007 - 2 year compound annual growth	15%	0%
	TOTAL	**100%**	**65%**

In addition to the achievement of the performance measures listed above a gateway TSR hurdle of 11.5% annual growth must be achieved before any options become vested options. The gateway hurdle for options allocated to the CEO in fiscal 2007 was achieved and 65% of the total allocation has vested. However, the gateway TSR hurdle in fiscal 2008 was not achieved and all options allocated to the CEO in fiscal 2008 have lapsed.

Where the CEO ceases employment he will retain all options that have vested under the LTI plan up to the time of termination, except in the case of serious misconduct.

The treatment of unvested options under the LTI plan will depend on the circumstances in which the CEO's employment ceases. In most cases (including cases of redundancy, contract completion, retirement, Telstra giving notice, death, or total and permanent disablement), the options will vest (to the extent not vested) in accordance with the performance hurdles and will be exercisable in accordance with the timetable for the exercise of such options under the terms of the LTI plan as at the time of allocation.

If the CEO's employment ceases due to serious misconduct or termination or resignation without good cause, the unvested options will lapse. If the CEO ceases employment in circumstances not specified by the LTI plan, the Board may exercise its discretion.

4. Chief Operations Officer remuneration

4.1 Remuneration mix

Chief Operations Officer Greg Winn's total reported remuneration for 2008 was $11,215,597. Details are provided in the Remuneration Table (Figure 7).

His fiscal 2008 package includes fixed remuneration of $2,000,000, a potential maximum short-term cash incentive of $4,000,000, a potential maximum transformation plan incentive of $6,000,000 and a contract completion bonus of $1,800,000 for the completion of his initial employment contract which ceased on 10 August 2007. As reported in the fiscal 2007 report, Mr Winn renewed his contract on the terms set out below and in Figure 12.

Remuneration Report

4.2 Short Term Incentive (STI) Plan fiscal 2008

The COO's STI payment was 81 per cent of the maximum achievable. The COO's STI payment is recommended by the CEO and decided by the Board, based on the same performance measures as the senior executive team and by assessment of his individual performance objectives. Refer to section 6.4 for details of the results of the fiscal 2008 STI plan.

4.3 Transformation Plan

The COO does not participate in the equity-based long-term incentive plan as his initial contract was for a fixed two year period. Instead, a cash-based transformation incentive plan measured on operational, financial and transformation performance hurdles has been established. The performance measures of this plan are the same as the performance measures of the fiscal 2007 CEO LTI plan (refer page 83) and were selected for the same reasons linked to the business and transformation strategy.

Performance against each of the measures in this plan was assessed on 30 June 2008 and a number of performance measures were achieved consistent with the outcome as described in Section 3.3 above following assessment by the Board. As such the COO is eligible to receive 65% of the maximum payment prescribed in his transformation plan payable after announcement of the fiscal 2008 annual results, being $3,900,000.

4.4 Share Price Incentive

The COO may also be entitled to a cash bonus dependant on performance hurdles linked to the achievement of increases in Telstra's share price. Performance for this element of his remuneration will be assessed on the average closing share price of Telstra shares for the 30 calendar days following the announcement of Telstra's fiscal 2008 annual results. If Telstra's average closing share price during this period reaches $6.00 then Mr Winn will be eligible for a payment of $2,000,000. If the share price reaches $7.00 an additional payment of $6,000,000 is payable. Where the share price is between $6.00 and $7.00 the additional payment will be based on a linear scale.

4.5 Contract payment

The COO received a cash payment of $500,000, in accordance with his employment contract, as he was employed with Telstra on 8 August 2008.

5. Other Senior Executives' remuneration

The following provides information on the remuneration arrangements for the other senior executives.

5.1 Remuneration structure

The remuneration structure ensures that rewards are linked to strategic outcomes, and are at risk if those strategic outcomes are not achieved.

For fiscal 2008, the remuneration structure for these senior executives comprised the following components:

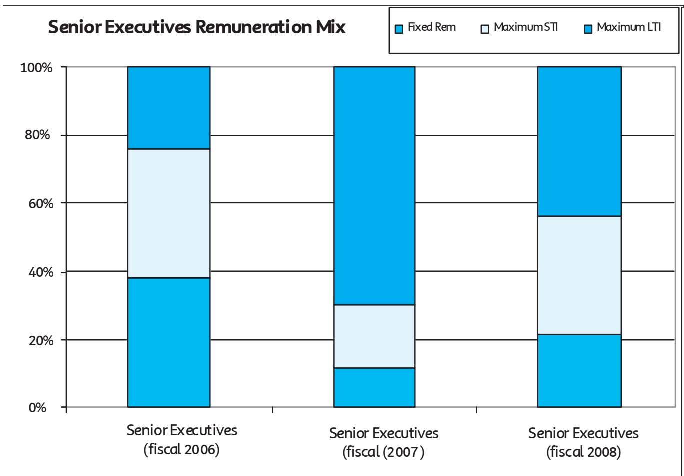
Component	At-risk?	Description
Fixed remuneration	No	Fixed remuneration is made up of base salary (including salary sacrifice benefits and applicable fringe benefits tax) and superannuation.
Short term incentive	Yes	The STI for fiscal 2008 is an annual "at risk" component of remuneration for the senior executives and is delivered in cash and incentive shares.
Long term incentive	Yes	The LTI for fiscal 2008 is a grant of share options, which are subject to performance measures tested over a two to four-year period.

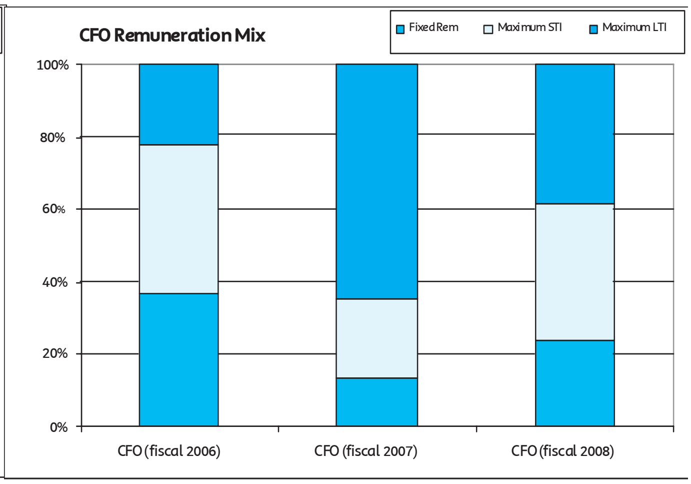
Both the STI and the LTI are at risk and no reward is received by the executives unless the threshold performance levels are achieved.

Figure 3 shows a comparison of the fiscal 2006, fiscal 2007 and fiscal 2008 remuneration mix based on the maximum level of reward for the senior executives.

Remuneration Report

Figure 3: Senior executives' remuneration mix





The change in remuneration mix between fiscal 2007 and fiscal 2008 is due to the larger LTI allocation for fiscal 2007 aligned to the period of transformation strategy. The grant of options for the fiscal 2008 LTI has returned to a traditional allocation which was one third of the value of the fiscal 2007 allocation.

5.2 Executive Share Ownership Policy

Executives are required to maintain a direct stake in Telstra so that their interests are aligned with those of shareholders.

Telstra believes that where senior executives have a substantial holding of Telstra shares, a strong alignment between executive reward, company success and returns to shareholders is created. Telstra last year introduced an Executive Share Ownership Policy to ensure the market performance of the company will have a direct economic impact on the individual executive.

The senior executives must acquire and retain a number of shares equivalent in value to a minimum of 100 per cent of their fixed remuneration, over a five-year period commencing from 1 July 2007.

5.3 Fixed remuneration

Fixed remuneration is in line with similar roles in the applicable market.

Fixed remuneration for senior executives is influenced by the scope of the role and the knowledge, skills and experience required of the position holder. To ensure remuneration is market competitive, the Remuneration Committee takes into account local, home country and global market rates. In determining what market rates to use for comparison purposes the Remuneration Committee assesses a range of factors including company size (based on market capitalisation and financial parameters) and industry in which the comparative company operates and global footprint.

For superannuation, in addition to mandatory contributions, the senior executives may voluntarily salary sacrifice additional amounts, subject to legislative requirements.

Fixed remuneration is reviewed annually as part of the company's overall remuneration review process and is assessed against the company's and the individual's performance.

Remuneration Report

5.4 Short Term Incentive (STI)

The STI component delivers reward on achievement of annual performance targets.

What is the STI?	An annual performance based payment tailored to reinforce the links between the level of reward available to senior executives, the requirements of the transformation business strategy and company performance.
What is the minimum and maximum achievable?	Where the threshold performance level is not achieved the executive will not receive any portion of the STI payment for that measure. Depending on the role they perform, each senior executive has a maximum STI opportunity ranging from 120 per cent to 160 per cent of their fixed remuneration where maximum performance is met. • A threshold level must be reached for each measure before any value can be attributed to that measure. • The "target" level represents challenging but achievable levels of performance. • Achievement of the "maximum" level requires significant performance above and beyond normal expectations and will result in significant benefit to the company.
What are the performance criteria?	• EBITDA (excluding redundancy and restructuring costs, FOXTEL distribution, impairment on property, plant & equipment software and diminution expenses and profit / loss on land & building disposals) (20 per cent); • Total Income (excludes FOXTEL distribution and profit / loss on land & building disposals) (10 per cent); • Mobile Retail Services revenue (including Wireless Broadband, but excluding Handsets, Interconnect and Mobile Services Wholesale revenue) (10 per cent); • Public Switched Telephone Network revenue (Telstra PSTN Products Revenue) (10 per cent); • IT Transformation Milestones (delivery of TR1 and TR2 delivery milestones) (15 per cent); • Broadband marketshare (excludes services provided through wholesale customers and data to wireless handsets but does include wireless data cards for laptops) (15 per cent); and • Individual accountabilities (20 per cent). In the case of Bruce Akhurst (Chief Executive Officer, Sensis) the STI is measured against Sensis Revenue and EBITDA which make up 60 per cent of his STI, Telstra STI measures (as detailed above) make up a further 20 per cent and the remaining 20 per cent is based on individual accountabilities. In the case of Kate McKenzie (Group Managing Director, Telstra Wholesale) the Broadband Marketshare measure is replaced with a Telstra Wholesale specific performance measure.
Why those criteria?	These performance measures drive Telstra's earnings objective by strengthening our existing revenue streams, and enhance the development of new revenue and overall growth. In addition, the delivery and implementation of the transformation IT strategy will enable revenue growth and reduce cost.
Who assesses performance and when?	At the end of each financial year, the Board reviews the company's audited financial results and the results of the other performance measures, and assesses performance against each measure to determine the percentage of STI that is payable. Transformation measures are tracked by an internal project office and reviewed by the COO and CEO before approval by the Board. This method is used to assess whether the performance conditions are met because it is considered the most relevant and reliable way to do so.
What was the end of year result?	Details regarding the outcome of the STI for fiscal 2008 are set out in Section 6.4.
How is it paid?	The other senior executives will receive 75 per cent as cash and 25 per cent as incentive shares.
When was the STI approved?	The STI was approved by the Board on 13 August 2008. The Incentive shares will be allocated on the sixth working day following the announcement of our financial results.

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5.4.1 Short Term Incentive Shares

As part of the fiscal 2008 STI senior executives will receive 25% of their actual STI payment in the form of incentive shares. These shares are held in trust for the earlier of:

(a) Five years from allocation; or
(b) Until the senior executive meets the minimum shareholding level specified under the Executive Share Ownership Policy; or
(c) The senior executive ceases employment with Telstra; or
(d) A date the Board determines (in response to an actual or likely change in control).

5.5 Long Term Incentive (LTI) for fiscal 2008

The LTI component rewards delivery of sustained shareholder growth.

What is the fiscal 2008 LTI plan?	The LTI is a share option plan which is designed to link executive reward with sustained, multi-year company performance.
Who participates in the LTI?	Telstra's senior executive team, other than the CEO and COO, and other invited senior management staff.
What is the exercise price?	The exercise price is calculated over the five trading days following the announcement of the annual results. For the fiscal 2008 LTI plan the exercise price is $4.34.
Key terms and conditions of the plan	• Vesting may occur after two, three and four years; • If the threshold performance hurdles are not achieved then no options will vest for that measure; • A linear vesting scale operates between threshold and stretch performance; • Vested Options may only be exercised when approved by the Board after 30 June 2011; and • Any vested options must be exercised by 30 June 2013 otherwise they will lapse.
What are the performance criteria and why?	Total Shareholder Return (TSR) – 50 per cent Return On Investment (ROI) – 50 per cent TSR is used to align the interests of our senior executives with that of our shareholders. Absolute TSR is used rather than relative TSR due to the absence of an appropriate benchmark either domestically or internationally. Further, an absolute TSR measure requires delivery of actual returns to shareholders, removing the potential for executives to be rewarded for negative returns that happen to outperform a chosen benchmark. In a volatile or declining market an absolute TSR measure locks in the returns that must be delivered to shareholders in future years before executives can be rewarded on this measure. Over the four years of this plan target performance would generate $28 billion in shareholder value. ROI is used as it measures the level of return from the significant investment that has been made in the transformation strategy. Executives will be rewarded on successfully generating value for shareholders from these investments.
What is TSR and how is it calculated?	The Total Shareholder Return (TSR) of a Telstra share is equal to: • the average closing share price for the 30 calendar days up to and including the testing day; plus • the value of any other shareholder benefits paid or otherwise made available to shareholders in Telstra from 30 June 2007 up to and including the testing day. This is then divided by the average closing share price for the 30 calendar days up to and including 30 June 2007 ($4.75) to produce a percentage growth rate.
What is ROI and how is it calculated?	Return on Investment (ROI) is Earnings Before Interest & Tax (EBIT) divided by the average of net debt plus shareholders funds.
What is the grant date?	The grant date of the LTI options for fiscal 2008 is 7 March 2008.

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<table>
<tr><td rowspan="6">What are the performance targets?</td><td colspan="2"></td><td>30 June 2009</td><td>30 June 2010</td><td>30 June 2011</td></tr>
<tr><td rowspan="2">Total Shareholder Return [(1)]</td><td>Target</td><td>10.4 per cent growth p.a. over two years</td><td>10.4 per cent growth p.a. over three years</td><td>10.4 per cent growth p.a. over four years</td></tr>
<tr><td>Stretch</td><td>12.7 per cent growth p.a. over two years</td><td>12.7 per cent growth p.a. over three years</td><td>12.7 per cent growth p.a. over four years</td></tr>
<tr><td rowspan="2">Return on Investment</td><td>Target</td><td>21.4 per cent</td><td>24.6 per cent</td><td>28.3 per cent</td></tr>
<tr><td>Stretch</td><td>22.8 per cent</td><td>25.8 per cent</td><td>29.6 per cent</td></tr>
<tr><td colspan="5">[(1)] TSR growth is calculated from a base TSR value of $4.75 which was the 30 day average closing price up to 30 June 2007</td></tr>
<tr><td>Can the targets be re-set?</td><td colspan="5">The Board has discretion to reset the hurdles governing the fiscal 2008 LTI depending on the occurrence of one or more of the following factors which, in the reasonable opinion of the Board, means that the targets for a particular class of options are no longer appropriate:
(i) a material change in the strategic business plan;
(ii) a material regulatory change occurring; or
(iii) a significant out-of-plan business development occurring resulting in a material change to EBITDA. This material change could be either a positive or adverse change for Telstra, but does not include improved or deteriorated operating or financial performance of Telstra's existing businesses.
No such change occurred during the year for the fiscal 2008 LTI plan.</td></tr>
<tr><td>Change of control</td><td colspan="5">Where a person (whether alone or acting in concert with others) acquires more than 50 per cent of all issued fully paid shares in Telstra as a result of a takeover event all options under the fiscal 2008 LTI plan will automatically vest.

In addition, where a person (whether alone or acting in concert with others) acquires not less than 30 per cent of all issued fully paid shares in Telstra as a result of a takeover event the Board may use its discretion to vest some or all of the unvested options.</td></tr>
<tr><td>What happens if someone ceases employment?</td><td colspan="5">If a senior executive:
• resigns or retires and their options are not yet vested, those options will lapse;
• ceases employment due to death, total and permanent disablement, contract completion, contract termination (other than by mutual agreement), separation by mutual agreement or is made redundant a number of unvested options will lapse to reflect the executive’s service period and the remainder will vest if the relevant performance measure is met in accordance with the prescribed schedule. Vested options will continue to be exercisable until 30 June 2013;
• is terminated for misconduct, then all vested and unvested options will lapse; or
• ceases employment with Telstra for any other reason, vested options will continue to be exercisable until 30 June 2013. The Board will decide whether unvested options should lapse or remain available for vesting if the relevant performance measure is met.</td></tr>
<tr><td>How is performance assessed and by whom?</td><td colspan="5">At the end of each financial year in which performance testing is to occur, the Board will review the company’s audited financial results and the results of the other performance measures to determine the percentage (if any) of options that vest. This method is used to assess whether the performance condition is met because it is considered the most relevant and reliable way to do so.

The performance measures are assessed over three performance periods. Where ROI options do not vest in a performance period, the options allocated to that measure for that period will lapse. Where TSR options that have been allocated to the first or second performance period do not vest because the performance measures were not achieved, those TSR options may still be eligible for vesting in the third performance period. However, any TSR options which do not vest in the third performance period will lapse and no benefit will accrue to the executive. This includes any TSR options which did not vest in either the first or second performance periods. However, the relevant accounting standard may still require that an expense be recognised for grants subject to market conditions, even if those conditions are not met.</td></tr>
</table>

Remuneration Report

How are options exercised?	An option can only be exercised after 30 June 2011 if the relevant performance measure is satisfied and upon payment of the exercise price of $4.34. The option must be exercised before 30 June 2013 (or such shorter period for exercise that applies in certain circumstances where the executive ceases employment, as outlined above) otherwise it will lapse. Once the options have been exercised the executive becomes the owner of the underlying shares and is entitled to any dividend, bonus issue, return of capital or other distribution in respect of those shares.

5.5.1 LTI awards made

Details regarding the options granted for fiscal 2008, as well as details of other LTI awards outstanding during the year, are set out in section 7 below.

6. Linking Senior Executive Remuneration and Company Performance

6.1 Defining company performance

Telstra ultimately assesses its company performance from increases in earnings and shareholder value.

The transformation objectives set by the Board represent the measures the Board considers to be essential to increasing shareholder value and delivering earnings growth. Our remuneration structure continues to reflect this and focuses senior executives on driving the achievement of the transformation strategy.

6.2 Linking the remuneration structure to the transformation strategy

Our remuneration structure continues to drive the achievement of transformational objectives.

The performance measures for both the STI and LTI have been tailored to align at-risk remuneration with the delivery of financial, transformational and operational excellence and sustained value to shareholders. The achievement of the relevant performance measures in both fiscal 2007 and fiscal 2008 has demonstrated the essential role the remuneration structure plays in driving management's focus on delivering the transformation strategy, improving the customer experience, and most importantly, driving real and sustained increases in shareholder value.

6.3 Remuneration vs company performance

The level of at-risk remuneration paid to senior executives is directly linked to the company's performance.

Figure 4: Our five-year shareholder value and earnings history

	Year ended 30 June 2008 $m	Year ended 30 June 2007 $m	Year ended 30 June 2006 $m (1)	Year ended 30 June 2005 $m	Year ended 30 June 2004 $m (2)
Earnings					
Sales revenue	24,657	23,673	22,712	22,161	20,737
EBITDA	10,416	9,861	9,575	10,464	10,175
Net profit available to Telstra	3,692	3,253	3,183	4,309	4,118
Shareholder value					
Share Price ($)	4.24	4.59	3.68	5.06	5.03
Total dividends paid/ declared per share (c)	28.0	28.0	34.0 (3)	40.0 (3)	26.0

(1) Comparatives for fiscal 2006 have been adjusted to reflect the impact of the transition to AASB Interpretation 4 Determining Whether an Arrangement Contains a Lease.

(2) We adopted in fiscal 2006 Australian equivalents to International Financial Reporting Standards (A-IFRS). We restated the comparative information for the year ended 30 June 2005. The financial year ended 30 June 2004 is presented under the previous Australian Generally Accepted Accounting Principles (AGAAP).

(3) This includes special dividends of 6 cents per share in 2006 and 12 cents per share in 2005 paid to shareholders as part of Telstra's capital management plan.

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It is our policy to purchase shares from the market to meet the ultimate delivery of shares in the future as a result of instruments granted to KMP's as part of their remuneration. There are no amounts unpaid on the shares provided as a result of the exercise of options in the 2008 financial year.

During the five years to 30 June 2008 we undertook two off-market share buy-backs as part of our capital management strategy; one on 24 November 2003 (238,241,174 shares) and another on 15 November 2004 (185,284,669 shares) of which the purchase consideration was $1,001 million ($4.20 per share) and $750 million ($4.05 per share) respectively.

6.4 STI results and payments

The financial measures in the STI:

- provide a strong correlation with our ability to increase shareholder returns;
- make a direct impact on our bottom line; and
- are matters in which the executives can make an impact.

The results of the fiscal 2008 STI plan clearly show that Telstra has exceeded overall expectations on a range of financial and transformational measures that contributed to Telstra's strong performance in fiscal 2008. Performance against each of the STI measures was:

- Total revenue growth exceeded original market guidance of between 2% and 3%;
- EBITDA growth exceeded original market guidance of between 2% and 3%;
- PSTN revenue decline slowed to 3.2% from 4.3% in fiscal 2007;
- Mobile services revenue - retail growth accelerated to 14.5% from 11.8% in fiscal 2007;
- Broadband marketshare increased to 49%;
- TR1 In Production was achieved ahead of the planned delivery date of December 2007; and
- TR1 Conversion and TR2 in Production measures did not achieve the timelines and no payment will be received for these measures.

Measure	Result	Payout
EBITDA	Exceeded Stretch	100%
Total Income	Exceeded Stretch	100%
Mobile Services Retail Revenue	Exceeded Target	60%
PSTN Revenue	Exceeded Stretch	100%
TR1 in production	Exceeded Stretch	100%
TR1 conversion	Missed Threshold	0%
TR2 in production	Missed Threshold	0%
Broadband Marketshare	Achieved Stretch	100%

The average STI received by senior executives as a percentage of the maximum achievable payment for achieving those short term measures is reflected in Figure 5.

The fiscal 2008 STI vests immediately upon allocation. In addition, one third of the STI shares granted in fiscal 2005 will vest in fiscal 2009.

Figure 5: Average STI payment as a percentage of maximum payment

	Fiscal 2008	Fiscal 2007	Fiscal 2006	Fiscal 2005	Fiscal 2004
STI received(3)	81.9%(1)	78.5%(1)	73.8%	54.6%(2)	31.4%

(1) This includes both the cash paid and equity components granted in fiscal 2008.

(2) This includes both the cash and equity components. While the total equity component is included in determining the above percentage, the value of the rights to Telstra shares granted in fiscal 2005 will be reflected in remuneration as the shares vest over their vesting period.

(3) The above calculation is made by aggregating the actual STI payments to the CEO and KMP's for the financial year and dividing that by the aggregate maximum achievable payments for those same executives. The result is then expressed as a percentage of the maximum achievable STI payment.

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6.5 Results of the Fiscal 2006 and Fiscal 2007 LTI plans

The fiscal 2006 and fiscal 2007 LTI plans reached their first testing point on 30 June 2008 in accordance with the Terms. The Board assesses each measure that is required to be tested at that time to determine if the performance hurdles have been achieved. The following table shows the results of the Board's assessment and the percentage of performance rights and options that have vested as a result.

Fiscal Year	Measure	% of total allocation tested at 30 June 2008	% vested
2006	Revenue Growth	10%	10%
	Expense Growth	10%	0%
	Number of OSS / BSS Systems	10%	0%
	IP Core & Ethernet	10%	10%
	Return on Investment (ROI) (2007/08)	20%	0%
	TOTAL	**60%**	**20%**

Fiscal Year	Measure	% of total allocation tested at 30 June 2008	% provisionally vested
2007	Transformation Release 1 in production	2.9%	2.9%
	Transformation Release 1 conversion	2.9%	0%
	Multi Service Edge - Build	1.7%	1.7%
	Multi Service Edge – SDN Core Exit	1.7%	1.7%
	Ethernet Build	1.7%	1.7%
	Revenue Growth – 2 year compound annual growth	5.0%	5.0%
	Total Shareholder Return – 2 year compound annual growth	4.2%	0%
	Stretch EBITDA growth	7.0%	0%
	TOTAL	**27 %**	**13%**

As detailed in the above table, the fiscal 2007 LTI plan has options measured against the achievement of stretch EBITDA targets, year on year, over the life of the plan. In summary, the stretch EBITDA target must be achieved in consecutive years before vesting can occur.

The first stretch target was not achieved in fiscal 2007 and four consecutive years of stretch target therefore cannot be achieved resulting in a proportion of options expiring. However, the stretch EBITDA target for fiscal 2008 was achieved and as such the remaining options are eligible to vest subject to achievement of consecutive years of reaching the stretch EBITDA target. As with the other performance measures of the fiscal 2007 LTI, no options will be exercisable unless the gateway TSR hurdle of 11.5% compound annual growth is achieved over the period of the plan.

Please note that vested options under the fiscal 2007 LTI plan cannot be exercised until after 30 June 2010 and only if the minimum gateway TSR hurdle is achieved.

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Summary of LTI plans

As at 30 June 2008 the vesting status of all LTI equity plans is as follows:

Figure 6: LTI Status

Plan	Type of instrument granted	Performance period	Result	Future financial years in which grants vest	Status
Growthshare 2002 – Sept 2001 allocation	Options	6/9/04 – 6/9/06	50% Vested prior to fiscal 2008.	No further amounts vest in future financial years.	May be exercised up to 6 Sept 2011.
Growthshare 2003 – Sept 2002 allocation	Performance rights	5/9/05 – 4/9/07	All expired.	No amounts vest in future financial years.	The plan ceased.
Growthshare 2004 – Sept 2003 allocation	Performance rights	5/9/06 – 5/9/08	The threshold hurdle was achieved during fiscal 2008.	No further amounts vest in future financial years.	The performance rights are exercisable immediately
Growthshare 2004 – Feb 2004 allocation*	Performance Rights	20/2/07 – 20/2/09	The threshold hurdle was achieved during fiscal 2008.	No further amounts vest in future financial years.	The performance rights are exercisable until 20 May 2009.
Growthshare 2005 – Aug 2004 allocation	EPS Performance Rights	1/7/04 – 30/6/07	All EPS Performance Rights expired during fiscal 2008.	No amounts vest in future financial years.	The EPS plan has ceased.
	TSR Performance Rights	20/8/07 – 20/8/09	The threshold hurdle was achieved during fiscal 2008.	No further amounts vest in future financial years.	The performance rights are exercisable until 20 Nov 2009.
Growthshare 2006 – Feb 2006 allocation	Performance Rights	60% tested on 30/6/08 40% to be tested on 30/6/10	20% of the stretch number of performance rights tested on 30/6/08 have vested and 10% expired.	Performance rights may vest in fiscal 2009 and 2011.	Vested performance right are exercisable until 19 Aug 2012. The next test date is 30 June 2010.
Growthshare 2007	Options	27% tested on 30/6/08 30% tested on 30/6/09 43% tested on 30/6/10	13% of options vested and 3% expired. A threshold TSR growth of 11.5% over the four years of the plan must be achieved before any vested options may be exercised.	Options may vest in fiscal 2009, 2010 and 2011.	Subsequent testing points on 30 June 2009 and 30 June 2010.
Growthshare 2008	Options	1/7/07 - 30/6/11	The plan has not yet reached a testing point.	Options may vest in fiscal 2010, 2011 and 2012.	The first test is point is 30 June 2009. Subsequent testing points on 30 June 2010 and 30June 2011.

** February 2004 allocations were mid-cycle allocations to accommodate new executives*

7. Remuneration tables and data

The remuneration of our KMP's (including non-executive directors) is set out in the following tables. In accordance with the requirements of Section 300A of the Corporations Act 2001 and Regulation 2M.3.03, the remuneration disclosures for fiscal 2008 and 2007 only include remuneration relating to the portion of the relevant periods that each individual was considered a KMP. As a result this approach can distort year-on-year remuneration comparisons.

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Figure 7: Senior executives' remuneration

Salary and Fees: Includes salary, salary sacrificed benefits (other than superannuation), leave provisions and fringe benefits tax

Short Term Incentives: Includes the cash component of annual bonuses payable in relation to fiscal 2008 & 2007

Non-monetary benefits: Such as the value of goods and services provided as well as the value of the interest free loan under TESOP 97 and TESOP 99

Other equity: Options and performance rights granted under Telstra's LTI plans. This includes amounts accrued for current and prior year LTI grants.

		Short term employee benefits				Post-employment benefits	Termination benefits	Other long term benefits	Equity settled share-based payments			
Name		Salary and Fees(1) ($)	Short term Incentives (cash)(2) ($)	Non-monetary benefits(3) ($)	Other(4) ($)	Superannuation(5) ($)	Termination benefits ($)	Accrued long service leave ($)	Short term Incentive Shares (6) ($)	Deferred shares(7) ($)	Accounting value of other equity (at risk)(8) ($)	Total ($)
Solomon Trujillo – Chief Executive Officer	**2008**	**2,900,634**	**2,581,200**	**324,201**	**-**	**99,366**	**-**	**75,000**	**2,581,200 (9)**	**-**	**4,832,922**	**13,394,523**
	2007	2,987,314	2,656,800	-	621,275	12,686	-	75,000	2,656,800(9)	-	2,772,355	11,782,230
Bruce Akhurst – Chief Executive Officer Sensis	**2008**	**967,418**	**1,335,000**	**300,660**	**-**	**282,582**	**-**	**31,250**	**514,747**	**-**	**1,364,161**	**4,795,818**
	2007	302,147	392,100	11,392	-	928,603	-	31,250	299,222	17,687	886,146	2,868,547
Kate McKenzie – Group Managing Director Wholesale	**2008**	**622,925**	**433,440**	**2,090**	**-**	**58,325**	**-**	**17,500**	**155,380**	**-**	**403,732**	**1,693,392**
	2007	555,564	506,250	1,331	-	45,686	-	15,625	195,087	-	211,818	1,531,361
David Moffatt – Group Managing Director Consumer Marketing & Channels	**2008**	**1,139,977**	**1,238,730**	**17,626**	**-**	**162,523**	**-**	**32,875**	**445,985**	**-**	**1,398,040**	**4,435,756**
	2007	1,026,453	1,207,500	17,626	-	220,547	-	31,625	482,416	19,678	928,583	3,934,428
Deena Shiff – Group Managing Director Telstra Business	**2008**	**789,167**	**894,900**	**5,441**	**-**	**148,333**	**-**	**23,750**	**337,616**	**-**	**986,172**	**3,185,379**
	2007	378,245	852,948	5,229	-	496,755	-	22,500	379,311	5,818	512,302	2,653,108
John Stanhope – Chief Financial Officer	**2008**	**1,025,371**	**1,083,300**	**13,017**	**-**	**112,129**	**-**	**28,750**	**393,090**	**-**	**975,081**	**3,630,738**
	2007	887,218	1,073,742	8,674	-	196,032	-	27,500	435,207	12,773	614,364	3,255,510
David Thodey – Group Managing Director Enterprise & Government	**2008**	**1,030,000**	**1,092,720**	**7,635**	**-**	**130,000**	**-**	**29,000**	**391,708**	**-**	**1,264,085**	**3,945,148**
	2007	665,078	1,029,356	7,385	-	475,922	-	29,000	409,486	16,187	812,686	3,445,100
Gregory Winn – Chief Operations Officer	**2008**	**1,900,634**	**3,241,600**	**223,997**	**5,700,000(10)**	**99,366**	**-**	**50,000**	**-**	**-**	**-**	**11,215,597**
	2007	1,749,814	3,188,160	2,037	724,446(11)	12,686	-	50,000	-	-	-	5,727,143
TOTAL	**2008**	**10,376,126**	**11,900,890**	**894,667**	**5,700,000**	**1,092,624**	**-**	**288,125**	**4,819,726**	**-**	**11,224,193**	**46,296,351**
	2007	8,551,833	10,906,856	53,674	1,345,721	2,388,917	-	282,500	4,857,529	72,143	6,738,254	35,197,427

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

(2) Short term incentive relates to performance in fiscal 2008 and fiscal 2007 respectively and is based on actual performance for Telstra and the individual and represents the cash element and not the amount payable as restricted Incentive Shares.

(3) Includes the benefit of interest-free loans under TESOP97 and TESOP99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 "First-time Adoptions of Australian Equivalents to International Financial Reporting Standards.), the value of personal home security services provided by Telstra and the value of the personal use of products and services related to Telstra employment and the value of personal travel costs.

(4) Includes payments made to executives in accordance with their employment contract and which are classified as remuneration under the accounting standards.

(5) Represents company contributions to superannuation as well as any additional superannuation contribution made through salary sacrifice by executives.

(6) This includes the value of Short Term Incentive Shares allocated under the 2004/05 STI Equity plan whereby 50% of the STI payment was provided as shares to be distributed over 3 years at 12 month intervals. It also includes 25% of the actual STI payment for fiscal 2008 and fiscal 2007 respectively which will be provided as restricted Incentive Shares under the 2007/08 and 2006/07 STI Incentive Share plan. The values shown represent the accounting value for fiscal 2008 and fiscal 2007 in accordance with the relevant accounting standards.

(7) The value included in deferred shares relates to the fiscal 2007 accounting value of vested and unvested shares issued in fiscal 2004 under the Deferred Remuneration Plan. The values shown represent the accounting value for fiscal 2007 in accordance with the relevant accounting standards.

(8) In accordance with AASB 2, the accounting value represents a proportion of the fair value of options and performance rights that had not yet fully vested as at the commencement of the financial year. It is assumed that these options and performance rights will vest at the end of their vesting period. The amount included as remuneration is at risk, such that the executive only receives this value if the performance hurdles are met. The amount included as remuneration is not related to nor indicative of the benefit (if any) that may ultimately be realised should the options and performance rights become exercisable. The accounting value includes negative amounts for options and performance rights forfeited during the year. Refer to figure 9 for further information. The fair value of each option granted to senior executives in fiscal 2008, other than the CEO, is $0.58 for the ROI options and $0.50 for the TSR options. The fair value of each option granted to the CEO in fiscal 2008 is $0.17.

(9) This represents 50% of the total actual STI payment to the CEO which will be delivered as deferred incentive shares. The deferred incentive shares cannot be exercised until the earlier of 30 June 2009 or the first day of the seventh month after termination of employment.

(10) This represents a contract completion bonus paid in August 2007 and the actual Transformation Incentive to be paid as cash in August 2008 in accordance with Mr Winn's employment arrangements.

(11) Includes a cash bonus for delivery of the Next G wireless network as approved by the Telstra Board.

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Figure 8: STI payments (cash and shares)

Name		Maximum potential STI ($)	Current year grant of STI[1] ($)	% of the maximum potential	% forfeited	Total grant of STI[2] ($)
Solomon Trujillo	**2008**	**6,000,000**	**5,162,400**	**86.0%**	**14.0%**	**5,162,400**
	2007	6,000,000	5,313,600	88.6%	11.4%	5,313,600
Bruce Akhurst	**2008**	**2,000,000**	**1,780,000**	**89.0%**	**11.0%**	**1,954,533**
	2007	2,000,000	522,800	26.1%	73.9%	697,333
Kate McKenzie	**2008**	**840,000**	**577,920**	**68.8%**	**31.2%**	**577,920**
	2007	750,000	675,000	90.0%	10.0%	675,000
David Moffatt	**2008**	**2,104,000**	**1,651,640**	**78.5%**	**21.5%**	**1,734,407**
	2007	2,024,000	1,610,000	79.5%	20.5%	1,692,767
Deena Shiff	**2008**	**1,520,000**	**1,193,200**	**78.5%**	**21.5%**	**1,291,583**
	2007	1,440,000	1,137,264	79.0%	21.0%	1,235,647
John Stanhope	**2008**	**1,840,000**	**1,444,400**	**78.5%**	**21.5%**	**1,524,450**
	2007	1,760,000	1,431,656	81.3%	18.7%	1,511,706
David Thodey	**2008**	**1,856,000**	**1,456,960**	**78.5%**	**21.5%**	**1,525,693**
	2007	1,856,000	1,372,474	73.9%	26.1%	1,441,207
Gregory Winn	**2008**	**4,000,000**	**3,241,600**	**81.0%**	**19.0%**	**3,241,600**
	2007	3,600,000	3,188,160	88.6%	11.4%	3,188,160

(1) *The STI for fiscal 2008 was approved by the Board on 12 August 2008. Excludes the 2004/05 STI shares still to vest.*
(2) *Includes the value of the 2004/05 STI shares that vested during fiscal 2008 and 2007.*

Equity instruments granted as remuneration

Where allocations have been made to the CEO and senior executives and have not yet vested, the CEO and senior executives may or may not derive any value from these allocations as they are still subject to performance measures and the performance period has not yet expired.

Figure 9: Accounting value of all LTI equity instruments

Name		Accounting value of LTI equity allocations[1] [2]		Total	Accounting value as % of Total Remuneration[3]
		Options ($)	Performance rights[4] ($)	($)	(%)
Solomon Trujillo	**2008**	**3,941,540**	**891,382**	**4,832,922**	**36.1%**
	2007	1,883,409	888,946	2,772,355	23.5%
Bruce Akhurst	**2008**	**1,221,464**	**142,696**	**1,364,161**	**28.4%**
	2007	484,751	401,395	886,146	30.9%
Kate McKenzie	**2008**	**372,684**	**31,048**	**403,732**	**23.8%**
	2007	130,068	81,750	211,818	13.8%
David Moffatt	**2008**	**1,243,059**	**154,981**	**1,398,040**	**31.5%**
	2007	500,160	428,423	928,583	23.6%
Deena Shiff	**2008**	**886,393**	**99,779**	**986,172**	**31.0%**
	2007	326,931	185,371	512,302	19.3%
John Stanhope	**2008**	**865,460**	**109,621**	**975,081**	**26.9%**
	2007	325,222	289,142	614,364	18.9%
David Thodey	**2008**	**1,133,519**	**130,566**	**1,264,085**	**32.0%**
	2007	446,649	366,037	812,686	23.6%
Gregory Winn	**2008**	**-**	**-**	**-**	**-**
	2007	-	-	-	-

(1) *The value of each instrument is calculated by applying option 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 as other equity in the remuneration table. The valuations used in current year disclosures are based on the same underlying assumptions as the previous year. Please refer to note 27 for details on our employee share plans.*
(2) *Where a vesting scale is used, the table reflects the maximum achievable allocation.*
(3) *Total Remuneration is the sum of short term benefits, post employment benefits and share based payments detailed in Figure 7.*
(4) *During fiscal 2008 the August 2004 plan failed to satisfy the EPS performance measure and all EPS performance rights expired. In addition the TSR performance measure failed to satisfy the performance hurdle in the first quarter of the performance period and in accordance with the terms of the plan half the maximum potential allocation of performance rights expired. In accordance with accounting requirements for market based performance hurdles, an accounting value is recorded above, however the executives received no value from these expired instruments.*

Remuneration Report

Figure 10: Number of equity instruments granted and vested

		GMD Incentive shares	Options	Deferred Incentive Shares	Incentive shares (2)
Solomon Trujillo	Granted during period	-	5,172,414(3)	651,608	-
	Vested during the period	-	-	-	-
Bruce Akhurst	Granted during period (1)	30,116	1,811,594	-	5,683
	Vested during the period	30,116	-	-	43,291
Kate McKenzie	Granted during period (1)	38,883	608,696	-	1,306
	Vested during the period	38,883	-	-	6,766
David Moffatt	Granted during period (1)	92,742	1,905,780	-	2,642
	Vested during the period	92,742	-	-	20,530
Deena Shiff	Granted during period (1)	65,511	1,376,812	-	1,572
	Vested during the period	65,511	-	-	24,404
John Stanhope	Granted during period (1)	82,469	1,333,320	-	1,279
	Vested during the period	82,469	-	-	19,856
David Thodey	Granted during period (1)	79,060	1,681,160	-	1,097
	Vested during the period	79,060		-	17,049
Gregory Winn	Granted during period (1)	-	-	-	-
	Vested during the period	-	-	-	-

(1) Options granted during fiscal 2008 relate to the annual LTI plan for fiscal 2008. Incentive Shares granted during fiscal 2008 relate to the STI Equity plan for fiscal 2005.
(2) These Incentive Shares relate to the 2004/05 STI plan and does not include any allocation in relation to the 2007/08 STI plan.
(3)The options granted during the year relate to those options granted under Tranche 2 of the CEO's 2007 LTI allocation. 10,344,828 options were granted to the CEO under Tranche 1 of the 2007 LTI and disclosed in fiscal 2007.

The accounting value of the CEO and senior executives' options, restricted shares and options that were granted, exercised and lapsed in fiscal 2007, are set out in Figure 11. The accounting value is included to address our reporting obligations only. Where these instruments expire, there is no benefit at all to the executive, and therefore no transfer of any equity or equity-related instrument. All instruments that have expired were tested against the external performance measure of Total Shareholder Return (TSR).

Figure 11: Value of options granted, exercised and expired/forfeited in fiscal 2008

	Granted during period ($)(1) (2)	Exercised ($)	Expired/ forfeited ($)	Aggregate of options granted, exercised and lapsed ($)
Solomon Trujillo	879,310	-	-	879,310
Bruce Akhurst	978,261	-	-	978,261
Kate McKenzie	328,696	-	-	328,696
David Moffatt	1,029,121	-	-	1,029,131
Deena Shiff	743,478	-	-	743,478
John Stanhope	719,993	-	-	719,993
David Thodey	907,826	-	-	907,826
Gregory Winn	-	-	-	-

(1) This amount represents an accounting estimate of the potential value executives may derive from Options over the vesting period. However, the executives will only derive value from the Options granted where the TSR gateway and the applicable performance measures are satisfied. Accordingly the minimum potential value of the Options granted is zero or may be greater than the above depending on the share price at the time of exercise.
(2) The fair value of the options granted in fiscal 2008 is $0.58 for the ROI options and $0.50 for the TSR options. The fair values reflect the valuation approach required by the applicable accounting standard including a Monte Carlo simulation option pricing model as explained in note 27 to the financial statements. The fair value of options for the CEO is $0.17.

Each equity instrument may be exercised for one Telstra Share, subject to achievement of the relevant performance hurdles, by paying the prescribed exercise price.

Remuneration Report

KMP contract details

The key terms and conditions of service contracts for the Key Management Personnel are summarised and set out in Figure 12. A contract typically outlines the components of remuneration paid to the executive but does not prescribe how remuneration levels are to be modified from year to year.

Figure 12: Summary of contract arrangements for the senior executive team

Name	Term of agreement	Fixed remuneration at 30 June 2008	Additional conditions	Notice Period(1)	Termination payment(2)
Solomon Trujillo	Ongoing	$3,000,000	nil	30 days	12 months
Bruce Akhurst	Ongoing	$1,250,000	nil	6 months	12 months
Kate McKenzie	Ongoing	$700,000	nil	6 months	12 months
David Moffatt	Ongoing	$1,315,000	nil	6 months	12 months
Deena Shiff	Ongoing	$950,000	nil	6 months	12 months
John Stanhope	Ongoing	$1,150,000	nil	6 months	12 months
David Thodey	Ongoing	$1,160,000	nil	6 months	12 months
Gregory Winn	Ongoing	$2,000,000	Contract payment(3) Share Price Incentive(4)	3 months	6 months

(1) Upon notice being given Telstra can require the executive to work through the notice period or terminate employment immediately by providing payment in lieu of notice.

(2) Payment is calculated on fixed remuneration as at date of termination. There will be no payment if termination is a result of serious misconduct or redundancy (in which case Telstra's redundancy policy applies).

(3) A payment of $500,000 is payable to Mr Winn in August 2008 as he was employed by Telstra at 8 August 2008.

(4) Mr Winn will be entitled to a cash payment of up to $8,000,000 if Telstra's average closing share price for the 30 calendar days following the announcement of Telstra's fiscal 2008 annual results exceeds $7.00 per share.

There are no individual contracts for service with our non-executive directors.

Remuneration Report

Details of non-executive directors' remuneration

Figure 13 provides the details of all remuneration paid to our non-executive directors in fiscal 2008 and 2007.

Figure 13: Non-executive directors –details of remuneration

		Short term employee benefits		Post-employment benefits	Termination benefits	Equity settled share-based payments	
Name		**Salary and Fees[1] ($)**	**Non-monetary benefits[2] ($)**	**Superannuation ($)**	**Termination benefits[3] ($)**	**Direct share ($)**	**Total ($)**
Donald McGauchie *Chairman*	**2008**	**391,739**	**1,754**	**89,007**	**n/a**	**120,000**	**602,500**
	2007	383,314	2,360	12,686	167,954	99,000	665,314
Geoffrey Cousins Director	**2008**	**160,664**	**-**	**13,129**	**n/a**	**43,445**	**217,238**
	2007	65,576	-	6,486	-	18,015	90,077
Belinda Hutchinson[4] *Director*	**2008**	**21,058**	**-**	**29,124**	**n/a**	**12,549**	**62,731**
	2007	52,701	-	89,696	48,509	35,600	226,506
Catherine Livingstone *Director*	**2008**	**180,400**	**1,754**	**13,129**	**n/a**	**48,400**	**243,683**
	2007	135,101	1,701	12,686	64,930	37,000	251,418
Charles Macek *Director*	**2008**	**206,249**	**2,090**	**19,535**	**n/a**	**56,400**	**284,274**
	2007	146,276	2,037	12,686	54,505	39,800	255,304
John Mullen[5] Director	**2008**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	-	-	-	-	-	-
John Stewart[6] Director	**2008**	**10,493**	**-**	**17,489**	**n/a**	**6,995**	**34,977**
	2007	-	-	-	-	-	-
John Stocker *Director*	**2008**	**151,792**	**1,012**	**28,972**	**n/a**	**95,594**	**277,370**
	2007	73,500	1,701	102,500	148,858	44,000	370,559
Peter Willcox Director	**2008**	**142,065**	**-**	**57,755**	**n/a**	**49,873**	**249,693**
	2007	114,304	-	10,287	-	31,148	155,739
John Zeglis Director	**2008**	**165,600**	**-**	**-**	**n/a**	**41,400**	**207,000**
	2007	119,587	-	-	-	29,897	149,484
Total	**2008**	**1,430,060**	**6,610**	**268,140**	**-**	**474,656**	**2,179,466**
	2007	1,090,359	7,799	247,027	484,756	334,460	2,164,401

(1) Includes fees for membership on Board committees.

(2) These payments relate to reimbursement received by directors for reasonable travelling, accommodation and other expenses incurred in travelling to or from meetings of the Board or committees, or when otherwise engaged on company business. This also includes telecommunications and other services and equipment provided to directors to assist them in performing their duties. From time to time, we may also make products and services available to directors without charge to allow them to familiarise themselves with our products and services and with recent technological developments.

(3) These amounts represent the accrued retirement benefit for fiscal 2007. This amount is not included as part of the total directors fee pool.

(4) Ms Hutchinson retired as a Director of Telstra on 7 November 2007. After the date of retirement, Ms Hutchinson was not considered to be a KMP. As a result, the above table only includes remuneration during her period of service as a KMP.

(5) Mr Mullen commenced as a Director on 1 July 2008. As such there are no remuneration details included for fiscal 2008.

(6) Mr Stewart commenced as a Director on 28 April 2008. Before the date of commencement, Mr Stewart was not considered to be a KMP. As a result, the above table only includes remuneration during his period of service as a KMP.

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Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial Report

as at 30 June 2008

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Notes to the Financial Statements

Income Statement

for the year ended 30 June 2008

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Income					
Revenue (excluding finance income)	6	**24,828**	23,709	**21,758**	20,662
Other income	6	**174**	251	**135**	201
		25,002	23,960	**21,893**	20,863
Expenses					
Labour		**4,158**	4,017	**3,248**	3,074
Goods and services purchased		**5,181**	5,151	**3,680**	3,634
Other expenses	7	**5,246**	4,924	**4,892**	4,517
		14,585	14,092	**11,820**	11,225
Share of net loss from jointly controlled and associated entities	26	**1**	7	**-**	-
		14,586	14,099	**11,820**	11,225
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**10,416**	9,861	**10,073**	9,638
Depreciation and amortisation	7	**4,190**	4,082	**3,621**	3,588
Earnings before interest and income tax expense (EBIT)		**6,226**	5,779	**6,452**	6,050
Finance income	6	**72**	57	**60**	47
Finance costs	7	**1,158**	1,144	**1,152**	1,147
Net finance costs		**1,086**	1,087	**1,092**	1,100
Profit before income tax expense		**5,140**	4,692	**5,360**	4,950
Income tax expense	9	**1,429**	1,417	**1,543**	1,512
Profit for the year		**3,711**	3,275	**3,817**	3,438
Attributable to:					
Equity holders of Telstra Entity		**3,692**	3,253		
Minority interests		**19**	22		
		3,711	3,275		

Earnings per share (cents per share)		**cents**	cents
Basic	3	**29.9**	26.3
Diluted	3	**29.8**	26.2

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

Statement of Comprehensive Income

for the year ended 30 June 2008

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	2008	2007
	Note	$m	$m	$m	$m
Profit for the year		**3,711**	3,275	**3,817**	3,438
Foreign currency translation reserve					
Reserves recognised on equity accounting our interest in jointly controlled and associated entities	26	**1**	(1)	**-**	-
Translation of financial statements of non-Australian controlled entities		**(231)**	(100)	**-**	-
Transfer to profit for the year on sale of jointly controlled and associated entities	26	**-**	(1)	**-**	-
Income tax on movements in the foreign currency translation reserve		**(43)**	(13)	**-**	-
		(273)	(115)	**-**	-
Cash flow hedging reserve					
Changes in fair value of cash flow hedges		**120**	(552)	**119**	(551)
Changes in fair value transferred to profit for the year		**53**	573	**53**	572
Changes in fair value transferred to property, plant and equipment		**7**	11	**7**	10
Income tax on movements in the cash flow hedging reserve		**(53)**	(9)	**(53)**	(9)
		127	23	**126**	22
Retained profits					
Actuarial (loss)/gain on defined benefit plans	24	**(434)**	23	**(425)**	17
Income tax on actuarial loss/gain on defined benefit plans		**129**	(6)	**127**	(4)
		(305)	17	**(298)**	13
Minority interests					
Translation of financial statements of non-Australian controlled entities		**(19)**	(17)	**-**	-
Total comprehensive income for the year		**3,241**	3,183	**3,645**	3,473
Attributable to:					
Equity holders of Telstra Entity		**3,241**	3,178		
Minority interests		**-**	5		
		3,241	3,183		

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

Statement of Financial Position

as at 30 June 2008

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Current assets					
Cash and cash equivalents	20	**899**	823	**542**	546
Trade and other receivables	10	**3,952**	3,853	**3,502**	3,391
Inventories	11	**309**	318	**264**	261
Derivative financial assets	18	**54**	41	**54**	41
Prepayments		**299**	266	**234**	204
Total current assets		**5,513**	5,301	**4,596**	4,443
Non current assets					
Trade and other receivables	10	**198**	190	**318**	273
Inventories	11	**12**	17	**12**	17
Investments - accounted for using the equity method	12	**14**	16	**12**	12
Investments - other	12	**1**	3	**5,461**	5,890
Property, plant and equipment	13	**24,311**	24,607	**22,665**	22,723
Intangible assets	14	**7,245**	6,639	**3,738**	3,098
Deferred tax assets	9	**1**	1	**-**	-
Derivative financial assets	18	**444**	249	**444**	249
Defined benefit assets	24	**182**	814	**161**	784
Total non current assets		**32,408**	32,536	**32,811**	33,046
Total assets		**37,921**	37,837	**37,407**	37,489
Current liabilities					
Trade and other payables	15	**3,930**	4,221	**3,420**	3,871
Provisions	16	**535**	614	**457**	555
Borrowings	18	**2,055**	2,743	**2,484**	3,616
Derivative financial liabilities	18	**82**	177	**82**	177
Current tax liabilities		**264**	449	**222**	413
Revenue received in advance		**1,257**	1,192	**972**	930
Total current liabilities		**8,123**	9,396	**7,637**	9,562
Non current liabilities					
Trade and other payables	15	**181**	195	**56**	58
Provisions	16	**776**	834	**739**	787
Borrowings	18	**13,444**	11,619	**13,419**	11,590
Derivative financial liabilities	18	**1,222**	1,328	**1,222**	1,328
Deferred tax liabilities	9	**1,575**	1,513	**1,734**	1,643
Revenue received in advance		**355**	372	**355**	368
Total non current liabilities		**17,553**	15,861	**17,525**	15,774
Total liabilities		**25,676**	25,257	**25,162**	25,336
Net assets		**12,245**	12,580	**12,245**	12,153
Equity					
Share capital	17	**5,534**	5,611	**5,534**	5,611
Reserves		**(410)**	(258)	**358**	232
Retained profits		**6,893**	6,976	**6,353**	6,310
Equity available to Telstra Entity shareholders		**12,017**	12,329	**12,245**	12,153
Minority interests		**228**	251	**-**	-
Total equity		**12,245**	12,580	**12,245**	12,153

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

Statement of Cash Flows

for the year ended 30 June 2008

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax (GST))		**27,246**	26,187	**23,762**	22,707
Payments to suppliers and to employees (inclusive of GST)		**(16,871)**	(16,049)	**(13,720)**	(12,925)
Net cash generated by operations		**10,375**	10,138	**10,042**	9,782
Income taxes paid		**(1,531)**	(1,618)	**(1,513)**	(1,584)
Net cash provided by operating activities	20	**8,844**	8,520	**8,529**	8,198
Cash flows from investing activities					
Payments for:					
- property, plant and equipment		**(3,862)**	(4,657)	**(3,609)**	(4,172)
- intangible assets		**(1,465)**	(995)	**(1,208)**	(802)
Capital expenditure (before investments)		**(5,327)**	(5,652)	**(4,817)**	(4,974)
- shares in controlled entities (net of cash acquired)	20	**(74)**	(326)	**-**	(13)
- payments for other investments		**(1)**	(4)	**(1)**	(2)
Total capital expenditure		**(5,402)**	(5,982)	**(4,818)**	(4,989)
Proceeds from:					
- sale of property, plant and equipment		**28**	32	**58**	47
- sale of intangible assets		**1**	2	**-**	2
- sale of shares in controlled entities (net of cash disposed)	20	**51**	218	**-**	-
- sale of other investments		**-**	14	**-**	13
Proceeds from finance lease principal amounts		**52**	84	**52**	84
Net cash consideration from CSL New World Mobility merger		**-**	(21)	**-**	-
Loan to jointly controlled and associated entities		**-**	(24)	**-**	-
Repayment of loan to jointly controlled and associated entities		**6**	-	**-**	-
Interest received		**72**	56	**60**	48
Proceeds from settlement of hedges in net investments		**73**	-	**73**	-
Distribution from FOXTEL Partnership	6	**130**	-	**-**	-
Net cash used in investing activities		**(4,989)**	(5,621)	**(4,575)**	(4,795)
Operating cash flows less investing cash flows		**3,855**	2,899	**3,954**	3,403
Cash flows from financing activities					
Proceeds from borrowings		**6,498**	5,206	**6,769**	5,414
Proceeds from Telstra bonds and domestic loans		**-**	373	**-**	373
Repayment of borrowings		**(5,397)**	(3,776)	**(5,876)**	(4,570)
Repayment of finance lease principal amounts		**(42)**	(42)	**(38)**	(39)
Staff repayments of share loans		**15**	17	**15**	17
Purchase of shares for employee share plans		**(129)**	-	**(129)**	-
Finance costs paid		**(1,213)**	(1,056)	**(1,223)**	(1,047)
Dividends paid to equity holders of Telstra Entity	4	**(3,476)**	(3,479)	**(3,476)**	(3,479)
Dividends paid to minority interests		**(22)**	-	**-**	-
Net cash used in financing activities		**(3,766)**	(2,757)	**(3,958)**	(3,331)
Net increase/(decrease) in cash and cash equivalents		**89**	142	**(4)**	72
Cash and cash equivalents at the beginning of the year		**823**	689	**546**	474
Effects of exchange rate changes on cash and cash equivalents		**(13)**	(8)	**-**	-
Cash and cash equivalents at the end of the year	20	**899**	823	**542**	546

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

Statement of Changes in Equity

for the year ended 30 June 2008

Telstra Group

		Reserves						
	Share capital $m	Foreign currency translation (i) $m	Cash flow hedging (ii) $m	Consolid-ation fair value (iii) $m	General reserve (iv) $m	Retained profits $m	Minority interests $m	Total $m
Balance at 1 July 2006	5,569	(210)	14	32	4	7,179	246	12,834
- total comprehensive income for the year	-	(115)	23	-	-	3,270	5	3,183
- dividends paid	-	-	-	-	-	(3,479)	-	(3,479)
- transfers to retained profits	-	-	-	(6)	-	6	-	-
- amounts repaid on share loans provided to employees	17	-	-	-	-	-	-	17
- share-based payments	25	-	-	-	-	-	-	25
Balance at 30 June 2007	5,611	(325)	37	26	4	6,976	251	12,580
- total comprehensive income for the year	**-**	**(273)**	**127**	**-**	**-**	**3,387**	**-**	**3,241**
- dividends paid	**-**	**-**	**-**	**-**	**-**	**(3,476)**	**(43)**	**(3,519)**
- minority interest on acquisitions	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**20**
- transfers to retained profits	**-**	**-**	**-**	**(6)**	**-**	**6**	**-**	**-**
- amounts repaid on share loans provided to employees	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**15**
- prior year labour expense settled in equity	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**9**
- additional shares purchased	**(129)**	**-**	**-**	**-**	**-**	**-**	**-**	**(129)**
- share-based payments	**28**	**-**	**-**	**-**	**-**	**-**	**-**	**28**
Balance at 30 June 2008	**5,534**	**(598)**	**164**	**20**	**4**	**6,893**	**228**	**12,245**

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

(ii) The cash flow hedging reserve represents, where a hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedge instrument. These gains or losses are transferred to the income statement when the hedged item affects income, or in the case of forecast transactions, are included in the measurement of the initial cost of property, plant and equipment or inventory.

(iii) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets.

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

Statement of Changes in Equity (continued)

for the year ended 30 June 2008

Telstra Entity

	Share capital $m	Cash flow hedging reserve (ii) $m	General reserve (iv) $m	Retained profits $m	Total $m
Balance at 1 July 2006	5,569	16	194	6,338	12,117
- total comprehensive income for the year	-	22	-	3,451	3,473
- dividends paid	-	-	-	(3,479)	(3,479)
- transfers to retained profits	-	-	-	-	-
- amounts repaid on share loans provided to employees	17	-	-	-	17
- share-based payments	25	-	-	-	25
Balance at 30 June 2007	5,611	38	194	6,310	12,153
- total comprehensive income for the year	**-**	**126**	**-**	**3,519**	**3,645**
- dividends paid	**-**	**-**	**-**	**(3,476)**	**(3,476)**
- amounts repaid on share loans provided to employees	**15**	**-**	**-**	**-**	**15**
- prior year labour expense settled in equity	**9**	**-**	**-**	**-**	**9**
- additional shares purchased	**(129)**	**-**	**-**	**-**	**(129)**
- share-based payments	**28**	**-**	**-**	**-**	**28**
Balance at 30 June 2008	**5,534**	**164**	**194**	**6,353**	**12,245**

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 and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited.

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

- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2008 means fiscal 2008 and similarly for other fiscal years.

The financial report of the Telstra Group and the Telstra Entity for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 13 August 2008.

The principal accounting policies used in preparing the financial report of the Telstra Group and the Telstra Entity are listed 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 in accordance with the requirements of the Australian Corporations Act 2001 and Accounting Standards applicable in Australia. This financial report also complies with Accounting Standards and Interpretations published by the International Accounting Standards Board.

Both the functional and presentation currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non Australian controlled entities is not Australian dollars. As a result, the results of these entities are translated to Australian dollars for presentation in the Telstra Group financial report.

This financial report is prepared in accordance with historical cost, except for some categories of investments, and some financial assets and liabilities (including derivative instruments) which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this financial report, we are required to make judgements and estimates that impact:

- income and expenses for the year;
- the reported amounts of assets and liabilities; and
- the disclosure of off balance sheet arrangements, including contingent assets and contingent liabilities.

We continually evaluate our judgements and estimates. We base our judgements and estimates on historical experience, various other assumptions we believe to be reasonable under the circumstances and, where appropriate, practices adopted by international telecommunications companies. Actual results may differ from our estimates.

1.2 Clarification of terminology used in our income statement

Under the requirements of AASB 101: "Presentation of Financial Statements", we must classify all of our expenses (apart from any finance costs and our share of net gain / loss from jointly controlled and associated entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure the company's operating performance.

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the company's operating performance before financing costs, income tax and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for payment of income taxes, debt servicing and capital expenditure.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

1.3 Rounding

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

Notes to the Financial Statements (continued)

2. Summary of accounting policies

2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2008.

(a) Amendment to Key Management Personnel disclosures

AASB 2008-4: "Amendments to Australian Accounting Standard - Key Management Personnel Disclosures by Disclosing Entities" became applicable to annual reporting periods ending on or after 30 June 2008.

This amendment provides relief for disclosing entities from duplicating Key Management Personnel remuneration disclosure requirements prescribed in the Corporations Act 2001 and AASB 124 "Related Party Disclosures" in both the financial report and in the Directors' Report.

Telstra has adopted AASB 2008-4 for the year ended 30 June 2008, with Key Management Personnel remuneration disclosures being provided in the Remuneration Report, which is part of the Directors' Report.

This amendment is disclosure only and does not have an impact on our financial results.

(b) Reinstatement of options in Australian Accounting Standards

AASB 2007-4: "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments" became applicable to annual reporting periods beginning on or after 1 July 2007. We have applied this accounting standard in our financial report for the year ended 30 June 2008.

This standard amends a number of existing Australian Accounting Standards by re-introducing optional accounting treatments contained in International Financial Reporting Standards (IFRSs) that were previously deleted by the Australian Accounting Standards Board (AASB). These options have not resulted in any changes to our accounting policies, as our existing policies are considered to provide the most relevant and reliable information to users.

(c) Segment reporting

AASB 8: "Operating Segments" was approved by the AASB in February 2007 and replaces AASB 114: "Segment Reporting". We have elected to early adopt and apply this standard in our financial report for the year ended 30 June 2008.

AASB 8 requires entities to measure and report operating segments based on their internal management reporting structure. This has resulted in some changes to our identification of reportable segments, the measurement of segment results, and the level of information disclosed regarding our segments.

Comparative segment information has been restated to comply with AASB 8. Refer to note 5 for further details.

(d) Presentation of financial statements

AASB 101: "Presentation of Financial Statements" was revised by the AASB in September 2007. We have elected to early adopt and apply this standard in our financial report for the year ended 30 June 2008.

The revision of the standard affects the presentation of the financial statements. There is no impact on our financial results, financial position or cash flows as a result of this standard. The purpose of the changes is to aggregate information in the financial statements on the basis of shared characteristics. All non owner changes in equity are now aggregated and presented in a Statement of Comprehensive Income and all owner changes in equity are now presented in a Statement of Changes in Equity.

The revision also changes the title of other financial statements; the Balance Sheet is now known as the Statement of Financial Position and the Cash Flow Statement is now known as the Statement of Cash Flows.

(e) Customer loyalty programmes

AASB Interpretation 13: "Customer Loyalty Programmes" is effective from 1 July 2008, however we have elected to early adopt and apply this interpretation in our financial report for the year ended 30 June 2008.

The interpretation covers situations in which an entity, as part of a sales transaction, awards credits to customers that can be redeemed for products and services in the future. It requires entities to recognise these credits as a separately identifiable component of revenue, which is deferred at the date of the initial sale and recognised as revenue when the credits are redeemed.

Telstra's current accounting policy for revenue arrangements with multiple deliverables, as detailed in note 2.17, complies with the requirements of this interpretation. As such there is no impact on our financial results, financial position or cash flows as a result of this interpretation.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

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.

Our consolidated retained profits include retained profits/ accumulated losses of controlled entities from the time they became a controlled entity until control ceases. Minority interests in the results and equity of controlled entities are shown separately in our consolidated income statement and consolidated statement of financial position.

We account for the acquisition of our controlled entities using the purchase 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 cost of acquisition over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill. On initial acquisition, we apply management judgement to determine the appropriate allocation of purchase consideration to the assets being acquired, including goodwill and identifiable intangible assets.

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 balance date are converted into the relevant functional currency at market exchange rates at balance 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 equity 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. Refer to note 2.22 for further details.

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

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Telstra Corporation Limited.

Our operations include subsidiaries, associates, and jointly controlled entities, the activities and operations of which are in an economic environment where the functional currency is not Australian dollars. The financial statements of these entities are translated to Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at balance date;
- equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/ accumulated losses) are translated at the exchange rates current at the dates of those movements;
- income statements are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in other comprehensive income.

Refer to note 2.22 for details regarding our accounting policy for foreign currency monetary items and derivative financial instruments that are used to hedge our net investment in entities which have a functional currency not in Australian dollars.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits, bills of exchange and promissory notes with an original maturity date not greater than three months.

Bank deposits are recorded at amounts to be received.

Bills of exchange and promissory notes are classified as 'available-for-sale' financial assets and are held at fair value. The carrying amount of these assets approximates their fair value due to the short term to maturity.

2.5 Trade and other receivables

Trade debtors and other receivables 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.

An allowance for doubtful debts is raised to reduce the carrying amount of trade debtors, based on a review of outstanding amounts at balance date. 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.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

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.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

2.7 Construction contracts

(a) Valuation

We record construction contracts in progress at cost (including any profits recognised) less progress billings and any provision for foreseeable losses.

Cost includes:

- both variable and fixed costs directly related to specific contracts;
- amounts which can be allocated 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 profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion. Refer to note 2.17(d) for further details.

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

2.8 Investments

(a) Controlled entities

Investments in controlled entities 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.

(b) Jointly controlled and associated entities

(i) Jointly controlled entities

A jointly controlled entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in jointly controlled entities, including partnerships, are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity 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 investment falls below zero, we reduce the value of these long term assets in proportion with our cumulative losses.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.8 Investments (continued)

(b) Jointly controlled and associated entities (continued)

(ii) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20% and 50%, and are able to apply significant influence to 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 and the cost method in the Telstra Entity financial statements.

(c) 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 expenses based on our percentage ownership interest of the jointly controlled asset.

(d) 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 balance date; and
- for investments in unlisted entities whose securities are not traded in an organised financial market, we establish fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent arms length transactions involving instruments that are substantially the same.

We remeasure the fair value of our investments in listed securities and other corporations at each reporting date. Any gains or losses are recognised in equity 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, deferred tax assets, defined benefit assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment, or where an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

The expected net cash flows included in determining recoverable amounts of our assets are discounted to present values using a market determined, risk adjusted, discount rate. When determining an appropriate discount rate, we use the weighted average cost of capital (WACC) as an initial point of reference, adjusted for specific risks associated with each different category of assets assessed.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Our cash generating units (CGUs) are determined according to the lowest level of aggregation for which an active market exists and the assets involved create largely independent cash inflows.

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

The Telstra Entity CGU excludes the hybrid fibre coaxial (HFC) cable network, which we consider not to be integrated with the rest of our telecommunications network.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.9 Impairment (continued)

(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 an extended period in which the fair value of the financial asset has been below the acquisition cost and the decline in fair value is not expected to be recovered. At this time, all revaluation losses in relation to impaired financial assets that have been accumulated within equity 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 (b). The cost of our constructed property, plant and equipment 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.

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

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

(b) Depreciation

Items of property, plant and equipment, including buildings and leasehold property, but excluding freehold land, are depreciated on a straight line basis to the income statement over their estimated service lives. We start depreciating assets when they are installed and ready for use.

The service lives of our significant items of property, plant and equipment are as follows:

	Telstra Group	
	As at 30 June	
	2008	2007
Property, plant and equipment	Service life (years)	Service life (years)
Buildings - building shell	55	55
- general purpose	8 - 40	8 - 40
- fitout	10 - 20	10 - 20
Communication assets		
Buildings - building shell	55	55
- network	8 - 40	8 - 40
- fitout	10 - 20	10 - 20
Customer premises equipment	3 - 8	3 - 8
Transmission equipment	1 - 30	1 - 25
Switching equipment	1 - 12	2 - 12
Mobile equipment	3 - 10	1 - 10
Cables	3 - 30	4 - 25
Ducts and pipes - main cables	32	40
- distribution	27	30
Other communications plant	1 - 30	1 - 30
Other assets		
Leasehold plant and equipment	3 - 15	3 - 15
Other plant, equipment and motor vehicles	3 - 15	3 - 15

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 telecommunication companies, and in relation to communication assets, includes a determination of when the asset may be superseded technologically or made obsolete. The changes in our service lives for cables, ducts and pipes compared to fiscal 2007 is a result of a change in management's assessment of the expected replacement dates of these assets, given known experience of the actual physical use of these assets.

The net effect of the reassessment of service lives for fiscal 2008 was a decrease in our depreciation expense of $166 million (2007: $26 million decrease) for the Telstra Group and a decrease of $243 million (2007: $41 million decrease) for the Telstra Entity.

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

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.11 Leased plant and equipment

We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains all such risks and benefits.

(a) Telstra as a lessee

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

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

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

(b) Telstra as a lessor

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

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

2.12 Intangible assets

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

(a) Goodwill

On the acquisition of investments in controlled entities, jointly controlled and associated entities, when we pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is recognised as goodwill in the Telstra Group statement of financial position. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a jointly controlled or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment in accordance with note 2.9 on an annual basis or when an indication of impairment exists.

(b) Internally generated intangible assets

Research costs are recorded as an expense as incurred. Development costs are capitalised if the project is technically and commercially feasible, we are able to use or sell the asset, and we have sufficient resources and intent to complete the development.

Software assets

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

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed; and
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project.

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives to us. Amortisation commences once the software is ready for use.

(c) Acquired intangible assets

We acquire other intangible assets either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. We apply management judgement to determine the appropriate fair value of identifiable intangible assets.

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with note 2.9 on an annual basis, or where an indication of impairment exists.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.12 Intangible assets (continued)

(d) Deferred expenditure

Deferred expenditure mainly includes costs incurred for basic access installation and connection fees for in place and new services, and direct incremental costs of establishing a customer contract.

Significant items of expenditure are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Any costs in excess of future revenue are recognised immediately in the income statement. Handset subsidies are considered to be separate units of accounting and expensed as incurred.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised.

(e) Amortisation

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

	Telstra Group	
	As at 30 June	
	2008	2007
Identifiable intangible assets	Expected benefit (years)	Expected benefit (years)
Software assets	**6**	6
Patents and trademarks	**17**	18
Licences	**14**	14
Brandnames	**16**	18
Customer bases	**11**	10
Deferred expenditure	**4**	4

The service lives of our identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense (either increasing or decreasing) through to the end of the reassessed useful life for both that current year and future years. The net effect of the reassessment for fiscal 2008 was an increase in our amortisation expense of $19 million (2007: $25 million decrease) for the Telstra Group and an increase of $21 million (2007: $25 million decrease) for the Telstra Entity.

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 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 ten 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 balance 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
- weighted average discount rate.

Refer to note 16 for further details on the key management judgements used in the calculation of our long service leave provision.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.14 Provisions (continued)

(b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on the risks specific to the liability with similar due dates.

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

(c) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation in those affected by the restructuring that the restructuring will be carried out.

2.15 Borrowings

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

Borrowing costs are recognised as an expense in our income statement when incurred.

Our borrowings fall into two categories:

(a) Borrowings in a designated hedging relationship

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

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges (to hedge against changes in value due to interest rate or currency movements) is adjusted for fair value movements attributable to the hedged risk. Fair value is calculated using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance 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 subject to cash flow hedges (to hedge against currency movements) are recognised initially at fair value based on the applicable spot price plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost, 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 is recognised in the income statement over the borrowing period using the effective interest method.

Currency gains or losses on the borrowings are recognised in the income statement, along with the associated gains or losses on the hedging instrument, which have been transferred from the cash flow hedging reserve to the income statement at the completion of the transaction.

(b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include promissory notes borrowings, Telstra bonds and domestic loans, unsecured promissory notes and other borrowings.

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.

2.16 Share capital

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

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

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

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

Refer to note 2.21 for further details regarding our accounting for employee share plans.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.17 Revenue recognition

Sales revenue

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 are deferred and recognised over the average estimated customer life that are not considered to be separate units of accounting. 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 our 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 (2007: 5 years).

(b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

Generally we record the full gross amount of sales proceeds as revenue, however if we are acting as an agent under a sales arrangement, we record the revenue on a net basis, being the gross amount billed less the amount paid to the supplier. We review the facts and circumstances of each sales arrangement to determine if we are an agent or principal under the sale arrangement.

(c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period.

(d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract.

Our construction contracts are classified according to their type. There are three types of construction contracts, these being material intensive, labour intensive and short duration. Revenue is recognised on a percentage of completion basis using the appropriate measures as follows:

- (actual costs / planned costs) x planned revenue - for material intensive projects;
- (actual labour hours / planned labour hours) x planned revenue - for labour intensive projects; and
- short duration projects are those that are expected to be completed within a month and revenues and costs are recognised on completion.

(e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis for which revenues are recognised at the time the advertisement is published.

All of our Yellow Pages and White Pages directory revenues are recognised on delivery of the published directories using the delivery method. We consider our directories delivered when they have been published and delivered 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.

Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

We allocate the consideration from the revenue arrangement to its separate units based on the relative fair values of each unit. If the fair value of the delivered item is not available, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

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 equity, in which case our current and deferred tax is also recognised directly in 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 or 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.

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.

In respect of our investments in subsidiaries, jointly controlled and associated entities, we recognise deferred tax assets for all deductible temporary differences provided it is probable that our temporary differences will reverse in the future and taxable profit will be available against which our temporary differences 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 the entire deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

The Telstra Entity and its Australian resident wholly owned entities elected to form a tax consolidated group from 1 July 2002. The Telstra Entity, as the head entity in the tax consolidated group, 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 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.

Under our tax funding arrangements, amounts receivable recognised by the Telstra Entity for the current tax payable assumed of our wholly owned entities are booked as a current receivable. Amounts payable recognised by the Telstra Entity for the current tax receivable of our wholly owned entities are booked as a current payable. Amounts relating to unused tax losses and tax credits of the wholly owned entities assumed by the Telstra Entity are recorded as dividend revenue.

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 goods and services tax (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).

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.20 Post-employment benefits

(a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

(b) Defined benefit plans

We currently sponsor a number of post-employment benefit plans. As these plans have elements of both defined contribution and defined benefit, these hybrid plans are treated as defined benefit plans.

At reporting date, where the fair value of the plan assets 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.

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 would be recognised as a liability.

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 net 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 equity via retained profits. Components of defined benefit costs include current and past service cost, interest cost and expected return on assets.

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 assets at reporting date:

- discount rates;
- 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 assets. If the estimates prove to be incorrect, the carrying value of our defined benefit assets may be materially impacted in the next reporting period. Additional volatility may also potentially be recorded in retained profits 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 assets.

2.21 Employee share plans

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

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

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also include the results, position and cash flows of Growthshare.

We recognise an expense for all share based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is charged against profit over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as 'held for trading' financial instruments. All of our derivative financial instruments are stated at fair value.

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 generally with different counterparties and are not generally settled on a net basis.

Where we have a legally recognised right to set off the financial asset and the financial liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our statement of financial position.

Our derivative instruments that are held to hedge exposures can be classified into three different types, depending on the reason we are holding them - fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness may result in significant volatility in the income statement. 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.

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

Purchases and sales of derivative financial instruments are recognised on the date on which we commit to purchase or sell an asset.

(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 in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged.

(b) Cash flow hedges

We use cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period. Cash flow hedges are used for our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument are recognised directly in equity 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, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create some volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is 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 equity are transferred immediately to the income statement.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.22 Derivative financial instruments (continued)

(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 promissory notes in the relevant currency of the investment.

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

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

(d) Derivatives that are not in a designated hedging relationship

For any ‘held for trading’ derivative instruments, i.e. those which are not in a designated hedging relationship, any gains or losses on remeasuring the instruments to fair value are recognised directly in the income statement in the period in which they occur.

(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 Fair value estimation

The fair value of our derivatives and some financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Valuation techniques include where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm’s length transactions involving the same instruments or other instruments that are substantially the same, and option pricing models.

We calculate the fair value of our forward exchange contracts by reference to forward exchange market rates for contracts with similar maturity profiles at the time of valuation.

The net fair values of our cross currency and interest rate swaps and other financial assets and financial liabilities that are measured at fair value (apart from our listed investments) are determined using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance 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. The net fair values of our listed investments are determined by reference to prices quoted on the relevant stock exchanges where the securities are traded.

Unless there is evidence to suggest otherwise, the nominal value of financial assets and financial liabilities less any adjustments for impairment with a short term to maturity are considered to approximate net fair value.

2.24 Recently issued accounting standards to be applied in future reporting periods

The accounting standards and AASB Interpretations that have not been early adopted for the year ended 30 June 2008, but will be applicable to the Telstra Group and Telstra Entity in future reporting periods, are detailed below. Apart from these standards and interpretations, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Telstra.

Business Combinations

AASB 3: “Business Combinations” and AASB 127 “Consolidated and Separate Financial Statements” were revised in March 2008, with the revised Standards becoming applicable to annual reporting periods beginning on or after 1 July 2009. A related omnibus standard AASB 2008-3: “Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127” makes a number of amendments to other accounting standards as a result of the revised AASB 3 and AASB 127 and must be adopted at the same time.

The standards make a number of amendments to the accounting for business combinations and consolidations, including requiring acquisition costs to be expensed, the clarification of the accounting treatment for changes in ownership interests and the fair value measurement of contingent liabilities in the statement of financial position at acquisition date with subsequent changes reflected in theincome statement. This accounting standard will only impact on acquisitions completed post 1 July 2009.

The AASB issued AASB 2008-7: “Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate” in August 2008, applicable to annual reporting periods beginning on or after 1 January 2009. The amendments require all dividends, regardless of whether they are pre-acquisition or post-acquisition, to be recognised in profit and loss when the entity’s right to receive the dividend has been established. These amendments are not expected to materially impact our financial results.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

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

Borrowing costs

AASB 123: "Borrowing Costs" was revised in May 2007, with the revised standard becoming applicable to annual reporting periods beginning on or after 1 January 2009. A related omnibus standard AASB 2007-6 "Amendments to Australian Accounting Standards arising from AASB 123" makes a number of amendments to other accounting standards as a result of the revised AASB 123 and must be adopted at the same time.

This revised standard requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Under our current accounting policy we expense interest in the period it is incurred as permitted under the existing version of AASB 123. The revisions to AASB 123 will decrease finance costs and increase the carrying value of our property, plant and equipment, with a resulting increase in depreciation expense. Management have decided that the revised standard will be applied in the financial report for the year ended 30 June 2010.

Share based Payments

AASB 2008-1 "Amendments to Australian Accounting Standard - Share based Payments: Vesting Conditions and Cancellations" was issued in February 2008, with the standard becoming applicable to annual reporting periods beginning on or after 1 January 2009. These amendments clarify that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions. They also specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of this standard is not expected to materially impact our financial results.

Service concession arrangements

AASB Interpretation 12: "Service Concession Arrangements" is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation provides guidance on the accounting by operators for public-to-private service concession arrangements.

The release of this interpretation resulted in an amendment to UIG 4, which scoped out service concessions arrangements from applying UIG 4. This led to UIG 4 being reissued as AASB Interpretation 4: "Determining Whether an Arrangement Contains a Lease".

Management have determined that the adoption of AASB Interpretation 12 will not have a significant impact on our financial results.

Defined benefit plans

AASB Interpretation 14: "AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" is applicable to annual reporting periods beginning on or after 1 January 2008. The Interpretation aims to classify how to determine in normal circumstances the limit on the asset that an employer's statement of financial position may contain in respect of its defined benefit pension plan.

Management have determined that the adoption of AASB Interpretation 14 will not have a significant impact on our financial results.

Other Standards

The AASB issued AASB 2008-5: "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" and AASB 2008-6: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" in July 2008. These Standards make two types of amendments to other Standards. Firstly, those that result in accounting changes for presentation, recognition or measurement purposes, and secondly, those that are terminology or editorial changes only, which are expected to have no or minimal effect on accounting. Amendments made in AASB 2008-5 are applicable for annual reporting periods beginning on or after 1 January 2009. Amendments arising from AASB 2008-6 are applicable for annual reporting periods beginning on or after 1 July 2009. Management do not expect these accounting Standards to materially impact our financial results.

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" in July 2008. IFRIC 16 provides guidance on net investment hedging including which foreign currency risks qualify for hedge accounting and what can be designated, where within the group the hedging instrument can be held, and what amounts should be reclassified to profit or loss when the foreign operation is disposed. IFRIC 16 is applicable for annual reporting periods beginning on or after 1 October 2008. This Interpretation is not expected to impact Telstra.

Notes to the Financial Statements (continued)

3. Earnings per share

	Telstra Group Year ended 30 June 2008	
	2008	2007
	¢	¢
Basic earnings per share	**29.9**	26.3
Diluted earnings per share	**29.8**	26.2
	$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	**3,692**	3,253
	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 and TESOP (a)(b)	**(78)**	(68)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**12,365**	12,375
Effect of dilutive employee share instruments (c)	**34**	32
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**12,399**	12,407

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

(b) Share options issued under the Telstra Employee Share Ownership Plan I (TESOP97) and II (TESOP99) are not considered outstanding for the purposes of computing basic earnings per share.

(c) In fiscal 2008 and fiscal 2007, the following equity instruments are considered dilutive to earnings per share:

- deferred share instruments issued under Telstra Growthshare Trust (Growthshare);
- incentive shares granted under the Growthshare short term incentive scheme;
- certain performance rights granted under the Growthshare long term incentive scheme; and
- share options issued under TESOP97.

In fiscal 2008 and fiscal 2007, the following equity instruments are not considered dilutive to earnings per share:

- certain performance rights, restricted shares and options issued under Growthshare; and
- share options issued under TESOP99.

Refer to note 27 for details regarding equity instruments issued under the Growthshare and TESOP share plans.

Notes to the Financial Statements (continued)

4. Dividends

	Telstra Entity	
	Year ended 30 June	
	2008	2007
	$m	$m
Dividends paid		
Previous year final dividend paid	**1,740**	1,739
Interim dividend paid	**1,736**	1,740
Total dividends paid	**3,476**	3,479
Dividends paid per ordinary share	**¢**	¢
Previous year final dividend paid	**14.0**	14.0
Interim dividend paid	**14.0**	14.0
Total dividends paid	**28.0**	28.0

Our dividends paid are fully franked at a tax rate of 30%.

Our dividends per share to be paid in respect of fiscal year are detailed below:

	Telstra Entity	
	Year ended 30 June	
	2008	2007
	¢	¢
Dividends per ordinary share		
Interim dividend	**14.0**	14.0
Final dividend (a)	**14.0**	14.0
Total dividends	**28.0**	28.0

(a) As our final dividend for fiscal 2008 was not determined or publicly recommended by the Board as at 30 June 2008, no provision for dividend has been raised in the statement of financial position. Our final dividend has been reported as an event subsequent to balance date. Refer to note 30 for further details.

Notes to the Financial Statements (continued)

4. Dividends (continued)

	Telstra Entity	
	Year ended 30 June	
	2008	2007
	$m	$m
The combined amount of exempting and franking credits available to us for the next fiscal year are:		
Franking account balance (a)	**70**	74
Exempting account (a)	**24**	24
Franking credits that will arise from the payment of income tax payable as at 30 June (b)	**222**	413
Exempting credits that we may be prevented from distributing in the next fiscal year	**(24)**	(24)
	292	487
Franking debits that will arise on the payment of dividends resolved after 30 June (c)		
Final dividend	**744**	746

(a) One franking account and one exempting account is maintained by the Telstra Entity for the tax consolidated group.

The franking account balance represents the amount of tax paid by the entity that is available for distribution to shareholders. In relation to our exempting account, there are statutory restrictions placed on the distribution of credits from this account. As a result of these restrictions, it is unlikely that we will be able to distribute our exempting credits.

Additional franking credits will arise when the Telstra Entity pays tax instalments during fiscal 2009, relating to the fiscal 2008 and 2009 income tax years. Franking credits will be used when the Telstra Entity pays its 2008 final ordinary dividend during fiscal 2009.

(b) Franking credits that will arise from the payment of income tax are expressed at the 30% tax rate on a tax paid basis. This balance represents the current tax liabilities as at 30 June 2008 for the tax consolidated group.

(c) The franking debits that will arise when we pay our final ordinary dividend are expressed as the amount of franking credits that will be attached to a fully franked distribution. Refer to note 30 for further details in relation to our dividends to be paid subsequent to year end.

We believe our current balance of franking credits combined with the franking credits that will arise on tax instalments expected to be paid during fiscal 2009, will be sufficient to cover the franking debits arising from our final dividend.

Notes to the Financial Statements (continued)

5. Segment information

We have elected to early adopt AASB 8: "Operating Segments" for the year ended 30 June 2008 (refer to note 2.1(c)). Comparative segment information has been restated in accordance with AASB 8.

Business segments

Under AASB 8 we report our segment information on the same basis as our internal management reporting structure, which drives how our company is organised and managed. This is different to prior reporting periods where certain adjustments and reallocations were made to our internal structure for segment reporting purposes, pursuant to the definitions of segment revenues and segment expenses contained in the previous accounting standard.

As a result of the adoption of AASB 8, the following changes have been made to the identification of our reportable segments for the year ended 30 June 2008:

- CSL New World Mobility group (CSL NW) and TelstraClear group (TClear), previously aggregated under "Telstra International", are now reported separately; and
- The International Head Office previously included in "Telstra International" now forms part of Strategic Marketing to reflect internal accountability. As such there is no longer a separate "Telstra International" segment.

The Telstra Group is organised into the following business segments for internal management reporting purposes:

Telstra Consumer Marketing and Channels (TC&C) is responsible for:
- the provision of the full range of telecommunication products, services and communication solutions to consumers; and
- leading the mass market channels including inbound and outbound call centres, Telstra Shops and Telstra Dealers.

Telstra Business (TB) is responsible for:
- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to small to medium enterprises.

Telstra Enterprise and Government (TE&G) is responsible for:
- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to corporate and government customers; and
- the provision of global communication solutions to multi-national corporations through our interests in the United Kingdom, Asia and North America.

Telstra Operations (TO) is responsible for:
- co-ordination and execution of our company's multi-year business improvement and transformation program;
- leading the identification, analysis, validation, development and implementation of product, technology and information technology strategies for both the network infrastructure and customer solutions of our Company;
- overall planning, design, specification of standards, commissioning and decommissioning of our communication networks;
- construction of infrastructure for our Company's fixed, mobile, Internet protocol (IP) and data networks;
- operation and maintenance, including activation and restoration of these networks;
- supply and delivery of information technology solutions to support our products, services and customer support function;
- the development and lifecycle management of products and services over the networks, as well as application platforms and the online environment; and
- operational support functions for our Company, including procurement and property management.

Telstra Wholesale (TW) is responsible for:
- the provision of a wide range of telecommunication products and services delivered over our networks and associated support systems to non-Telstra branded carriers, carriage service providers, Internet service providers, system integrators and application service providers.

Sensis is responsible for:
- the management and growth of the advertising and directories business, including printed publications, voice and directory services, location and publishing products, and online products and services;
- the provision of China's largest online real estate, home furnishings and home improvements portal through the investment in SouFun; and
- the provision of automotive and digital device internet businesses in China through our recent acquisitions of 55% of Norstar Media and Autohome/PCPop.

CSL New World (CSL NW) is our 76.4% owned subsidiary in Hong Kong responsible for:
- providing full mobile services including handset sales, voice and data products to the Hong Kong market.

TelstraClear (TClear) is our New Zealand subsidiary responsible for:
- providing full telecommunications services to the New Zealand market.

Telstra Country Wide (TCW) is responsible for:
- the local management and control of providing telecommunication products, services and solutions to all consumer customers, except those in Sydney and Melbourne, and small business, enterprise and some government customers outside the mainland state capital cities, in outer metropolitan areas, and in Tasmania and the Northern Territory.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Business segments (continued)

Telstra BigPond is responsible for:
- the management and control of our retail Internet products, contact centres, and online and mobile content services.

Telstra Media is responsible for:
- the management of our investment in the FOXTEL partnerships; and
- the development and management of the hybrid fibre coaxial (HFC) cable network.

Strategic Marketing is responsible for:
- the co-ordination and delivery of strategy and marketing activities across our Company and market segments.

Corporate areas include:
- Legal Services - provides legal services across the Company;
- Public Policy and Communications - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It also has responsibility for regulatory positioning and negotiation;
- Finance and Administration - encompasses the functions of corporate planning, accounting and administration, treasury, risk management and assurance, investor relations and the office of the company secretary. It also includes providing financial support to all business units and financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group; and
- Human Resources - encompasses talent management, organisational development, human resource operations, health, safety and environment, as well as workplace relations and remuneration.

In our segment financial results, the "Other" category consists of various business units that do not qualify as reportable segments in their own right. These include:

- Telstra Country Wide;
- Telstra BigPond;
- Telstra Media;
- Strategic Marketing; and
- our Corporate areas.

Revenue for the "Other" segment relates primarily to our revenue earned by Telstra Media from providing access to our HFC network and other services to FOXTEL. The Asset Accounting Group is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges.

Segment assets for the "Other" segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

Segment results and segment assets

The measurement of segment results has also changed with the adoption of AASB 8 to be in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their "underlying EBIT contribution" to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. As such only transactions external to the Telstra Group are reported. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBIT in the financial statements.

Certain items are recorded by our corporate areas, rather than being allocated to each segment. These items include the following:

- the Telstra Entity fixed assets (including network assets) are managed centrally. The resulting depreciation and amortisation is also recorded centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Instead our reportable segments record these amounts upfront;
- redundancy expenses for the Telstra Entity; and
- doubtful debt expenses 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 and segment assets:

- sales revenue associated with mobile handsets for TC&C, TB and TE&G are mainly allocated to the TC&C segment along with the associated goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&C, TB and TE&G depending on the type of customer serviced;
- revenue derived from our BigPond Internet products and its related segment assets are recorded in the customer facing business segments of TC&C, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Operations recognise certain expenses in relation to the installation and running of the broadband cable network; and
- revenue derived from our TCW customers is recorded in our TC&C, TB and TE&G segments. Direct costs associated with this revenue is also recorded in TC&C, TB and TE&G.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group	TC&C	TB	TE&G	TO	TW	Sensis	CSL NW	TClear	All Other	Total
Year ended 30 June 2008	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue from external customers	**9,971**	**3,640**	**4,623**	**123**	**2,512**	**2,127**	**917**	**562**	**223**	**24,698**
Other income	**59**	**16**	**1**	**14**	**1**	**-**	**-**	**-**	**44**	**135**
Total income	**10,030**	**3,656**	**4,624**	**137**	**2,513**	**2,127**	**917**	**562**	**267**	**24,833**
Labour expenses	**386**	**201**	**675**	**1,421**	**72**	**459**	**77**	**98**	**769**	**4,158**
Goods and services purchased	**2,533**	**693**	**977**	**74**	**17**	**172**	**416**	**272**	**27**	**5,181**
Other expenses	**690**	**138**	**188**	**2,573**	**27**	**402**	**165**	**85**	**974**	**5,242**
Share of equity accounted losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Depreciation and amortisation	**-**	**-**	**41**	**67**	**-**	**150**	**246**	**127**	**3,559**	**4,190**
EBIT contribution	**6,421**	**2,624**	**2,743**	**(3,998)**	**2,397**	**944**	**13**	**(20)**	**(5,063)**	**6,061**
Total assets as at 30 June 2008	**1,548**	**446**	**1,591**	**3,886**	**376**	**2,559**	**1,873**	**1,099**	**24,543**	**37,921**

Telstra Group	TC&C	TB	TE&G	TO	TW	Sensis	CSL NW	TClear	All Other	Total
Year ended 30 June 2007	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Revenue from external customers	9,398	3,352	4,464	133	2,631	1,968	1,000	573	190	23,709
Other income	123	9	2	17	14	2	-	-	14	181
Total income	9,521	3,361	4,466	150	2,645	1,970	1,000	573	204	23,890
Labour expenses	380	168	759	1,465	73	379	81	101	611	4,017
Goods and services purchased	2,578	657	937	70	(24)	182	458	294	(1)	5,151
Other expenses	598	115	183	2,440	30	350	181	108	800	4,805
Share of equity accounted losses	-	-	6	-	-	1	-	-	-	7
Depreciation and amortisation	-	-	51	61	-	131	196	129	3,514	4,082
EBIT contribution	5,965	2,421	2,530	(3,886)	2,566	927	84	(59)	(4,720)	5,828
Total assets as at 30 June 2007	1,513	411	1,637	3,721	413	2,185	2,154	1,324	24,479	37,837

A reconciliation of EBIT contribution for reportable segments to Telstra Group EBIT is provided below:

	Note	Telstra Group Year ended 30 June 2008 $m	2007 $m
EBIT contribution for reportable segments		**11,124**	10,548
All other		**(5,063)**	(4,720)
Total all segments		**6,061**	5,828
Amounts excluded from underlying results:			
- distribution from FOXTEL (a)	6	**130**	-
- net gain on disposal of non current assets	6	**38**	69
- impairment in value of other intangibles (b)	7	**-**	(118)
- impairment in value of investments	7	**(5)**	-
- other		**2**	-
Telstra Group EBIT (reported)		**6,226**	5,779

(a) The $130 million distribution received from FOXTEL during the period has been recorded as revenue in the income statement.

(b) In the prior year, we recognised an impairment charge of $110 million in relation to Trading Post mastheads. This impairment is attributable to the Sensis segment.

Notes to the Financial Statements (continued)

5. Segment information (continued)

	Telstra Group	
	Year ended 30 June	
	2008	2007
	$m	$m
Information about our geographic operations (c)		
Revenue from external customers		
Australian customers	**22,884**	21,729
International customers	**1,944**	1,980
	24,828	23,709
Carrying amount of non-current assets (d)		
Located in Australia	**28,574**	27,863
Located in international countries	**3,207**	3,609
	31,781	31,472

(c) Our geographical operations are split between our Australian and international operations. Our international operations include CSL New World (Hong Kong), TelstraClear (New Zealand), the SouFun, Norstar Media and Autohome/PCPop businesses in China which are part of our Sensis segment, and our international business, including Telstra Europe (UK), that serves multi-national customers in the TE&G segment. No individual geographical area forms a significant part of our operations apart from our Australian operations.

(d) The carrying amount of our segment non-current assets excludes derivative financial assets, defined benefit assets and deferred tax assets.

	Telstra Group	
	Year ended 30 June	
	2008	2007
	$m	$m
Information about our products and services		
PSTN	**6,666**	6,887
Other fixed telephony	**2,283**	2,276
Mobiles	**6,376**	5,657
Internet	**2,486**	1,939
IP and data access	**1,745**	1,630
Business services and applications	**1,049**	1,059
Pay TV bundling	**426**	344
Advertising and directories	**2,116**	1,954
CSL New World	**917**	1,000
TelstraClear	**562**	573
Offshore services revenue	**346**	348
Other minor items	**250**	261
Elimination for wireless broadband (e)	**(565)**	(255)
Other revenue	**171**	36
Total revenue	**24,828**	23,709

(e) Elimination of $565 million of revenue (2007: $255 million) relating to wireless broadband services and data packs recorded within both Mobiles and Internet revenue.

Notes to the Financial Statements (continued)

6. Income

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	2008	2007
	Note	$m	$m	$m	$m
Sales revenue					
Rendering of services		**12,514**	12,393	**10,217**	10,077
Sale of goods		**1,195**	1,134	**948**	820
Rent of network facilities		**8,663**	8,069	**8,672**	8,075
Construction contracts		**169**	123	**196**	158
Advertising and directory services		**2,116**	1,954	**769**	668
Procurement (a)		**-**	-	**664**	642
		24,657	23,673	**21,466**	20,440
Other revenue (excluding finance income)					
Dividends from controlled entities	29	**-**	-	**256**	186
Distribution from FOXTEL Partnership		**130**	-	**-**	-
		130	-	**256**	186
Rent from property		**41**	36	**36**	36
		171	36	**292**	222
Total revenue (excluding finance income)		**24,828**	23,709	**21,758**	20,662
Other income					
Net gain on disposal of:					
- property, plant and equipment		**-**	6	**2**	10
- intangibles		**1**	2	**-**	2
- investments in controlled entities		**37**	48	**-**	-
- investments in jointly controlled and associated entities		**-**	9	**-**	9
- investments in listed securities and other investments		**-**	4	**-**	4
		38	69	**2**	25
Other miscellaneous income		**136**	182	**133**	176
		174	251	**135**	201
Total income (excluding finance income)		**25,002**	23,960	**21,893**	20,863
Finance income					
- interest on cash and cash equivalents		**60**	46	**47**	35
- interest on finance lease receivable		**12**	11	**12**	11
- other		**-**	-	**1**	1
		72	57	**60**	47
Total income		**25,074**	24,017	**21,953**	20,910

(a) The Telstra Entity receives procurement revenue from its controlled entity Sensis Pty Ltd for the use of Yellow™ and White Pages® trademarks. Refer to note 29 for further details on transactions involving our related parties.

Notes to the Financial Statements (continued)

7. Profit from continuing operations

	Note	Telstra Group Year ended 30 June 2008 $m	Telstra Group Year ended 30 June 2007 $m	Telstra Entity Year ended 30 June 2008 $m	Telstra Entity Year ended 30 June 2007 $m
(a) Profit before income tax expense has been calculated after charging/(crediting) the following items:					
Labour					
Included in our labour expenses are the following:					
Employee redundancy		**238**	149	**229**	129
Share based payments		**28**	25	**28**	25
Defined benefit plan expense	24	**198**	239	**197**	238
Goods and services purchased					
Included in our goods and services purchased are the following:					
Cost of goods sold		**2,004**	2,036	**1,633**	1,641
Rental expense on managed services		**9**	22	**5**	18
Other expenses					
Impairment losses:					
- impairment in value of inventories		**50**	46	**50**	46
- impairment in value of trade and other receivables		**260**	195	**213**	162
- impairment in amounts owed by controlled entities (b) (i)	29	**-**	-	**247**	173
- impairment in amounts owed by jointly controlled entities	29	**-**	1	**-**	-
- impairment in value of investments (i)		**5**	-	**36**	55
- impairment in value of property, plant and equipment	13	**43**	31	**43**	12
- impairment in value of software	14	**12**	4	**12**	4
- impairment in value of other intangibles (b)		**-**	118	**-**	5
		370	395	**601**	457
Reversal of impairment losses:					
- reversal of impairment in value of inventories		**-**	(4)	**-**	(4)
- reversal of impairment in value of trade and other receivables		**(9)**	(2)	**(9)**	(2)
- reversal of impairment in amounts owed by controlled entities	29	**-**	-	**(2)**	(2)
		(9)	(6)	**(11)**	(8)
Rental expense on operating leases		**609**	592	**503**	482
Net foreign currency translation gains		**(13)**	(7)	**(154)**	(52)
Service contracts and other agreements		**2,339**	2,177	**2,275**	2,120
Promotion and advertising		**457**	422	**349**	328
General and administration		**1,028**	949	**844**	773
Other operating expenses		**465**	402	**485**	417
		5,246	4,924	**4,892**	4,517

(i) We have recognised impairment losses relating to the value of our investments in controlled entities, jointly controlled and associated entities, and other entities based on the value in use calculation. The impairment loss in the value of investment in controlled entities was eliminated on consolidation of the Telstra Group.

Notes to the Financial Statements (continued)

7. Profit from continuing operations (continued)

	Note	Telstra Group Year ended 30 June 2008 $m	Telstra Group Year ended 30 June 2007 $m	Telstra Entity Year ended 30 June 2008 $m	Telstra Entity Year ended 30 June 2007 $m
(a) Profit before income tax expense has been calculated after charging/(crediting) the following items: (continued)					
Depreciation of property, plant and equipment					
- general purpose buildings including leasehold improvements	13	**69**	58	**59**	51
- communication assets including leasehold improvements	13	**3,203**	3,110	**2,878**	2,891
- communication assets under finance lease	13	**59**	67	**59**	67
- other plant, equipment and motor vehicles	13	**155**	108	**110**	56
- equipment under finance lease	13	**-**	1	**-**	-
		3,486	3,344	**3,106**	3,065
Amortisation of intangible assets					
- software assets developed for internal use	14	**584**	577	**469**	466
- patents and trademarks	14	**1**	2	**-**	3
- licences	14	**57**	59	**18**	18
- brandnames	14	**13**	13	**-**	-
- customer bases	14	**45**	81	**-**	5
- deferred expenditure		**4**	6	**28**	31
		704	738	**515**	523
		4,190	4,082	**3,621**	3,588
Finance costs					
- interest on borrowings	18	**1,248**	1,064	**1,259**	1,086
- unwinding of discount on liabilities recognised at present value		**24**	43	**9**	26
- (gain)/loss on fair value hedges - effective (ii)		**(171)**	9	**(171)**	9
- (gain)/loss on cash flow hedges - ineffective		**(4)**	4	**(4)**	4
- loss on transactions not in a designated hedge relationship (iii)		**27**	-	**27**	-
- loss on transactions de-designated from fair value hedge relationships (iii)		**13**	8	**13**	8
- other		**21**	16	**19**	14
		1,158	1,144	**1,152**	1,147
Research and development					
Research and development expenses		**9**	9	**9**	9

(ii) As our borrowing margins increase, there is a net unrealised revaluation gain on our fair value hedges reflecting the opportunity benefit from existing borrowings when revalued against the higher market margins. Refer to note 19 for further details regarding our hedging strategies.

It is important to note that we hold our borrowings and associated derivative instruments to maturity and accordingly revaluation gains and losses recognised in our finance costs over the life of the financial instrument will progressively unwind out to nil at maturity of the relevant borrowings and will generally not be realised.

(iii) In fiscal 2008, the Telstra Group and Telstra Entity recorded a loss of $40 million (2007: $8 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. Notwithstanding that these instruments, and the related offshore borrowings, 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. Refer to note 19 for further details.

Notes to the Financial Statements (continued)

7. Profit from continuing operations (continued)

(b) Income statement items requiring specific disclosure

The separate disclosure of the following material items is relevant in explaining our financial performance.

Our profit for the year has been calculated after charging specific expense items as detailed below:

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Other					
- impairment in value of intangibles (i)	14	**-**	110	**-**	-
- impairment in value of controlled entities (ii)		**-**	-	**31**	49
- impairment in amounts owed by controlled entities (iii)	29	**-**	-	**247**	173
Total expense items		**-**	110	**278**	222

(i) In fiscal 2007, the profit before income tax expense of the Telstra Group included an impairment loss of $110 million relating to impairment of the Trading Post mastheads. Refer to note 21 for further details regarding impairment.

(ii) The profit before income tax expense of the Telstra Entity included an expense of $31 million (2007: $49 million) in relation to an impairment of the value of one controlled entity (2007: two controlled entities). This balance was eliminated on consolidation for Telstra Group reporting purposes.

Each fiscal year, we review the value of our investment in controlled entities. As a result, we have incurred an impairment loss by assessing the carrying value of our controlled entity with its recoverable amount. We review our recoverable amount by reference to its value in use.

(iii) The profit before income tax expense of the Telstra Entity included an impairment loss of $247 million (2007: $173 million) relating to the movement in allowance for amounts owed by three controlled entities. These balances are eliminated on consolidation for Telstra Group reporting purposes.

Notes to the Financial Statements (continued)

8. Remuneration of auditors

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Audit fees				
Ernst & Young has charged the following amounts for auditing and reviewing the financial reports	**7.367**	8.650	**5.488**	6.663
Other audit firms have charged the following amounts for auditing and reviewing the financial reports of controlled entities	**-**	0.288	**-**	-
Total audit fees	**7.367**	8.938	**5.488**	6.663
Other services				
In addition to auditing and reviewing the financial reports, other services were provided by Ernst & Young in their own right as follows:				
Audit related (a)	**1.854**	1.970	**1.854**	1.970
Tax (b)	**0.105**	0.077	**0.077**	0.077
Other services (c)	**2.223**	0.626	**0.614**	0.009
Total other services provided	**4.182**	2.673	**2.545**	2.056

Other services

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. Ernst & Young (E&Y) also has specific internal processes in place to ensure auditor independence.

Fees earned by E&Y for non-audit services are capped at a maximum of 1.0 times the total audit and audit related fees.

The Audit Committee approve the recurring audit and non-audit fees. The provision of additional audit and non-audit services by E&Y must be approved by the Chief Financial Officer, if not covered by the Audit Committee approval. The fees approved by the Chief Financial Officer are reviewed by the Audit Committee at each meeting.

(a) Audit related fees charged by E&Y 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 our privacy audit, additional control assessments around our transformation program, various accounting advice and additional audit services arising on the acquisition of newly acquired controlled entities.

(b) Tax fees charged by E&Y mainly relates to licence fee and technical services in relation to our tax return software.

(c) Other services relate to all additional services performed by E&Y, other than those disclosed as auditing and reviewing the financial report, audit related and tax. These services include the performance of system and security reviews and various other reviews and non assurance services across the Group.

Notes to the Financial Statements (continued)

9. Income taxes

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Major components of income tax expense				
Current tax expense	**1,471**	1,643	**1,583**	1,764
Deferred tax resulting from the origination and reversal of temporary differences	**6**	(228)	**38**	(243)
(Over)/under provision of tax in prior years	**(48)**	2	**(78)**	(9)
	1,429	1,417	**1,543**	1,512
Notional income tax expense on profit differs from actual income tax expense recorded as follows:				
Profit before income tax expense	**5,140**	4,692	**5,360**	4,950
Notional income tax expense calculated at the Australian tax rate of 30%:	**1,542**	1,408	**1,608**	1,485
Which is adjusted by the tax effect of:				
Effect of different rates of tax on overseas income	**(21)**	(30)	**-**	-
Non assessable and non deductible items	**(44)**	37	**13**	36
(Over)/under provision of tax in prior years	**(48)**	2	**(78)**	(9)
Income tax expense on profit	**1,429**	1,417	**1,543**	1,512
Income tax recognised directly in equity during the year	**(33)**	28	**(74)**	13

Notes to the Financial Statements (continued)

9. Income taxes (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Deferred tax asset/(deferred tax liability)				
Deferred tax items recognised in income statement				
Property, plant and equipment	**(1,486)**	(1,406)	**(1,510)**	(1,434)
Intangible assets	**(656)**	(586)	**(547)**	(461)
Provision for employee entitlements	**255**	264	**231**	241
Revenue received in advance	**154**	109	**26**	-
Provision for workers' compensation	**54**	59	**52**	57
Allowance for doubtful debts	**62**	44	**52**	38
Defined benefit assets (d)	**87**	26	**89**	28
Trade and other payables	**83**	72	**16**	55
Provision for redundancy	**3**	12	**3**	12
Other provisions	**87**	104	**82**	102
Income tax losses (a)	**68**	90	**-**	-
Other	**(22)**	(4)	**(22)**	(1)
	(1,311)	(1,216)	**(1,528)**	(1,363)
Deferred tax items recognised in equity (b)				
Defined benefit assets (d)	**(137)**	(266)	**(137)**	(264)
Derivative financial instruments	**(126)**	(30)	**(69)**	(16)
	(263)	(296)	**(206)**	(280)
Net deferred tax liability	**(1,574)**	(1,512)	**(1,734)**	(1,643)
Our net deferred tax liability is split as follows (c):				
Deferred tax assets recognised in the statement of financial position	**1**	1	**-**	-
Deferred tax liabilities recognised in the statement of financial position	**(1,575)**	(1,513)	**(1,734)**	(1,643)
	(1,574)	(1,512)	**(1,734)**	(1,643)

(a) 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.

(b) When the underlying transactions to which our deferred tax relates is recognised directly in equity in accordance with applicable accounting standards, the temporary differences associated with these adjustments are also recognised directly in equity.

(c) We are able to offset deferred tax assets and deferred tax liabilities in the statement of financial position when they relate to income taxes levied by the same taxation authority and to the extent 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 income taxes levied by the Australian Taxation Office. We do not net deferred tax balances between controlled entities unless they are within the same tax jurisdiction and they are intended to be settled on a net basis.

(d) Our net deferred tax liabilities on our defined benefit asset for Telstra Group is $50 million (2007: $240 million) and for Telstra Entity $48 million (2007: $236 million).

Notes to the Financial Statements (continued)

9. Income taxes (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Deferred tax assets not recognised (e):				
Income tax losses	**68**	48	**-**	-
Capital tax losses	**154**	161	**126**	127
Deductible temporary differences	**463**	427	**268**	218
	685	636	**394**	345

(e) 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;
- the Telstra Entity and our controlled entities 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.

As at 30 June 2008, the deferred tax assets not recognised in our statement of financial position are able to be carried forward indefinitely for both our domestic and offshore operations, except in relation to one offshore controlled entity that has income tax losses of $3 million (2007: $8 million) that will expire in fiscal 2021.

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.

During fiscal 2006, the entities within the tax consolidated group entered into a tax funding arrangement under which:

- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any current tax receivable assumed;
- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any deferred tax assets relating to unused tax losses and tax credits; and
- Australian resident wholly owned entities compensate the Telstra Entity for any current tax payable assumed.

The funding amounts are based on the amounts recorded in the financial statements of the wholly owned entities.

Amounts receivable of $52 million (2007: $92 million) to the Telstra Entity and amounts payable by the Telstra Entity of $150 million (2007: $219 million) under the tax funding arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

Notes to the Financial Statements (continued)

10. Trade and other receivables

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Current					
Trade receivables (a)		**3,161**	2,879	**2,382**	2,195
Allowance for doubtful debts (a)		**(221)**	(161)	**(174)**	(126)
		2,940	2,718	**2,208**	2,069
Amounts owed by controlled entities (other than trade receivables)	29	**-**	-	**2,659**	2,344
Allowance for amounts owed by controlled entities (other than trade receivables)	29	**-**	-	**(2,267)**	(2,022)
		-	-	**392**	322
Finance lease receivable (b)		**50**	46	**50**	46
Accrued revenue		**878**	966	**820**	912
Bank deposits with maturity greater than 90 days		**20**	31	**-**	-
Other receivables		**64**	92	**32**	42
		1,012	1,135	**902**	1,000
		3,952	3,853	**3,502**	3,391
Non current					
Trade receivables (a)		**60**	53	**60**	53
Amounts owed by jointly controlled and associated entities (c)	29	**194**	221	**161**	183
Allowance for amounts owed by jointly controlled and associated entities (c)	29	**(161)**	(183)	**(161)**	(183)
		33	38	**-**	-
Amounts owed by controlled entities (other than trade receivables)	29	**-**	-	**162**	129
Finance lease receivable (b)		**94**	90	**94**	90
Other receivables		**11**	9	**2**	1
		105	99	**96**	91
		198	190	**318**	273

Notes to the Financial Statements (continued)

10. Trade and other receivables (continued)

(a) Trade receivables and allowance for doubtful debts

The ageing of current and non-current trade receivables is detailed below:

	Telstra Group				Telstra Entity			
	As at 30 June				As at 30 June			
	2008		2007		2008		2007	
	Gross	Allowance	Gross	Allowance	Gross	Allowance	Gross	Allowance
	$m	$m	$m	$m	$m	$m	$m	$m
Not past due	**1,933**	**(4)**	1,765	-	**1,461**	**(4)**	1,404	-
Past due 0 - 30 days	**771**	**(7)**	677	(3)	**588**	**(7)**	504	(3)
Past due 31 - 60 days	**179**	**(20)**	186	(11)	**144**	**(20)**	130	(6)
Past due 61 - 90 days	**79**	**(18)**	82	(13)	**61**	**(10)**	59	(9)
Past due 91 - 120 days	**80**	**(41)**	65	(21)	**50**	**(18)**	43	(12)
Past 120 days	**179**	**(131)**	157	(113)	**138**	**(115)**	108	(96)
	3,221	**(221)**	2,932	(161)	**2,442**	**(174)**	2,248	(126)

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2008	2007	2008	2007
	$m	$m	$m	$m
Opening balance	**(161)**	(158)	**(126)**	(124)
- additional allowance	**(92)**	(27)	**(67)**	(18)
- addition due to acquisition	**-**	(1)	**-**	-
- reduction due to disposal	**1**	1	**-**	-
- amounts used	**19**	16	**10**	10
- amounts reversed	**9**	7	**9**	6
- foreign currency exchange differences	**3**	1	**-**	-
Closing balance	**(221)**	(161)	**(174)**	(126)

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 post paid mobile customers the opportunity to repay the cost of their mobile handset and approved accessories monthly over 12, 18 or 24 months. The loan is provided interest free to our mobile postpaid customers. Similarly, the White Pages® directory entries can be repaid over 12 months.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

We hold security for a number of trade receivables in the form of guarantees, deeds of undertaking, letters of credit and deposits. During fiscal 2008 and 2007, the securities we called upon were insignificant.

We have used the following basis to assess the allowance loss for trade receivables:

- a statistical approach to determine the historical allowance rate for each debt tranche, and applying this allowance rate to the debt tranches 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 2008, trade receivables with a carrying amount of $1,071 million (2007: $1,006 million) for the Telstra Group and $811 million (2007: $718 million) for the Telstra Entity 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.

Notes to the Financial Statements (continued)

10. Trade and other receivables (continued)

(b) Finance lease receivable

We enter into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The average term of finance leases entered into is between 2 to 5 years (2007: 2 to 5 years).

	Telstra Group As at 30 June		Telstra Entity As at 30 June	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Amounts receivable under finance leases				
Within 1 year	**63**	55	**63**	55
Within 1 to 5 years	**95**	99	**95**	99
Total minimum lease payments	**158**	154	**158**	154
Less unearned finance income	**(14)**	(18)	**(14)**	(18)
Present value of minimum lease payments	**144**	136	**144**	136
Included in the financial statements as:				
Current finance lease receivables	**50**	46	**50**	46
Non current finance lease receivables	**94**	90	**94**	90
	144	136	**144**	136

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 approximately 8% (2007: 8.1%) per annum.

(c) Amounts owed by jointly controlled and associated entities

In fiscal 2008, amounts owed by jointly controlled and associated entities relates mainly to loans provided to Reach Ltd (Reach) of $161 million (2007: $183 million) and the 3GIS Partnership (3GIS) of $33 million (2007: $38 million). An allowance for the total loan provided to Reach has been recognised. Refer to note 29 for further details.

Notes to the Financial Statements (continued)

11. Inventories

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Current				
Finished goods recorded at cost	**171**	155	**147**	125
Finished goods recorded at net realisable value	**104**	133	**93**	116
Total finished goods	**275**	288	**240**	241
Raw materials and stores recorded at cost	**15**	17	**5**	7
Construction contracts (a)	**19**	13	**19**	13
	309	318	**264**	261
Non current				
Finished goods recorded at cost	**-**	6	**-**	4
Finished goods recorded at net realisable value	**12**	11	**12**	13
	12	17	**12**	17
(a) Construction contract disclosures are shown as follows:				
Contract costs incurred and recognised profits	**135**	96	**135**	96
Progress billings	**(116)**	(83)	**(116)**	(83)
	19	13	**19**	13

The majority of construction contract inventories relate to un-billed work in progress costs for projects associated with Radio and Managed Industrial Networks.

Notes to the Financial Statements (continued)

12. Investments

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Investments - accounted for using the equity method					
Investments in jointly controlled entities		**4**	3	**2**	2
Allowance for impairment in value		**(2)**	(2)	**(2)**	(2)
Carrying amount of investments in jointly controlled entities	26	**2**	1	**-**	-
Investments in associated entities		**39**	39	**22**	18
Allowance for impairment in value		**(27)**	(24)	**(10)**	(6)
Carrying amount of investments in associated entities	26	**12**	15	**12**	12
		14	16	**12**	12
Investments - other					
Investments in controlled entities	25	**-**	-	**12,648**	13,045
Allowance for impairment in value		**-**	-	**(7,188)**	(7,158)
Total investments in controlled entities		**-**	-	**5,460**	5,887
Investments in other corporations		**6**	6	**6**	6
Allowance for impairment in value		**(5)**	(3)	**(5)**	(3)
Total investments in other corporations		**1**	3	**1**	3
		1	3	**5,461**	5,890

Notes to the Financial Statements (continued)

13. Property, plant and equipment

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Land and site improvements				
At cost	**31**	32	**29**	29
Buildings (including leasehold improvements)				
At cost	**982**	911	**843**	803
Accumulated depreciation/impairment	**(498)**	(444)	**(434)**	(397)
	484	467	**409**	406
Communication assets (including leasehold improvements)				
At cost	**50,592**	49,029	**47,898**	46,296
Accumulated depreciation/impairment	**(27,743)**	(25,891)	**(26,448)**	(24,774)
	22,849	23,138	**21,450**	21,522
Communication assets under finance lease				
At cost	**858**	858	**858**	858
Accumulated depreciation/impairment	**(627)**	(568)	**(627)**	(568)
	231	290	**231**	290
Other plant, equipment and motor vehicles				
At cost	**1,424**	1,395	**1,016**	928
Accumulated depreciation/impairment	**(708)**	(717)	**(470)**	(454)
	716	678	**546**	474
Equipment under finance lease				
At cost	**20**	27	**-**	2
Accumulated depreciation/impairment	**(20)**	(25)	**-**	-
	-	2	**-**	2
Total property, plant and equipment				
At cost	**53,907**	52,252	**50,644**	48,916
Accumulated depreciation/impairment	**(29,596)**	(27,645)	**(27,979)**	(26,193)
	24,311	24,607	**22,665**	22,723

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Land and site improvements					
Opening cost		**32**	35	**29**	32
- disposals		**(1)**	(3)	**-**	(3)
Closing cost		**31**	32	**29**	29
Buildings (including leasehold improvements)					
Opening cost		**911**	822	**803**	706
- additions		**105**	112	**75**	107
- disposals		**(39)**	(15)	**(35)**	(10)
- foreign currency exchange differences		**(14)**	1	**-**	-
- other		**19**	(9)	**-**	-
Closing cost		**982**	911	**843**	803
Opening accumulated depreciation/impairment		**(444)**	(392)	**(397)**	(352)
- disposals		**35**	9	**35**	6
- depreciation expense	7	**(69)**	(58)	**(59)**	(51)
- impairment losses		**(13)**	(1)	**(13)**	-
- foreign currency exchange differences		**8**	(2)	**-**	-
- other		**(15)**	-	**-**	-
Closing accumulated depreciation/impairment		**(498)**	(444)	**(434)**	(397)
Closing net book value		**484**	467	**409**	406

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Communication assets (including leasehold improvements) (a)					
Opening cost		**49,029**	45,826	**46,296**	43,197
- additions		**3,057**	3,837	**2,824**	3,609
- disposals		**(1,237)**	(599)	**(1,222)**	(507)
- foreign currency exchange differences		**(256)**	(33)	**-**	-
- other		**(1)**	(2)	**-**	(3)
Closing cost		**50,592**	49,029	**47,898**	46,296
Opening accumulated depreciation/impairment		**(25,891)**	(23,387)	**(24,774)**	(22,381)
- disposals		**1,232**	592	**1,222**	504
- depreciation expense	7	**(3,203)**	(3,110)	**(2,878)**	(2,891)
- impairment losses		**(18)**	(23)	**(18)**	(6)
- foreign currency exchange differences		**130**	29	**-**	-
- other		**7**	8	**-**	-
Closing accumulated depreciation/impairment		**(27,743)**	(25,891)	**(26,448)**	(24,774)
Closing net book value		**22,849**	23,138	**21,450**	21,522
Communication assets under finance lease					
Opening and closing cost		**858**	858	**858**	858
Opening accumulated depreciation/impairment		**(568)**	(501)	**(568)**	(501)
- depreciation expense	7	**(59)**	(67)	**(59)**	(67)
Closing accumulated depreciation/impairment		**(627)**	(568)	**(627)**	(568)
Closing net book value		**231**	290	**231**	290

(a) Includes certain network land and buildings which are essential to the operation of our communication assets.

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	2008	2007
	Note	$m	$m	$m	$m
Other plant, equipment and motor vehicles					
Opening cost		1,395	1,068	928	692
- additions		227	481	196	377
- disposals		(166)	(160)	(108)	(141)
- acquisitions through business combinations		2	3	-	-
- foreign currency exchange differences		(25)	-	-	-
- other		(9)	3	-	-
Closing cost		1,424	1,395	1,016	928
Opening accumulated depreciation/impairment		(717)	(740)	(454)	(519)
- disposals		158	143	106	126
- acquisitions through business combinations		-	(1)	-	-
- depreciation expense	7	(155)	(108)	(110)	(56)
- impairment losses		(12)	(7)	(12)	(6)
- foreign currency exchange differences		17	3	-	-
- other		1	(7)	-	1
Closing accumulated depreciation/impairment		(708)	(717)	(470)	(454)
Closing net book value		716	678	546	474
Equipment under finance lease					
Opening cost		27	32	2	6
- additions		-	2	-	1
- disposals		(6)	(7)	-	(5)
- foreign currency exchange differences		(1)	1	-	-
- other		-	(1)	(2)	-
Closing cost		20	27	-	2
Opening accumulated depreciation/impairment		(25)	(29)	-	(3)
- disposals		5	5	-	3
- depreciation expense	7	-	(1)	-	-
Closing accumulated depreciation/impairment		(20)	(25)	-	-
Closing net book value		-	2	-	2

Work in progress

As at 30 June 2008, the Telstra Group has property, plant and equipment under construction amounting to $1,720 million (2007: $1,657 million) and the Telstra Entity has property, plant and equipment under construction amounting to $1,519 million (2007: $1,541 million). As these assets are not installed and ready for use, there is no depreciation being charged on these amounts.

Other

As at 30 June 2008, the Telstra Group has property, plant and equipment that was fully depreciated and still in use with a cost of $3,253 million (2007: $2,368 million) and the Telstra Entity has property, plant and equipment that was fully depreciated and still in use with a cost of $2,534 million (2007: $1,803 million).

Notes to the Financial Statements (continued)

14. Intangible assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	2008	2007
	$m	$m	$m	$m
Goodwill	**2,017**	2,126	**16**	16
Internally generated intangible assets				
Software assets developed for internal use (a)	**5,349**	4,214	**4,399**	3,516
Accumulated amortisation	**(1,902)**	(1,664)	**(1,470)**	(1,311)
	3,447	2,550	**2,929**	2,205
Acquired intangible assets				
Mastheads (b)	**337**	337	**-**	-
Patents and trademarks	**37**	34	**7**	7
Accumulated amortisation	**(11)**	(10)	**(7)**	(7)
	26	24	**-**	-
Licences	**747**	778	**266**	266
Accumulated amortisation	**(289)**	(240)	**(168)**	(150)
	458	538	**98**	116
Customer bases	**702**	774	**70**	70
Accumulated amortisation	**(434)**	(438)	**(70)**	(70)
	268	336	**-**	-
Brandnames	**242**	239	**-**	-
Accumulated amortisation	**(66)**	(61)	**-**	-
	176	178	**-**	-
Total acquired intangible assets	**1,265**	1,413	**98**	116
Deferred expenditure				
Deferred expenditure	**2,211**	1,915	**2,461**	2,165
Accumulated amortisation	**(1,695)**	(1,365)	**(1,766)**	(1,404)
	516	550	**695**	761
Total intangible assets				
At cost	**11,642**	10,417	**7,219**	6,040
Accumulated amortisation	**(4,397)**	(3,778)	**(3,481)**	(2,942)
	7,245	6,639	**3,738**	3,098

Notes to the Financial Statements (continued)

14. Intangible assets (continued)

	Note	Telstra Group As at 30 June 2008 $m	Telstra Group As at 30 June 2007 $m	Telstra Entity As at 30 June 2008 $m	Telstra Entity As at 30 June 2007 $m
Goodwill					
Opening cost		**2,126**	2,073	**16**	16
- acquisitions through business combinations		**68**	345	**-**	-
- disposals		**(10)**	(107)	**-**	-
- impairment losses	7	**-**	(7)	**-**	-
- foreign currency exchange differences		**(167)**	(176)	**-**	-
- other		**-**	(2)	**-**	-
Closing cost		**2,017**	2,126	**16**	16
Internally generated intangible assets					
Software assets developed for internal use (a)					
Opening cost		**4,214**	3,188	**3,516**	2,651
- additions		**1,499**	1,393	**1,224**	1,221
- disposals		**(333)**	(382)	**(319)**	(336)
- acquisitions through business combinations		**12**	3	**-**	-
- disposals through sale of a controlled entity		**(4)**	-	**-**	-
- impairment losses	7	**(12)**	(4)	**(12)**	(4)
- foreign currency exchange differences		**(27)**	1	**-**	-
- other		**-**	15	**(10)**	(16)
Closing cost		**5,349**	4,214	**4,399**	3,516
Opening accumulated amortisation		**(1,664)**	(1,406)	**(1,311)**	(1,171)
- disposals		**325**	336	**310**	326
- disposals through sale of a controlled entity		**4**	-	**-**	-
- amortisation expense	7	**(584)**	(577)	**(469)**	(466)
- foreign currency exchange differences		**19**	(2)	**-**	-
- other		**(2)**	(15)	**-**	-
Closing accumulated amortisation		**(1,902)**	(1,664)	**(1,470)**	(1,311)
Closing net book value		**3,447**	2,550	**2,929**	2,205
Acquired intangible assets					
Mastheads (b)					
Opening cost		**337**	447	**-**	-
- impairment losses	7	**-**	(110)	**-**	-
Closing cost		**337**	337	**-**	-

Notes to the Financial Statements (continued)

14. Intangible assets (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	2008	2007
	Note	$m	$m	$m	$m
Patents and trademarks					
Opening cost		**34**	34	**7**	20
- additions		**-**	1	**-**	-
- disposals		**-**	(1)	**-**	(12)
- acquisitions through business combinations		**3**	-	**-**	-
- foreign currency exchange differences		**-**	1	**-**	-
- other		**-**	(1)	**-**	(1)
Closing cost		**37**	34	**7**	7
Opening accumulated amortisation		**(10)**	(8)	**(7)**	(11)
- disposals		**-**	1	**-**	12
- amortisation expense	7	**(1)**	(2)	**-**	(3)
- impairment losses	7	**-**	(1)	**-**	(5)
Closing accumulated amortisation		**(11)**	(10)	**(7)**	(7)
Closing net book value		**26**	24	**-**	-
Licences					
Opening cost		**778**	833	**266**	267
- additions		**-**	20	**-**	-
- disposals		**(6)**	(51)	**-**	-
- foreign currency exchange differences		**(25)**	(25)	**-**	-
- other		**-**	1	**-**	(1)
Closing cost		**747**	778	**266**	266
Opening accumulated amortisation		**(240)**	(241)	**(150)**	(132)
- disposals		**1**	51	**-**	-
- amortisation expense	7	**(57)**	(59)	**(18)**	(18)
- foreign currency exchange differences		**7**	9	**-**	-
Closing accumulated amortisation		**(289)**	(240)	**(168)**	(150)
Closing net book value		**458**	538	**98**	116

Notes to the Financial Statements (continued)

14. Intangible assets (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Customer bases					
Opening cost		**774**	846	**70**	70
- additions		**-**	4	**-**	-
- disposals		**(7)**	(43)	**-**	-
- acquisitions through business combinations		**6**	8	**-**	-
- foreign currency exchange differences		**(73)**	(40)	**-**	-
- other		**2**	(1)	**-**	-
Closing cost		**702**	774	**70**	70
Opening accumulated amortisation		**(438)**	(407)	**(70)**	(64)
- disposals		**2**	7	**-**	-
- amortisation expense	7	**(45)**	(81)	**-**	(5)
- foreign currency exchange differences		**47**	42	**-**	-
- other		**-**	1	**-**	(1)
Closing accumulated amortisation		**(434)**	(438)	**(70)**	(70)
Closing net book value		**268**	336	**-**	-
Brandnames					
Opening cost		**239**	235	**-**	-
- disposals		**-**	(3)	**-**	-
- acquisitions through business combinations		**27**	28	**-**	-
- foreign currency exchange differences		**(24)**	(21)	**-**	-
Closing cost		**242**	239	**-**	-
Opening accumulated amortisation		**(61)**	(53)	**-**	-
- amortisation expense	7	**(13)**	(13)	**-**	-
- foreign currency exchange differences		**8**	5	**-**	-
Closing accumulated amortisation		**(66)**	(61)	**-**	-
Closing net book value		**176**	178	**-**	-

Notes to the Financial Statements (continued)

14. Intangible assets (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Deferred expenditure (c)				
Opening cost	**1,915**	1,589	**2,165**	1,841
- additions	**313**	356	**313**	354
- amounts written off	**(2)**	(30)	**(2)**	(30)
- foreign currency exchange movements	**1**	-	**-**	-
- other	**(16)**	-	**(15)**	-
Closing cost	**2,211**	1,915	**2,461**	2,165
Opening accumulated amortisation	**(1,365)**	(1,007)	**(1,404)**	(1,022)
- amortisation expense (d)	**(330)**	(367)	**(362)**	(391)
- amounts written off	**-**	9	**-**	9
Closing accumulated amortisation	**(1,695)**	(1,365)	**(1,766)**	(1,404)
Closing net book value	**516**	550	**695**	761

(a) As at 30 June 2008, the Telstra Group had software assets under development amounting to $1,602 million (2007: $1,255 million) and the Telstra Entity had software assets under development amounting to $1,258 million (2007: $1,106 million). As these assets were not installed and ready for use there is no amortisation being charged on the amounts.

(b) We do not currently amortise the cost of our mastheads as they have been assessed to have an indefinite useful life. We do not expect there to be a foreseeable limit to the period over which the mastheads are expected to generate net cash inflows and, based on industry experience and current information, it is extremely rare for leading mastheads to become commercially or technically obsolete. During fiscal 2007 we recorded an impairment loss of $110 million against the mastheads. Despite this impairment we continue to assess the mastheads as having an indefinite useful life. Refer to note 21 for further details regarding impairment.

(c) During fiscal 2005, we entered into an arrangement with our jointly controlled entity, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU) agreement, including committed capital expenditure for the period until 2022.

The IRU is amortised over the contract periods for the capacity on the various international cable systems, which range from 5 to 22 years. The Telstra Entity has recorded the IRU within deferred expenditure. For the Telstra Group, 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 basic access installation costs, which are amortised to goods and services purchased in the income statement.

Notes to the Financial Statements (continued)

15. Trade and other payables

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Current					
Trade creditors (a)		**699**	884	**595**	748
Accrued expenses		**1,698**	1,632	**1,339**	1,330
Accrued capital expenditure		**867**	1,142	**773**	1,100
Accrued interest		**305**	278	**305**	278
Deferred consideration for capital expenditure		**26**	10	**-**	-
Other creditors (a)		**335**	275	**253**	194
Amounts owed to controlled entities (other than trade creditors)	29	**-**	-	**155**	221
		3,930	4,221	**3,420**	3,871
Non current					
Deferred consideration for capital expenditure		**124**	134	**-**	-
Other creditors		**57**	61	**56**	58
		181	195	**56**	58

(a) Trade creditors and other creditors are non interest bearing liabilities. We generally process trade creditor payments once they have reached 30 days from the date of invoice 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		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	2008	2007
	$m	$m	$m	$m
Current				
Employee benefits (a)	**305**	310	**256**	262
Workers' compensation	**29**	29	**27**	29
Restructuring	**51**	128	**51**	128
Redundancy (a)	**10**	39	**9**	39
Other	**140**	108	**114**	97
	535	614	**457**	555
Non current				
Employee benefits (a)	**538**	565	**514**	539
Workers' compensation	**152**	167	**148**	162
Restructuring	**34**	51	**34**	51
Other	**52**	51	**43**	35
	776	834	**739**	787
(a) Aggregate employee benefits				
Current provision for employee benefits	**305**	310	**256**	262
Non current provision for employee benefits	**538**	565	**514**	539
Current provision for redundancy	**10**	39	**9**	39
Accrued labour and on-costs (i)	**454**	379	**378**	337
	1,307	1,293	**1,157**	1,177

(i) Accrued labour and related on-costs are included within our current trade and other payables (refer to note 15).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees.

Non current employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount:

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	2008	2007
Weighted average projected increase in salaries, wages and associated on-costs	**5.1%**	4.6%	**5.1%**	4.6%
Weighted average discount rates	**6.1%**	5.8%	**6.2%**	5.8%

Notes to the Financial Statements (continued)

16. Provisions (continued)

(b) Movement in provisions, other than employee benefits

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Workers' compensation				
Opening balance	**196**	216	**191**	208
- additional provisions	**6**	5	**4**	5
- amount used	**(28)**	(30)	**(27)**	(29)
- unwinding of discount on liabilities recognised at present value	**10**	10	**10**	10
- effect of any change in the discount rate	**(3)**	(5)	**(3)**	(3)
Closing balance	**181**	196	**175**	191
Restructuring				
Opening balance	**179**	209	**179**	209
- additional provisions	**16**	22	**16**	22
- amount used	**(83)**	(49)	**(83)**	(49)
- unwinding of discount on liabilities recognised at present value	**6**	20	**6**	20
- reversal of amounts unused	**(33)**	(23)	**(33)**	(23)
Closing balance	**85**	179	**85**	179
Redundancy				
Opening balance	**39**	186	**39**	183
- additional provisions	**5**	-	**-**	-
- amount used	**(30)**	(148)	**(26)**	(145)
- unwinding of discount on liabilities recognised at present value	**-**	1	**-**	1
- reversal of amounts unused	**(4)**	-	**(4)**	-
Closing balance	**10**	39	**9**	39
Other				
Opening balance	**159**	208	**132**	183
- additional provisions	**135**	71	**109**	57
- amount used	**(86)**	(86)	**(77)**	(78)
- reversal of amounts unused	**(9)**	(30)	**(6)**	(30)
- unwinding of discount on liabilities recognised at present value	**2**	4	**2**	4
- disposal of a controlled entity	**(4)**	(4)	**-**	-
- foreign currency exchange differences	**(5)**	(5)	**(3)**	(5)
- other	**-**	1	**-**	1
Closing balance	**192**	159	**157**	132

Notes to the Financial Statements (continued)

16. Provisions (continued)

(c) Information about our provisions, other than provision for employee benefits

Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The timing of these payments may vary, however the average time payments are expected for is 9 years (2007: 9 years).

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation.

Restructuring and redundancy

The provision for restructuring and redundancy relates to our transformation project that was announced on 15 November 2005. A provision exists only for those restructuring and redundancy costs where a detailed formal plan has been approved and we have raised a valid expectation in those affected that the plan will be carried out. Only those costs that are not associated with the ongoing activities of the Company have been included. The costs included in the restructuring and redundancy provision are based on current estimates of the likely amounts to be incurred and include:

- an estimate of the termination benefits that affected employees will be entitled to;
- costs associated with shutting down certain networks, platforms and applications;
- property rationalisation and other onerous lease costs; and
- costs of replacing customer equipment in order to meet our current service obligations.

The execution of these detailed formal plans, for which a restructuring and redundancy provision has been raised, is expected to be completed by fiscal 2011 for the restructuring provision, and fiscal 2009 for the redundancy provision.

Other

Other provisions include provision for Reach Ltd's committed capital expenditure, provision for lease incentives, provision for restoration costs, provision for onerous leases and other general provisions.

Notes to the Financial Statements (continued)

17. Share capital

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Contributed equity	**5,793**	5,793	**5,793**	5,793
Share loan to employees	**(98)**	(113)	**(98)**	(113)
Shares held by employee share plan trusts	**(197)**	(84)	**(197)**	(84)
Net services received under employee share plans	**36**	15	**36**	15
	5,534	5,611	**5,534**	5,611

Contributed equity

Our contributed equity represents our authorised and issued fully paid ordinary shares. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.

We have 12,443,074,357 (30 June 2007: 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 Plans (TESOP 97 and TESOP 99). Refer to note 27 for further details regarding these plans.

Shares held by employee share plan trusts

The shares held by employee share plan trusts account represents the cost of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded by Telstra Corporation Limited. As at 30 June 2008 the number of shares totalled 39,765,621 (2007: 15,116,395). These shares are excluded from the calculation of basic and diluted earnings per share.

Net services received under employee share plans

The net services received under employee share plans account is used to record the cumulative value of our incentive shares, options, restricted shares, performance rights and deferred shares issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account. These contributions are used by the Trust to purchase Telstra shares on market to underpin the issue of our equity instruments.

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities

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 assets and financial liabilities.

Section (a) includes details on our gearing, interest expense and interest rate yields.

Section (b) sets out the carrying values, fair values and contractual face values of our financial assets and financial liabilities. 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 re-measurements. This is relevant on the basis that we hold our borrowings and associated derivatives to maturity and hence revaluation gains and losses will generally not be realised.

Sections (d) and (e) provides further details on our borrowings and derivative financial instruments.

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 19.

(a) Capital management

Our objectives when managing capital are to safeguard the Telstra Group's ability to continue as a going concern and 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 2008, we paid dividends of $3,476 million (2007: $3,479 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

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets and financial liabilities, (including derivative financial instruments) less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position plus net debt.

During 2008, our strategy was to target the net debt gearing ratio within 55 to 75 per cent (2007: 55 to 75 per cent). The gearing ratios were as follows:

Table A	**Telstra Group**		**Telstra Entity**	
	As at 30 June		**As at 30 June**	
	2008	**2007**	**2008**	**2007**
	$m	**$m**	**$m**	**$m**
Net debt	**15,242**	14,587	**15,761**	15,245
Total equity	**12,245**	12,580	**12,245**	12,153
Total capital	**27,487**	27,167	**28,006**	27,398
Gearing ratio	**55.5%**	53.7%	**56.3%**	55.6%

Net debt included in the table above is based on the carrying values of our financial assets and financial liabilities which are provided in Table C and Table D in the following section (b).

We are not subject to any externally imposed capital requirements.

Interest and yields

The effective yield (effective interest rate) on our net debt at 30 June 2008 was 7.72% (2007: 7.21%) for the Telstra Group and 7.59% (2007: 7.17%) for the Telstra Entity. This yield is a weighted average yield calculated on the interest rates and net debt carrying values as at 30 June.

The net interest on borrowings is shown in Table B below. Where applicable, finance costs are assigned to categories on the basis of the hedged item. The year-on-year increase in net interest on borrowings is primarily due to:

- higher yields driven by a combination of interest rate rises and increased credit margins which have impacted both our refinancing yields and the floating rate component of our debt portfolio; and
- an increase in the average volume of debt over the period.

Offsetting the increase in interest on borrowings is a small increase in interest revenue as a result of our decision to hold more liquidity during the year in response to market volatility.

For details on other finance costs refer to note 7.

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities (continued)

(a) Capital management (continued)

Interest and yields (continued)

Table B	Note	Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	2008	2007
		$m	$m	$m	$m
Interest on borrowings					
Financial instruments in hedge relationships					
Domestic loans in cash flow hedges (i)		19	11	19	11
Domestic loans in fair value hedges (i)		6	16	6	16
Offshore loans in cash flow hedges (i)		433	359	433	359
Offshore loans in fair value hedges (i)		376	329	376	329
Promissory notes in fair value hedges (i)		110	83	110	83
Derivatives and borrowings hedging net foreign investments (i)		13	25	13	25
Available for sale					
Promissory notes		31	31	31	31
Other financial instruments					
Telstra bonds and domestic loans		247	195	247	195
Loans from controlled entities	29	-	-	15	26
Other		2	4	2	4
Finance leases		11	11	7	7
		1,248	1,064	1,259	1,086
Finance income					
Cash and cash equivalents		60	46	48	36
Finance lease receivable		12	11	12	11
		72	57	60	47
Net interest on net debt		1,176	1,007	1,199	1,039

(i) Interest expense is a net amount after offsetting interest income and interest expense on associated derivative hedging instruments.

(b) Financial assets and financial liabilities

The carrying amounts, fair values and face values of our financial assets and financial liabilities for each category of financial instrument are shown in Table C and Table D below. The amounts disclosed are prior to netting offsetting risk positions of financial assets and financial liabilities 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. However, we do not expect those potential liabilities to crystallise into obligations.

Unless there is evidence to suggest otherwise, the nominal value of financial assets and financial liabilities, less any adjustments for impairment, with a short-term to maturity are considered to approximate net fair value.

For interest bearing financial instruments we adopt a 'clean price' whereby the reported balance of our borrowings and derivative instruments 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.

Revaluation gains or losses on financial instruments in fair value hedges is included in the fair value hedge result within finance costs (refer to note 7). The effective portion of revaluation gains and losses on financial instruments in cash flow hedges are included in equity in the cash flow hedge reserve, with the ineffective portion taken to the income statement.

The carrying value of our financial assets and financial liabilities reflects a mixed measurement basis. Financial instruments are carried at cost or amortised cost except for derivative financial instruments which are carried at fair value and non-derivative financial instruments in a fair value hedge relationship which are adjusted for fair value movements attributable to the hedged risk. Refer to note 2.15, 2.22 and 2.23 for further information regarding our accounting policy.

As shown in the following tables, the carrying and fair value amount of net debt is lower than that based on contractual face values. This is primarily due to the impact of revaluation gains on our debt portfolio as a result of having locked in lower debt margins on our borrowings as compared to market rates applicable as at 30 June.

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities (continued)

(b) Financial assets and financial liabilities (continued)

Table C	Telstra Group			Telstra Group		
	As at 30 June 2008			As at 30 June 2007		
	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 (i)	**426**	**426**	**426**	241	241	241
Available for sale - at fair value						
Bank deposits, bills of exchange and promissory notes	**493**	**493**	**494**	613	613	615
In designated hedge relationships - at fair value						
Cross currency swap receivable - hedging instrument	**117**	**117**	**119**	63	63	75
Cross currency swap payable - hedging instrument	**(840)**	**(840)**	**(874)**	(1,171)	(1,171)	(1,108)
Interest rate swap asset - hedging instrument	**347**	**347**	**-**	224	224	-
Interest rate swap liability - hedging instrument	**(183)**	**(183)**	**-**	(272)	(272)	-
Forward contract asset - hedging instrument	**1**	**1**	**1**	3	3	3
Forward contract liability - hedging instrument	**(26)**	**(26)**	**(34)**	(7)	(7)	(8)
Promissory notes - hedged item	**(929)**	**(932)**	**(935)**	(663)	(665)	(670)
Offshore loans - hedged item	**(2,932)**	**(2,960)**	**(3,020)**	(4,080)	(4,128)	(4,205)
Telstra bonds and domestic loans - hedged item	**(274)**	**(257)**	**(275)**	(274)	(275)	(275)
In designated hedge relationships - at amortised cost						
Offshore loans - hedged item	**(4,866)**	**(4,601)**	**(4,887)**	(5,377)	(5,359)	(5,404)
Not in designated hedge relationship - at fair value						
Forward contract liability	**(10)**	**(10)**	**(12)**	(2)	(2)	(2)
Cross currency swap payable	**(112)**	**(112)**	**(120)**	(45)	(45)	(43)
Cross currency swap receivable	**33**	**33**	**39**	-	-	-
Interest rate swap payable	**(133)**	**(133)**	**-**	(8)	(8)	-
Finance leases - at amortised cost						
Finance lease receivable	**144**	**144**	**158**	136	136	154
Finance lease payable	**(107)**	**(107)**	**(145)**	(118)	(118)	(167)
Borrowings de-designated from hedge relationship						
Offshore loans (ii)	**(1,174)**	**(1,163)**	**(1,323)**	(180)	(170)	(181)
Financial liabilities at amortised cost						
Promissory notes	**(203)**	**(205)**	**(207)**	(404)	(405)	(410)
Promissory notes - hedging instrument	**(320)**	**(325)**	**(328)**	(368)	(372)	(376)
Offshore loans (iii)	**(815)**	**(805)**	**(820)**	-	-	-
Offshore loans - hedging instrument	**(158)**	**(147)**	**(158)**	(181)	(170)	(181)
Telstra bonds and domestic loans	**(3,721)**	**(3,514)**	**(3,749)**	(2,717)	(2,693)	(2,749)
Net debt	**(15,242)**	**(14,759)**	**(15,650)**	(14,587)	(14,580)	(14,691)
Other non-interest bearing financial instruments						
Loans and receivables						
Trade/other receivables and accrued revenue	**3,953**	**3,953**	**4,174**	3,838	3,838	3,999
Amounts owed by jointly controlled and associated entities	**33**	**33**	**194**	38	38	221
Financial liabilities at amortised cost						
Trade/other creditors and accrued expenses	**(3,961)**	**(3,961)**	**(3,961)**	(4,272)	(4,272)	(4,272)
Deferred consideration for capital expenditure	**(150)**	**(150)**	**(259)**	(144)	(144)	(303)
Net financial liabilities	**(15,367)**	**(14,884)**	**(15,502)**	(15,127)	(15,120)	(15,046)
Total financial assets	**5,547**	**5,547**	**5,605**	5,156	5,156	5,308
Total financial liabilities	**(20,914)**	**(20,431)**	**(21,107)**	(20,283)	(20,276)	(20,354)
Net financial liabilities	**(15,367)**	**(14,884)**	**(15,502)**	(15,127)	(15,120)	(15,046)

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities (continued)

(b) Financial assets and financial liabilities (continued)

Table D	Telstra Entity			Telstra Entity		
	As at 30 June 2008			As at 30 June 2007		
	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 (i)	**84**	**84**	**84**	94	94	94
Available for sale - at fair value						
Bank deposits, bills of exchange and promissory notes	**458**	**458**	**459**	452	452	453
In designated hedge relationships - at fair value						
Cross currency swap receivable - hedging instrument	**117**	**117**	**119**	63	63	75
Cross currency swap payable - hedging instrument	**(840)**	**(840)**	**(874)**	(1,171)	(1,171)	(1,108)
Interest rate swap asset - hedging instrument	**347**	**347**	**-**	224	224	-
Interest rate swap liability - hedging instrument	**(183)**	**(183)**	**-**	(272)	(272)	-
Forward contract asset - hedging instrument	**1**	**1**	**1**	3	3	3
Forward contract liability - hedging instrument	**(26)**	**(26)**	**(34)**	(7)	(7)	(8)
Promissory notes - hedged item	**(929)**	**(932)**	**(935)**	(663)	(665)	(670)
Offshore loans - hedged item	**(2,932)**	**(2,960)**	**(3,020)**	(4,080)	(4,128)	(4,205)
Telstra bonds and domestic loans - hedged item	**(274)**	**(257)**	**(275)**	(274)	(275)	(275)
In designated hedge relationship - at amortised cost						
Offshore loans - hedged item	**(4,866)**	**(4,601)**	**(4,887)**	(5,377)	(5,359)	(5,404)
Not in designated hedge relationship - at fair value						
Forward contract liability	**(10)**	**(10)**	**(12)**	(2)	(2)	(2)
Cross currency swap payable	**(112)**	**(112)**	**(120)**	(45)	(45)	(43)
Cross currency swap receivable	**33**	**33**	**39**	-	-	-
Interest rate swap payable	**(133)**	**(133)**	**-**	(8)	(8)	-
Finance leases - at amortised cost						
Finance lease receivable	**144**	**144**	**158**	136	136	154
Finance lease payable	**(81)**	**(81)**	**(90)**	(88)	(88)	(97)
Borrowings de-designated from hedge relationship						
Offshore loans (ii)	**(1,174)**	**(1,163)**	**(1,323)**	(180)	(170)	(181)
Loans and receivables						
Amounts owed by controlled entities - interest bearing	**16**	**16**	**16**	-	-	-
Financial liabilities at amortised cost						
Promissory notes	**(203)**	**(205)**	**(207)**	(404)	(405)	(410)
Promissory notes - hedging instrument	**(320)**	**(325)**	**(328)**	(368)	(372)	(376)
Offshore loans (iii)	**(815)**	**(805)**	**(820)**	-	-	-
Offshore loans - hedging instrument	**(158)**	**(147)**	**(158)**	(181)	(170)	(181)
Loans from controlled entities - interest bearing	**(184)**	**(184)**	**(184)**	(380)	(380)	(380)
Telstra bonds and domestic loans	**(3,721)**	**(3,514)**	**(3,749)**	(2,717)	(2,693)	(2,749)
Net debt	**(15,761)**	**(15,278)**	**(16,140)**	(15,245)	(15,238)	(15,310)
Other non-interest bearing financial instruments						
Loans and receivables						
Trade/other receivables and accrued revenue	**3,122**	**3,122**	**3,296**	3,077	3,077	3,203
Amounts owed by jointly controlled and associated entities	**-**	**-**	**161**	-	-	183
Amounts owed by controlled entities	**538**	**538**	**2,805**	451	451	2,473
Financial liabilities at amortised cost						
Trade/other creditors and accrued expenses	**(3,321)**	**(3,321)**	**(3,321)**	(3,708)	(3,708)	(3,708)
Loans from controlled entities - non interest bearing	**(246)**	**(246)**	**(246)**	(494)	(494)	(494)
Amounts owed to controlled entities	**(155)**	**(155)**	**(155)**	(221)	(221)	(221)
Net financial liabilities	**(15,823)**	**(15,340)**	**(13,600)**	(16,140)	(16,133)	(13,874)
Total financial assets	**4,860**	**4,860**	**7,138**	4,500	4,500	6,639
Total financial liabilities	**(20,683)**	**(20,200)**	**(20,738)**	(20,640)	(20,633)	(20,513)
Net financial liabilities	**(15,823)**	**(15,340)**	**(13,600)**	(16,140)	(16,133)	(13,874)

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities (continued)

(b) Financial assets and financial liabilities (continued)

(i) Our bank accounts operate under a set off arrangement which allows for our bank accounts including those of wholly owned domestic entities to be pooled together and managed centrally.

(ii) In fiscal 2008, offshore loans denominated in Euro which did not meet the requirements for hedge effectiveness were de-designated from the hedge relationships as at 1 April 2008. Refer to note 19 for further details. Notwithstanding that these borrowings were de-designated for hedge accounting purposes, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

(iii) Offshore loans not in a designated hedge relationship comprises a long term Euro bond issue in 2008. Whilst this borrowing is not in a designated hedge relationship for hedge accounting purposes, it is in an effective economic relationship based on contractual face value amounts and cash flows over the life of the transaction.

(c) Net position on a contractual face value basis

The amounts disclosed in Table E represent the net contractual face values of our financial assets and financial liabilities on a post hedge basis. The objective of this table is to represent 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 below, except for a small proportion of foreign currency borrowings / cross currency swaps used to hedge translation foreign exchange risk associated with our offshore investments and some cash balances 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 and net financial liabilities in Table E agrees to the face value of our financial assets and financial liabilities included in Table C and Table D. The face values of our financial instruments in a hedge relationship included in the table below represents the end hedge position as described in our hedge relationships in note 19. 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)

18. Capital management, financial assets and financial liabilities (continued)

(c) Net position on a contractual face value basis (continued)

Table E				Telstra Group		Telstra Entity	
				As at 30 June		As at 30 June	
				Face values		Face values	
				2008	2007	2008	2007
	Note		Currency	$m	$m	$m	$m
Interest bearing financial assets included in net debt							
Cash and cash equivalents		Floating	Australian dollar	**527**	535	**482**	479
Cash and cash equivalents held in foreign currencies		Floating	Various	**312**	214	**-**	-
Bank deposits with maturity greater than 90 days		Floating	Chinese renminbi	**20**	31	**-**	-
Amounts owed by controlled entities		Floating	Australian dollar	**-**	-	**5**	-
Amounts owed by controlled entities		Fixed	Australian dollar	**-**	-	**11**	-
Forward contract asset		Floating	Australian dollar	**421**	214	**421**	214
Finance lease receivable		Fixed	Australian dollar	**158**	154	**158**	154
				1,438	1,148	**1,077**	847
Interest bearing financial liabilities included in net debt							
Cross currency & interest rate swap payable	19	Fixed	Australian dollar	**(5,672)**	(5,722)	**(5,672)**	(5,722)
Cross currency swap payable	19	Floating	Australian dollar	**(4,930)**	(4,786)	**(4,930)**	(4,786)
Cross currency swap payable (i)		Floating	Hong Kong dollar	**(559)**	(633)	**(559)**	(633)
Promissory notes		Floating	Australian dollar	**(207)**	(410)	**(207)**	(410)
Finance lease payable		Fixed	Australian dollar	**(145)**	(167)	**(90)**	(97)
Loans from wholly owned controlled entities		Floating	Australian dollar	**-**	-	**(176)**	-
Loans from wholly owned controlled entities		Fixed	Australian dollar	**-**	-	**(8)**	(380)
Telstra bonds and domestic loans		Floating	Australian dollar	**(1,500)**	-	**(1,500)**	-
Telstra bonds and domestic loans		Fixed	Australian dollar	**(2,249)**	(2,749)	**(2,249)**	(2,749)
Forward contract liability	19	Floating	Australian dollar	**(1,400)**	(891)	**(1,400)**	(891)
Offshore loans (i)	19	Fixed	New Zealand dollar	**(158)**	(181)	**(158)**	(181)
Promissory notes (i)	19	Floating	New Zealand dollar	**(328)**	(376)	**(328)**	(376)
				(17,148)	(15,915)	**(17,277)**	(16,225)
Net interest bearing debt				**(15,710)**	(14,767)	**(16,200)**	(15,378)
Non-interest bearing cash included in net debt			Various	**60**	76	**60**	68
Net debt				**(15,650)**	(14,691)	**(16,140)**	(15,310)
Other non-interest bearing financial assets				**4,368**	4,220	**6,262**	5,859
Other non-interest bearing financial liabilities				**(4,220)**	(4,575)	**(3,722)**	(4,423)
Net financial liabilities				**(15,502)**	(15,046)	**(13,600)**	(13,874)

(i) Used to hedge net foreign investments.

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities (continued)

(d) Borrowings

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.

The carrying value of our current and non-current borrowings are shown in Table F below. 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 19.

Table F		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Current					
Short term debt					
Promissory notes (i)		**1,452**	1,435	**1,452**	1,435
Loans from wholly owned controlled entities (ii)	29	**-**	-	**430**	874
		1,452	1,435	**1,882**	2,309
Long term debt - current portion					
Telstra bonds		**500**	-	**500**	-
Offshore loans (iii)		**69**	1,273	**69**	1,273
Finance leases	22	**34**	35	**33**	34
		603	1,308	**602**	1,307
		2,055	2,743	**2,484**	3,616
Non current					
Long term debt					
Telstra bonds and domestic loans (iv)		**3,495**	2,991	**3,495**	2,991
Offshore loans (iii)		**9,876**	8,545	**9,876**	8,545
Finance leases	22	**73**	83	**48**	54
		13,444	11,619	**13,419**	11,590
Long term debt (including current portion)					
Telstra bonds and domestic loans (iv)		**3,995**	2,991	**3,995**	2,991
Offshore loans (iii)		**9,945**	9,818	**9,945**	9,818
Finance leases	22	**107**	118	**81**	88
		14,047	12,927	**14,021**	12,897

(i) Promissory notes

We have on issue at 30 June 2008 promissory notes of $1,452 million (2007: $1,435 million) to financial institutions with an original maturity of less than 180 days. At 30 June 2008, all $1,452 million (2007: $1,435 million) of the promissory notes mature in less than three months.

(ii) Loans from wholly owned controlled entities

At 30 June 2008, loans from wholly owned controlled entities included non-interest bearing amounts of $246 million (2007: $494 million).

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities (continued)

(iii) Offshore loans

Offshore loans comprise debt raised overseas. The carrying amount of offshore loans are denominated in the following currencies:

Table G	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Australian dollar.	**247**	493	**247**	493
Euro	**7,146**	7,018	**7,146**	7,018
United States dollar. . .	**1,362**	906	**1,362**	906
United Kingdom pound	**411**	471	**411**	471
Japanese yen.	**316**	387	**316**	387
New Zealand dollar . . .	**158**	181	**158**	181
Swiss francs.	**305**	285	**305**	285
Singapore dollar	**-**	77	**-**	77
	9,945	9,818	**9,945**	9,818

(iv) Telstra bonds and domestic loans

Telstra bonds currently on issue relate to wholesale investors and mature up until the year 2020. During fiscal 2008 nil (2007: nil) Telstra bonds matured. Domestic loans include a $1 billion 5 year bank loan entered into during fiscal 2008.

(e) Derivative financial instruments

All our derivatives are in designated hedge relationships which satisfy the requirements for hedge accounting, except for some cross currency and interest rate swaps hedging certain offshore borrowings and some forward foreign currency contracts hedging trade and other creditors denominated in a foreign currency. These derivatives are not in designated hedge relationships for hedge accounting purposes and are classified as held for trading. The cross currency and interest rate swaps classified as held for trading are hedging offshore borrowings denominated in Euro and British pounds sterling which are either not in a designated hedge relationship for hedge accounting purposes or were de-designated from a hedge relationship because they did not meet hedge effectiveness requirements as at 30 June 2008 (refer to section (b) above). Notwithstanding that held for trading derivatives are not in designated hedge relationships for hedge accounting purposes, they are all in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

Refer to note 19 for details on hedging relationships. Information regarding interest rate, foreign exchange and liquidity risk is also disclosed in note 19.

Derivative financial instruments for the Telstra Group and the Telstra Entity as at balance date are shown in Table H and Table I below. The amounts included in these tables are presented according to the hedge type and represent the fair value which is calculated as the present value of estimated future cash flows using an appropriate market based yield curve. 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. The face values represent the undiscounted contractual liability on maturity of the financial instrument.

The fair value of a hedging derivative is classified as a non current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Notes to the Financial Statements (continued)

18. Capital management, financial assets and financial liabilities (continued)

(e) Derivative financial instruments (continued)

Table H — Telstra Group and Telstra Entity — As at 30 June 2008

	Cross currency swaps Asset $m	Cross currency swaps Liability $m	Interest rate swaps Asset $m	Interest rate swaps Liability $m	Forward contracts Asset $m	Forward contracts Liability $m	Total Asset $m	Total Liability $m	Total Net $m
Current									
Fair value hedge	-	(26)	-	-	-	(24)	-	(50)	(50)
Cash flow hedge (i)	-	(20)	-	-	1	(2)	1	(22)	(21)
Hedge of net investment in foreign operation	53	-	-	-	-	-	53	-	53
Held for trading (ii)	-	-	-	-	-	(10)	-	(10)	(10)
	53	(46)	-	-	1	(36)	54	(82)	(28)
Non current									
Fair value hedge	37	(282)	15	(40)	-	-	52	(322)	(270)
Cash flow hedge (i)	-	(512)	332	(143)	-	-	332	(655)	(323)
Hedge of net investment in foreign operation	27	-	-	-	-	-	27	-	27
Held for trading (ii)	33	(112)	-	(133)	-	-	33	(245)	(212)
	97	(906)	347	(316)	-	-	444	(1,222)	(778)
	150	(952)	347	(316)	1	(36)	498	(1,304)	(806)

Table I — Telstra Group and Telstra Entity — As at 30 June 2007

	Cross currency swaps Asset $m	Cross currency swaps Liability $m	Interest rate swaps Asset $m	Interest rate swaps Liability $m	Forward contracts Asset $m	Forward contracts Liability $m	Total Asset $m	Total Liability $m	Total Net $m
Current									
Fair value hedge	-	(74)	-	(1)	-	(7)	-	(82)	(82)
Cash flow hedge (i)	-	(91)	-	(2)	-	-	-	(93)	(93)
Hedge of net investment in foreign operation	38	-	-	-	-	-	38	-	38
Held for trading (ii)	-	-	-	-	3	(2)	3	(2)	1
	38	(165)	-	(3)	3	(9)	41	(177)	(136)
Non current									
Fair value hedge	10	(351)	22	(135)	-	-	32	(486)	(454)
Cash flow hedge (i)	-	(654)	202	(134)	-	-	202	(788)	(586)
Hedge of net investment in foreign operation	15	-	-	-	-	-	15	-	15
Held for trading (ii)	-	(46)	-	(8)	-	-	-	(54)	(54)
	25	(1,051)	224	(277)	-	-	249	(1,328)	(1,079)
	63	(1,216)	224	(280)	3	(9)	290	(1,505)	(1,215)

(i) Gains or losses recognised in the cash flow hedging reserve in equity 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 and loss. However, where the underlying forecast transaction is a purchase of a non financial asset (for example a fixed asset) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date the asset is recognised.

(ii) Derivatives which are classified as held for trading are in economic relationships but are not in a designated hedge relationship for hedge accounting purposes. These derivatives include cross currency and interest rate swaps associated with a long term Euro bond issue in fiscal 2008 not in a designated hedge relationship and with our fair value hedges of offshore borrowings denominated in Euro and British pounds sterling which did not meet hedge effectiveness requirements as at 30 June 2008 and accordingly were de-designated from the hedge relationship for hedge accounting purposes. Also included in held for trading derivatives are forward contracts hedging trade creditors and other liabilities denominated in a foreign currency. Notwithstanding that these held for trading derivatives do not satisfy the requirements for hedge accounting, it is important to note that these relationships are in effective economic relationships based on contractual amounts and cash flows over the life of the transaction.

Notes to the Financial Statements (continued)

19. Financial risk management

Financial risk management

We undertake transactions in a range of financial instruments including:

- cash assets;
- receivables;
- payables;
- deposits;
- bills of exchange and promissory notes;
- listed investments and investments in other corporations;
- various forms of borrowings, including medium term notes, promissory notes, bank loans and private placements; and
- derivatives.

Our activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk, foreign currency risk), credit risk and liquidity risk. Our investments in listed and unlisted securities are immaterial and hence we are not exposed to equity securities price 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 Finance and Administration business segment, under policies approved by the Board of Directors. 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 instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps; and
- forward foreign currency contracts.

We do not speculatively trade in derivative 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.

Section (b) provides details of our hedging strategies that are used for financial risk management. In particular, this section 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 that we use. 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 gives 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:

- controlling the proportion of fixed to variable rate positions in accordance with target levels;
- 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 instruments.

We manage the interest rate exposure 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. Under the interest rate swaps we agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to note 18 Table E for our residual post hedge fixed and floating interest positions.

We hedge interest rate and currency risk on most of our foreign currency borrowings by entering into cross currency principal swaps and interest rate swaps when required, which have the economic effect of converting foreign currency borrowings to Australian dollar borrowings. 'Hedging strategies' contained in section (b) of this note provides further information.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risk and mitigation (continued)

(i) Interest rate risk (continued)

The weighted average interest rates on our fixed and floating rate financial instruments which do not have offsetting risk positions and the principal/notional amounts on which interest is calculated are shown in Table A below. Interest rate positions on our foreign cross currency and foreign interest rate swaps and on the majority of our foreign borrowings are fully offset.

Accordingly, the majority of our instruments represent Australian dollar interest positions. Our exposure to interest rate changes arises from our variable rate financial instruments which do not have offsetting risk positions as shown in the table below.

Principal/notional amounts shown are net of discounts and as such differ from the face value disclosed in note 18 (Tables C, D and E).

TABLE A	Telstra Group				Telstra Entity			
	As at 30 June 2008		As at 30 June 2007		As at 30 June 2008		As at 30 June 2007	
	Principal / notional receivable / (payable) $m	Weighted average % (*)	Principal / notional receivable / (payable) $m	Weighted average % (*)	Principal / notional receivable / (payable) $m	Weighted average % (*)	Principal / notional receivable / (payable) $m	Weighted average % (*)
Fixed rate instruments - Australian interest rate								
Finance lease receivable	**144**	**7.90**	136	8.12	**144**	**7.90**	136	8.12
Forward contract asset	**421**	**5.28**	214	6.87	**421**	**5.28**	214	6.87
Amounts owed by controlled entities	**-**	**-**	-	-	**11**	**7.13**	-	-
Cross currency & interest rate swap payable	**(5,672)**	**6.34**	(5,722)	6.34	**(5,672)**	**6.34**	(5,722)	6.34
Finance lease payable	**(81)**	**7.93**	(88)	8.28	**(81)**	**7.93**	(88)	8.28
Telstra bonds and domestic loans	**(2,222)**	**7.21**	(2,717)	7.21	**(2,222)**	**7.21**	(2,717)	7.21
Forward contract liability	**(1,400)**	**7.71**	(891)	6.35	**(1,400)**	**7.71**	(891)	6.35
Loans from wholly owned controlled entities	**-**	**-**	-	-	**(8)**	**7.25**	(178)	6.09
Fixed rate instruments - Foreign interest rates								
Bank deposits with maturity greater than 90 days	**20**	**4.14**	31	2.40	**-**	**-**	-	-
Finance lease payable	**(26)**	**11.44**	(30)	11.25	**-**	**-**	-	-
Offshore loans (#)	**(158)**	**7.11**	(181)	7.11	**(158)**	**7.11**	(181)	7.11
	(8,974)		(9,248)		**(8,965)**		(9,427)	
Variable rate instruments - Australian interest rates								
Contractual repricing or maturity 6 months or less								
Cash and cash equivalents (^)	**527**	**7.40**	535	6.22	**482**	**7.40**	479	6.30
Amounts owed by controlled entities	**-**	**-**	-	-	**5**	**9.23**	-	-
Cross currency swap receivable (#)	**640**	**7.69**	686	6.36	**640**	**7.69**	686	6.36
Cross currency swap payable	**(5,570)**	**8.95**	(4,862)	7.24	**(5,570)**	**8.95**	(4,862)	7.24
Telstra bonds and domestic loans	**(1,499)**	**7.45**	-	-	**(1,499)**	**7.45**	-	-
Promissory notes	**(203)**	**7.85**	(404)	6.48	**(203)**	**7.85**	(404)	6.48
Contractual repricing or maturity within 6 to 12 months								
Interest rate swap payable	**-**	**-**	(610)	7.01	**-**	**-**	(610)	7.01
Variable rate instruments - Foreign interest rates								
Contractual repricing or maturity 6 months or less								
Cash and cash equivalents (^)	**312**	**1.27**	214	4.74	**-**	**-**	-	-
Cross currency swap payable (#)	**(559)**	**1.80**	(633)	4.51	**(559)**	**1.80**	(633)	4.51
Loans from wholly owned controlled entities	**-**	**-**	-	-	**(176)**	**7.92**	(202)	6.28
Promissory notes (#)	**(320)**	**9.22**	(368)	8.21	**(320)**	**9.22**	(368)	8.21
	(6,672)		(5,442)		**(7,200)**		(5,914)	
Net interest bearing debt	**(15,646)**		(14,690)		**(16,165)**		(15,341)	

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risk and mitigation (continued)

(i) Interest rate risk (continued)

(*) The average rate is calculated as the weighted average (based on principal / notional value) effective interest rate.

(#) These instruments are used to hedge our net foreign investments.

(^) Rate on cash at bank balances represents average rate earned on net positive cash balances after taking into account bank set-off arrangements.

(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 balance date. Our net debt portfolio at balance date does not differ significantly from our average net debt portfolio during the year.

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 2008 from around 7.25% (2007: 6.25%) to 7.975% (2007: 6.875%) representing a 72.5 (2007: 62.5) basis points shift. This would represent two to three rate increases which is reasonably possible in the current environment with significant volatility being experienced in financial markets both domestically and offshore.

The results in this sensitivity analysis reflect the net impact on a hedged basis which will be primarily reflecting the Australian dollar floating or Australian dollar fixed position from our cross currency and interest rate swap hedges and therefore it is the movement in the Australian dollar interest rates which is the important assumption in this sensitivity analysis.

Based on the sensitivity analysis, finance costs would be impacted by the following factors:

- the impact on interest expense being incurred on our net floating rate Australian dollar positions during the year;
- the ineffectiveness resulting from the change in fair value of both our derivatives and borrowings which are designated in a fair value hedge;
- the revaluation of our derivatives associated with borrowings de-designated from a fair value hedge relationship or not in a hedge relationship; and
- the revaluation of our derivatives associated with borrowings designated in a cash flow hedge relationship.

These first two factors above partially offset each other. For example, if interest rates were 10% higher, the increase in interest on floating rate debt results in an increase in expense and the ineffectiveness component from our fair value hedges results in a gain.

The movement in equity is due to an increase/decrease in the fair value of derivative instruments designated as cash flow hedges.

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 derivatives associated with these borrowings will not have an offsetting gain or loss attributable to interest rate movements on the underlying borrowing. It should be noted that the revaluation impact attributable to foreign exchange movements will largely offset between the borrowing and the derivatives.

It is important to note that this sensitivity analysis does not include the effect of margin movements. 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 particularly given current financial market conditions. Therefore, the following sensitivity analysis assumes a constant margin and parallel shifts in interest rates.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risk and mitigation (continued)

(ii) Sensitivity analysis - interest rate risk (continued)

The following sensitivity analysis is based on our interest rate exposures comprising:

- The revaluation impact on our derivatives and borrowings from a 10 per cent movement in interest rates based on the net debt balances as at balance 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.

Concurrent movements in interest rates and parallel shifts in the yield curves are assumed.

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 and Telstra Entity							
	+10%				-10%			
	Net profit (*)		Equity (cash flow hedging reserve)		Net profit (*)		Equity (cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		Year ended 30 June		As at 30 June	
	Gain/(loss)		Gain/(loss)		Gain/(loss)		Gain/(loss)	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Derivatives & borrowings - fair value hedges of offshore loans	**12**	12	**-**	-	**(12)**	(12)	**-**	-
Derivatives hedging borrowings de-designated from fair value hedges or not in a hedge relationship	**(34)**	-	**-**	-	**35**	-	**-**	-
Derivatives - cash flow hedges of offshore loans	**-**	-	**52**	56	**-**	-	**(56)**	(60)
Other floating rate Australian dollar instruments	**(35)**	(32)	**-**	-	**35**	32	**-**	-
	(57)	(20)	**52**	56	**58**	20	**(56)**	(60)

(*) The impact on net profit (before tax) is included within finance costs.

The higher sensitivity in 2008 when compared to 2007 is largely due to our long term Euro bond issue in 2008 which is not in a designated hedge relationship for hedge accounting purposes and our Euro borrowings which were de-designated from fair value hedge relationships during fiscal 2008. This has resulted in the underlying borrowings not being revalued for fair value movements attributable to interest rate risk and hence there is no offset against the revaluation impact on the associated derivatives which are recorded at fair value.

However, it should be noted that these borrowings are in an effective economic relationship using cross currency and interest rate swap derivatives.

The sensitivity on our derivatives in cash flow hedges does not significantly differ from prior year.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risk and mitigation (continued)

(iii) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, 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 a foreign currency;
- 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:

- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Euro;
- 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.

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 cross currency swaps at inception to maturity, effectively converting them to Australian dollar borrowings. A relatively small proportion of our foreign currency borrowings are not swapped into Australian dollars where they are used as hedges for foreign exchange exposure such as translation foreign exchange risk from our offshore business investments. Refer to note 18 Table E for our residual post hedge currency exposures.

Foreign exchange risk that arises from transactional exposures such as firm commitments or highly probable transactions settled in a foreign currency are managed principally through the use of forward foreign currency derivatives. We hedge a proportion of these transactions (such as asset and inventory purchases settled in foreign currencies) in each currency in accordance with our risk management policy.

Foreign currency risk also arises on translation of the net assets of our non Australian 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 in equity. 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 hedge our net investments in TelstraClear Limited and Hong Kong CSL Limited in New Zealand dollars and Hong Kong dollars respectively, where the amount hedged is in the range of 40% to 50%.

In addition, our subsidiaries may hedge foreign exchange transactions such as exposures from asset/liability balances or forecast sales/purchases in currencies other than their functional currency. Where this occurs, external foreign exchange contracts are designated at the group level as hedges of foreign exchange risk on the specific asset/liability balance or forecast transaction. These amounts were not significant in the current or prior year.

We also hedge a proportion of foreign currency risk associated with trade and other creditor balances using forward foreign currency contracts. These balances are not material.

Also refer to section (b) 'Hedging strategies' contained in this note for further information.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

(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 balance date. Foreign currency risk arising from our financial instruments represents a financial risk.

We have operational risk associated with our investments in foreign operations. The translation of these foreign investments from their functional currency to Australian dollars represents a translation risk rather than a financial risk. Nevertheless, in this sensitivity analysis we have included the translation impact on our foreign currency translation reserve from movements in the exchange rate. In so doing, this sensitivity analysis reflects the impact on equity from a movement in the exchange rate associated with both the underlying hedged investment and the financial instruments hedging the translation currency risk.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in our foreign currency risk exposure and a worsening of our financial position. A favourable movement in exchange rates implies a reduction in our foreign currency risk exposure and an improvement of our financial position.

A sensitivity of 10 per cent has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movements. Comparing the Australian dollar exchange rate against the United States dollar, the year end rate of 0.96305 (2007: 0.84885) would generate a 10 per cent favourable position of 1.0594 (2007: 0.93374) and an adverse position of 0.8755 (2007: 0.77168). This range is considered reasonable given the volatility of historic ranges that have been observed, for example over the last five years, the Australian dollar exchange rate against the US dollar has traded in the range 0.6342 to 0.9557 (2007: 0.5263 to 0.8522).

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 from foreign currency movements associated with these borrowings as they are effectively hedged. Apart from a small proportion of foreign currency borrowings and derivatives used to hedge translation foreign exchange risk associated with our offshore investments, our foreign currency borrowings are swapped into Australian dollars.

There is some volatility in profit from exchange rate movements associated with our borrowings not in hedge relationships, however this is not significant.

Consequently, after hedging, we have no significant exposure on our profit from foreign currency movements. We are exposed to statement of financial position equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. This foreign currency risk is spread over a number of currencies and accordingly, we have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency. It should be noted that our foreign currency exposure associated with cash flow hedge derivatives is predominantly Euro and with our offshore investments is predominantly Hong Kong dollars and New Zealand dollars (relating to our investments in Hong Kong CSL Ltd and TelstraClear Ltd).

Other balances, such as trade and other creditors denominated in foreign currencies are not significant. Hence, profit is not materially impacted.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

(iv) Sensitivity analysis - foreign currency risk (continued)

The following sensitivity analysis is based on our foreign currency risk exposures comprising the revaluation impact on our derivatives and borrowings from a 10% adverse/favourable movement in foreign exchange rates based on our balances as at balance date. At 30 June, had the Australian dollar against all applicable currencies moved as illustrated in Table C and Table D below, with all other variables held constant and taking into account identified underlying exposures and related hedges, profit and equity after tax would have been affected as follows:

TABLE C	Telstra Group											
	10% adverse movement						10% favourable movement					
	Net profit		Equity (foreign currency translation reserve)		Equity (cash flow hedging reserve)		Net profit		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)	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Derivatives hedging borrowings de-designated from fair value hedges or not in a hedge relationship	**(9)**	-	**-**	-	**-**	-	**8**	-	**-**	-	**-**	-
Derivatives in cash flow hedges of offshore loans. . . .	**-**	-	**-**	-	**(18)**	(38)	**-**	-	**-**	-	**15**	32
Net foreign investments	**-**	-	**(123)**	(235)	**-**	-	**-**	-	**151**	288	**-**	-

TABLE D	Telstra Entity							
	10% adverse movement				10% favourable movement			
	Net profit		Equity (cash flow hedging reserve)		Net profit		Equity (cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		Year ended 30 June		As at 30 June	
	Gain/(loss)		Gain/(loss)		Gain/(loss)		Gain/(loss)	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Derivatives hedging borrowings de-designated from fair value hedges or not in a hedge relationship . .	**(9)**	-	**-**	-	**8**	-	**-**	-
Derivatives in cash flow hedges of offshore loans .	**-**	-	**(18)**	(38)	**-**	-	**15**	32
Derivatives and borrowings hedging net foreign investments.	**66**	75	**-**	-	**(80)**	(92)	**-**	-

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

(iv) Sensitivity analysis - foreign currency risk (continued)

The impact of some of our borrowings not being in fair value hedge relationships has resulted in some volatility in profit and loss. Whilst the revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings there will be some profit impact due to the fact that the derivatives are recorded at fair value and hence the foreign exchange movements are recognised at present value. However, the borrowings which are accounted for on an amortised cost basis will reflect revaluation movements for changes in the spot exchange rate which are not discounted. Therefore, the impact on profit and loss is primarily attributable to the discounting effect of the foreign exchange gains and losses on the hedging derivatives.

The net gain or loss in the cash flow hedging reserve reflects the result of exchange rate movements on the derivatives used in our cash flow hedges of offshore loans which will be released to the income statement in the future as the underlying hedged items affect profit.

For the Telstra Group, our foreign currency translation risk associated with our foreign investments results in some volatility to the foreign currency translation reserve. The impact on the foreign currency translation reserve relates to translation of the net assets of our foreign controlled entities including the impact of hedging. The net gain or loss in the sensitivity analysis takes into account the related hedges and represents the impact of the unhedged portion. Our significant offshore controlled entities include investments in TelstraClear Limited denominated in New Zealand dollars and Hong Kong CSL Limited denominated in Hong Kong dollars which are hedged in the range of 40% to 50%.

For the Telstra Entity the sensitivity analysis results in a profit or loss volatility resulting from the hedging instruments used to hedge our net foreign investments. This amount is transferred to the foreign currency translation reserve in the Telstra Group and hence there is no impact on profit for the Telstra Group.

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on all financial assets included in our statement of financial position, comprising cash and cash equivalents, trade and other receivables, available-for-sale financial assets, finance lease receivables and derivative instruments. To help manage this risk:

- we have a policy for establishing credit limits for the entities we deal with;
- 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).

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 analyses and ongoing credit evaluation is performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debtors is raised. In addition, receivable balances are monitored on an ongoing basis with the result that our exposure to bad debts is not significant. For further details regarding our trade and other receivables refer to note 10.

Our maximum exposure to credit risk is based on the recorded amounts of our financial assets, net of any applicable provisions for loss (refer to note 18, Table C and Table D). Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis. We may also be subject to credit risk for transactions which are not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 23.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

Credit risk (continued)

The Telstra Group and the Telstra Entity are also exposed to credit risk arising from our transactions in money market instruments, forward foreign currency contracts, cross currency and interest rate swaps. For credit purposes, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout. 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 risk relating to these instruments is to monitor our exposure by country of financial institution based on a value at risk (VaR) methodology. Value at risk calculations is 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.

Our credit risk exposure on financial instruments such as money market transactions, foreign currency contracts, cross currency and interest rate swap transactions is derived with reference to the current market value, where it is in-the-money, of the transaction combined with a potential credit factor which is based on VaR methodology. It is important to note that the amounts included in Table E below include the in-the-money market values combined with a potential credit calculation and will therefore not equate to either the accounting carrying value or fair value of the transactions as disclosed in note 18.

In determining the potential credit limit factors to be used in these calculations, the following should be noted:

- Reference is made to the historical volatility factors relevant to the particular currencies / interest rates applicable to the instruments;
- In determining the volatility factors, reference has been made to the holding period or in this case the maturity of the instrument. In some cases the transaction can have a maturity of up to 10 years and the potential volatility needs to reflect the possible movements over this time period given historical observations; and
- We have used 99% 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 99% confidence level, by definition, may not take into account movements that may occur outside of this confidence threshold.

Table E	Telstra Group				Telstra Entity			
	Credit risk concentrations (VAR based)				Credit risk concentrations (VAR based)			
	As at 30 June 2008		As at 30 June 2007		**As at 30 June 2008**		As at 30 June 2007	
	%	**$m**	%	$m	**%**	**$m**	%	$m
Australia	**38.6**	**2,425**	36.1	2,239	**40.1**	**2,380**	36.9	2,181
United States	**20.1**	**1,262**	23.1	1,432	**21.0**	**1,246**	24.1	1,421
Japan	**2.0**	**125**	2.6	160	**2.1**	**124**	2.7	159
Europe	**16.6**	**1,042**	19.9	1,231	**17.6**	**1,042**	20.9	1,231
United Kingdom	**11.1**	**696**	7.9	487	**11.5**	**680**	8.0	470
Canada	**1.2**	**78**	1.7	106	**1.3**	**78**	1.8	106
Switzerland	**4.0**	**251**	5.3	328	**4.2**	**251**	5.6	328
China / Hong Kong	**6.0**	**380**	2.9	181	**2.2**	**131**	-	-
Singapore	**0.1**	**6**	-	-	**-**	**-**	-	-
New Zealand	**0.3**	**22**	0.5	30	**-**	**-**	-	-
	100.0	**6,287**	100.0	6,194	**100.0**	**5,932**	100.0	5,896

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- generally use instruments that are tradeable in highly liquid markets; and
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments ranging from ultra liquid, highly liquid 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 2008, based on contractual face values, 4% of the Telstra Group's and the Telstra Entity's debt, comprising offshore borrowings, Telstra bonds and domestic loans and excluding promissory notes, will mature in less than one year (2007: 9.79%).

The contractual maturity of our fixed and floating rate financial liabilities and derivatives and the corresponding carrying values are shown in Table F and Table G. 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.

We have also included derivative financial assets in the following tables on the basis that these assets have a direct relationship with an underlying financial liability and both the asset and the liability are managed in conjunction.

For floating rate instruments, the amount disclosed is determined by reference to the forward curve over the period to maturity.

Also affecting liquidity are cash at bank, available for sale financial assets and other non-interest bearing financial assets. Liquidity risk associated with these financial instruments is represented by the face values as shown in note 18 Table C and Table D.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

Liquidity risk (continued)

TABLE F — Telstra Group

	As at 30 June 2008	Contractual maturity (nominal cash flows)					As at 30 June 2007	Contractual maturity (nominal cash flows)				
	Carrying amount $m	Less than one year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m	Carrying amount $m	Less than one year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m
Derivative financial liabilities												
Interest rate swaps - pay fixed (i)	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Interest rate swaps - pay variable (i)	(303)	(72)	(72)	(115)	(2)	(261)	(296)	(38)	(41)	(90)	(59)	(228)
Cross currency swaps - foreign leg variable (ii)	(557)	(304)	(271)	-	-	(575)	(633)	(324)	(340)	-	-	(664)
Cross currency swaps - AUD leg fixed (ii)	(238)	(18)	(18)	(152)	(182)	(370)	(257)	(18)	(18)	(159)	(193)	(388)
Cross currency swaps - AUD leg variable (ii)	(10,185)	(1,045)	(1,701)	(6,626)	(5,670)	(15,042)	(10,298)	(1,947)	(812)	(6,061)	(5,676)	(14,496)
Forward foreign currency contracts (ii)	(1,382)	(1,460)	-	-	-	(1,460)	(883)	(910)	-	-	-	(910)
Derivative financial assets												
Interest rate swaps - received fixed (i)	23	13	14	18	19	64	31	17	9	14	38	78
Interest rate swaps - receive variable (i)	311	88	83	145	21	337	209	17	34	99	9	159
Cross currency swaps - foreign leg fixed (ii)	410	14	14	100	402	530	499	16	83	97	443	639
Cross currency swaps - foreign leg variable (ii)	9,129	600	1,354	5,284	4,842	12,080	8,850	1,483	429	4,889	4,655	11,456
Cross currency swaps - AUD leg variable (ii)	639	384	305	-	-	689	686	373	359	-	-	732
Forward foreign currency contracts (ii)	1,347	1,415	-	-	-	1,415	877	902	-	-	-	902
Non-derivative financial liabilities												
Telstra bonds and domestic loans	(3,995)	(780)	(762)	(2,112)	(1,775)	(5,429)	(2,991)	(211)	(694)	(963)	(2,394)	(4,262)
Trade/other creditors and accrued expenses	(3,961)	(3,904)	(5)	(19)	(33)	(3,961)	(4,272)	(4,211)	(11)	(18)	(32)	(4,272)
Offshore loans	(9,945)	(588)	(1,343)	(5,676)	(5,348)	(12,955)	(9,818)	(1,772)	(511)	(5,337)	(5,184)	(12,804)
Finance leases	(107)	(41)	(30)	(38)	(36)	(145)	(118)	(44)	(32)	(44)	(47)	(167)
Promissory notes	(1,452)	(1,470)	-	-	-	(1,470)	(1,435)	(1,456)	-	-	-	(1,456)
Deferred consideration for capital expenditure	(150)	(26)	(12)	(58)	(179)	(275)	(144)	(10)	(12)	(48)	(233)	(303)

(i) Net amounts for interest rate swaps for which net cash flows are exchanged.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

Liquidity risk (continued)

TABLE G — Telstra Entity

	As at 30 June 2008						As at 30 June 2007					
		Contractual maturity (nominal cash flows)						Contractual maturity (nominal cash flows)				
	Carrying amount $m	Less than one year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m	Carrying amount $m	Less than one year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m
Derivative financial liabilities												
Interest rate swaps - pay fixed (i)	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Interest rate swaps - pay variable (i)	(303)	(72)	(72)	(115)	(2)	(261)	(296)	(38)	(41)	(90)	(59)	(228)
Cross currency swaps - foreign leg variable (ii)	(557)	(304)	(271)	-	-	(575)	(633)	(324)	(340)	-	-	(664)
Cross currency swaps - AUD leg fixed (ii)	(238)	(18)	(18)	(152)	(182)	(370)	(257)	(18)	(18)	(159)	(193)	(388)
Cross currency swaps - AUD leg variable (ii)	(10,185)	(1,045)	(1,701)	(6,626)	(5,670)	(15,042)	(10,298)	(1,947)	(812)	(6,061)	(5,676)	(14,496)
Forward foreign currency contracts (ii)	(1,382)	(1,460)	-	-	-	(1,460)	(883)	(910)	-	-	-	(910)
Derivative financial assets												
Interest rate swaps - received fixed (i)	23	13	14	18	19	64	31	17	9	14	38	78
Interest rate swaps - receive variable (i)	311	88	83	145	21	337	209	17	34	99	9	159
Cross currency swaps - foreign leg fixed (ii)	410	14	14	100	402	530	499	16	83	97	443	639
Cross currency swaps - foreign leg variable (ii)	9,129	600	1,354	5,284	4,842	12,080	8,850	1,483	429	4,889	4,655	11,456
Cross currency swaps - AUD leg variable (ii)	639	384	305	-	-	689	686	373	359	-	-	732
Forward foreign currency contracts (ii)	1,347	1,415	-	-	-	1,415	877	902	-	-	-	902
Non-derivative financial liabilities												
Telstra bonds and domestic loans	(3,995)	(780)	(762)	(2,112)	(1,775)	(5,429)	(2,991)	(211)	(694)	(963)	(2,394)	(4,262)
Trade/other creditors and accrued expenses	(3,321)	(3,265)	(4)	(19)	(33)	(3,321)	(3,708)	(3,650)	(8)	(18)	(32)	(3,708)
Offshore loans	(9,945)	(588)	(1,343)	(5,676)	(5,348)	(12,955)	(9,818)	(1,772)	(511)	(5,337)	(5,184)	(12,804)
Finance leases	(81)	(37)	(26)	(27)	-	(90)	(88)	(40)	(28)	(30)	-	(98)
Promissory notes	(1,452)	(1,470)	-	-	-	(1,470)	(1,435)	(1,456)	-	-	-	(1,456)
Amounts owed to controlled entities	(155)	(155)	-	-	-	(155)	(221)	(221)	-	-	-	(221)
Loans from wholly owned controlled entities	(430)	(430)	-	-	-	(430)	(874)	(874)	-	-	-	(874)

(i) Net amounts for interest rate swaps for which net cash flows are exchanged.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(a) Risks and mitigation (continued)

Liquidity risk (continued)

Financing arrangements

Table H	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008 $m	2007 $m	2008 $m	2007 $m
We have access to the following lines of credit:				
Credit standby arrangements				
Unsecured committed cash standby facilities which are subject to annual review	**758**	876	**758**	861
Amount of credit unused	**758**	876	**758**	861

We have promissory note facilities in place with financial institutions under which we may nominally issue up to $10,226 million (2007: $10,063 million). As at 30 June 2008, we had drawn down $1,452 million (2007: $1,435 million) of these facilities. These facilities are not committed or underwritten and we have no guaranteed access to the funds.

Generally, our facilities are available unless we default on any terms applicable under the relevant agreements or become insolvent.

(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 instruments are similar to the terms and conditions of the underlying hedged items to maximise hedge effectiveness.

Borrowings de-designated from fair value hedge relationships

During fiscal 2008, a number of our Euro borrowings which were in fair value hedges were de-designated from hedge relationships because they did not meet the requirements for hedge effectiveness and accordingly we discontinued fair value hedge accounting for these borrowings as at the de-designation date. Prior to de-designation, the gains and losses from re-measuring the associated derivatives to fair value and from re-measuring the borrowings for fair value movements attributable to the hedged risk were included within finance costs in the income statement. From the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are being accounted for on an amortised cost basis using 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 in the category ‘loss on transactions de-designated from fair value hedge relationships’ on the basis that the net result primarily reflects the impact of movements in borrowing cost margins on the derivatives and the revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings.

The cumulative gains or losses previously recognised from the re-measurement of these borrowings as at the date of de-designation will be unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs in the category ‘loss on transactions de-designated from fair value hedge relationships’.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(b) Hedging strategies (continued)

Borrowings de-designated from fair value hedge relationships (continued)

In fiscal 2008, the impact on our income statement for the Telstra Group and Telstra Entity relating to borrowings de-designated from fair value hedge relationships was a loss of $13 million (2007: loss of $8 million). This loss represents the revaluation impact from the date of de-designation and comprises the gain or loss on the borrowings attributable to movements in the spot exchange rate and the gain or loss from movements in the fair value on the associated derivatives. Also included in this loss is the amortisation impact of unwinding previously recognised gains or losses on the borrowing.

Derivatives in hedge relationships de-designated from fair value hedge relationships are classified as 'held for trading'.

All our borrowings de-designated for hedge accounting purposes are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction. Refer to Table J and Table K for details on our economic relationships.

Borrowings not in a designated hedge relationship

Our long term Euro bond issue in during fiscal 2008 is not in a designated hedge relationship for hedge accounting purposes. This borrowing is accounted for on an amortised cost basis. Notwithstanding that this borrowing is not in a designated hedge relationship for hedge accounting purposes it is in an effective economic relationship based on contractual face value amounts and cash flows over the life of the transaction. The derivatives hedging this Euro borrowing are recognised at fair value and are classified as 'held for trading'. 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 borrowing cost margins on the derivatives and the revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings. The 'loss on transactions not in a designated hedge relationship' as disclosed in note 7 of $27 million for the Telstra Group and Telstra Entity (2007: nil) comprises the revaluation of this Euro borrowing attributable to movements in the spot exchange rate and the revaluation impact from movements in the fair value on the associated derivatives.

With the exception of borrowings de-designated from hedge relationships and our Euro borrowing not in a designated hedge relationship, all other hedge relationships met hedge effectiveness requirements for hedge accounting purposes at the reporting date.

Forward currency contracts that are held for trading are subject to fair value movements through profit and loss within other expenses or other income. These held for trading forward contracts are not significant and are used to hedge fair value movements for changes in foreign exchange rates associated with trade creditors and other liabilities denominated in a foreign currency. Notwithstanding that these held for trading derivatives are not in a designated hedge relationship, they are in effective economic relationships based on contractual amounts and cash flows over the life of the transaction.

Fair value hedges

During the period we held 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 were 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.

Gains or losses from remeasuring the fair value of the hedge instruments 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 hedged risks. This net result largely represents ineffectiveness attributable to movements in Telstra's borrowing margins. For the Telstra Group and the Telstra Entity the re-measurement of the hedged items resulted in a loss before tax of $41 million (2007: gain of $436 million) and the changes in the fair value of the hedging instruments resulted in a gain before tax of $212 million (2007: loss of $445 million). This results in a net gain before tax of $171 million and after tax of $120 million (2007: net loss before tax of $9 million and after tax of $6 million).

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 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 18 Table H and Table I for the value of our derivatives designated as fair value hedges.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(b) Hedging strategies (continued)

Cash flow hedges

Cash flow hedges are 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.

During the year, we entered 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 were 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 entered into forward foreign currency 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 comprised highly probable forecast payments for operating and capital items 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 instruments in a cash flow hedge are regressed against the hypothetical derivative. The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in cash flows achieved by the hedge.

The effectiveness of our hedges relating to highly probable forecast transactions is assessed prospectively based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedging instrument and the hedged item attributable to exchange rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective.

In relation to our offshore borrowings ineffectiveness on our cash flow hedges is recognised in the income statement to the extent that the change in the fair value of the hedging derivatives in the cash flow hedge exceed the change in value of the underlying borrowings in the cash flow hedge during the hedging period. During the year there was no material ineffectiveness attributable to our cash flow hedges (refer to note 7). Also during the year there was no material impact on profit as a result of discontinuing hedge accounting for forecast transactions no longer expected to occur.

For hedge gains or losses transferred to and from the cash flow hedge reserve refer to the statement of comprehensive income.

Refer to note 18 Table H and Table I for the value of our derivatives designated as cash flow hedges.

The following table shows the maturities of the payments in our cash flow hedges, that is when the cash flows are expected to occur.

Table I — Nominal cash outflows

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Highly probable forecast purchases				
Purchases of non-capital items (i)				
- less than one year	**(192)**	-	**(184)**	-
Purchases of capital items (ii)				
- less than one year	**(209)**	-	**(209)**	-
	(401)		**(393)**	
Borrowings (iii)				
- less than one year	**(314)**	(881)	**(314)**	(881)
- one to five years	**(3,259)**	(3,101)	**(3,259)**	(3,101)
- greater than five years	**(3,241)**	(3,623)	**(3,241)**	(3,623)
	(6,814)	(7,605)	**(6,814)**	(7,605)

(i) These amounts will affect our income statement in the same period as the cash flows are expected to occur.

(ii) For purchases of fixed assets the gains and losses on the associated hedging instruments are included in the measurement of the initial cost of the asset. The hedged asset purchases affect profit as the assets are depreciated over their useful lives. Refer to note 2 on our depreciation policies for property, plant and equipment.

As at 30 June 2007 all our hedges of forecast purchases had matured or were closed out.

(iii) The impact on our income statement from foreign currency translation movements associated with these hedged borrowings will affect profit over the life of the borrowing, however the impact on profit is expected to be nil as the borrowings are effectively hedged.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(b) Hedging strategies (continued)

Hedges of net investments in foreign operations

We have exposure to foreign currency risk as a result of our investments in offshore activities, including our investments in TelstraClear Limited and Hong Kong CSL Limited (CSL). This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars. We hedge our investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the hedging instruments and the change in the value of the hedged net investment from spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective. The prospective effectiveness test is performed based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected.

During the year there was no material ineffectiveness attributable to our hedges of net foreign investments.

In the consolidated statement of comprehensive income, net gains before tax of $144 million and after tax of $100 million (2007: gains before tax of $43 million and after tax of $30 million) on our hedging instruments were taken directly to equity during the year in the foreign currency translation reserve.

Refer to note 18 Table H and Table I for the value of our derivatives designated as hedges of net foreign investments.

(c) Hedge Relationships

The following tables provide additional context around our hedge transactions and in particular describes how we arrive at our economic residual risk position as a result of the hedges executed. It should be noted that the economic residual position in each of the following tables will not be equal to the carrying values.

Table J and Table K describes each of our hedge relationships, using cross currency and interest rate swaps as the hedging instruments and comprise effective economic relationships based on contractual face value amounts and cash flows, including hedge relationships that have been de-designated for hedge accounting purposes and borrowings that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to hedge our offshore foreign denominated borrowings and our offshore investment in Hong Kong CSL Limited. Outlined in the following table 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 18 Table E.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(c) Hedge relationships (continued)

Table J

Telstra Group and Telstra Entity - 30 June 2008

	Face value	Derivative hedging instruments - cross currency and interest rate swaps							Final currency & interest positions	
	Face value	Notional / Face value					Notional value		Face / Notional 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 receive fixed /(pay) float	(Pay)/receive float	Pay fixed
	Native currency	Native 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	(300)	(300)	300	-	(328)	-	(328)	-	-	(328)
Euro	(4,500)	(4,500)	4,500	-	(7,450)	-	(3,640)	-	(3,810)	(3,640)
British pound	(200)	(200)	200	-	(584)	-	(360)	-	(224)	(360)
Japanese yen	(26,000)	-	-	26,000	(164)	(163)	-	-	(164)	(163)
United States dollar	(670)	(500)	500	170	(1,177)	-	(550)	-	(627)	(550)
Offshore borrowings - floating										
Australian dollar	(250)	-	-	-	-	-	(250)	-	-	(250)
Japanese yen	(7,000)	-	7,000	-	(115)	-	-	-	(115)	-
United States dollar	(655)	-	655	-	(630)	(106)	-	-	(630)	(106)
Domestic loans - floating										
Australian dollar	(275)	-	-	-	-	-	(275)	-	-	(275)
Net foreign investments		-	-	-	-	-	-	-	-	-
Hong Kong dollar	4,200	-	(4,200)	-	640	-	-	-	640	-
					(9,808)	(269)	(5,403)	-	(4,930)	(5,672)

19. Financial risk management (continued)

(c) Hedge Relationships (continued)

Table K — Telstra Group and Telstra Entity - 30 June 2007

	Face value	Derivative hedging instruments - cross currency and interest rate swaps							Final currency & interest positions	
	Face value	Notional / Face value					Notional value		Face / Notional 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 receive fixed /(pay) float	(Pay)/receive float	Pay fixed
	Native currency	Native 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	(300)	(300)	300	-	(328)	-	(328)	-	-	(328)
Euro	(4,000)	(4,000)	4,000	-	(6,591)	-	(3,640)	-	(2,951)	(3,640)
British pound	(200)	(200)	200	-	(584)	-	(360)	-	(224)	(360)
Japanese yen	(33,000)	-	-	33,000	(279)	(163)	(50)	-	(229)	(213)
United States dollar	(670)	(500)	500	170	(1,177)	-	(550)	-	(627)	(550)
Offshore borrowings - floating										
Australian dollar	(500)	-	-	-	-	-	(250)	-	(250)	(250)
Singapore dollar	(100)	-	100	-	(109)	-	-	-	(109)	-
Deutshmark	(1,000)	-	1,000	-	(852)	-	-	-	(852)	-
Japanese yen	(8,000)	-	8,000	-	(128)	-		-	(128)	-
United States dollar	(105)	-	105	-	(102)	(106)	-	-	(102)	(106)
Domestic loans - floating										
Australian dollar	(275)	-	-	-	-	-	(275)	-	-	(275)
Net foreign investments										
Hong Kong dollar	4,200	-	(4,200)	-	686	-	-	-	686	-
					(9,464)	(269)	(5,453)	-	(4,786)	(5,722)

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(c) Hedge Relationships (continued)

Table L 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 hedge our promissory notes, forecast transactions denominated in foreign currency, foreign currency trade and other creditors. 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 18 Table E.

Table L — **Telstra Group and Telstra Entity**

	Face value		Derivative hedging instruments - forward foreign currency contracts: Notional value				Average exchange rate	
	Pre hedge underlying exposure (payable)		Forward contract receive		Forward contract pay - final leg			
	Native Currency		Native currency		Australian dollars			
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008	2007
Forward contracts hedging interest bearing debt								
Promissory notes								
Euro- contractual maturity 0 - 3 months (2007: 0 - 3 months)	-	(200)	-	200	-	(319)	-	0.62716
United States dollar - contractual maturity 0 - 3 months (2007: 0 - 3 months)	(900)	(300)	900	300	(962)	(360)	0.93540	0.83386
Loans from wholly owned controlled entities (i)								
British pounds sterling - contractual maturity 3-12 months (2007: 3-12 months)	(4)	(32)	4	32	(8)	(77)	0.47876	0.41592
New Zealand dollars - contractual maturity 3-12 months (2007: 3-12 months)	(204)	(126)	204	126	(172)	(111)	1.22454	1.13354
United States dollars - contractual maturity 3-12 months (2007: 3-12 months)	(13)	(2)	13	2	(13)	(2)	0.93830	0.83647
Forward contracts hedging non-financial items								
Forecast transactions								
United States dollar - contractual maturity 0 - 3 months (2007: nil)	(196)	-	196	-	(227)	-	0.93078	-
Provisions and trade creditors - non interest bearing (i)								
United states dollars- contractual maturity 3-12 months (2007: 3-12 months)	(31)	(19)	31	19	(18)	(22)	0.94311	0.82865
					(1,400)	(891)		

(i) Forward foreign currency exchange contracts are economic hedges but are not in a designated hedge relationship for hedge accounting purposes.

Notes to the Financial Statements (continued)

19. Financial risk management (continued)

(c) Hedge Relationships (continued)

Table M describes our hedge relationships where offshore loans and promissory notes are used as the hedging instruments. These hedging instruments are used to hedge net foreign investment in TelstraClear. Outlined in the following table is the pre hedge underlying exposure, the face value of the hedging instruments (New Zealand denominated borrowings and promissory notes) and the end post hedge position as at 30 June 2008 and is represented in our residual economic position as described in note 18 Table E.

Table M			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)	
	2008	2007	2008	2007	2008	2007
	$m	$m	$m	$m	$m	$m
Net foreign investments						
TelstraClear Ltd (New Zealand dollars) . .	**614**	614	**(614)**	(614)	**(486)**	(557)

(i) Amount hedged represents portion of carrying value of net assets.

(ii) At 30 June 2008 the Australian dollar face value of offshore loans was $158 million (2007: $181 million) and the Australian dollar value of promissory notes was $328 million (2007: $376 million).

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows

		Telstra Group		Telstra Entity	
		Year ended 30 June		Year ended 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
(a) Reconciliation of profit to net cash provided by operating activities					
Profit for the year		**3,711**	3,275	**3,817**	3,438
Add/(subtract) the following transactions					
Depreciation and amortisation	7	**4,190**	4,082	**3,621**	3,588
Finance income	6	**(72)**	(57)	**(60)**	(47)
Finance costs	7	**1,158**	1,144	**1,152**	1,147
Dividend revenue	6	**-**	-	**(256)**	(186)
Distribution from FOXTEL partnership	6	**(130)**	-	**-**	-
Share based payments	7	**28**	25	**28**	25
Defined benefit plan expense	7	**198**	239	**197**	238
Net gain on disposal of property, plant and equipment	6	**-**	(6)	**(2)**	(10)
Net gain on disposal of intangibles	6	**(1)**	(2)	**-**	(2)
Net gain on disposal of controlled entities	6	**(37)**	(48)	**-**	-
Net gain on disposal of other investments	6	**-**	(13)	**-**	(13)
Share of net losses from jointly controlled and associated entities	26	**1**	7	**-**	-
Impairment losses (excluding inventories, trade and other receivables)	7	**60**	154	**338**	249
Reversal of impairment losses (excluding trade and other receivables)	7	**-**	-	**(2)**	(2)
Foreign exchange differences		**(13)**	(7)	**(100)**	(52)
Movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)					
(Increase)/decrease in trade and other receivables		**(110)**	(98)	**(155)**	(109)
(Increase)/decrease in inventories		**13**	(107)	**2**	(96)
(Increase)/decrease in prepayments and other assets		**(11)**	24	**2**	12
Increase/(decrease) in trade and other payables		**88**	341	**54**	337
Increase/(decrease) in revenue received in advance		**44**	20	**24**	19
Increase/(decrease) in net taxes payable		**(102)**	(210)	**30**	(92)
Increase/(decrease) in provisions		**(171)**	(243)	**(161)**	(246)
Net cash provided by operating activities		**8,844**	8,520	**8,529**	8,198
(b) Cash and cash equivalents					
Cash at bank and on hand		**426**	241	**84**	94
Bank deposits, bills of exchange and promissory notes		**473**	582	**458**	452
Total cash and cash equivalents		**899**	823	**542**	546

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

(c) Acquisitions

Sequel Limited

On 27 June 2008, our controlled entity Telstra Holdings Pty Ltd acquired 55% of the issued capital of Sequel Limited who acquired 100% of the issued capital of the Cheerbright International Holdings Limited Group, the China Topside Limited Group and the Norstar Advertising Media Holdings Limited Group (Norstar Media and Autohome/PCPop) for a total consideration of $93 million including acquisition costs.

Norstar Media and Autohome/PCPop are internet businesses with leading positions in the fast-growing online auto and digital device advertising sectors in China.

Our accounting for the acquisition and assignment of fair values to Norstar Media and Autohome/PCPop's identifiable assets, liabilities and contingent liabilities has not been finalised and has been determined on a provisional basis as the completion statement of financial position has not been finalised.

The effect of the acquisition is detailed below:

	Norstar Media and Autohome/PCPop	
	2008 $m	2008 $m
Consideration for acquisition		
Cash consideration for acquisition	76	
Deferred contingent consideration for acquisition	15	
Costs of acquisition	2	
Total purchase consideration	93	
Cash balances acquired	(6)	
Consideration deferred	(15)	
Outflow of cash on acquisition	72	
	Fair value	Carrying value
Assets/(liabilities) at acquisition date		
Cash and cash equivalents	6	6
Trade and other receivables	12	12
Property, plant and equipment	2	2
Intangible assets	45	1
Trade and other payables	(3)	(3)
Deferred tax liabilities	(11)	-
Revenue received in advance	(3)	(3)
Dividend payable	(3)	(3)
Net assets	45	12
Adjustment to reflect minority interests	(20)	
Goodwill on acquisition	68	
	93	
Profit after minority interests from acquisition date until 30 June 2008	-	

In the event that certain pre-determined revenue and EBITDA targets are achieved by the subsidiaries in the year ending 31 December 2008, contingent consideration of up to $50 million may be payable in cash. At 30 June 2008, we have estimated of this deferred contingent consideration, $15 million will become payable and is recorded as a liability within trade and other payables. If it becomes probable that additional consideration will be payable it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured.

We have recognised goodwill of $68 million on acquisition of Norstar Media and Autohome/PCPop. The following factors contributed to the recognition of goodwill:

- forecast revenues and profitability of Norstar Media and Autohome/PCPop; and
- strategic benefits to the operations of the Telstra Group.

We have identified and measured any significant intangible assets separately from goodwill on acquisition of Norstar Media and Autohome/PCPop.

If the Norstar Media and Autohome/PCPop acquisition had occurred on 1 July 2007, our adjusted consolidated income and consolidated profit for the year ended 30 June 2008 for the Telstra Group would have been $25,038 million and $3,719 million respectively.

Other fiscal 2008 acquisitions

On 6 February 2008, our controlled entity 1300 Australia Pty Ltd acquired 100% of the issued capital of Alpha Phone Words Pty Ltd for $3 million, of which $1 million is deferred consideration. The effect on the Telstra Group of this acquisition was an increase in intangibles of $3 million.

Refer to note 25 for further details on our acquisitions.

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

(c) Acquisitions (continued)

SouFun Holdings Limited (SouFun)

In fiscal 2007, our controlled entity Sensis Pty Ltd acquired 55% (on an undiluted basis) of the issued capital of SouFun for a total consideration of $337 million including acquisition costs.

The effect on the Telstra Group of the acquisition is detailed below:

	SouFun	
	2007 $m	2007 $m
Consideration for acquisition		
Cash consideration for acquisition	333	
Costs of acquisition	4	
Total purchase consideration	337	
Cash balances acquired	(23)	
Outflow of cash on acquisition	314	
	Fair value	**Carrying value**
Assets/(liabilities) at acquisition date		
Cash and cash equivalents	23	23
Trade and other receivables	8	8
Property, plant and equipment	1	1
Intangible assets	38	-
Other assets	1	1
Deferred tax assets	1	1
Trade and other payables	(9)	(9)
Current tax liabilities	(2)	(2)
Deferred tax liabilities	(9)	-
Revenue received in advance	(6)	(6)
Net assets	46	17
Adjustment to reflect minority interests	(21)	
Goodwill on acquisition	312	
	337	
Profit after minority interests from acquisition date until 30 June 2007	8	

SouFun is China's largest online real estate, home furnishings and home improvements portal.

Other fiscal 2007 acquisitions

In fiscal 2007, our controlled entity KAZ Group Pty Limited purchased an additional 40% interest in the issued share capital of Enhanced Processing Technologies Pty Ltd, for nominal consideration, giving us a controlling 100% ownership of this entity. Previously, Enhanced Processing Technologies Pty Ltd was a jointly controlled entity.

In fiscal 2007, we acquired an additional 25% interest in the issued share capital of 1300 Australia Pty Ltd, for a total purchase consideration of $12 million, giving us 85% ownership of this controlled entity. We recognised additional goodwill of $12 million on acquisition.

(d) Disposals

The following disposals occurred during fiscal 2008:

- On 31 July 2007, our controlled entity KAZ Group Pty Limited sold its 100% shareholding in KAZ Business Services Pty Ltd, KAZ Software Solutions Pty Ltd and Enhanced Processing Technologies Pty Ltd for a total consideration of $2 million (net of cash balances of the disposed entities).
- On 15 August 2007, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Invizage Pty Ltd for a total cash consideration of $1 million (net of cash balances of the disposed entity).
- On 22 December 2007, our controlled entity Telstra Services Solutions Holdings Limited sold its 100% shareholding in Telstra eBusiness Services Pty Limited for a total cash consideration of $48 million (net of cash balances of the disposed entity).

The cash flow effect on the Telstra Group of these disposals is detailed below:

	Total disposals
	Year ended 30 June 2008 $m
Consideration on disposal	
Cash consideration for disposal	**53**
Cash and cash equivalents disposed of	**(2)**
Inflow of cash on disposal	**51**

Australian Administration Services Group Pty Ltd (AAS)

In fiscal 2007, our controlled entity KAZ Group Pty Limited sold its 100% shareholdings in controlled entities Australian Administration Services Pty Ltd, AAS Superannuation Services Pty Ltd and Atune Financial Solutions Pty Ltd for a total consideration of $235 million. It also included AAS's 50% shareholding in a jointly controlled entity Money Solutions Pty Ltd.

	AAS
	Year ended 30 June 2007 $m
Consideration on disposal	
Cash consideration for disposal	235
Cash and cash equivalents disposed of	(23)
Costs of disposal	(4)
Inflow of cash on disposal	208

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

(d) Disposals (continued)

Other fiscal 2007 disposals

- On 28 November 2006, our controlled entity Sensis Pty Ltd sold its 61% shareholding in controlled entity Platefood Limited for a total consideration of $10 million.

(e) Significant financing and investing activities that involve components of non cash

Acquisition of assets by means of finance leases

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Acquisition of plant & equipment by means of finance leases . . .	**31**	58	**31**	58

Notes to the Financial Statements (continued)

21. Impairment

Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The carrying amount of our goodwill and intangible assets with an indefinite useful life are detailed below:

		Goodwill		Intangible assets with indefinite useful lives	
		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
CGUs					
CSL New World Group		**972**	1,100	**-**	-
KAZ Group		**127**	137	**-**	-
TelstraClear Group		**132**	151	**-**	-
Telstra Europe Group		**94**	108	**-**	-
Sensis Group (a)		**215**	215	**-**	-
Universal Publishers		**15**	15	**10**	10
Adstream Group		**28**	29	**-**	-
Telstra Business Systems		**30**	30	**-**	-
SouFun Group		**287**	293	**-**	-
1300 Australia Pty Ltd		**16**	16	**12**	8
Norstar Media and Autohome/PCPop		**68**	-	**-**	-
Other		**33**	32	**-**	-
		2,017	2,126	**22**	18
Individual assets					
Trading Post mastheads	14	**-**	-	**337**	337
		2,017	2,126	**359**	355

(a) Our assessment of the Sensis Group CGU excludes Universal Publishers, Adstream Group, SouFun Group, Norstar Media and Autohome/PCPop that form part of the Sensis reportable segment. These CGU's are assessed separately.

In addition to the above CGUs, we have two further significant CGUs that are assessed for impairment. These two CGUs are:

- the Telstra Entity CGU, excluding the HFC network; and
- the CGU comprising the HFC network.

The Telstra Entity CGU consists of our ubiquitous telecommunications infrastructure network in Australia, excluding the HFC network that we consider not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network are considered to be working together to generate our net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

Notes to the Financial Statements (continued)

21. Impairment (continued)

Impairment testing

Our impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

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

	Discount rate (a)		**Terminal value growth rate (b)**	
	As at 30 June		**As at 30 June**	
	2008	2007	**2008**	2007
	%	%	**%**	%
CSL New World Group.	**10.7**	10.2	**2.0**	2.0
KAZ Group.	**14.8**	14.3	**3.0**	3.0
TelstraClear Group.	**14.0**	13.1	**3.0**	3.0
Telstra Europe Group	**9.3**	8.0	**3.0**	3.0
Sensis Group	**13.3**	11.7	**3.0**	3.0
Universal Publishers	**14.0**	12.3	**3.0**	3.0
Adstream Group	**14.1**	13.7	**3.0**	3.0
Telstra Business Systems.	**15.6**	12.5	**3.0**	3.0
SouFun Group	**17.8**	16.1	**5.0**	5.0
1300 Australia Group	**16.2**	-	**3.0**	-
Trading Post Mastheads	**14.7**	14.6	**3.0**	3.0

(a) 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 was adjusted for specific risks relating to the CGU and the countries in which they operate.

The comparative discount rates have been restated to conform with the current year presentation. This restatement has had no effect on the results of our impairment testing conducted in 2007.

(b) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs long term performance in their respective markets. The terminal growth rates for the Australian CGUs are aligned at three percent.

Notes to the Financial Statements (continued)

22. Expenditure commitments

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
(a) Capital expenditure commitments				
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:				
Property, plant and equipment commitments				
Within 1 year	**568**	732	**527**	625
Within 1 to 5 years	**21**	122	**7**	122
After 5 years	**-**	5	**-**	5
	589	859	**534**	752
Intangible assets commitments				
Within 1 year	**243**	233	**193**	191
Within 1 to 5 years	**222**	88	**179**	24
	465	321	**372**	215
(b) Operating lease commitments				
Future lease payments for non-cancellable operating leases not recorded in the financial statements:				
Within 1 year	**413**	373	**329**	297
Within 1 to 5 years	**858**	781	**748**	690
After 5 years	**363**	264	**327**	210
	1,634	1,418	**1,404**	1,197

In addition, in fiscal 2008 the Telstra Group had total future commitments under cancellable operating leases of $216 million (2007: $292 million). In fiscal 2008, the Telstra Entity had total future commitments under cancellable operating leases of $215 million (2007: $291 million).

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, and mechanical aids; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The average lease term is:
- 7 years for land and buildings;
- 2 years for motor vehicles, 4 years for light commercial vehicles and 7 to 12 years for trucks and mechanical aids; 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 $22 million (2007: $24 million) for the Telstra Group and $10 million (2007: $7 million) for the Telstra Entity. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 5%, or increases subject to the consumer price index. We do not have any significant purchase options.

Contingent rental payments exist for motor vehicles and are not significant compared with total rental payments made. These are based on unfair wear and tear, excess kilometres travelled, additional fittings and no financial loss to be suffered by the leasing company from changes to the original agreements. Our motor vehicles and related equipment must also remain in Australia.

A number of our operating leases are considered onerous due to our transformation project and as such, have been provided for in our financial statements. Refer to note 16 for further details.

Notes to the Financial Statements (continued)

22. Expenditure commitments (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2008	2007	2008	2007
	Note	$m	$m	$m	$m
(c) Finance lease commitments					
Within 1 year		**41**	44	**37**	40
Within 1 to 5 years		**68**	76	**53**	58
After 5 years		**36**	47	**-**	-
Total minimum lease payments		**145**	167	**90**	98
Future finance charges on finance leases		**(38)**	(49)	**(9)**	(10)
Present value of net future minimum lease payments		**107**	118	**81**	88
Included in the financial statements as:					
Current borrowings	18	**34**	35	**33**	34
Non current borrowings	18	**73**	83	**48**	54
Total finance lease liabilities	18	**107**	118	**81**	88

Description of our finance leases

We have finance leases for the following types of assets:
- property leases in our controlled entity, Telstra Europe Limited; and
- computer mainframes, computer processing equipment and other related equipment.

The average lease term is:
- 24 years for the property leases with a remaining weighted average life of 16 years; and
- 4 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:
- property leases interest rate of 11.25%; and
- computer mainframes, computer processing equipment and associated equipment weighted average interest rate of 7.9%.

In addition to the above finance lease commitments, we previously entered into US finance leases for communications exchange equipment with various entities denominated in US dollars. We have prepaid all lease rentals due under the terms of these leases and have no additional payment obligations.

These entities lease the communications equipment from the ultimate lessor and then sublease the equipment to us. We have guaranteed that the lease payments will be paid by these entities to the ultimate lessor as scheduled over the lease terms (refer to note 23 for further information).

We hold an early buyout option that we could exercise in fiscal 2011 and fiscal 2013, otherwise the relevant lease period ends during fiscal 2015 and fiscal 2016. Refer to note 13 for further details on communication assets and equipment that are held under finance lease.

Notes to the Financial Statements (continued)

22. Expenditure commitments (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
(d) Other commitments				
Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are:				
Within 1 year	**527**	387	**507**	301
Within 1 to 5 years	**824**	580	**794**	505
After 5 years	**210**	83	**204**	60
	1,561	1,050	**1,505**	866

Our other expenditure commitments include contracts for printing, engineering and operational support services, information technology services and building maintenance.

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 2008. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

Telstra Entity

Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2008, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reasonably estimated.

Included in our common law claims are the following litigation cases:

(a) In November 2002, Seven Network Limited and C7 Pty Limited ('Seven') commenced litigation against us and various other parties ('the respondents') in relation to the contracts and arrangements between us and some of those other parties relating to the right to broadcast Australian Football League and National Rugby League, the contract between FOXTEL and us for the provision of HFC cable services (the Broadband Co-operation Agreement) and other matters.

Seven sought damages and other relief, including that some of these contracts and arrangements are void. Seven also sought orders which would, in effect, require a significant restructure of the subscription television/sports rights markets in Australia.

On 27 July 2007 the Federal Court dismissed Seven's case on all grounds. Final orders were made and in December 2007 Seven paid Telstra $13 million in costs. Seven has appealed some aspects of the decision, and the appeal hearing is to be held in November 2008.

(b) In January 2006, a shareholder commenced a representative proceeding in the Federal Court against Telstra. The statement of claim alleged that Telstra breached the Corporations Act and the Australian Stock Exchange (ASX) Listing Rules by failing to disclose:

- that Telstra's senior management had formed an opinion that there had been past deficiencies in operating expenditure and capital expenditure on telecommunications infrastructure;
- that Telstra had forecast a long term decline in PSTN revenues; and
- that Telstra had communicated these matters to the Government.

In November 2006, the shareholder filed a second further amended statement of claim, in response to arguments raised in our application to strike out portions of the earlier pleading. The claim sought orders for compensation for the class of shareholders who bought shares between the time that these matters became known to Telstra and the time at which they were disclosed to the market. Telstra filed its defence on 22 December 2006 and a trial date was set for 26 November 2007.

The Federal Court subsequently dismissed the shareholder class action awarding judgement for Telstra. Telstra, in January 2008, paid a sum of $5 million under the terms of the Deed of Settlement approved by the Federal Court on 13 December 2007.

Unconditioned Local Loop Service (ULLS) and Line Sharing Service (LSS)

A number of Telstra competitors have notified access disputes in relation to ULLS and LSS. Since August 2007 the ACCC has issued a number of interim and final determinations in those access disputes setting the monthly access charge for LSS at $2.50 per month until 30 June 2009 and the key Band 2 price for ULLS at $14.30 per month until 30 June 2008. In late June 2008 the ACCC began making interim determinations at the Band 2 price of $16 per month for ULLS until 30 June 2009.

In the final determinations the ACCC also decided to back-date those decisions such that Telstra had to reimburse the access seekers for the difference in the monthly access charge from the date when negotiations between Telstra and the various access seekers commenced. There is a risk that the ACCC will do the same for the remaining access disputes when it makes final determinations in those disputes.

Telstra has filed judicial review applications in the Federal Court of Australia challenging a number of the final determinations. The Federal Court heard some of these applications in December 2007 and subsequently in June and July 2008 and those judgements have been reserved. The balance of the applications have been fixed for hearing in August and September 2008.

On 24 January 2007, Telstra commenced proceedings in the High Court against the Commonwealth, the ACCC and eleven access seekers who had, prior to 24 January 2007, notified access disputes in respect of ULLS and/or LSS. Telstra sought declarations from the High Court that Part XIC of the Trade Practices Act is invalid as it applies to ULLS and LSS, together with administrative relief directed at each of the specific access disputes. The proceedings were heard by the Full Court of the High Court on 13 and 14 November 2007. Judgement dismissing the claim was delivered in March 2008. Telstra is currently in the process of negotiating costs with the defendants.

Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity as follows:

- Indemnities to financial institutions to support bank guarantees to the value of $350 million (2007: $364 million) in respect of the performance of contracts.

- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was $277 million (2007: $245 million).

- Financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $55 million (2007: $103 million) and a requirement that the entity remains our controlled entity.

Notes to the Financial Statements (continued)

23. Contingent liabilities and contingent assets (continued)

Telstra Entity (continued)

Indemnities, performance guarantees and financial support (continued)

- Guarantees of the performance of jointly controlled entities under contractual agreements to a maximum amount of $14 million (2007: $21 million).

- Guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by the third parties over the remaining terms of the finance leases. The lease payments over the remaining expected term of the leases amount to $490 million (US$472 million) (2007: $671 million (US$569 million)). We hold an early buyout option that we could exercise in fiscal 2011 and fiscal 2013, otherwise the relevant lease period ends during fiscal 2015 and fiscal 2016. Refer to note 22 for further details on the above finance leases.

- During fiscal 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to $210 million as a shareholder of IBMGSA. We issued a guarantee of $68 million on behalf of IBMGSA during fiscal 2000. During fiscal 2004, we sold our shareholding in this entity. The $68 million guarantee is provided to support service contracts entered into by IBMGSA and third parties, and was made with IBMGSA bankers, or directly to IBMGSA customers. As at 30 June 2008, this guarantee has still been provided and $142 million (2007: $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.

Other

FOXTEL minimum subscriber guarantees and other obligations

The Telstra Entity and its partners, News Corporation Limited and Publishing and Broadcasting Limited, and Telstra Media Pty Ltd and its partner, Sky Cable Pty Ltd, have entered into agreements relating to pay television programming with various parties and other miscellaneous contracts. Our share of commitments under these agreements relate mainly to minimum subscriber guarantees (MSG) (refer to note 26 for details of MSG commitments).

As we are subject to joint and several liability in relation to certain agreements entered into by the FOXTEL partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from FOXTEL's MSG and other agreements are $1,828 million (2007: $1,712 million).

3GIS Partnership

During fiscal 2005, Telstra OnAir Holdings Pty Ltd and its partner, Hutchison 3G Australia Pty Ltd entered into agreements relating to the occupation of premises to provide 3GSM radio access network services.

As we are subject to joint and several liability in relation to agreements entered into by the 3GIS partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from the above agreements are $130 million (2007: $154 million).

Sequel Limited

On 27 June 2008, our controlled entity Telstra Holdings Pty Limited acquired 55% of the issued capital of Sequel Limited who acquired 100% of the issued capital of certain entities (refer to note 20 for details of this acquisition).

An additional amount of up to $50 million may become payable as consideration if certain pre-determined revenue and EBITDA targets are achieved by the subsidiaries. Of this, we have estimated an amount of $15 million to become payable and have brought this to account. Any additional amounts becoming payable will be brought to account as a component of goodwill.

ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 25. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 25 for further information.

Notes to the Financial Statements (continued)

24. Post employment benefits

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans are calculated by an actuary using the projected unit credit method. This method determines each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to calculate the final obligation.

Details of the defined benefit plans we participate in are set out below.

Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff transferred into Telstra Super. The Telstra Entity and some of our Australian controlled entities participate in Telstra Super. With the completion of the Government sale of its remaining shareholding in Telstra in November 2006, the employees who were members of the Commonwealth Superannuation Scheme (CSS) were no longer eligible to remain as active members of the CSS and many transferred to Telstra Super. There was no financial impact in fiscal 2007 as a result of this transfer.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions of Telstra Super are closed to new members.

The defined benefit divisions provide benefits based on years of service and final average salary. Post employment benefits do not include payments for medical costs.

Contribution levels made to the defined benefit divisions are designed to ensure that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. The benefits received by members of each defined benefit division take into account factors such as the employees' length of service, final average salary, employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

HK CSL Retirement Scheme

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance (ORSO) and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section. Actuarial investigations are undertaken annually for this scheme.

The benefits received by members of the defined benefit schemes are based on the employees' remuneration and length of service.

Measurement dates

For Telstra Super actual membership data as at 30 April was used to value precisely the defined obligations as at that date. Details of assets, contributions, benefit payments and other cash flows as at 31 May were also provided in relation to Telstra Super. These April and May figures were then rolled up to 30 June to allow for changes and used in the actuarial valuation.

Actual membership data as at 31 May was used to precisely measure the defined benefit liability as at that date for the HK CSL Retirement Scheme. Details of assets, contributions, benefit payments and other cash flows as at 31 May were also provided in relation to the HK CSL Retirement Scheme.

The fair value of the defined benefit plan assets and the present value of the defined benefit obligations as at the reporting date is determined by our actuary. The details of the defined benefit divisions are set out in the following pages.

Other defined contribution schemes

A number of our subsidiaries also participate in defined contribution schemes which receive employer and employee contributions based on a percentage of the employees' salaries. The Telstra Group made contribution to these schemes of $23 million for fiscal 2008 (2007: $28 million).

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(a) Net defined benefit plan asset - historical summary

Our net defined benefit plan asset recognised in the statement of financial position for the current and previous periods is determined as follows:

	Telstra Group			
	As at 30 June			
	2008	2007	2006	2005
	$m	$m	$m	$m
Fair value of defined benefit plan assets (b)	**3,205**	4,342	4,553	4,518
Present value of the defined benefit obligation (c)	**3,048**	3,646	3,675	4,308
Net defined benefit asset before adjustment for contributions tax	**157**	696	878	210
Adjustment for contributions tax	**25**	118	151	37
Net defined benefit asset at 30 June (i)	**182**	814	1,029	247
Experience adjustments:				
Experience adjustments arising on defined benefit plan assets - (loss)/gain	**(525)**	261	480	155
Experience adjustments arising on defined benefit obligations - gain/(loss)	**41**	69	(206)	(44)

	Telstra Entity			
	As at 30 June			
	2008	2007	2006	2005
	$m	$m	$m	$m
Fair value of defined benefit plan assets (b)	**3,127**	4,244	4,458	4,439
Present value of the defined benefit obligation (c)	**2,990**	3,578	3,605	4,234
Net defined benefit asset before adjustment for contributions tax	**137**	666	853	205
Adjustment for contributions tax	**24**	118	151	37
Net defined benefit asset at 30 June (i)	**161**	784	1,004	242
Experience adjustments:				
Experience adjustments arising on defined benefit plan assets - (loss)/gain	**(526)**	252	474	152
Experience adjustments arising on defined benefit obligations - gain/(loss)	**40**	70	(206)	(47)

(i) At 30 June the fair value of defined benefit plan assets exceeds the present value of defined benefit obligations resulting in a net surplus. We recognise the net surplus as an 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. The asset recognised does not exceed the present value of any economic benefits available in the form of reductions in future contributions to the plan.

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(b) Reconciliation of changes in fair value of plan assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Fair value of defined benefit plan assets at beginning of year	**4,342**	4,553	**4,244**	4,458
Expected return on plan assets	**321**	316	**315**	310
Employer contributions	**1**	3	**-**	-
Member contributions	**36**	30	**36**	30
Notional transfer of funds for defined contribution benefits	**(142)**	(114)	**(142)**	(114)
Benefits paid (i)	**(806)**	(685)	**(790)**	(682)
Actuarial (loss)/gain	**(525)**	261	**(526)**	252
Plan expenses after tax	**(10)**	(10)	**(10)**	(10)
Foreign currency exchange differences	**(12)**	(12)	**-**	-
Fair value of defined benefit plan assets at end of year	**3,205**	4,342	**3,127**	4,244

The actual return on defined benefit plan assets was -5.7% (2007: 16.6%) for Telstra Super and 1.88% (2007: 19.5%) for HK CSL Retirement Scheme.

(c) Reconciliation of changes in present value of wholly funded defined benefit obligation

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Present value of defined benefit obligation at beginning of year	**3,646**	3,675	**3,578**	3,605
Current service cost	**175**	188	**171**	184
Interest cost	**183**	187	**180**	184
Member contributions	**13**	12	**13**	12
Benefits paid (i)	**(806)**	(685)	**(790)**	(682)
Actuarial (gain)/loss	**(155)**	240	**(165)**	237
Curtailment loss	**3**	38	**3**	38
Foreign currency exchange differences	**(11)**	(9)	**-**	-
Present value of wholly funded defined benefit obligation at end of year	**3,048**	3,646	**2,990**	3,578

(i) Benefits paid include $760 million (2007: $653 million) of entitlements (to exiting defined benefit members) which have been retained in Telstra Super but transferred to the defined contribution scheme.

For fiscal 2009, we expect to pay total benefit payments of $345 million (including benefits retained) to defined benefit members of Telstra Super and HK CSL Retirement Scheme.

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(d) Amounts recognised in the income statement and in equity

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
The components of defined benefit plan expense recognised in the income statement within labour expenses are as follows:				
Current service cost	**175**	188	**171**	184
Interest cost	**183**	187	**180**	184
Expected return on plan assets	**(321)**	(316)	**(315)**	(310)
Member contributions	**(24)**	(17)	**(24)**	(17)
Curtailment loss	**3**	38	**3**	38
Plan expenses after tax	**10**	10	**10**	10
Notional transfer of funds for defined contribution benefits	**142**	114	**142**	114
Adjustment for contributions tax	**30**	35	**30**	35
	198	239	**197**	238
The movements in the defined benefit plans recognised directly in equity in the statement of comprehensive income are as follows:				
Actuarial (loss)/gain on defined benefit plans	**(370)**	21	**(361)**	15
Adjustment for contributions tax	**(64)**	2	**(64)**	2
	(434)	23	**(425)**	17
Cumulative actuarial gains recognised directly in equity	**461**	895	**452**	877

(e) Categories of plan assets

The weighted average asset allocation by major asset category as a percentage of the fair value of total plan assets as at 30 June are as follows:

	Telstra Super				HK CSL Retirement Scheme			
	As at 30 June				As at 30 June			
	2008		2007		**2008**		2007	
	Target	**Actual**	Target	Actual	**Target**	**Actual**	Target	Actual
	%	**%**	%	%	**%**	**%**	%	%
Asset allocations								
Equity instruments	**35**	**33**	35	43	**60**	**61**	60	58
Debt instruments	**18**	**5**	18	11	**35**	**33**	35	37
Property	**10**	**20**	10	13	**-**	**-**	-	-
Cash	**2**	**16**	2	5	**5**	**6**	5	5
Private equity	**11**	**12**	11	8	**-**	**-**	-	-
Infrastructure	**5**	**4**	5	3	**-**	**-**	-	-
International hedge funds	**19**	**10**	19	17	**-**	**-**	-	-
	100	**100**	100	100	**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.

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(f) Principal actuarial assumptions

We used the following major assumptions to determine our defined benefit plan expense for the year ended 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2008	2007	**2008**	2007
	%	%	**%**	%
Discount rate	**5.1**	5.1	**4.75**	5.0
Expected rate of return on plan assets (i)	**8.0**	7.0	**7.4**	6.8
Expected rate of increase in future salaries	**3.5 - 4.0**	3.0	**4.0**	4.0

We used the following major assumptions to determine our defined benefit obligations at 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2008	2007	**2008**	2007
	%	%	**%**	%
Discount rate (ii)	**5.5**	5.1	**3.8**	4.75
Expected rate of increase in future salaries (iii)	**4.0**	3.5 - 4.0	**4.5**	4.0

(i) The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes over the subsequent 10 year period, or longer. Estimates are based on a combination of factors including the current market outlook for interest rates, inflation, earnings growth and currency strength. To determine the aggregate return, the expected future return of each plan asset class is weighted according to the strategic asset allocation of total plan assets.

(ii) The present value of our defined benefit obligations is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

For Telstra Super we have used the 10-year Australian government bond rate as it has the closest term that one could get 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.

We have adjusted the discount rate for Telstra Super to take into account future investment tax of the fund which is considered part of the ultimate cost to settle the obligation.

For the HK CSL Retirement Scheme we have extrapolated the 7 year and 10 year yields of the Hong Kong Exchange Fund Notes to 16 years to match the term of the defined benefit obligations.

(iii) Our assumption for the salary inflation rate for fiscal 2009 is 4% for Telstra Super and 4.5% for HK CSL Retirement Scheme which is reflective of our long term expectation for salary increases.

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(g) Employer contributions

Telstra Super

As at 30 June 2006, K O'Sullivan FIAA completed an actuarial investigation of Telstra Super. The actuarial investigation of Telstra Super reported that a surplus continued to exist. In accordance with the recommendations within the actuarial investigation, we were not expected to, and did not make employer contributions to the Telstra Super defined benefit divisions for the financial years ended 30 June 2008 and 30 June 2007.

The current contribution holiday includes the contributions otherwise payable to the accumulation divisions of Telstra Super. The continuance of the holiday is however dependent on the performance of the fund which we monitor on a monthly basis.

A funding deed is in place with the trustee of Telstra Super under which Telstra is committed to maintaining Telstra Super's assets at a specific level. In accordance with the funding deed, we are required to make employer contributions to Telstra Super in relation to the defined benefit plan when the average vested benefits index (VBI) - the ratio of defined benefit plan assets to defined benefit members' vested benefits - of the calendar quarter falls to 103% or below. Our actuary is satisfied that contributions to maintain the VBI at this rate will maintain the financial position of Telstra Super at a satisfactory level.

The average VBI of the defined benefit divisions for the June 2008 quarter was 104% (30 June 2007: 118%). At this level Telstra does not need to commence superannuation contributions to Telstra Super. The performance of the fund is subject to the prevailing conditions in the financial markets. If the VBI falls to 103% or below based on the average VBI in any calendar quarter of fiscal 2009 Telstra will be required to recommence superannuation contributions to Telstra Super in accordance with the requirements of the funding deed.

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations.

HK CSL Retirement Scheme

The contributions payable to the defined benefit divisions are determined by the actuary using the attained age normal funding actuarial valuation method.

Employer contributions made to the HK CSL Retirement Scheme for the financial year ended 30 June 2008 was $1 million (2007: $3 million). We expect to contribute $2 million to our HK CSL Retirement Scheme in fiscal 2009.

Annual actuarial investigations are currently undertaken for this scheme by Watson Wyatt Hong Kong Limited.

Notes to the Financial Statements (continued)

25. Investments in controlled entities

Below is a list of our investments in controlled entities.

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2008	2007	2008	2007
		$m	$m	%	%
Parent entity					
Telstra Corporation Limited (a)	Australia				
Controlled entities					
Telstra Finance Limited (a)	Australia	-	-	100.0	100.0
Telstra Corporate Services Pty Limited (a)	Australia	5	7	100.0	100.0
Transport Communications Australia Pty Ltd	Australia	4	4	100.0	100.0
Telstra ESOP Trustee Pty Limited	Australia	-	-	100.0	100.0
Telstra Growthshare Pty Ltd	Australia	-	-	100.0	100.0
Telstra Media Pty Limited	Australia	393	393	100.0	100.0
Telstra Multimedia Pty Limited (a)	Australia	2,678	2,678	100.0	100.0
Telstra International Limited (a)	Australia	2	2	100.0	100.0
Telstra New Wave Pty Ltd	Australia	1	1	100.0	100.0
Telstra Pay TV Pty Ltd (a)	Australia	-	-	100.0	100.0
Hypertokens Pty Ltd	Australia	-	-	100.0	100.0
Hypermax Holdings Pty Ltd	Australia	8	8	100.0	100.0
Chief Entertainment Pty Ltd	Australia	-	-	100.0	100.0
Data & Text Mining Technologies 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
Converged Networks Pty Ltd	Australia	1	1	100.0	100.0
Telstra Payment Solutions Pty Limited	Australia	56	56	100.0	100.0
Telstra Business Systems Pty Ltd (a)	Australia	69	69	100.0	100.0
Telstra Plus Pty Ltd (f)	Australia	-	-	100.0	-
Clayton 770 Pty Ltd	Australia	-	-	100.0	100.0
1300 Australia Pty Ltd	Australia	20	18	85.0	85.0
• Alpha Phone Words Pty Ltd (f)	Australia	-	-	100.0	-
Telstra Communications Limited (a)	Australia	29	29	100.0	100.0
• Telecom Australia (Saudi) Company Limited (c) (d)	Saudi Arabia	-	-	50.0	50.0
Telstra Rewards Pty Ltd	Australia	14	14	100.0	100.0
• Telstra Visa Card Trust	Australia	-	-	100.0	100.0
• Qantas Telstra Card Trust	Australia	-	-	100.0	100.0
• Telstra Visa Business Card Trust	Australia	-	-	100.0	100.0
Communications Network Holdings Pty Ltd	Australia	4	4	100.0	100.0
• Advanced Digital Communications (WA) Pty Ltd	Australia	-	-	100.0	100.0
• Western Communications Solutions Pty Ltd	Australia	-	-	100.0	100.0
Adstream (Aust) Pty Ltd	Australia	23	23	58.0	58.0
• Adstream Limited	New Zealand	-	-	100.0	100.0
• Quickcut (Aust) Pty Ltd	Australia	-	-	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	
		2008	2007	**2008**	2007
Controlled entities (continued)		**$m**	$m	**%**	%
Telstra Holdings Pty Ltd (a)	Australia	**7,176**	7,176	**100.0**	100.0
• Telstra International Holdings Limited	Bermuda	**-**	-	**100.0**	100.0
• SouFun Holdings Limited (c)(d)	Cayman Islands	**-**	-	**55.0**	55.0
• SouFun.com (Shenzen) Ltd (c)	China	**-**	-	**100.0**	100.0
• SouFun.com (Tianjin) Ltd (c)	China	**-**	-	**100.0**	100.0
• SouFun.com (Chongqing) Ltd (c)	China	**-**	-	**100.0**	100.0
• SouFun.com (Guangzhou) Ltd (c)	China	**-**	-	**100.0**	100.0
• SouFun.com (Shanghai) Ltd (c)	China	**-**	-	**100.0**	100.0
• Beijing SouFun Information Consultancy Co. Ltd (c)	China	**-**	-	**90.0**	90.0
• China Index Academy Limited (c)	Hong Kong	**-**	-	**100.0**	50.0
• Selovo Investments Limited (c) (f)	British Virgin Islands	**-**	-	**100.0**	-
• Max Impact Investments Limited (c) (f)	Hong Kong	**-**	-	**100.0**	-
• Zhongzhishizheng DataTechnology (Beijing) Co. Ltd (c)	China	**-**	-	**100.0**	-
• Pendiary Investments Limited (c) (f)	British Virgin Islands	**-**	-	**100.0**	-
• Bravo Work Investments Limited (c) (f)	Hong Kong	**-**	-	**100.0**	-
• SouFun Media Technology (Beijing) Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• SouFun Network Technology (Beijing) Co. Limited (c)	China	**-**	-	**100.0**	100.0
• Sequel Limited (d)(f)	Cayman Islands	**-**	-	**55.0**	-
• Cheerbright International Holdings Limited (c)(f)	British Virgin Islands	**-**	-	**100.0**	-
• Beijing Cheerbright Technologies Co. Ltd (c)(f)	China	**-**	-	**100.0**	-
• China Topside Limited (c)(f)	British Virgin Islands	**-**	-	**100.0**	-
• Beijing Topside Technologies Co. Ltd (c)(f)	China	**-**	-	**100.0**	-
• Norstar Advertising Media Holdings Limited (c)(f)	Cayman Islands	**-**	-	**100.0**	-
• Beijing Gold Norstar Information Technology Co. Ltd (c)(f)	China	**-**	-	**100.0**	-
• Advertisement Limited (c)(f)	Hong Kong	**-**	-	**100.0**	-
• Haocheng Shidai (Beijing) Advertisement Co. Ltd (c)(d)(f)	China	**-**	-	**30.0**	-
• 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
• Bestclass Holdings Ltd	British Virgin Islands	**-**	-	**100.0**	100.0
• New World PCS Holdings Limited	Cayman Islands	**-**	-	**100.0**	100.0
• CSL Limited (formerly New World PCS Limited)	Hong Kong	**-**	-	**100.0**	100.0
• Hong Kong CSL Limited	Hong Kong	**-**	-	**100.0**	100.0
• One2Free PersonalCom Ltd	Hong Kong	**-**	-	**100.0**	100.0
• Integrated Business Systems Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World PCS Limited (formerly CSL Limited)	Hong Kong	**-**	-	**100.0**	100.0
• New World Mobility 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	
		2008	2007	**2008**	2007
Controlled entities (continued)		**$m**	$m	**%**	%
• New World 3G Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No 1 Limited	Bermuda	**-**	-	**100.0**	100.0
• Telstra International HK Limited	Hong Kong	**-**	-	**100.0**	100.0
• Damovo Hong Kong Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Japan Retail KK	Japan	**-**	-	**100.0**	100.0
• Telstra International Holdings No. 2 Limited (f)	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 (formerly Telstra Europe Limited)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (Cable Telecom) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (PSINet) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (CTE) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Cable Telecommunication Ltd	United Kingdom	**-**	-	**100.0**	100.0
• PSINet Datacentre UK Ltd	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 Ltd	Jersey	**-**	-	**100.0**	100.0
• Telstra Inc	United States	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (c)	India	**-**	-	**100.0**	100.0
• Telstra NZ Limited (formerly Telstra Limited)	New Zealand	**-**	-	**100.0**	100.0
• Telstra New Zealand Holdings Limited	New Zealand	**-**	-	**100.0**	100.0
• TelstraClear Limited	New Zealand	**-**	-	**100.0**	100.0
• Sytec Resources (Australia) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• DMZ Global (Australia) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• CLEAR Communications Limited	New Zealand	**-**	-	**100.0**	100.0
Network Design and Construction Limited (a)	Australia	**20**	20	**100.0**	100.0
• NDC Global Holdings Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (c)	India	**-**	-	**98.0**	98.0
• PT NDC Indonesia	Indonesia	**-**	-	**95.0**	95.0
• NDC Global Services Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (c)	India	**-**	-	**2.0**	2.0
Telstra Services Solutions Holdings Limited (a)	Australia	**514**	911	**100.0**	100.0
• Telstra eBusiness Services Pty Limited (a) (g)	Australia	**-**	-	**-**	100.0
• KAZ Group Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• KAZ Business Services Pty Ltd (a) (g)	Australia	**-**	-	**-**	100.0
• KAZ Computer Services Hong Kong Limited (e)	Hong Kong	**-**	-	**75.0**	75.0
• Enhanced Processing Technologies Inc	United States	**-**	-	**100.0**	100.0
• Enhanced Processing Technologies Pty Ltd (g)	Australia	**-**	-	**-**	100.0
• KAZ Software Solutions Pty Ltd (a) (g)	Australia	**-**	-	**-**	100.0
• KAZ Technology Services Pty Ltd	Australia	**-**	-	**100.0**	100.0
• IOCORE Asia Pacific Pty Ltd (b)	Australia	**-**	-	**-**	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	
		2008	2007	**2008**	2007
Controlled entities (continued)		**$m**	$m	**%**	%
Sensis Pty Ltd (a)	Australia	**851**	851	**100.0**	100.0
• Just Listed Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Research Resources Pty Ltd	Australia	**-**	-	**100.0**	100.0
• CitySearch Australia Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Trading Post (Australia) Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Trading Post Group Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• The Melbourne Trading Post Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• The National Trading Post Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Australian Retirement Publications Pty Limited	Australia	**-**	-	**100.0**	100.0
• Collectormania Australia Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• The Personal Trading Post Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Auto Trader Australia Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• WA Auto Trader Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Trading Post (TCA) Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Trading Post Australia Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Sensis Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Invizage Pty Ltd (a) (g)	Australia	**-**	-	**-**	100.0
• Universal Publishers Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• Sensis (Victoria) Pty Ltd	Australia	**-**	-	**100.0**	100.0
Total investment in consolidated entities		**12,648**	13,045		

#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

A new deed of cross guarantee was entered into on 28 June 2006, pursuant to an ASIC Order dated 22 June 2006 (ASIC Order).

The following companies are part of the deed of cross guarantee:

- Telstra Corporation Limited;
- Telstra Corporate Services Pty Limited;
- Telstra Multimedia Pty Limited;
- Telstra International Limited;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- NDC Global Services Pty Limited;
- NDC Global Holdings Pty Limited;
- Telstra Services Solutions Holdings Limited;
- KAZ Group Pty Limited;
- Sensis Pty Ltd;
- Trading Post (Australia) Holdings Pty Ltd;
- Trading Post Group Pty Limited;
- The Melbourne Trading Post Pty Ltd;
- The National Trading Post Pty Ltd;
- Collectormania Australia Pty Ltd;
- The Personal Trading Post Pty Limited;
- Auto Trader Australia Pty Ltd;
- WA Auto Trader Pty Ltd;
- Just Listed Pty Limited;
- Trading Post (TCA) Pty Limited;
- Trading Post Australia Pty Limited;
- Universal Publishers Pty Limited;
- Sensis Holdings Pty Ltd;
- Telstra Pay TV Pty Ltd; and
- Telstra Business Systems Pty Ltd.

Invizage Pty Ltd was sold during the year and removed from the deed by way of notice of disposal on 15 August 2007. KAZ Business Services Pty Ltd and KAZ Software Solutions Pty Ltd were sold during the year and removed from the deed on 20 August 2007. Telstra eBusiness Services Pty Limited was sold during the year and removed from the deed 18 June 2008. Refer to (g) for further details.

Telstra Finance Limited is trustee, 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) and the ASIC Order;
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001. This does not apply to Telstra Corporation Limited; and
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

ASIC deed of cross guarantee financial information

The consolidated income statement and statement of financial position of the closed group is presented according to both the Class Order and the ASIC Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee financial information (continued)

Closed group statement of financial position	Closed group	
	As at 30 June	
	2008	2007
	$m	$m
Current assets		
Cash and cash equivalents	**587**	592
Trade and other receivables	**3,662**	3,585
Inventories	**283**	292
Derivative financial assets	**54**	41
Prepayments	**260**	225
Total current assets	**4,846**	4,735
Non current assets		
Trade and other receivables	**1,141**	1,151
Inventories	**12**	17
Investments - accounted for using the equity method	**12**	15
Investments - other	**3,261**	3,473
Property, plant and equipment	**22,781**	22,834
Intangible assets	**4,980**	4,203
Deferred tax assets	**-**	1
Derivative financial assets	**444**	249
Defined benefit assets	**161**	784
Total non current assets	**32,792**	32,727
Total assets	**37,638**	37,462
Current liabilities		
Trade and other payables	**3,538**	3,848
Provisions	**502**	610
Borrowings	**2,325**	3,007
Derivative financial liabilities	**82**	177
Current tax liabilities	**222**	413
Revenue received in advance	**1,171**	1,141
Total current liabilities	**7,840**	9,196
Non current liabilities		
Trade and other payables	**56**	58
Provisions	**768**	821
Borrowings	**13,431**	11,780
Derivative financial liabilities	**1,222**	1,328
Deferred tax liabilities	**1,503**	1,440
Revenue received in advance	**354**	368
Total non current liabilities	**17,334**	15,795
Total liabilities	**25,174**	24,991
Net assets	**12,464**	12,471
Equity		
Share capital	**5,534**	5,611
Reserves	**168**	41
Retained profits	**6,762**	6,819
Equity available to the closed group	**12,464**	12,471

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee financial information (continued)

Closed group income statement and retained profits reconciliation	Closed group	
	Year ended 30 June	
	2008	2007
	$m	$m
Income		
Revenue (excluding finance income)	**22,987**	21,955
Other income	**173**	263
	23,160	22,218
Expenses		
Labour	**3,891**	3,737
Goods and services purchased	**4,300**	4,200
Other expenses	**4,986**	4,584
	13,177	12,521
Share of net loss from jointly controlled and associated entities	**1**	7
	13,178	12,528
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**9,982**	9,690
Depreciation and amortisation	**3,745**	3,687
Earnings before interest and income tax expense (EBIT)	**6,237**	6,003
Finance income	**123**	107
Finance costs	**1,152**	1,131
Net finance costs	**1,029**	1,024
Profit before income tax expense	**5,208**	4,979
Income tax expense	**1,461**	1,435
Profit for the year available to the closed group	**3,747**	3,544
Retained profits at the beginning of the financial year available to the closed group	**6,819**	6,734
Actuarial (loss)/gain on defined benefit plans (net of tax effect)	**(298)**	13
Effect on retained profits from removal of entities from the closed group	**(30)**	(27)
Effect on retained profits from addition of new entities to the closed group	**-**	34
Total available for distribution	**10,238**	10,298
Dividends paid	**(3,476)**	(3,479)
Retained profits at the end of the financial year available to the closed group	**6,762**	6,819

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(b) Liquidations and deregistrations

IOCORE Asia Pacific Pty Ltd was deregistered during fiscal 2008.

(c) Controlled entities with different balance dates

The following companies have balance dates that differ from our balance date of 30 June for fiscal 2008:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December;
- Telstra India (Private) Limited - 31 March;
- NDC Telecommunications India Private Limited - 31 March;
- SouFun Holdings Limited and its controlled entities - 31 December;
- Norstar Advertising Media Holdings Limited and its controlled entities - 31 March;
- Cheerbright International Holdings Limited and its controlled entity - 31 December; and
- China Topside Limited and its controlled entity - 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%

- We have no direct equity interest in the following entities within the SouFun Group:

    - Beijing Jia Tian Xia Advertising Co. Ltd;
    - Beijing SouFun Internet Information Service Co. Ltd;
    - Beijing SouFun Science and Technology Development Co. Ltd;
    - Beijing China Index Information Co. Ltd;
    - Shanghai Jia Biao Tang Advertising Co. Ltd;
    - Shanghai SouFun Advertising Co. Ltd;
    - Beijing Century Jia Tian Xia Technology Development Co. Ltd;
    - Shanghai China Index Consultancy Co. Ltd; and
    - Tianjin Jia Tian Xia Advertising Co. Ltd.

  The purpose of these entities is to hold the licenses and approvals required to operate SouFun Holdings Limited's internet content provision and advertising business respectively. SouFun Holdings Limited has the decision-making powers to control these entities. SouFun Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- We have no direct equity interest in the following entities within the Sequel Group:

    - Beijing Haochen Domain Information Technology Co. Ltd;
    - Lianhe Shangqing (Beijing) Advertisement Co. Ltd;
    - Beijing Autohome Information Technology Co. Ltd;
    - Beijing POP Information Technology Co. Ltd;
    - Shijiazhuang Xinfeng Advertising Co. Ltd; and
    - Shijiazhuang Xinrong Advertising Co. Ltd.

  In addition, our controlled entity Advertisement Limited has a 30% direct interest in Haocheng Shidai (Beijing) Advertisement Co. Ltd.

  The purpose of these entities is to hold the licenses and approvals required to operate Sequel Limited's internet content provision and advertising business respectively. Sequel Limited has the decision-making powers to control these entities. Sequel Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the Board of Directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report.

(e) Controlled entities not individually audited by Ernst & Young

Companies not audited by Ernst & Young, our Australian statutory auditor.

(f) New incorporations and business combinations

- Four new controlled entities were established within the SouFun Group during the year:

    - Selovo Investments Limited;
    - Pendiary Investments Limited;
    - Max Impact Investments Limited; and
    - Bravo Work Investments Limited.

- On 3 October 2007, we established a new entity Telstra Plus Pty Ltd.
- On 6 February 2008, our controlled entity 1300 Australia acquired 100% of the issued capital in Alpha Phone Words Pty Ltd for $3 million including acquisition costs.
- On 19 June 2008, we established a new entity Telstra International Holdings No.2 Limited.

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(f) New incorporations and business combinations (continued)

- On 27 June 2008, we acquired 55% of the issued capital of Sequel Limited for a total consideration of $93 million including acquisition costs.

  Sequel Limited acquired 100% of the issued capital of Cheerbright International Holdings, China Topside Limited and Norstar Advertising Media Holdings Limited along with their controlled entities. These entities are internet businesses with leading positions in the fast-growing online auto and digital device advertising sectors. The Sequel Group also includes the following controlled entities for which there is no direct equity interest:

  - Beijing Haochen Domain Information Technology Co. Ltd;
  - Lianhe Shangqing (Beijing) Advertisement Co. Ltd;
  - Beijing Autohome Information Technology Co. Ltd;
  - Beijing POP Information Technology Co. Ltd;
  - Haocheng Shidai (Beijing) Advertisement Co. Ltd;
  - Shijiazhuang Xinfeng Advertising Co. Ltd; and
  - Shijiazhuang Xinrong Advertising Co. Ltd.

(g) Sales and disposals

- On 31 July 2007, our controlled entity KAZ Group Pty Limited sold its 100% shareholding in KAZ Business Services Pty Ltd, KAZ Software Solutions Pty Ltd and Enhanced Processing Technologies Pty Ltd for a total consideration of $2 million (net of cash balances of the disposed entities).

- On 15 August 2007, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Invizage Pty Ltd for a total cash consideration of $1 million (net of cash balances in the disposed entity).

- On 22 December 2007, our controlled entity Telstra Service Solutions Holdings Limited sold its 100% shareholding in Telstra eBusiness Services Pty Limited for a total cash consideration of $48 million (net of cash balances of the disposed entity).

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities

Our investments in jointly controlled and associated entities are listed below:

Name of Entity	Principal activities	Ownership interest		Telstra Group's carrying amount of investment (*)		Telstra Entity's carrying amount of investment (*)	
		As at 30 June		As at 30 June		As at 30 June	
		2008	2007	**2008**	2007	**2008**	2007
		%	%	**$m**	$m	**$m**	$m
Jointly controlled entities							
FOXTEL Partnership (g)	Pay television	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Television Partnership (g)	Pay television	**50.0**	50.0	**-**	-	**-**	-
Customer Services Pty Limited (g)	Customer service	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Management Pty Limited (g)	Management services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Cable Television Pty Ltd (a) (g)	Pay television	**80.0**	80.0	**-**	-	**-**	-
Reach Ltd (incorporated in Bermuda) (d) (g)	International connectivity services	**50.0**	50.0	**-**	-	**-**	-
TNAS Limited (incorporated in New Zealand) (d) (g)	Toll free number portability in New Zealand	**33.3**	33.3	**-**	-	**-**	-
3GIS Pty Ltd (d)	Management services	**50.0**	50.0	**-**	-	**-**	-
3GIS Partnership (d)	3G network services	**50.0**	50.0	**-**	-	**-**	-
Bridge Mobile Pte Ltd (incorporated in Singapore) (b) (d)	Regional roaming provider	**10.0**	10.8	**2**	1	**-**	-
m.Net Corporation Limited (b)	Mobile phone content provider	**25.2**	26.3	**-**	-	**-**	-
				2	1	**-**	-
Associated entities							
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (d) (g)	Network cable provider	**46.9**	46.9	**-**	-	**-**	-
Telstra Super Pty Ltd (a) (g)	Superannuation trustee	**100.0**	100.0	**-**	-	**-**	-
Keycorp Limited (b) (c) (e)	Electronic transactions solutions	**48.2**	47.6	**9**	12	**9**	12
Telstra Foundation Ltd (a)	Charitable trustee organisation	**100.0**	100.0	**-**	-	**-**	-
LinkMe Pty Ltd (b) (e)	Internet recruitment provider	**46.0**	41.3	**3**	3	**3**	-
				12	15	**12**	12

Unless otherwise noted, all investments have a balance date of 30 June, are incorporated in Australia and our voting power is the same as our ownership interest.

(*) The Telstra Group carrying amounts are calculated using the equity method of accounting. The Telstra Entity's carrying amounts are at cost less any accumulated impairment loss.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(a) Jointly controlled and associated entities in which we own more than 50% equity

- We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a jointly controlled entity as the other equity shareholders have participating rights that prevent us from dominating the decision making of the Board of Directors. Effective voting power is restricted to 50% and we have joint control.

- We own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd as we do not control the Board of Directors. We have equal representation with employee representatives on the Board. Our voting power is limited to 44%, which is equivalent to our representation on the Board. The entity is therefore classified as an associated entity as we have significant influence over it.

- We own 100% of the equity of Telstra Foundation Ltd (TFL). TFL is limited by guarantee (guaranteed to $100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstra Kids Fund. We do not consolidate TFL as we do not control the Board. However, due to our Board representation we significantly influence this entity. Our voting power is limited to 43%, which is equivalent to our representation on the Board.

(b) Other changes in jointly controlled and associated entities

- In November 2007 our investment in Bridge Mobile Pte Ltd decreased from 10.8% to 10.0% following the issue of additional shares to another shareholder.

- On 28 November 2007 our investment in m.Net Corporation Pty Ltd decreased from 26.3% to 25.2% on share options being exercised.

- On 18 December 2007 our investment in LinkMe Pty Ltd increased from 41.3% to 46.0%. The increase was due to a purchase of additional shares for $1 million.

- Following a share buy back by Keycorp Limited during the financial year our investment increased from 47.6% to 48.2%.

(c) Fair value of investments in listed jointly controlled and associated entities

The fair value of our investment in Keycorp Limited at 30 June 2008 is $9 million (2007: $15 million).

(d) Jointly controlled and associated entities with different balance dates

The following jointly controlled and associated entities have different balance dates to our balance date of 30 June for fiscal 2008:

- Reach Ltd - 31 December;
- TNAS Limited - 31 March;
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 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 balance dates is the same at that balance date as 30 June unless otherwise noted.

(e) Share of jointly controlled and associated entities' net losses

	Telstra Group	
	Year ended 30 June	
	2008	2007
	$m	$m
Net loss from jointly controlled and associated entities has been contributed by the following entities:		
Associated entities		
- Keycorp Limited	**-**	(6)
- LinkMe Pty Ltd	**(1)**	(1)
	(1)	(7)

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(f) 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	
	Note	**2008 $m**	2007 $m	**2008 $m**	2007 $m
Carrying amount of investments at beginning of year		**1**	2	**15**	21
Additional investments made during the year		**-**	1	**1**	1
		1	3	**16**	22
Share of net losses for the year		**-**	-	**(1)**	(7)
Share of foreign currency translation reserve and movements due to exchange rate translations		**1**	(1)	**-**	-
Sale, transfers and reductions of investments during the year		**-**	(1)	**-**	-
Carrying amount of investments before reduction to recoverable amount		**2**	1	**15**	15
Impairment losses recognised in the income statement during the year		**-**	-	**(3)**	-
Carrying amount of investments at end of year	12	**2**	1	**12**	15
Our share of contingent liabilities of jointly controlled and associated entities		**-**	-	**-**	1
Our share of capital commitments contracted for by our jointly controlled and associated entities		**7**	27	**1**	-
Our share of other expenditure commitments contracted for by our jointly controlled and associated entities (other than the supply of inventories) (i) (ii)		**1,983**	1,897	**2**	1

(i) Our jointly controlled entity, FOXTEL, has other commitments amounting to approximately $3,655 million (2007: $3,424 million). The majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 25 years and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements. In addition to our MSG, FOXTEL has other commitments including obligations for satellite transponder costs and digital set top box units.

(ii) Our jointly controlled entity, 3GIS Partnership, has other commitments amounting to $260 million (2007: $309 million). The majority of our 50% share of these commitments relate to property leases. These leases are for periods of between 5 and 30 years and are based on future property payments under agreements entered into between the 3GIS Partnership and various other parties.

Under the Telstra Network Access Contract dated 6 December 2004, we are charged a 3G Network Access Charge that includes our 50% share of the Partnerships operational expenditure. As we are obligated through this agreement to fund our share of the Partnerships operating expenditure we are also responsible for our share of its expenditure commitments.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(f) 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		Associated entities	
	Telstra Group		Telstra Group	
	Year ended/As at 30 June		Year ended/As at 30 June	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Current assets	**386**	494	**69**	85
Non current assets	**943**	754	**278**	289
Total assets	**1,329**	1,248	**347**	374
Current liabilities	**1,142**	1,011	**92**	42
Non current liabilities	**677**	675	**426**	505
Total liabilities	**1,819**	1,686	**518**	547
Net assets	**(490)**	(438)	**(171)**	(173)
Total income	**3,957**	3,608	**95**	99
Total expenses	**3,798**	3,583	**121**	130
Profit/(loss) before income tax expense	**159**	25	**(26)**	(31)
Income tax (benefit)/expense	**(2)**	1	**-**	(1)
Profit/(loss) for the year	**161**	24	**(26)**	(30)

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 2008 $m	2007 $m	Associated entities 2008 $m	2007 $m
Total income	**2,292**	2,082	**45**	47
Total expenses	**2,214**	2,068	**57**	61
Profit/(loss) before income tax expense	**78**	14	**(12)**	(14)
Income tax (benefit)/expense	**(1)**	-	**-**	(1)
Profit/(loss) for the year	**79**	14	**(12)**	(13)

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(g) 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 2008 $m	**Cumulative 2008 $m**	Period 2007 $m	Cumulative 2007 $m
Jointly controlled entities				
FOXTEL (*)	**(78)**	**135**	(34)	83
Reach Ltd	**(5)**	**590**	20	595
Associated entities				
Australia-Japan Cable Holdings Limited	**9**	**162**	10	153
	(74)	**887**	(4)	831

Equity accounting has also been suspended for the following jointly controlled and associated entities:

- TNAS Limited; and
- Telstra Super Pty Ltd.

There are no significant unrecognised profits/losses in these entities.

(*) FOXTEL includes the FOXTEL Partnership, the FOXTEL Television Partnership, Customer Services Pty Limited, FOXTEL Management Pty Limited and FOXTEL Cable Television Pty Ltd.

A $130 million distribution was received from FOXTEL during the year (2007: nil). This has been recorded as revenue in the income statement and has increased our cumulative share of unrecognised losses in FOXTEL to $135 million after taking into account our share of FOXTEL's profit for the year of $78 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
- the Telstra Employee Share Ownership Plans (TESOP99 and TESOP97).

The nature of each plan, details of plan holdings, movements in holdings, and other relevant information is disclosed below:

(a) Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different short and long term incentive equity plans whereby the following equity based instruments may be allocated:

- options;
- performance rights;
- deferred shares;
- incentive shares; and
- sign-on bonus shares.

In addition, the directshare and ownshare plans are operated for our non executive directors and certain eligible employees.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares on market to underpin the equity instruments issued.

In fiscal 2008, we recorded an expense of $28 million for our share based payment plans operated by the Telstra Growthshare Trust (2007: $25 million). The fiscal 2008 expense for our share based payment plans includes an expense for those options relating to the fiscal 2008 long term incentive plan. The fair value of these options has been measured at a grant date of 7 March 2008 and has been allocated over the period for which the service is received which commenced 8 November 2007.

As at 30 June 2008, we had an estimated total expense yet to be recognised of $51 million (2007: $68 million), which is expected to be recognised over a weighted average of 2 years (2007: 2 years).

The purpose of the long term incentive (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 determines who is invited to participate in these plans.

Allocations have been made over a number of years in the form of performance rights, restricted shares and options under our LTI plan, deferred shares under our deferred remuneration plan and incentive shares under our short term incentive (STI) plan. Instruments issued represent a right to acquire a share in Telstra. Further information regarding each type of instrument we have allocated that is still outstanding is detailed below:

(i) Instruments issued in fiscal 2008 and fiscal 2007

The following options were issued during fiscal 2008 and fiscal 2007:

Employee options:

- ESOP options - based on the completion of three years continuous service by the participant (are not subject to any performance conditions).

Executive LTI options:

- total shareholder return options (TSR options) - based on growth in Telstra's total shareholder return;
- return on investment options (ROI options) - based on an increase in the earnings before interest and tax for Telstra relative to the average investment;
- revenue growth options (RG options) - based on increases in Telstra's revenue;
- next generation network options (NGN options) - based on completion of certain elements associated with Telstra's next generation network;
- information technology transformation options (ITT options) - based on completion of certain elements in Telstra's transformation program and the rationalisation of the number of business support systems (BSS) and operational support systems (OSS) used by companies in the Telstra Group; and
- Stretch EBITDA options (SEBITDA options) - based on increases in Telstra's earnings before interest, tax, depreciation and amortisation (EBITDA).

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. 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.

In relation to the executive LTI options, the Board may, in its discretion, reset the hurdles governing the fiscal 2008 and fiscal 2007 options to make them consistent with the changed circumstances resulting from the occurrence of one or more of the following factors:

- a material change in the strategic business plan;
- a material regulatory change occurs; or
- a significant out-of-plan business development occurs (this could include a major acquisition outside the current business plan resulting in a material change to EBITDA - this could be either a positive or adverse change for Telstra, but does not include improved or deteriorated operating or financial performance of Telstra's existing businesses).

In fiscal 2008 the Board did not reset the hurdles governing the options issued in fiscal 2008 or fiscal 2007.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(i) Instruments issued in fiscal 2008 and fiscal 2007 (continued)

A gateway TSR hurdle is applicable for the fiscal 2007 allocation of options. For all eligible executives, if the hurdle is not met at 30 June 2010 (30 June 2008 for the CEO), none of the options granted under the plan will be exercisable, irrespective of whether any options have previously vested.

Details of each type of option issued, including the relevant performance hurdles, are set out below:

ESOP options (fiscal 2008 only)

As part of the employee share option plan, certain eligible employees were provided options that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the commencement date of the options, the options will vest. The options are not subject to any performance hurdles.

Total Shareholder Return (TSR) options (fiscal 2008 and fiscal 2007)

For TSR options, the applicable performance hurdle is based on the market value of Telstra shares and the value of any other benefits paid or made available to Telstra shareholders, including dividends. This performance hurdle is set by the Board.

There are three performance periods (except for the CEO) and TSR options have been allocated to each period. The TSR hurdle for each of the three performance periods is measured over the following periods:

	Performance Period		
	1st	2nd	3rd
All eligible executives except CEO			
Growthshare 2007	1 July 2006 to 30 June 2008	1 July 2006 to 30 June 2009	1 July 2006 to 30 June 2010
Growthshare 2008	**1 July 2007 to 30 June 2009**	**1 July 2007 to 30 June 2010**	**1 July 2007 to 30 June 2011**
CEO (i)			
Growthshare 2007 - tranche 1	**1 July 2006 to 30 June 2008**	**n/a**	**n/a**
Growthshare 2007 - tranche 2	**1 July 2007 to 30 June 2008**	**n/a**	**n/a**

(i) The CEO is also eligible for a further 5.17 million options to be allocated in fiscal 2009 under the Growthshare 2007 - tranche 3 allocation.

These TSR options vest if the growth in Telstra's total shareholder return exceeds certain targets over the relevant performance period. The performance period result is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of options for that period will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; or
- if the stretch target is achieved, then 100% of the options will vest.

The number of options that will vest in the first and second performance periods is based on the performance period result calculated as above. The maximum number of options that can vest is limited to the initial number allocated less any options that may have lapsed.

For the third performance period, the number of options that will vest is based on the performance period result (other than for the CEO). Furthermore, if the threshold target in the third performance period is met, then the following options will also vest:

- if the stretch target is achieved in the third performance period, then 100% of options that did not vest in the first and second performance periods (provided they have not lapsed); or
- if the threshold target is not achieved in the first and/or second performance period respectively, and the result achieved in the third performance period is less than the stretch target, then 50% of the options that did not vest in the first and/or second performance period respectively.

Return on Investment (ROI) options (fiscal 2008 and fiscal 2007) and Revenue Growth (RG), Next Generation Network (NGN), Information Technology Transfomation (ITT) options (fiscal 2007 for all executives except CEO, and fiscal 2008 and fiscal 2007 for CEO)

Allocations of ROI, RG, NGN and ITT options are tested at set intervals over the applicable performance periods.

For each of the performance periods, the number of options that will vest is calculated as follows:

- if the threshold target is achieved in the applicable performance period, then 50% of the allocation of options will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; or
- if the stretch target is achieved, then 100% of the options will vest.

The maximum number of options that can vest is limited to the initial number allocated less any options that may have lapsed.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(i) Instruments issued in fiscal 2008 and fiscal 2007 (continued)

Stretch EBITDA (SEBITDA) options (fiscal 2007 only; for all executives except CEO)

For allocations of SEBTIDA options, the applicable performance hurdles are based on stretch EBITDA targets being reached or exceeded. These stretch targets are measured each year from 30 June 2007 to 30 June 2010 and the number of SEBITDA options that will vest is calculated as follows:

- if, at the end of either the first (1 July 2006 to 30 June 2008), second (1 July 2008 to 30 June 2009) or third (1 July 2009 to 30 June 2010) performance period, the stretch target is achieved two years in a row, then 20% of the allocated options will vest at the end of the relevant performance period;
- if, at the end of either the second or third performance period, the stretch target is achieved three years in a row, then a further 30% of the allocated options will vest at the end of the relevant performance period; and
- if, at the end of the third performance period, the stretch target is achieved four years in a row, then the final 50% of the allocated options will vest at the end of the third performance period.

In addition, 75% of the options that do not vest, based on the calculations above, will subsequently vest if the stretch target for the four year period to 30 June 2010 is met.

Deferred incentive shares (fiscal 2008 and fiscal 2007; for CEO only)

As part of the fiscal 2008 and fiscal 2007 short term incentive scheme, the Board allocates 50% of the CEO's actual short term incentive as deferred incentive shares. The grant date of these deferred incentive shares is 21 August 2008 and 17 August 2007. These shares vest immediately, and the CEO is able to use the shares to vote as and from the vesting date. However, the CEO cannot use the vested deferred incentive shares to receive dividends. Any dividends paid by the Company prior to exercise will increase the number of vested deferred incentive shares allocated to the CEO, based on the volume weighted average price of Telstra shares for the 5 days prior to the dividend payment date. In addition, the CEO is restricted from dealing with the vested deferred incentive shares until after they are exercised.

Vested deferred incentive shares are able to be exercised on the 30 June 2008 for the fiscal 2007 grant and the earliest of 30 June 2009, or six months after the ceasing of employment by the CEO, or a date the Board determines (in response to an actual or likely change of control) for the fiscal 2008 grant. Once the vested deferred incentive shares are exercised, Telstra shares will be transferred to the CEO.

Incentive shares (fiscal 2008 and fiscal 2007; for all senior executives except CEO)

As part of the fiscal 2008 and fiscal 2007 short term incentive scheme, the Board allocates 25% of executives' actual short term incentives as Telstra shares. The allocation date of these instruments is 21 August 2008 and 17 August 2007 respectively.

These incentive shares vest immediately, and the executive is able to use the incentive shares to vote and receive dividends as and from the vesting date. However, the executive is restricted from dealing with the vested incentive shares until after they are exercised.

Vested incentive shares are able to be exercised on the earliest of five years from the date of allocation, when the minimum level of executive shareholding has been achieved and the Board approves removal of the five year restriction period, upon the ceasing of employment by the executive or a date the Board determines (in response to an actual or likely change of control). Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive.

(ii) Instruments issued in fiscal 2006

The following performance rights were issued during fiscal 2006:

- total shareholder return (TSR) performance rights - are based on growth in Telstra's total shareholder return;
- operating expense growth (OEG) performance rights - are based on a reduction in Telstra's operating expenses;
- revenue growth (RG) performance rights - are based on increases in Telstra's revenue;
- network transformation (NT) performance rights - are based on completion of certain elements in Telstra's network transformation program;
- information technology transformation (ITT) performance rights - are based on the rationalisation of the number of business support systems (BSS) and operational support systems (OSS) used by companies in the Telstra Group; and
- return on investment (ROI) performance rights - are based on an increase in the earnings before interest and tax for Telstra relative to the average investment.

An executive is not entitled to Telstra shares before the respective performance rights allocated under Telstra Growthshare become vested and exercisable performance rights. 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 vested performance rights can then be exercised at any time before the expiry date (but will lapse if not exercised by the expiry date). Once the vested performance rights are exercised, at a cost of $1 in total for all of the performance rights exercised on a particular day, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the performance rights (or vested performance rights) to vote or receive dividends.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(ii) Instruments issued in fiscal 2006 (continued)

The Board may, in its discretion, reset the hurdles governing the fiscal 2006 allocation of performance rights on the occurrence of one or more of the following factors:

- a material change in the strategic business plan;
- a significant adverse business change occurs; or
- an adverse regulatory change occurs.

Details of each type of performance right issued, including the relevant performance hurdles, are set out below:

Total Shareholder Return (TSR) performance rights

For allocations of TSR performance rights, the applicable performance hurdle is based on the market value of Telstra shares and the value of accumulated dividends paid to Telstra shareholders. TSR performance rights vest if Telstra's total shareholder return exceeds certain targets over the performance period, which is the five years to 30 June 2010. If the total shareholder return is:

- equal to the threshold target, then 50% of the allocation becomes exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- between the threshold and stretch targets, then the number of exercisable TSR performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%);
- equal to or greater than the stretch target, then 100% of the TSR performance rights will become exercisable; or
- is less than the threshold target, all TSR performance rights will lapse.

Operating Expense Growth (OEG), Revenue Growth (RG), Network Transformation (NT) and Information Technology Transformation (ITT) performance rights

For allocations of the OEG, RG, NT and ITT performance rights, the performance hurdles for the initial performance period are:

- if the threshold target is achieved in the initial performance period, (1 July 2005 to 30 June 2008), then 50% of the allocation of performance rights will become exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- if the result achieved is between the threshold and stretch targets, then the number of exercisable performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%);
- if the stretch target is achieved, then 100% of the performance rights will become exercisable; or
- if the threshold target is not achieved, 25% of the performance rights allocated to the initial performance period will lapse.

Of the performance rights that do not vest in the initial performance period, 75% will be added to the subsequent performance period allocation. The performance targets for the subsequent performance period (1 July 2005 to 30 June 2010) are:

- if the threshold target is met, 50% of the allocation will become exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- if the result achieved is between the threshold and stretch targets, then the number of exercisable performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%); or
- if the stretch target is achieved, then all of the performance rights will become exercisable.

If the threshold target is not met in the subsequent performance period, all OEG, RG, NT and ITT performance rights will lapse.

Return on Investment (ROI) performance rights

For the allocation of ROI performance rights, if the return on investment is:

- equal to the threshold target, then 50% of the allocation will become exercisable (except for the CEO, who will receive 75% of the allocated performance rights);
- between the threshold and stretch targets, the number of exercisable ROI performance rights is scaled proportionately between 50% and 100% (with the exception of the CEO whose number of performance rights is scaled proportionately between 75% and 100%);
- greater than the stretch target, then 100% of the ROI performance rights will become exercisable; or
- is less than the threshold target, 25% of the allocated ROI performance rights will lapse.

If the ROI performance rights have not become exercisable in this period, 75% of these performance rights will be added to the allocation of TSR performance rights for measurement against the TSR performance hurdle. If this TSR performance hurdle is not achieved, all ROI performance rights will lapse.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iii) Instruments issued between 30 June 2001 and 30 June 2005

Earnings per share (EPS) performance rights

The number of EPS performance rights that become vested EPS performance rights, and therefore become exercisable, is based on the following:

- if the cumulative growth in EPS from 1 July 2004 to 30 June 2007 is equal to 15.7%, then 50% of the allocation becomes exercisable;
- if the cumulative growth in EPS is greater than 15.7% and less than 33.1%, then the number of exercisable performance rights is scaled proportionately between 50% and 100%;
- if the cumulative growth in EPS meets or exceeds 33.1%, then 100% of the EPS performance rights will become exercisable; or
- if Telstra does not achieve cumulative growth in EPS of 15.7%, all EPS performance rights will lapse.

Total Shareholder Return (TSR) performance rights and options

For allocations of TSR performance rights made between 30 June 2001 and 30 June 2005, and options issued during fiscal 2002, the applicable performance hurdle is based on comparing Telstra's TSR with the TSRs of the companies in the S&P/ASX 200 (Industrial) Index (peer group) within the performance period.

The companies in the peer group are anchored at the effective date of allocation, and this same peer group of companies are then tracked during the performance period. At the end of each quarter during the performance period, the 30 day average TSR is calculated for Telstra and the companies in the peer group for each trading day during that quarter.

Both, the number of TSR performance rights and the number of options potentially exercisable, are based on the following.

If in the first quarter of the performance period Telstra's percentile ranking is the 50th percentile or above, then:

- the number of TSR performance rights and options that become exercisable for that quarter is scaled proportionately from the 50th percentile (at which 50% of the allocation becomes exercisable) to the 75th percentile (at which 100% of the allocation becomes exercisable); and
- in subsequent quarters, the number that become exercisable is based on the same proportionate scale, but is reduced by the number of performance rights or options that have previously become exercisable. The percentile ranking achieved needs to be above that achieved in previous quarters for additional performance rights and options to become exercisable.

If in the first quarter of the performance period the percentile ranking is less than the 50th percentile, then:

- half of the allocation will lapse; and
- in subsequent quarters, the remaining 50% of the options or performance rights will become exercisable if the ranking is the 50th percentile or above for that quarter.

If Telstra does not achieve or exceed the 50th percentile ranking in any quarter of the performance period, all TSR performance rights and options will lapse.

Incentive shares

In fiscal 2005, the Board allocated the executives half of their short term incentive payments as rights to acquire Telstra shares. These incentive shares vest in equal parts over a period of one, two and three years on the anniversary of their allocation date, subject to the executives' continued employment with any entity that forms part of the Telstra Group. Any instruments that have not been exercised within two years of the applicable vesting date will lapse. The executives can exercise their vested incentive shares at a cost of $1 in total for all of the incentive shares exercised on a particular day.

Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the incentive shares (or vested incentive shares) to vote or receive dividends. Any dividends paid by the Company prior to exercise will increase the number of incentive shares allocated to the executive.

Deferred shares

The executives were previously provided, as part of their annual fixed remuneration, rights to Telstra shares that vest upon completing certain employment requirements. Generally, if an executive continues to be employed by an entity that forms part of the Telstra Group three years after the commencement date of the instrument, the deferred share will become a vested deferred share.

Vested deferred shares must be exercised before the expiry date, otherwise they will lapse. Once exercised, Telstra shares will be transferred to the executive. Until this time, the executive can not use the deferred shares or vested deferred shares to vote or receive dividends. The executive may exercise the deferred shares at a cost of $1 in total for all of the deferred shares exercised on a particular day.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iv) Summary of movements and other information

	Number of equity instruments						
	Outstanding at 30 June 2007	Granted	Forfeited (i)	Exercised (ii)	Expired (iii)	Outstanding at 30 June 2008	Exercisable at 30 June 2008
Growthshare 2002 - Sept 2001 allocation							
TSR options	11,836,000	-	-	-	-	**11,836,000**	**11,836,000**
Growthshare 2003 - Sept 2002 allocation							
Deferred shares	89,490	-	(78,490)	(11,000)	-	-	-
TSR performance rights	1,610,852	-	-	-	(1,610,852)	-	-
Growthshare 2003 - Mar 2003 allocation							
TSR performance rights	18,094	-	-	-	-	**18,094**	-
Growthshare 2004 - Sept 2003 allocation							
Deferred shares	279,750	-	-	(191,825)	-	**87,925**	**87,925**
TSR performance rights	1,772,870	-	(42,047)	-	-	**1,730,823**	-
Growthshare 2004 - Feb 2004 allocation							
Deferred shares	4,600	-	-	(4,600)	-	-	-
TSR performance rights	18,298	-	(10,000)	-	-	**8,298**	-
Growthshare 2005 - Aug 2004 allocation							
TSR performance rights	2,061,664	-	(47,400)	-	(1,016,524)	**997,740**	-
EPS performance rights	2,100,299	-	(43,800)	-	(2,056,499)	-	-
Growthshare 2006 - Feb 2006 allocation							
TSR performance rights	535,263	-	(26,329)	-	-	**508,934**	-
OEG performance rights	1,069,007	-	(49,208)	-	-	**1,019,799**	-
RG performance rights	1,069,007	-	(49,210)	-	-	**1,019,797**	-
NT performance rights	797,577	-	(36,983)	-	-	**760,594**	-
ITT performance rights	797,575	-	(36,983)	-	-	**760,592**	-
ROI performance rights	1,076,611	-	(43,122)	-	-	**1,033,489**	-
Growthshare 2007 (iv)							
TSR options	7,677,589	**14,349,163**	(540,672)	-	-	**21,486,080**	-
RG options	5,758,177	**12,895,415**	(405,515)	-	-	**18,248,077**	-
NGN options	5,758,198	**13,671,372**	(405,504)	-	-	**19,024,066**	-
ITT options	5,758,194	**13,671,344**	(405,501)	-	-	**19,024,037**	-
ROI options	5,758,191	**9,016,188**	(405,504)	-	-	**14,368,875**	-
SEBITDA options	13,435,778	**24,043,167**	(1,056,972)	-	(2,894,634)	**33,527,339**	-
Growthshare 2008							
ESOP options	-	**16,538,157**	(1,066,283)	(720)	-	**15,471,154**	-
TSR options	-	**17,489,847**	-	-	-	**17,489,847**	-
ROI options	-	**17,489,847**	-	-	-	**17,489,847**	-

(i) Forfeited refers to either cessation of employment or the instrument lapsing unexercised.

(ii) The weighted average share price for instruments exercised during the financial year was $4.44 for the September 2002, September 2003 and February 2004 allocation of deferred shares respectively and $4.68 for the ESOP options. These share prices were based on the closing market price on the exercise dates.

(iii) Expired refers to the performance hurdle not being met.

(iv) The options granted in fiscal 2007 only included those granted to our senior executives as they were notified prior to 30 June 2007. The options to the remaining participants, including the CEO, were not granted until fiscal 2008 and therefore these options appear as additions to the Growthshare 2007 plan.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iv) Summary of movements and other information (continued)

	Number of equity instruments						
	Outstanding at 30 June 2006	Granted	Forfeited(i)	Exercised (ii)	Expired(iii)	Outstanding at 30 June 2007	Exercisable at 30 June 2007
Growthshare 2002 - Sept 2001 allocation							
TSR options	12,435,000	-	(599,000)	-	-	11,836,000	11,836,000
TSR performance rights	27,000	-	(5,200)	(21,800)	-	-	-
Growthshare 2002 - Mar 2002 allocation							
Options	801,000	-	-	-	(801,000)	-	-
TSR performance rights	68,000	-	-	-	(68,000)	-	-
Growthshare 2003 - Sept 2002 allocation							
Deferred shares	216,728	-	-	(127,238)	-	89,490	89,490
TSR performance rights	1,759,223	-	(148,371)	-	-	1,610,852	-
Growthshare 2003 - Mar 2003 allocation							
Deferred shares	16,000	-	-	(16,000)	-	-	-
TSR performance rights	36,188	-	-	-	(18,094)	18,094	-
Growthshare 2004 - Sept 2003 allocation							
Deferred shares	1,430,241	-	(25,745)	(1,124,746)	-	279,750	279,750
TSR performance rights	3,827,428	-	(695,677)	-	(1,358,881)	1,772,870	-
Growthshare 2004 - Feb 2004 allocation							
Deferred shares	18,350	-	-	(13,750)	-	4,600	4,600
TSR performance rights	36,700	-	(104)	-	(18,298)	18,298	-
Growthshare 2005 - Aug 2004 allocation							
TSR performance rights	2,226,400	-	(164,736)	-	-	2,061,664	-
EPS performance rights	2,226,400	-	(126,101)	-	-	2,100,299	-
Growthshare 2006 - Feb 2006 allocation							
TSR performance rights	567,331	-	(32,068)	-	-	535,263	-
OEG performance rights	1,134,661	-	(65,654)	-	-	1,069,007	-
RG performance rights	1,134,661	-	(65,654)	-	-	1,069,007	-
NT performance rights	850,996	-	(53,419)	-	-	797,577	-
ITT performance rights	850,996	-	(53,421)	-	-	797,575	-
ROI performance rights	1,134,661	-	(58,050)	-	-	1,076,611	-
Growthshare 2007 (iv)							
TSR options	-	7,677,589	-	-	-	7,677,589	-
RG options	-	5,758,177	-	-	-	5,758,177	-
NGN options	-	5,758,198	-	-	-	5,758,198	-
ITT options	-	5,758,194	-	-	-	5,758,194	-
ROI options	-	5,758,191	-	-	-	5,758,191	-
SEBITDA options	-	15,355,175	-	-	(1,919,397)	13,435,778	-

(i) Forfeited refers to either cessation of employment or the instrument lapsing unexercised.

(ii) The weighted average share price for instruments exercised during the financial year was $3.61 for the September 2001 allocation of performance rights and $3.64 for the September 2002, March 2003, September 2003 and February 2004 allocation of deferred shares respectively. These share prices were based on the closing market price on the exercise dates.

(iii) Expired refers to the performance hurdle not being met.

(iv) The options granted only includes those granted to our senior executives as they were notified prior to 30 June 2007. The options to the remaining participants were not granted until fiscal 2008 and therefore appear as current year additions in the previous table.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iv) Summary of movements and other information (continued)

	Effective allocation date	Performance period (i) from	Performance period (i) to	Exercise price	Expiry date
Growthshare 2002 - Sept 2001 allocation					
TSR options	6 Sept 2001	6 Sept 2004	6 Sept 2006	$4.90	6 Sept 2011
Growthshare 2003 - Sept 2002 allocation					
Deferred shares	5 Sept 2002	n/a	n/a	$1 per parcel exercised	5 Sept 2007
TSR performance rights	5 Sept 2002	5 Sept 2005	5 Sept 2007	$1 per parcel exercised	5 Dec 2007
Growthshare 2003 - Mar 2003 allocation					
TSR performance rights	7 Mar 2003	7 Mar 2006	7 Mar 2008	$1 per parcel exercised	7 Jun 2008
Growthshare 2004 - Sept 2003 allocation					
Deferred shares	5 Sept 2003	n/a	n/a	$1 per parcel exercised	5 Sept 2008
TSR performance rights	5 Sept 2003	5 Sept 2006	5 Sept 2008	$1 per parcel exercised	5 Dec 2008
Growthshare 2004 - Feb 2004 allocation					
Deferred shares	20 Feb 2004	n/a	n/a	$1 per parcel exercised	20 Feb 2009
TSR performance rights	20 Feb 2004	20 Feb 2007	20 Feb 2009	$1 per parcel exercised	20 May 2009
Growthshare 2005 - Aug 2004 allocation					
TSR performance rights	20 Aug 2004	20 Aug 2007	20 Aug 2009	$1 per parcel exercised	20 Nov 2009
EPS performance rights	20 Aug 2004	1 Jul 2004	30 Jun 2007	$1 per parcel exercised	20 Nov 2009
Growthshare 2006 - Feb 2006 allocation					
TSR, OEG, RG, NT & ITT performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
ROI performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2008	$1 per parcel exercised	19 Aug 2012
Growthshare 2007					
TSR, RG, NGN & ITT & SEBITDA options	31 Jan 2007	1 Jul 2006	30 Jun 2010	$3.67	30 Jun 2012
ROI options	31 Jan 2007	1 Jul 2008	30 Jun 2010	$3.67	30 Jun 2012
TSR, RG, NGN, & ITT options - CEO tranche 1	**31 Jan 2007**	**1 Jul 2006**	**30 Jun 2008**	**$3.67**	**31 Dec 2009**
TSR, RG, NGN, & ITT options - CEO tranche 2	**1 Jul 2007**	**1 Jul 2007**	**30 Jun 2008**	**$4.34**	**30 Jun 2011**
Growthshare 2008					
ESOP options	**10 Dec 2007**	**n/a**		**$4.34**	**17 Aug 2012**
TSR options	**8 Nov 2007**	**1 Jul 2007**	**30 Jun 2011**	**$4.34**	**30 Jun 2013**
ROI options	**8 Nov 2007**	**1 Jul 2008**	**30 Jun 2011**	**$4.34**	**30 Jun 2013**

(i) Performance is measured in the performance period and subject to subsequent verification, ratification and sign off by the Remuneration Committee and approval by the Board.

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(iv) Summary of movements and other information (continued)

	Incentive shares (i)		Options (ii)		Deferred shares		Performance rights (iii)	
	Number	Weighted average fair value (iv)	Number	Weighted average fair value (v)	Number	Weighted average fair value (v)	Number	Weighted average fair value (v)
Equity instruments outstanding as at 30 June 2006	1,835,586	$4.77	13,236,000	$1.13	1,681,319	$4.30	15,880,645	$3.12
Granted	122,344	$4.77	46,065,524	$0.85	-	-	-	-
Forfeited	-	-	(599,000)	$1.13	(25,745)	$4.29	(1,468,455)	$3.05
Exercised	(433,169)	$4.77	-	-	(1,265,734)	$4.29	(21,800)	$2.86
Expired	-	-	(2,720,397)	$0.99	-	-	(1,463,273)	$3.06
Equity instruments outstanding as at 30 June 2007	1,524,761	$4.77	55,982,127	$0.91	373,840	$4.32	12,927,117	$3.13
Granted	**1,361,870**	**$4.36**	**139,164,500**	**$0.68**	**-**	**-**	**-**	**-**
Forfeited	**(133,260)**	**$4.77**	**(4,285,951)**	**$0.75**	**(78,490)**	**$4.41**	**(385,082)**	**$3.05**
Exercised	**(647,881)**	**$4.77**	**(720)**	**$0.43**	**(207,425)**	**$4.29**	**-**	**-**
Expired	**-**	**-**	**(2,894,634)**	**$0.90**	**-**	**-**	**(4,683,875)**	**$3.43**
Equity instruments outstanding as at 30 June 2008	**2,105,490**	**$4.50**	**187,965,322**	**$0.74**	**87,925**	**$4.29**	**7,858,160**	**$2.95**
Equity instruments exercisable as at 30 June 2008	**192,169**	**$4.77**	**11,836,000**	**$1.13**	**87,925**	**$4.29**	**-**	**-**

(i) Incentive shares includes both incentive shares and deferred incentive shares. The incentive shares "exercisable" includes those executives that have been made redundant and are then consequently entitled to the incentive shares. The weighted average share price for incentive shares exercised during the financial year was $4.37.

(ii) Options include TSR, RG, NGN, ITT, ROI, SEBITDA and ESOP options. The options "exercised" relates to those participants that have been made redundant and are then consequently entitled to the Telstra shares.

(iii) Performance rights include TSR, EPS, OEG, RG, NT, ITT and ROI performance rights.

(iv) The fair value of incentive shares granted during fiscal 2006 was calculated using a Black- Scholes pricing model. The fair value of incentive and deferred incentive shares granted on 17 August 2007 is based on the market value of Telstra shares on that date.

(v) 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.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

(v) Fair value of instruments granted during the financial year

Long term incentive (LTI) and Employee Share Option plan (ESOP)

The fair value of LTI and ESOP 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 options (CEO)(^) Aug 2007	Growthshare ESOP options Dec 2007	Growthshare LTI options March 2008	Growthshare LTI options June 2007
Share price	$4.24	$4.65	$4.37	$4.59
Risk free rate	6.14% / 6.08%	6.48%	6.20%	6.41%
Dividend yield	6.0%	6.0%	6.0%	6.0%
Expected stock volatility	19%	19%	20%	19%
Expected life	(*)	(*)	(*)	(*)
Expected rate of achievement of TSR performance hurdles	28%	n/a	32%	46%
Expected rate of achievement of RG, OEG, NGN, ITT, ROI, and SEBITDA performance hurdles	n/a	n/a	n/a	58% (#)

(*) The date the instruments become exercisable.

(#) As the gateway TSR hurdle must be met for all vested options to become exercisable for 2007 RG, NGN, ITT, ROI and SEBITDA options, an adjustment for the expected achievement of the performance hurdles was made in the valuation of 58%.

(^) For the LTI options (CEO), the fair value has been measured at a grant date of 17 August 2007 and has been allocated over the period for which the service is received which commenced 31 January 2007 and 1 July 2007 for the tranche 1 and tranche 2 allocation respectively. A different risk free rate was used for each tranche based on their respective life. Refer to note 27 (a) (i) TSR options (fiscal 2008 and fiscal 2007) for further details.

For the ESOP options, the fair value has been measured at a grant date of 10 December 2007 and has been allocated over the period for which the service is received which commenced on grant date.

For the LTI options (in relation to executives other than CEO), the fair value has been measured at a grant date of 7 March 2008 and has been allocated over the period for which the service is received which commenced 8 November 2007.

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.

Short term incentive plans

As part of the fiscal 2007 short term incentive scheme, incentive shares and deferred incentive shares were granted on 17 August 2007 and vested immediately. The fair value of these shares was based on the market value of Telstra shares on that date.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

Telstra directshare and ownshare

(i) Nature of Telstra directshare and ownshare

Telstra directshare

Non-executive directors must take a minimum of 20% of their total remuneration as restricted Telstra shares, known as directshares. Shares are acquired by the trustee from time to time and allocated to the participating directors on a 6 monthly basis, on dates determined by the trustee at its discretion. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues until the earliest of:

- five 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' has occurred.

At the end of the restriction period, the directshares will be transferred to the participating director. The participating director is not able to deal in the shares until this transfer has taken place. The expense associated with shares allocated under this plan is included in the disclosure for directors' remuneration.

Refer to note 33 "Events after balance date" for changes made to the terms of Directshare allocations.

Telstra ownshare

Certain eligible employees may, at their election, be provided part of their remuneration in Telstra shares. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues until the earlier of:

- three years from the date of allocation (depending on the elections available to the participant at the time of allocation);
- the participant ceases employment with the Telstra Group; or
- the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

(ii) Instruments granted during the financial year

The fair value of the instruments granted under the directshare and ownshare plans is determined by the remuneration foregone by the participant. On the grant of directshares and ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. The 27 September 2007 grant of ownshares relates to employees short term incentive payments and the 29 February 2008 grant relates to shares acquired through salary sacrifice by employees.

The weighted average fair value of fully paid shares granted to directors and executives under the directshare and ownshare plans as at 30 June 2008 was $4.63 (2007: $4.08) and $4.47 (2007: $3.67) respectively. The total fair value of shares granted during 30 June 2008 was $421,243 (2007: $304,878) for the directshare and $2,652,676 (2007: $2,531,729) for the ownshare plan.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(iii) Summary of movements

The table below provides information about our directshare and ownshare plans:

	Number of equity instruments						
	Outstanding at 30 June 2006	Granted (i)	Distributed (ii)	Outstanding at 30 June 2007	Granted (i)	Distributed (ii)	Outstanding at 30 June 2008
Directshares							
14 September 2001 allocation	5,616	-	(5,616)	-	-	-	-
14 March 2002 allocation	8,348	-	(8,348)	-	-	-	-
5 September 2002 allocation	8,933	-	(1,335)	7,598	-	**(7,598)**	-
7 March 2003 allocation	23,879	-	(3,771)	20,108	-	**(20,108)**	-
5 September 2003 allocation	18,488	-	(2,964)	15,524	-	**(1,158)**	**14,366**
20 February 2004 allocation	21,380	-	(4,246)	17,134	-	**(1,699)**	**15,435**
20 August 2005 allocation	6,223	-	(1,143)	5,080	-	**(458)**	**4,622**
19 February 2005 allocation	21,136	-	(3,731)	17,405	-	**(1,701)**	**15,704**
19 August 2005 allocation	20,699	-	(4,183)	16,516	-	**(2,293)**	**14,223**
17 February 2006 allocation	31,286	-	(5,687)	25,599	-	**(3,577)**	**22,022**
18 August 2006 allocation	-	36,431	-	36,431	-	**(4,560)**	**31,871**
23 February 2007 allocation	-	38,209	-	38,209	-	**(4,095)**	**34,114**
17 August 2007 allocation	-	-	-	-	**37,961**	**(3,913)**	**34,048**
29 February 2008 allocation	-	-	-	-	**53,104**	**(1,671)**	**51,433**
	165,988	74,640	(41,024)	199,604	**91,065**	**(52,831)**	**237,838**
Ownshares							
14 September 2001 allocation	32,395	-	(32,395)	-	-	-	-
5 September 2003 allocation	293,764	-	(293,764)	-	-	-	-
31 October 2003 allocation	165,932	-	(165,932)	-	-	-	-
20 August 2004 allocation	282,031	-	(25,659)	256,372	-	**(256,372)**	-
29 October 2004 allocation	194,084	-	(18,954)	175,130	-	**(175,130)**	-
19 August 2005 allocation	474,237	-	(54,775)	419,462	-	**(48,129)**	**371,333**
28 October 2005 allocation	245,251	-	(13,932)	231,319	-	**(15,604)**	**215,715**
18 August 2006 allocation	-	506,420	(113,176)	393,244	-	**(52,241)**	**341,003**
27 October 2006 allocation	-	182,926	(5,330)	177,596	-	**(24,600)**	**152,996**
27 September 2007 allocation	-	-	-	-	**402,067**	**(17,857)**	**384,210**
26 October 2007 allocation	-	-	-	-	**192,198**	**(17,814)**	**174,384**
	1,687,694	689,346	(723,917)	1,653,123	**594,265**	**(607,747)**	**1,639,641**

(i) The number of directshares or ownshares granted is based on the weighted average price of a Telstra share in the week ending on the day before grant date, in conjunction with the remuneration foregone.

(ii) Directshares and ownshares are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are transferred to the participants at the completion of the restriction period.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(a) Telstra Growthshare Trust (continued)

Sign-on bonus shares

Certain eligible employees may be provided sign-on bonus shares upon commencing employment at Telstra. These shares are held in trust, although the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues until:

- a date determined by the chief executive officer; or
- the Board of Telstra determines that an ‘event’ has occurred.

At the end of the restriction period, the sign-on bonus shares will be transferred to the participating employee. The employee is not able to deal in the shares until this transfer has taken place.

There were nil sign-on bonus shares issued in fiscal 2008. There were 128,090 sign-on bonus shares issued in fiscal 2007 to 3 employees on 11 August 2006, 25 August 2006 and 5 December 2006 respectively. The weighted average fair value of the shares allocated in fiscal 2007 was $3.66 with a total fair value allocated of $468,400. The fair value of the sign-on bonus shares is based on the weighted average price of a Telstra share in the week ending on the day before the allocation date. 28,090 shares were held by 1 employee and were still outstanding at 30 June 2008 (2007: 28,090). The 1 employee ceased employment on 1 July 2008 and the bonus shares vested at that time.

(b) TESOP99 and TESOP97

As part of the Commonwealth’s sale of its shareholding in fiscal 2000 and fiscal 1998 we offered eligible employees the opportunity to buy ordinary shares of Telstra. These share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

Although the Telstra ESOP Trustee Pty Ltd (wholly owned subsidiary of Telstra) is the trustee for TESOP99 and TESOP97 and holds the shares in the trust, the participating employee retains the beneficial interest in the shares (dividends and voting rights).

Generally, employees were offered interest free loans by the Telstra Entity to acquire certain shares and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. The loan may, however, be repaid in full at any time by the employee using his or her own funds.

The loan shares, extra shares and in the case of TESOP99, the loyalty shares, were subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceased. This restriction period has now been fulfilled under each plan.

If a participant ceases to be employed by the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, the employee must repay their loan within two months of leaving to acquire the relevant shares. This is the case except where the restriction period has ended because of the employee’s death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required, the trustee can sell the shares. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity’s recourse under the loan is limited to the amount recoverable through the sale of the employee’s shares.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(b) TESOP99 and TESOP97 (continued)

The Telstra ESOP Trustee continues to hold the loan shares where the employee has ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs. The Trustee will then sell the shares. As at 30 June 2008, there were 8,067,200 shares held for this purpose (2007: 7,268,200).

The following table provides information about our TESOP99 and TESOP97 share plans:

	TESOP97			TESOP99		
	Number	Weighted average fair value (i)	Total fair value $m	Number	Weighted average fair value (i)	Total fair value $m
Equity instruments outstanding and exercisable as at 30 June 2006	40,716,625	$3.68	150	14,387,400	$3.68	53
Exercised	(6,031,125)	$4.16	(25)	(199,800)	$4.18	(1)
Equity instruments outstanding and exercisable as at 30 June 2007	34,685,500	$4.59	159	14,187,600	$4.59	65
Exercised	**(5,916,250)**	**$4.45**	**(26)**	**(186,600)**	**$4.46**	**(1)**
Equity instruments outstanding and exercisable as at 30 June 2008	**28,769,250**	**$4.24**	**122**	**14,001,000**	**$4.24**	**59**

(i) The fair value of these shares is based on the market value of Telstra shares at balance date and exercise date.

The employee share loan balance as at 30 June 2008 is $97 million (2007: $113 million). The weighted average loan still to be repaid for TESOP97 is $0.61 per instrument (2007: $0.83), and for TESOP99 is $5.70 per instrument (2007: $5.92).

Notes to the Financial Statements (continued)

28. Key management personnel compensation

Our key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. Our KMP consist of:

- the Directors' of the Telstra Entity; and
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, referred to as a 'senior executive' in this report.

Directors

During fiscal 2008 and fiscal 2007, the Directors' of the Telstra Entity were:

Name	Position
Current Directors	
Donald G McGauchie	Chairman, Non Executive Director
Solomon D Trujillo	Chief Executive Officer
Geoffrey Cousins	Non Executive Director
Catherine B Livingstone	Non Executive Director
Charles Macek	Non Executive Director
John M Stewart	Non Executive Director, appointed 28 April 2008
John W Stocker	Non Executive Director
Peter J Willcox	Non Executive Director
John D Zeglis	Non Executive Director
Former Directors	
Belinda J Hutchinson	Non Executive Director, resigned 7 November 2007

John P Mullen was appointed as a non-executive director on 1 July 2008

Senior executives

The senior executives that qualified as KMP for fiscal 2008 and fiscal 2007 were:

Name	Position
Current senior executives	
Bruce Akhurst	Chief Executive Officer, Sensis
Kate McKenzie	Group Managing Director, Telstra Wholesale
David Moffatt	Group Managing Director, Telstra Consumer Marketing and Channels
Deena Shiff	Group Managing Director, Telstra Business
John Stanhope	Chief Financial Officer and Group Managing Director, Finance and Administration
David Thodey	Group Managing Director, Telstra Enterprise and Government
Gregory Winn	Group Managing Director, Telstra Operations

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP aggregate compensation

During fiscal 2008 and fiscal 2007, the aggregate compensation provided to our KMP was:

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2008	2007	2008	2007
	$	$	$	$
Short term employee benefits	**30,308,353**	21,956,242	**30,308,353**	21,956,242
Post employment benefits	**1,360,764**	2,635,944	**1,360,764**	2,635,944
Other long term benefits	**288,125**	282,500	**288,125**	282,500
Termination benefits	**-**	484,756	**-**	484,756
Share based payments	**16,518,575**	12,002,386	**16,518,575**	12,002,386
	48,475,817	37,361,828	**48,475,817**	37,361,828

We have adopted the revised AASB 124 and have made the detailed remuneration disclosures in the Remuneration Report which is part of the Directors' Report. Please refer to the Remuneration Report for further details.

Other transactions with our KMP and their related entities

Our KMP have telecommunications services transactions with the Telstra Group, which are not significant and are both trivial and domestic in nature. The KMP related entities also have telecommunications services with us on normal commercial terms and conditions.

Our KMP are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we also make products and services available to our KMP without charge to enable them to familiarise themselves with our products, services and recent technological developments. To the extent it is considered that this provides 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 Telstra Entity

During fiscal 2008, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2007	Directshare allocation (a)	Equity instruments exercised	Shares acquired or disposed of by other means	Total shares held at 30 June 2008	Shares that are held nominally
	Number	Number	Number	Number	Number	Number
Directors						
Donald G McGauchie	109,332	**24,761**	**-**	**1,112**	**135,205**	**96,814**
Solomon D Trujillo	250,000	**-**	**-**	**-**	**250,000**	**250,000**
Geoffrey Cousins	1,747	**8,232**	**-**	**-**	**9,979**	**9,979**
Belinda J Hutchinson (b)	238,433	**3,913**	**-**	**-**	**242,346**	**200,230**
Catherine B Livingstone	95,243	**9,752**	**-**	**(4,534)**	**100,461**	**82,914**
Charles Macek	178,282	**11,096**	**-**	**24,800**	**214,178**	**208,610**
John M Stewart	-	**-**	**-**	**-**	**-**	**-**
John W Stocker	159,389	**14,119**	**-**	**9,496**	**183,004**	**164,890**
Peter Willcox	48,023	**9,313**	**-**	**10,500**	**67,836**	**67,836**
John Zeglis	21,855	**8,208**	**-**	**-**	**30,063**	**13,563**
	1,102,304	**89,394**	**-**	**41,374**	**1,233,072**	**1,094,836**
Senior executives						
Bruce Akhurst	29,659	**-**	**-**	**3,259**	**32,918**	**28,038**
Kate McKenzie	-	**-**	**13,963**	**-**	**13,963**	**-**
David Moffatt	367,822	**-**	**-**	**141,308**	**509,130**	**3,100**
Deena Shiff	14,480	**-**	**71,307**	**2,600**	**88,387**	**9,200**
John Stanhope	125,634	**-**	**19,856**	**82,469**	**227,959**	**3,960**
David Thodey	179,279	**-**	**17,049**	**(4,553)**	**191,775**	**800**
Gregory Winn	-	**-**	**-**	**-**	**-**	**-**
	716,874	**-**	**122,175**	**225,083**	**1,064,132**	**45,098**
	1,819,178	**89,394**	**122,175**	**266,457**	**2,297,204**	**1,139,934**

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2008 were on an arm's length basis at market price.

(a) Shares provided to directors under Directshare are subject to a restriction period. The participating directors are not able to deal in the shares until the end of the restriction period. Refer to note 27 for further details.

(b) During fiscal 2008 Ms Hutchinson retired from office. For Ms Hutchinson, the number of shares represent those held at the date of leaving office.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in shares of Telstra Entity (continued)

During fiscal 2007, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2006	Directshare allocation (a)	Equity instruments exercised	Shares acquired as part of T3 (b)	Shares acquired or disposed of by other means	Total shares held at 30 June 2007	Shares that are held nominally
	Number	Number	Number	Number	Number	Number	Number
Directors							
Donald G McGauchie . .	57,641	23,891	-	30,800	(3,000)	109,332	77,159
Solomon D Trujillo . . .	-	-	-	250,000	-	250,000	-
Geoffrey Cousins.	-	1,747	-	-	-	1,747	1,747
Belinda J Hutchinson . .	74,778	8,655	-	155,000	-	238,433	197,857
Catherine B Livingstone	55,838	9,005	-	30,400	-	95,243	81,499
Charles Macek	48,576	9,706	-	120,000	-	178,282	176,728
John W Stocker.	117,031	10,758	-	31,600	-	159,389	153,211
Peter Willcox	10,000	5,523	-	12,500	20,000	48,023	48,023
John Zeglis	-	5,355	-	-	16,500	21,855	5,355
	363,864	74,640	-	630,300	33,500	1,102,304	741,579
Senior executives							
Bruce Akhurst	37,859	-	108,722	10,000	(126,922)	29,659	24,779
Kate McKenzie	-	-	-	-	-	-	-
David Moffatt	151,000	-	95,222	121,600	-	367,822	3,100
Deena Shiff	14,480	-	-	-	-	14,480	8,800
John Stanhope.	57,740	-	67,894	-	-	125,634	3,960
David Thodey.	13,262	-	137,480	18,062	10,475	179,279	800
Gregory Winn.	-	-	-	-	-	-	-
	274,341	-	409,318	149,662	(116,447)	716,874	41,439
	638,205	74,640	409,318	779,962	(82,947)	1,819,178	783,018

Total shareholdings include shares held by the KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2007 were on an arm's length basis at market price.

(a) Shares provided to directors under directshare are subject to a restriction period. The participating directors are not able to deal in the shares until the end of the restriction period. Refer to note 27 for further details.

(b) Shares acquired as part of T3 are the instalment receipts acquired as part of the sale of shares in our company by the Commonwealth (Telstra 3 Share Offer). Holders of instalment receipts have the right to receive dividends and are entitled to vote, by directing the trustee, Telstra Sale Company Limited, at a meeting of the company. Telstra instalment receipts are traded on the Australian Stock Exchange with the final instalment payable to the Commonwealth.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in equity instruments of Telstra Entity

The following details the balances and changes in instruments issued for our KMP during fiscal 2008.

Instrument type director/senior executive	Total held at 30 June 2007 Number	Granted during the year Number	Exercised during the year Number	Other changes (a) Number	Total held at 30 June 2008 Number	Vested and exercisable at 30 June 2008 Number	Vested during the year Number
Performance rights							
Solomon D Trujillo	836,821	**-**	**-**	**-**	**836,821**	**-**	**-**
Bruce Akhurst	426,540	**-**	**-**	**(174,900)**	**251,640**	**-**	**-**
Kate McKenzie	91,576	**-**	**-**	**(27,000)**	**64,576**	**-**	**-**
David Moffatt	448,550	**-**	**-**	**(186,100)**	**262,450**	**-**	**-**
Deena Shiff	192,720	**-**	**-**	**(57,300)**	**135,420**	**-**	**-**
John Stanhope	323,466	**-**	**-**	**(114,250)**	**209,216**	**-**	**-**
David Thodey	390,668	**-**	**-**	**(158,750)**	**231,918**	**-**	**-**
Options							
Solomon D Trujillo	-	**15,517,242**	**-**	**-**	**15,517,242**	**-**	**-**
Bruce Akhurst	6,813,121	**1,811,594**	**-**	**-**	**8,624,715**	**617,000**	**-**
Kate McKenzie	1,858,837	**608,696**	**-**	**-**	**2,467,533**	**-**	**-**
David Moffatt	7,010,475	**1,905,780**	**-**	**-**	**8,916,255**	**740,000**	**-**
Deena Shiff	4,639,207	**1,376,812**	**-**	**-**	**6,016,019**	**178,000**	**-**
John Stanhope	4,603,070	**1,333,320**	**-**	**-**	**5,936,390**	**241,000**	**-**
David Thodey	6,284,000	**1,681,160**	**-**	**-**	**7,965,160**	**534,000**	**-**
Incentive shares							
Solomon D Trujillo	-	**651,608**	**-**		**651,608**		**651,608**
Bruce Akhurst	88,233	**30,116**	**-**	**5,683**	**124,032**	**47,836**	**73,407**
Kate McKenzie	20,298	**38,883**	**(13,963)**	**1,306**	**46,524**	**440**	**45,649**
David Moffatt	41,060	**92,742**	**-**	**2,642**	**136,444**	**21,851**	**113,272**
Deena Shiff	73,211	**65,511**	**(48,807)**	**1,572**	**91,487**	**-**	**89,915**
John Stanhope	39,712	**82,469**	**(19,856)**	**1,279**	**103,604**	**-**	**102,325**
David Thodey	34,099	**79,060**	**(17,049)**	**1,097**	**97,207**	**-**	**96,109**
Deferred shares							
Deena Shiff	22,500	**-**	**(22,500)**	**-**	**-**	**-**	**-**
TESOP97							
Bruce Akhurst	2,500	**-**	**-**	**-**	**2,500**	**2,500**	**-**
John Stanhope	2,500	**-**	**-**	**-**	**2,500**	**2,500**	**-**
TESOP99							
Bruce Akhurst	400	**-**	**-**	**-**	**400**	**400**	**-**
Deena Shiff	400	**-**	**-**	**-**	**400**	**400**	**-**
John Stanhope	400	**-**	**-**	**-**	**400**	**400**	**-**

(a) During fiscal 2008, other changes for our performance rights are a result of instruments expiring due to the specified performance hurdles not being achieved.

Other changes for incentive shares relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentives shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in equity instruments of Telstra Entity (continued)

The following details the balances and changes in instruments issued for our KMP during fiscal 2007.

Instrument type director/senior executive	Total held at 30 June 2006 Number	Granted during the year Number	Exercised during the year Number	Other changes (a) Number	Total held at 30 June 2007 Number	Vested and exercisable at 30 June 2007 Number	Vested during the year Number
Performance rights							
Solomon D Trujillo	836,821	-	-	-	836,821	-	-
Bruce Akhurst	494,940	-	-	(68,400)	426,540	-	-
Kate McKenzie	91,576	-	-	-	91,576	-	-
David Moffatt	524,650	-	-	(76,100)	448,550	-	-
Deena Shiff	215,220	-	-	(22,500)	192,720	-	-
John Stanhope	372,866	-	-	(49,400)	323,466	-	-
David Thodey	453,268	-	-	(62,600)	390,668	-	-
Options							
Solomon D Trujillo	-	-	-	-	-	-	-
Bruce Akhurst	617,000	6,465,518	-	(269,397)	6,813,121	617,000	-
Kate McKenzie	-	1,939,656	-	(80,819)	1,858,837	-	-
David Moffatt	740,000	6,543,104	-	(272,629)	7,010,475	740,000	-
Deena Shiff	178,000	4,655,173	-	(193,966)	4,639,207	178,000	-
John Stanhope	241,000	4,551,725	-	(189,655)	4,603,070	241,000	-
David Thodey	534,000	6,000,000	-	(250,000)	6,284,000	534,000	-
Incentive shares							
Bruce Akhurst	120,967	-	(40,322)	7,588	88,233	-	40,322
Kate McKenzie	18,905	-	-	1,393	20,298	6,766	6,766
David Moffatt	57,365	-	(19,122)	2,817	41,060	-	19,122
Deena Shiff	68,188	-	-	5,023	73,211	24,403	24,403
John Stanhope	55,482	-	(18,494)	2,724	39,712	-	18,494
David Thodey	47,639	-	(15,880)	2,340	34,099	-	15,880
Deferred shares							
Bruce Akhurst	68,400	-	(68,400)	-	-	-	68,400
David Moffatt	76,100	-	(76,100)	-	-	-	76,100
Deena Shiff	22,500	-	-	-	22,500	22,500	22,500
John Stanhope	49,400	-	(49,400)	-	-	-	49,400
David Thodey	121,600	-	(121,600)	-	-	-	62,600
TESOP97							
Bruce Akhurst	2,500	-	-	-	2,500	-	-
John Stanhope	2,500	-	-	-	2,500	-	-
TESOP99							
Bruce Akhurst	400	-	-	-	400	-	-
Deena Shiff	400	-	-	-	400	-	-
John Stanhope	400	-	-	-	400	-	-

(a) During fiscal 2007, other changes for our performance rights are a result of instruments expiring due to the specified performance hurdles not being achieved.

Other changes for incentive shares relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentives shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised.

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 Group Year ended/As at 30 June		Telstra Entity Year ended/As at 30 June	
	Note	**2008 $m**	2007 $m	**2008 $m**	2007 $m
Income from controlled entities:					
Sale of goods and services (a)		**-**	-	**1,115**	1,057
Finance income (a)		**-**	-	**1**	1
Dividend revenue (b)	6	**-**	-	**256**	186
Expenses to controlled entities:					
Purchase of goods and services (a)		**-**	-	**423**	356
Finance costs (a)	18	**-**	-	**15**	26
Total amounts receivable at 30 June from:					
Current					
Controlled entities (a) (d)	10	**-**	-	**2,659**	2,344
Allowance for amounts owed by controlled entities	10	**-**	-	**(2,267)**	(2,022)
		-	-	**392**	322
Non current					
Controlled entities (a)	10	**-**	-	**162**	129
Movement in allowance for amounts owed by controlled entities:					
Opening balance		**-**	-	**(2,022)**	(1,851)
Impairment loss (c)	7	**-**	-	**(247)**	(173)
Reversal of impairment loss	7	**-**	-	**2**	2
Closing balance	10	**-**	-	**(2,267)**	(2,022)
Total amounts payable at 30 June to:					
Current					
Controlled entities - payables (a) (d)	15	**-**	-	**155**	221
Controlled entities - loans (e)	18	**-**	-	**430**	874
		-	-	**585**	1,095

(a) The Telstra Entity sold and purchased goods and services and received and paid interest to its controlled entities. These transactions are in the ordinary course of business and are on normal commercial terms and conditions.

Details of our individual significant transactions involving our controlled entities during fiscal 2008 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 $664 million (2007: $642 million). As at 30 June 2008, the Telstra Entity recorded revenue received in advance amounting to $386 million (2007: $334 million) for the use of these trademarks;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to $329 million (2007: $261 million) for undertaking agency and contract management services for the national directory service; and
- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to $309 million (2007: $300 million) for access to ducts that store the national hybrid fibre coaxial (HFC) cable network.

Notes to the Financial Statements (continued)

29. Related party disclosures (continued)

Transactions involving our controlled entities (continued)

(b) The Telstra Entity recorded dividend revenue during fiscal 2008 from Telstra Media Pty Limited of $127 million, Sensis Pty Ltd of $81 million and Telstra Services Solutions Holdings Limited of $48 million. The Telstra Entity recorded dividend revenue of $186 million from Telstra Media Holdings Pty Ltd in fiscal 2007.

(c) The profit before income tax expense of the Telstra Entity included an impairment loss of $247 million (2007: $173 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 on tax consolidation.

(e) The Telstra Entity operates a current account with some of its Australian controlled entities, being an internal group bank account used to settle transactions with its controlled entities or between two controlled entities. Cash deposit balances in the current account owed to our controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. Refer to note 18 for further discussion on our borrowings.

Transactions involving our parent entity

On 24 November 2006, the Commonwealth of Australia sold 4,248,049,190 shares in Telstra Corporation Limited, which represented 34.2% of the total share capital. The Commonwealth's remaining 17.6% interest in Telstra was transferred to the Commonwealth Future Fund in February 2007. As such, the Commonwealth of Australia is no longer the ultimate parent and controlling entity of the Telstra Group. Telstra Corporation Limited is the parent entity in the Telstra Group comprising the Telstra Entity and its controlled entities.

During fiscal 2007, we supplied telecommunications services to, and acquired other services from, the Commonwealth of Australia, its Departments of State, trading and other agencies. These transactions were made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers. There were no exclusive rights to supply any of these services.

During fiscal 2007, services provided to any one governmental department or agency or the combination of all of these services in total, did not represent a significant component of our operating revenues.

Notes to the Financial Statements (continued)

29. Related party disclosures (continued)

Transactions involving our jointly controlled and associated entities

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		Telstra Entity Year ended/As at 30 June	
	Note	**2008 $m**	2007 $m	**2008 $m**	2007 $m
Income from jointly controlled and associated entities:					
Sale of goods and services (a)		**212**	168	**124**	79
Distribution from FOXTEL Partnership (b)	26	**130**	-	**-**	-
Expenses to jointly controlled and associated entities:					
Purchase of goods and services (a)		**678**	560	**277**	252
Total amounts receivable at 30 June from:					
Current					
Jointly controlled and associated entities - trade receivables (a)		**13**	26	**10**	7
Non current					
Jointly controlled and associated entities - loans (c)	10	**194**	221	**161**	183
Allowance for amounts owed by jointly controlled and associated entities (c)	10	**(161)**	(183)	**(161)**	(183)
		33	38	**-**	-
Movement in allowance for amounts owed by jointly controlled and associated entities:					
Opening balance		**(183)**	(215)	**(183)**	(210)
Impairment loss	7	**-**	(1)	**-**	-
Other		**-**	6	**-**	-
Foreign currency exchange differences		**22**	27	**22**	27
Closing balance		**(161)**	(183)	**(161)**	(183)
Total amounts payable at 30 June to:					
Current					
Jointly controlled and associated entities - payables (a)		**15**	32	**8**	22

(a) We sold and purchased goods and services, and received interest from our jointly controlled and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of our individual significant transactions involving our jointly controlled and associated entities during fiscal 2008 are detailed as follows:

- we purchased pay television services amounting to $367 million (2007: $285 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 $75 million (2007: $76 million);
- purchases were made by the Telstra Group of $221 million (2007: $182 million) and Telstra Entity of $111 million (2007: $162 million) from our jointly controlled entity Reach Ltd (Reach) in line with market prices. These were for both the purchase of, and entitlement to, capacity and connectivity services; and
- sales to Reach were made for international inbound call termination services, construction and consultancy by the Telstra Group of $64 million (2007: $73 million) and the Telstra Entity of $54 million (2007: $59 million).

(b) A $130 million distribution was received from our jointly controlled entity FOXTEL during the year (2007: nil).

Notes to the Financial Statements (continued)

29. Related party disclosures (continued)

Transactions involving our jointly controlled and associated entities (continued)

(c) Loans provided to jointly controlled and associated entities relates mainly to loans provided to Reach of $161 million (2007: $183 million) and the 3GIS Partnership (3GIS) of $33 million (2007: $38 million).

The loan provided to Reach is an interest free loan and repayable on or after 31 December 2010 upon the giving of six months notice by both PCCW Limited (PCCW) and us. We have provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term.

The loan provided to 3GIS represents interest free funding for operational expenditure purposes. In accordance with the partnership agreement, the loan is repayable on dissolution of the partnership and so is at call.

Transactions involving other related entities

Post-employment benefits

As at 30 June 2008, Telstra Superannuation Scheme (Telstra Super) owned 25,967,557 shares in Telstra Corporation Limited (2007: 13,856,060) at a cost of $112 million (2007: $46 million) and a market value of $110 million (2007: $54 million). All of these shares were fully paid at 30 June 2008 (in the prior year, there were 6,296,510 shares relating to instalment receipts which were not fully paid at 30 June 2007). In fiscal 2008, we paid dividends to Telstra Super of $5 million (2007: $4 million). We own 100% of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also holds bonds issued by Telstra Corporation Limited. As at 30 June 2008, Telstra Super holds bonds with a cost of $6 million (2007: $6 million) and a market value of $6 million (2007: $6 million).

All purchases and sales of Telstra shares and bonds by Telstra Super are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

Key management personnel (KMP)

For details regarding our KMP's remuneration and interests in Telstra, as well as other related party transactions, refer to note 28.

Notes to the Financial Statements (continued)

30. Events after balance date

We are not aware of any matter or circumstance that has occurred since 30 June 2008 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 13 August 2008, 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 29 August 2008 with payment being made on 26 September 2008. Shares will trade excluding the entitlement to the dividend on 25 August 2008.

A provision for dividend payable has been raised as at the date of resolution, amounting to $1,736 million. The final dividend will be fully franked at a tax rate of 30%. The financial effect of the dividend resolution was not brought to account as at 30 June 2008.

There are no income tax consequences for the Telstra Group and Telstra Entity resulting from the resolution and payment of the final ordinary dividend, except for $744 million franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

Dividend Reinvestment Plan

In July 2007, the directors of Telstra Corporation Limited offered shareholders the opportunity to participate in a Dividend Reinvestment Plan (“DRP”) where Telstra expected to source the shares to be allocated under the DRP from the Future Fund. The Future Fund has confirmed that they will not participate in the DRP for the 2008 final dividend. Therefore the directors of Telstra Corporation Limited have decided to suspend the DRP for the final dividend to be paid on 26 September 2008.

Change in Directshare terms

For Directshare allocations from fiscal 2009, the following significant changes apply:

- the restriction period for Directshares has changed from five years to ten years. This change applies to all Directshares held by the trustee and for all future Directshare allocations to the directors of the Company; and
- a new valuation method for determining the market price of Directshares will be used (this method will be based on a monthly volume weighted average price of the shares in the 6 months prior to allocation).

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) the financial statements and notes of the Telstra Entity and the Telstra Group set out on pages 101 to 241:

(i) comply with the Accounting Standards and Corporations Regulations;

(ii) give a true and fair view of the financial position as at 30 June 2008 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2008; and

(iii) have been made out in accordance with the Corporations Act 2001.

(b) they have received declarations as required by section 295A of the Corporations Act 2001;

(c) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable in Australia; and

(d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 25(a) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 25(a).

For and on behalf of the board

Donald G McGauchie
Chairman

Solomon D Trujillo
Chief Executive Officer and Executive Director

Date: 13 August 2008
Melbourne, Australia

Independent Auditor's Report to the Members of Telstra Corporation Limited

We have audited the accompanying financial report of Telstra Corporation Limited and the entities it controlled during the year ended 30 June 2008 (the Telstra Group), which comprises the statement of financial position as at 30 June 2008, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider 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 met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of the Telstra Group is in accordance with the Corporations Act 2001 including:

   (i) giving a true and fair view of the financial position of Telstra Corporation Limited and the consolidated entity as at 30 June 2008 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 75 to 99 of the Directors' Report for the year ended 30 June 2008. 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.

Auditor's Opinion

In our opinion the Remuneration Report of the Telstra Group for the year ended 30 June 2008 complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

Sean C Van Gorp
Partner

13 August 2008
Melbourne, Australia

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Telstra Corporation Limited
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Telstra is listed on Stock Exchanges in Australia
and in New Zealand (Wellington)

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www.telstra.com.au/abouttelstra/investor

Telstra's interactive advocacy website:
www.nowwearetalking.com.au

Indicative Financial Calendar

Annual General Meeting	21 Nov 2008
Half Year Results announcement	26 Feb 2009
Ex-dividend share trading commences	6 Mar 2009
Record date for interim dividend	13 Mar 2009
Interim dividend paid	9 Apr 2009
Annual Results announcement	13 Aug 2009
Ex-dividend share trading commences	24 Aug 2009
Record date for final dividend	28 Aug 2009
Final dividend paid	25 Sep 2009
Annual General Meeting	4 Nov 2009

Note – Timing of events may be subject to change. Any changes will be notified to the Australian Securities Exchange (ASX).

Visit Telstra Investor Relations at **www.telstra.com.au/abouttelstra/investor**
or visit our interactive advocacy website at **www.nowwearetalking.com.au**